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Russian futures: Horizon 2025

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Reports



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FOREWORD

The idea of undertaking a reflection on the future(s) of Russia emerged as soon as the most intense phase of the confrontation in and over Ukraine began to subside. Once the ‘strategic surprise’ generated by the annexation of Crimea and the destabilisation of the Donbass was over, and right before the (once again, unexpected) military intervention in Syria was launched, questions were raised about whether the new aggressive posture adopted in Moscow would be a permanent feature of international relations for the years to come. These questions revolved around the origins, the root causes and the drivers of such a policy shift; around its domestic sustainability and external impact; and, of course, around the response(s) that the West, and especially the neighbouring EU, could devise to counter or manage this new challenge.

The speed with which events have been unfolding, however, has made it difficult to look beyond the short term and take a balanced approach *vis-à-vis* the peculiar combination of structural and tactical factors underpinning Moscow’s behaviour. The sources of Russian conduct – to paraphrase the famous ‘long telegram’ sent by George F. Kennan at the dawn of the Cold War – are of course complex and, to some extent, still contested. And while they may be traced back to the entire post-Cold War period, their translation into swift unilateral action is much more recent – and much less readable. It is indeed this (recurrent) mix of strength and weakness, now coupled with increasing unpredictability, which seems to characterise Russian policy during Vladimir Putin’s second lengthy stint as President.

But what about the future? The foreseeable and imaginable future, at least: will the current ‘contingement’ policy adopted by the West (blending containment and engagement according to the region and the issue in question) come to represent the ‘new normal’ in relations with Russia? Will ‘Putinism’ mutate again – and, if so, in what direction? How will the domestic (political and economic) situation impinge on Moscow’s external action? How will a country with no evident ‘natural’ or historical borders or clear notional distinction between nation, state and empire situate itself in this twenty-first century world? And, perhaps most poignantly, are such close neighbours as Russia and the EU embarked on drastically opposed trajectories?

The Task Force launched last year at the EUISS, coordinated by Nicu Popescu in tandem with Hiski Haukkala, was convened to discuss these and other related issues, not to deliver definitive answers. The choice of 2025 as a reference for portraying Russia’s possible futures is in part related to the similar exercise the EUISS carried out last year on the Arab world.¹ In part, however, it also takes us to the foreseeable end of Putin’s mandate, assuming he stays on in 2018. It constitutes, in other words, an effort to im-

1. See: Florence Gaub and Alexandra Laban (eds.), ‘Arab futures: three scenarios for 2025’, *Report* no. 22, EUISS, February 2015.

agine how Russian policy is likely to evolve for as long as he is in power or remains a key power broker. Yet precisely this factor makes educated 'guesstimates' quite difficult: acute unpredictability and ruthless tactical manoeuvring – along with such unknowns as the price of oil and the course of energy markets – render discussing the future disproportionately dependent on assessing the present.

As a result, the views expressed in this Report reflect various appreciations and different angles but they all convey the impression that Russia's relations with the West (and especially Europe) will no longer be what they used – or were imagined – to be during the 20/25 years following the fall of the Berlin Wall. They therefore represent not so much a point of arrival but rather a useful point of departure for a conversation that is due to continue (including at the EUISS) over the coming months and years.

Antonio Missiroli

Paris, March 2016

INTRODUCTION: RUSSIAN FUTURES

Hiski Haukkala and Nicu Popescu

Predicting Russia's future is a perilous exercise. Many, indeed perhaps most, of those who have ventured to make such predictions in the past have erred in one way or another. At the moment the danger of getting things wrong is perhaps particularly high since quite a number of short-term uncertainties with long-term consequences for the European continent – in both Russia and the EU – could make the next few years, let alone the next decade, radically different. From regional wars, refugees and their impact on the EU, to the falling oil price and Russia's infatuation with military power as a quick fix to its foreign or domestic policy problems – the strategic environment is not simply unpredictable, but dangerously volatile.

Yet it is precisely in such moments of uncertainty and crisis that planning for the future is more needed than ever. With this in mind, a group of prominent analysts and experts on Russia have sought to predict how Russia is likely to evolve over the next decade. The intellectual groundwork for this publication was thus laid in a series of meetings of an EUISS Task Force on Russia that took place in autumn 2015 and brought together experts and officials from the EU, Russia, the US and Ukraine. They decided to set about this exercise the hard way, choosing to go beyond the relative analytical safety of outlining the usual triptych of good, bad and middle-of-the-road scenarios. Scenarios are a good way to structure thinking and plan potential responses. But more often than not they allow experts to avoid placing bets and making judgements. In this publication experts are making considered judgements as to where Russia will stand in a decade from now.

The Report looks at the future domestic foundations of Russian power and the future of Russian approaches towards the world around it. Thus the publication is divided into two parts: one dedicated to the domestic arena and focusing on the economic, military and political dimensions. The second part of the publication deals with future Russian approaches to and relations with the US, the Middle East, China, the post-Soviet space and the EU.

The 'anti-Gorchakov' Russia

The picture that emerges from the various prognoses in this publication is that of a Russia with multiple domestic problems and a hyperactive foreign policy that is tactically confrontational, although not strategically bent on destroying the West. In many ways it is what might be termed an 'anti-Gorchakovian' foreign policy.

Prince Alexander Gorchakov was appointed Russia's foreign minister right after the end of the Crimean War in 1856, and served in that capacity for 26 years. He is a widely respected historical figure in Russian diplomacy. He played a key role in bringing Russia back into the Concert of Great Powers after the humiliating defeat in the Crimean War of 1853-56. Putin has himself claimed to be continuing in the footsteps of Gorchakov. Right before returning to the presidency in 2012, the newspaper article on foreign policy that Putin published as part of his electoral manifesto was entitled 'Russia is concentrating'¹ – a clear reference to Gorchakov's famous phrase (written in French in an internal circular to Russian embassies) '*la Russie ne boude pas, elle se recueille*' ('Russia is not sulking, it is concentrating').

Yet, after the Crimean crisis of 2014 Russia seems to be doing the exact opposite of what Gorchakov called for after the debacle of the nineteenth-century Crimean war. At the time, Gorchakov's 'Russia is concentrating' dictum alluded to the fact that Russia was putting militarised foreign policy aside and using diplomacy in the service of domestic modernisation: it was scaling down military campaigns and interventions abroad, avoiding military entanglements, and engaging in active but peaceful diplomacy – all with a view to focusing on its own domestic transformation. Today's Russia seems to have chosen the opposite path – pursuing a hyperactive and at times militarised foreign policy, and subordinating its domestic development to this overriding imperative. In a way Russia is sulking and is so busy showing it, that it does not have time to concentrate. If Gorchakov was alive today, he would have probably written that '*La Russie ne se recueille pas, parce qu'elle boude trop.*'

In many ways Russia is facing a strategic Catch 22 situation. Its aggressive foreign policy is an attempt to stave off its decline, but it also adds to the risk of accelerating such a decline by contributing to military-strategic overstretch and increasing use of limited resources for foreign policy endeavours, often antagonising major international players in the process. Either way, the decade ahead will not be a quiet one.

The domestic foundations of Russian power

Russia's domestic situation is not very promising either in terms of Russian capacity to modernise or to effect a dramatic improvement in relations with the EU. As Maria Lipman and Nikolay Petrov argue in their chapter on the future of domestic politics in Russia, the ongoing drive towards ever greater centralisation – 'hard Putinism' – is there to stay. This trend – or rather deliberate policy choice – also rules out the prospects of even limited economic liberalisation that could stem the economic decline. Thus the chances are that by 2018 – the year of the next presidential elections – the economy will be in even worse shape than it is today. With Moscow's financial resources dramatically shrinking, it is not unlikely that a process of 're-federalisation by default' will occur, not involving regions, but rather corporations and interest groups. Finally, Russia's most likely future trajectory is that of gradual decay, rather than dramatic unravelling, be-

1. Vladimir Putin, 'Rossia Sosredotachivaetsa', *Izvestia*, 16 January 2012. Available at: <http://izvestia.ru/news/511884>.

cause in many ways the current *status quo* of an increasingly militarised economy, isolationist policies, an oppressive state and powerless public are part of a deeply ingrained historic pattern. Yet in a decade from now Russia will be on the verge of a generational change of leadership as most of Putin's cohort will be over 70, and some will be almost 80 years old.

With regard to the economy, Vladislav Inozemtsev and Yulia Zhuchkova assume that the ongoing meltdown is likely to last for quite some time because it is fuelled not only by purely economic factors (like declining export revenues and falling consumer spending), but also by chronic mismanagement, widespread corruption and financial overstretch, all entrenched features of Russia's economic and political system. The political imperatives of the Kremlin – tightening of political control, the further strengthening of law-enforcement and security bodies, and foreign policy grandstanding – will only exacerbate the downturn and depress investors' confidence.

But one sector that will escape the gradual decay scenario is the military. In fact, the excessive focus on military power (and industry) will be a key factor that will negatively impact on the wider economy and politics. As Gustav C. Gressel argues, with the Russian economic model hitting a dead-end in 2014, nostalgia for the mighty Soviet military past, and pride in current military achievements, have taken an important place in Russia's new identity politics. Hence Moscow will continue to perceive the military sphere as a key policy area, and the (threat of the) use of force a key foreign policy tool. This could lead to two different types of contingencies. Firstly, potential military interventions in the post-Soviet space to secure Russian predominance. Secondly, 'PR-wars' aiming at delivering strategic shocks to the West by limited interventions in regional conflicts. Syria is an example, but other campaigns might follow. While a direct aggression against NATO is not on the cards, escalatory dynamics from other crises are very likely to affect Western-Russian relations in the years to come.

The combined trend of increasingly autocratic Putinism, economic 'muddling along' and ascendancy of the military has significant foreign policy implications for Russian approaches to the US, China, the Middle East, the post-Soviet space and the EU, which are tackled in the subsequent section of the publication.

The future of foreign policy

As Samuel Greene explains, there will be a strong link between the kind of foreign policy Russia conducts and the domestic ideological foundations of today's Russia and the tools of regime legitimisation that are likely to be used in the next decade or so. In this interplay between domestic public opinion and foreign policy, virtually no single other issue arouses as much emotion among the Russian public as attitudes to the US (and Ukraine). And with Russia's economic problems unlikely to go away, anti-Westernism as a key source of legitimisation for Putin is there to stay.

This estrangement from the West is also a key driver of Russian approaches to China. Alexander Gabuev's chapter on Sino-Russian relations argues that in the decade ahead Moscow and Beijing are likely to forge ever closer ties. China will provide a lifeline for sustaining Russia's embattled economy – and indeed the entire political system presided over by Vladimir Putin – but will not otherwise engage in any major effort aimed at modernising the Russian economy. It will obtain preferential access to natural resources, investment projects and military technology, but will not replace the EU as Russia's predominant economic partner in the next decade. The countries will maintain a façade of cordial relations and engage in rhetoric about an 'equal relationship', while in actual fact Russia will increasingly be the junior partner in the relationship. However, Beijing's diplomatic tact and respectful overtures to Moscow will no doubt sweeten what for Russia will inevitably be a bitter pill to swallow.

Despite obvious limitations, the Sino-Russian partnership will have significant consequences for Russian domestic politics but also further afield. On many global issues – from UN Security Council diplomacy to reform of the international financial institutions – China and Russia will uphold a common diplomatic front. Both countries will also not simply find ways to avoid clashes and minimise frictions, but will ultimately engage in cooperation based on agreed division of labour in Central Asia, while keeping outside powers' influence at bay. Increased arms trade between the two countries, including sale of Russia's most sophisticated weaponry to the Chinese army, will have far-reaching repercussions for the power balance in several hotspots across the Asia-Pacific, with implications for the countries of the region but also the US.

When it comes to the Middle East, Pavel K. Baev argues that the Syrian intervention has certainly brought Russia centre-stage in the region. Clearly this has consolidated Russia's relevance for players like Iran, the government of Syria or the Syrian Kurds. Yet this move comes with significant foreign policy costs: an association of Russia with the 'Shia axis', deepening scepticism towards Russia on the 'Arab street', a conflict with Turkey, and increasing suspicion towards Russia in Israel over links to Hizbullah, to name but a few. Another question is that of the long-term sustainability of Russian influence in the region. Beyond the military power necessary in the acute phases of a conflict, there is much less that Russia can offer its allies once the dust of the conflict starts to settle. Syria will need major financial assistance for its reconstruction, and Iran is currently in quest of major investments. All of this will potentially render Russia less crucial for its allies than is currently the case.

Carolina Vendil Pallin focuses on the future of Russian approaches to the countries in between Russia and the EU, in the 'post-Soviet space': Belarus, Ukraine, Moldova, Georgia, Armenia and Azerbaijan. In Russia's view this region is neither common nor shared. On the contrary, a key Russian goal is to regain and maintain its influence in the region in several ways. One is through integration initiatives in the security and economic sphere – the Collective Security Treaty Organisation (CSTO) and Eurasian Economic Union (EEU). Ukraine – a country which is of enormous economic, symbolic

and geopolitical significance to Moscow – will also remain central to Russian foreign policy. To pursue its regional goals Russia has deployed a mix of incentives and coercion spanning the economic, humanitarian, informational and military spheres. None of the separatist conflicts will be resolved, and they will continue to be exploited by Russia to influence or disrupt internal developments in the respective countries. And even though, the chapter argues, the Kremlin is unlikely to opt for full-scale military invasions of countries in the region, Russia's continued military build-up, coupled with the threat of resorting to force, will be crucial destabilising factors in regional geopolitics.

Taken together, all of these issues will spell consequences for the future of EU-Russia relations, the subject of the last chapter co-authored by Hiski Haukkala and Nicu Popescu. The overall picture is certainly far from rosy, although not entirely negative. To begin with the positives, the EU will remain Russia's foremost economic partner, and the (uneasy) interdependence between the two will continue to exist. Over time several of the current irritants in the relationship will become less disruptive: the EU and NATO will not enlarge into the post-Soviet space by 2025 and, while a stronger NATO military infrastructure in the new member states will be a reality, NATO troops will not be stationed outside NATO borders in any Eastern European country. Most sectoral sanctions (as opposed to sanctions targeting individuals) will be removed. The EU will engage in some kind of dialogue with the Eurasian Economic Union. However, the EU will be concerned about Russian military modernisation, and have mixed feelings about certain aspects of Russia's economic modernisation, especially if such economic advances fuel military capability development.

Ultimately, the Europe of 2025 will not correspond to the aspirations of either Russia or the EU. Europe will not be an undivided continent of prosperity and peace, nor will it be a continent separated by two geopolitical poles – one centred around Moscow and the other around Brussels. Ultimately, there is little scope for an EU-Russia 'reset'. The domestic and foreign policy imperatives espoused by Russia (and the EU) in the decade ahead cannot be entirely bridged by diplomacy, no matter how skilful. These differences need to be assumed and managed.

Although the EU and Russia are mutually distrustful of one another, they are not bent on destroying each other. They will neither engage in a strategic partnership, nor a full-blown strategic rivalry, but rather an uneasy combination of the two. Yet Russia's infatuation with military power projection as a key tool to achieve foreign policy goals, or achieve domestic consolidation, could trigger an escalatory dynamic that brings the European continent to the brink of new security crises. Ukraine is at particular risk. There, the combination of continued state weakness and insufficient reforms coupled with sustained pressures from Russia, as well as potential domestic incentives for Moscow to engage in a security escalation, could lead to a highly dangerous situation. Alternatively, if events follow a more hopeful trajectory, the EU and Russia will manage to salvage as much as possible of their relations in the decade ahead with a view to forging stronger ties in the decades after.

Section 1:

**The domestic foundations
of Russian power**

I. THE FUTURE OF DOMESTIC POLITICS

Maria Lipman and Nikolay Petrov

Since his rise to power in 2000 Vladimir Putin has had two major priorities: ‘control’ at home and ‘sovereignty’ on the world scene. The importance of these two priorities has not eclipsed other goals, such as economic development, but the latter has always been secondary to the foremost priorities cited above. Throughout the ‘softer’ period of his rule, up until his presidential comeback in 2012, Putin was able to balance his main and his secondary objectives: the economy kept growing while domestically Putin set about systematically removing political opposition and competition, and ensured unchallenged power for himself. He successfully resisted the attempts of the West to interfere in Russian domestic affairs, but the Russian economy benefited from lucrative economic cooperation with Western nations.

However, by the time Putin returned to the Kremlin to begin his third presidential term in 2012 the economy had stopped growing. Combined with a decline in the regime’s legitimacy (the most striking illustration of which were the mass protests of 2011-2012) this marked a turning point: Putin was no longer able to balance his top priorities and national development objectives.

The annexation of Crimea (overwhelmingly seen in Russia as the righting of an historical injustice and a victorious achievement that echoed Russia’s glorious victory in the Great Patriotic War) generated nation-wide nationalist euphoria and universal approval of Putin as the nation’s leader. The regime’s legitimacy was thus reaffirmed, but it was no longer a legitimacy derived from the electoral process, but rather a ‘military legitimacy’ predicated on the portrayal of Russia as a fortress under siege. The ‘besieged fortress’ mindset was further entrenched by the subsequent war in Donbass accompanied by aggressive anti-Western and anti-Ukrainian propaganda, followed by the 2015 airstrikes in Syria and a dramatic confrontation with Turkey. By the end of 2015 the broadly shared popular perception was that Russia had finally regained the great power status¹ it lost after the collapse of the USSR. However, although Putin may have enhanced Russia’s sovereignty and consolidated his control inside the country, these priorities have come at a rapidly rising cost to the Russian economy, the country’s social capital and other spheres of life.

1. See: <http://www.levada.ru/2015/12/07/gordost-patriotizm-i-otvetstvennost/>

Opposition, political parties, elections

Domestically the shift to ‘military legitimacy’ has implied rallying public support behind the President and delegitimising the regime’s opponents. In the current increasingly authoritarian political climate basically any autonomous (i.e. independent of the government) activism is considered suspicious or even subversive. Since Putin’s return to the presidency the opposition has been subjected to increased pressure: numerous new restrictive measures have been adopted, including new constraints on non-government organisations (the so-called ‘foreign agents law’) and the holding of public demonstrations and rallies. Anti-extremism legislation has been broadly applied against civic and political activists, against whom harsher punishments were introduced in 2015.

Local election campaigns held in 2014-2015 were a demonstration of force by the government which disqualified ‘non-establishment’ candidates and parties from the race ahead of polling day. As a result political opposition has effectively ceased to exist.

The absence of opposition leads to growing risks – both tactical (there are no mediators capable of communicating with public protesters as the truck drivers’ strike of late 2015² and rising local protests in the regions³ have demonstrated) as well as strategic: in the current system popular discontent with the governing elites cannot lead to a transfer of power to another political party, which can have potentially explosive consequences.

The authoritarian ‘hard Putinism’ that began after the annexation of Crimea in early 2014 is characterised by an increasingly militarised economy which is at the same time suffering from multiple woes. The factors that used to drive the Russian economy – growing oil prices, rising consumer demand and an inflow of capital – have given way to a continued fall in both the oil price and consumer demand as well as a dearth of investment. There is no source of economic growth in sight.

The government’s current tactics consist of patching and mending – muddling along in the hope of maintaining the *status quo*, and preventing the foundering economy from sliding into a full-blown downturn.

The ‘Putinism’ of 2012-early 2014, though tougher and more authoritarian as compared to the previous decade, still had the potential to endure if at this juncture the government had opted to begin to gradually modernise the political system. Such modernisation would imply a degree of federalism and political competition instead of the current highly centralised system of government. Moreover, this approach would have facilitated the smooth orchestration of Putin’s succession in the future.

The shift to ‘hard Putinism’ in 2014-15 makes such a transformation highly unlikely.

2. See: http://www.gazeta.ru/politics/2015/12/02_a_7930547.shtml.

3. See: <http://www.newsru.com/russia/15jan2016/sochi.html>.

Meanwhile, the tightly controlled political system rules out even a limited degree of economic liberalisation, even though such reform is necessary in order to halt deepening economic decline. The current regime is facing multiple – and rising – risks and at some point will be obliged to undertake urgent and radical policy adjustments.

Towards 2018 and beyond

The regime has begun 2016 on a downward trajectory – which in the near future may lead Putin to either ‘soften’ his policies, at least in the economic sphere, or conversely to further tighten his grip on power and increase his authoritarian posture. If he chooses the latter option, a ‘hard landing’ may be in store for Russia.

2025 lies beyond Putin’s next presidential term. By that time the regime will be on the cusp of a generational change: most of Putin’s inner circle will be over 70 years of age and some will be nearing 80. The age factor makes extrapolation of current trends complicated if feasible at all. Age considerations will also affect the ‘systemic opposition’ – the Communist Party of the Russian Federation and the Liberal Democratic Party of Russia. The latter is wholly identified with its leader, the nationalist Vladimir Zhirinovskiy; without him, the party would for all practical purposes cease to exist.

By the time the 2018 election comes around, the economy will be in even worse shape. Putin is currently regarded as ‘the leader of the nation’, enjoying an authority and status that implies more power and mystique than that attached to a mere ‘president’. This means that for him to stand for re-election and run the risk of becoming a target of even limited criticism would entail a loss of his supreme status. Eliminating all criticism and winning an ‘overwhelming majority’, however, would require a shift to even more extreme authoritarianism.

Another option would be a transfer of power: another figure (Putin’s anointed successor?) could afford to win a simple majority of the vote, while Putin would assume the stature of a providential national leader (a Deng Xiaoping of sorts) whose legitimacy lies above popular mandate. Future developments will thus depend on Putin’s choice: whether beyond 2018 Russia will have a regime ‘with elections, but without Putin’ or ‘with Putin, but without elections’.

Russia without Putin

If Putin is missing entirely in the power equation (we will not speculate here on how this might happen), this would lead to a dramatic transformation, or even unravelling, of the current regime. An anointed successor might be vested with formal constitutional power and emulate Putin’s rhetoric, but would not possess Putin’s unique – informal –

legitimacy as the ‘leader of the nation’ and the ultimate arbiter of conflicting interests (and given current strained circumstances, such conflicts are inevitably set to become much more acute).

The Russian political system does not have independent institutions or independent political figures on which to draw in such circumstances. Those who formally belong to the presidential line of succession – Prime Minister Dmitry Medvedev, the speakers of the upper and lower house (Valentina Matvienko and Sergey Naryshkin) – are fully incapable of playing the role of crisis managers.

Those who occupy politically prominent positions today are loyalists who would be swept aside if Putin entirely disappears from the political scene, with the possible exception of Defence Minister Sergey Shoigu, and Chechnya’s strongman leader Ramzan Kadyrov, who are virtually the only two heavyweights of Russian politics with political resources of their own – genuine popularity in the case of Shoigu, and in the case of Kadyrov overweening political ambition that extends beyond Chechnya and even beyond the North Caucasus.

Without Putin the significance of the Presidential Administration, currently the keystone of the political structure, would abruptly diminish, leading to an all-out power struggle. Kadyrov (and his allies among the federal security elites) would have a good chance of winning such a contest, unless a broad ‘truce coalition’ of a kind that took shape after Stalin’s death were to emerge.⁴

If a Putin-anointed successor emerges, he is bound – at least in the early stages – to be much weaker than Putin: a weak leader in a heavily personalised political system is a high risk factor that can disrupt the workings of the government.

Decentralisation of power by default

In the course of Putin’s leadership the policy of centralisation has gone too far: regional leaders have been *de facto* stripped of authority and strongly discouraged from taking policy initiatives. The period of 2014-2015 was marked by numerous arrests and prosecutions of mayors and later also of governors. As a result, remaining officials feel insecure and are anxious not to incur the Kremlin’s wrath.

Tough economic problems may push the government – in the short- to medium-term – to act fast and resort to harsher repressive measures. Given the increased role of the *siloviki* (the security and law enforcement elites) in the power balance such a shift, with the Kremlin exercising even tighter control over the regions, becomes more likely.

4. After Stalin’s tyrannical rule, during which each member of his elite lived in fear of their absolutist leader, his death led to a situation of turmoil in which no member of his inner circle could claim to be his outright successor and all of them were deeply distrustful of each other. The system reached a degree of precarious truce only after the most fearful contender was hastily executed; it took four more years for Nikita Khrushchev to gain full authority as state leader.

Dramatically shrunk resource rents, however, will limit the Kremlin's ability to tighten its grip over the regions and may lead to a re-federalisation by default: a decentralisation that would take the form of a quasi-federation of regions – somewhat similar to what happened in the 1990s, when local governors took advantage of the Kremlin's weakness. Or, alternatively, a quasi-federation of corporations, whether big business companies, such as Gazprom, or major government agencies, such as the Prosecutor's Office. This would be a 'back to the 2000s' situation: in that decade a rapid rise in the oil price and a concentration/distribution of resources at the federal level led to a strengthening of large, federal corporations.

The latter scenario appears more likely: while regional elites have long been stripped of autonomous authority, corporate ones are more efficient and powerful and therefore more likely to seize the initiative – if and when the centre's grip on power weakens.

The 'corporate' decentralisation scenario comes down to a 'division' of the monolithic state into more or less autonomous parts, Ukraine-style, with business oligarchs drawing on regional industrial bases. Such a 'devolution' process would be accompanied by growing competition in various spheres of life – between the centre and the regions, among political parties for regional constituencies, and among business barons for control over regional assets. This should also bolster pluralism in the media and public interest in politics.

Potential forces for modernisation

As the delayed shock of the economic crisis becomes more manifest, the current mobilisation of nationalist feeling driven by the Kremlin's militarised foreign policy is bound to fade and give way to a renewed focus on the country's domestic problems – and less preoccupation with Russia's resurgence on the world scene.

While liberal reforms are highly unlikely, since there is no interest in them at the top and no demand from below, a push towards a reversal of the current 'anti-modernisation' trend cannot be ruled out. If the state is weakened and competitive politics is back on the agenda, the entrepreneurial classes and broader urban constituencies, who were thoroughly subdued during the 2014-2015 authoritarian shift, may begin to play a more active role.

The deepening social grievances over inequality, injustice, and the further decline in living standards may give rise to left-wing and organised labour movements. Other potential sources of contestation include ethno-cultural nationalists espousing a more independent and ideologically explicit brand of nationalism than the somewhat vague and evasive great power nationalism promoted by the Kremlin today.

System(ic) overload

The challenges confronting Putin today are more formidable than they have ever been during his long tenure. The President, who is known for his 'hands-on' management of state affairs, is increasingly overstretched, faced with a plethora of intractable problems and difficult decisions: too many problems go unheeded or are addressed hastily with no regard for consequences. The resulting accumulation of unresolved problems leads to crises of various magnitudes, such as the assassination of Boris Nemtsov in early 2015, the truck-drivers' strike at the end of that year or various intra-elite feuds (most notably between the leader of Chechnya, Ramzan Kadyrov, and the FSB, and between the FSB and part of the Ministry of the Interior) coming to the fore. Cuts in social expenditure and tax increases will inevitably lead to more social tensions.

The economic model espoused by the Kremlin, based on steadily growing state interference in the economy, is bound to fail, undermining the paternalistic relationship between state and society, as well as between the centre and the regions. State interference can be reduced gradually if the Kremlin opts to introduce initial liberal economic reforms now, but if it continues on its present course it will run into trouble and be forced to change its policy radically because of rising discontent among the elites or the public or both.

If a new wave of privatisation of production and manufacturing resources takes place in order to replenish the depleted state coffers, it will be, of course, on a much smaller scale than the 1990s transition from the Soviet command economy. On the other hand, a large-scale 'privatisation' of security and police resources may occur – with these agencies increasingly becoming 'emancipated' from state control and engaging in various forms of predation.

The current system of governance is unfit for the situation of deepening crisis: the Kremlin is rightly concerned that an attempt to adjust it (through political modernisation) might lead to a loss of control, yet the longer the Kremlin puts off undertaking such an overhaul, the more dramatic the eventual breakdown will be. If the system were to unravel in an uncontrolled and chaotic way, this would have negative societal consequences, leading to a rise in crime and violence, disruption of the socioeconomic sphere, sporadic outbursts of public unrest and their suppression by force, as well as the 1990s-style 'violent arbitration' of business conflicts.

Already today the dramatically 'shrinking pie' means that Kremlin-connected oligarchs and members of the political elite can no longer count on the immunity which they previously enjoyed. In 2014 business magnate Vladimir Yevtushenkov was put under house arrest; that same year two police generals in charge of anti-corruption investigations of government officials were arrested; one of them, while in custody, fell from a window under mysterious circumstances and was killed; in 2015 two regional governors were arrested together with numerous members of their staffs.

The rapidly shifting balance of forces threatens to undo the *de facto* mechanisms for regulating conflicted interests and to exacerbate internecine warfare among the elites.

Russia in 2025: building on the ruins

One often hears the argument that Russia is characterised by powerful forces of inertia, especially when it comes to the national economy and the integrity of Russia's territory; such inertia, this argument goes, will enable Russia to muddle along for much longer, even indefinitely. Long and drawn-out momentum, however, is also characteristic of the negative trends, political and otherwise. If Russia continues on its present course, it seems doomed to failure.

In the meantime, human capital and social services are in steep decline, while sectors such as health and education are seriously underfunded – investments that should have been made 10 or 20 years ago have not been made, cannot be made today, and those that might be made tomorrow would have an impact beyond the foreseeable future.

Growing impoverishment and economic hardship may generate increasing alienation from the centre as well as calls to get rid of 'unwelcome countrymen' (in the 'stop feeding the Caucasus' vein). When the centre begins to visibly weaken further, the regions will seek to disengage from the centre the way they did in the 1990s. Technically speaking the country will remain whole, but *de facto* disintegration of some sort may be in store for Russia.

The probability of gradual decay (as opposed to a dramatic unravelling), however, should never be underestimated in Russia where a strongly militarised economy, isolationist policies, an oppressive state and powerless public are woven into the history of the nation.

The best one can expect in Russia a decade from now is a new phase of what Karl Marx once called the 'original accumulation of capital' – social as well as political. It can only be hoped, however, that the new structural transformations that will be initiated sooner or later will not take as long as those of the 1980s-90s: the post-Soviet experience has not been entirely wasted. Despite all the setbacks and the current authoritarian shift, today's Russia is still more open than it ever was in the Soviet period; it has a market economy (however flawed), and notwithstanding the isolationist, or rather anti-Western, policies following the annexation of Crimea it does not seek to radically insulate itself from a globalised international environment.

II. THE FUTURE OF THE ECONOMY AND THE ENERGY SECTOR

Vladislav Inozemtsev and Yulia Zhuchkova

In order to gain insight into how the Russian economy is likely to evolve between now and 2025 three questions need to be addressed: (i) what were the drivers of Russia's growth in the 2000s and why has that growth ceased since 2008?; (ii) how is the country's economy managed and what are the political implications of pursuing various development paths?; and (iii) how are energy policies, overall economic performance and foreign policy interconnected?

The sources of growth and the reasons for a crisis

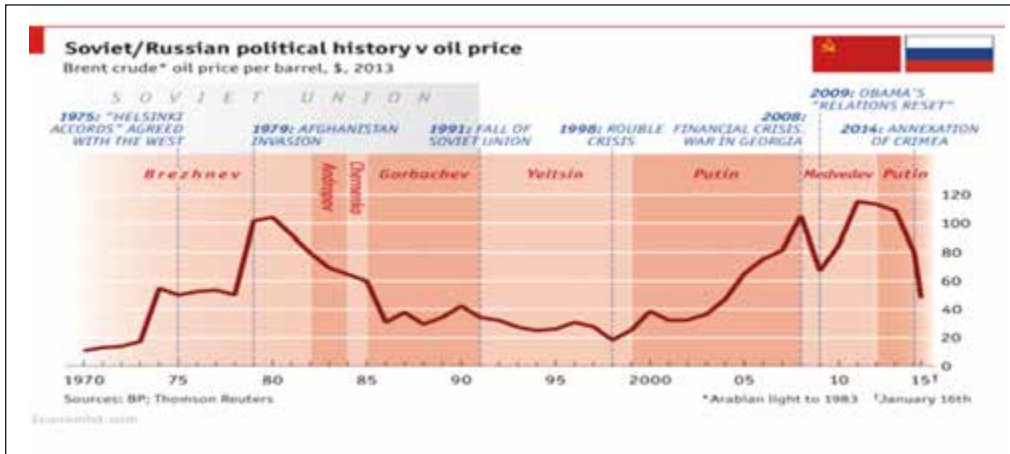
The Russian economy in its current form emerged after the crisis of 1998 and since then its progress has been based on two key factors.

The first was a disproportionate influx of money from both external and internal sources. On the one hand, rising oil prices provided the country with at least \$2 trillion in additional revenue from 2000 to 2013.¹ The oil premium grew from \$33.5 billion a year on average in 2000-2004 to \$394.0 billion in 2011-2013.² Thus enormous revenues were generated by oil alone, without even mentioning additional wealth derived from exports of gas, metal, timber, etc. At the same time, the amount of outstanding loans on the books of Russian banks and corporations skyrocketed from \$31.4 billion at the end of 2000 to \$566.4 billion by early 2013. Windfall profits and foreign loans boosted Russia's GDP for the years 2000, 2001, 2002, 2003 and 2004 combined, if recalculated in dollars at market exchange rates of the day – but oil revenues are now falling as sharply as in the 1980s (see Figure 1).

1. Calculations based on export figures published by Russia's Customs Committee [www.customs.ru]; some alternative estimates go as high as \$3.5 trillion. (See for example: Yulia Latynina, 'Indebted', *Novaya Gazeta*, 12 January 2015, p. 4).

2. See: Vladislav Inozemtsev, 'Russia's European Home', January 2015. Available at: www.project-syndicate.org/commentary/sanction-putin-not-russian-people-by-vladislav-inozemtsev-2015-01.

Figure 1: Oil prices and the timeline of Soviet/Russian history



Source: 'Oil price and Russian politics: the ebb and flow of Federal fortune', © *The Economist Newspaper Limited*, London (16 January 2015).

The second factor was that Russia saved substantially on non-financial investments, whose share of GDP dropped from around 27-28% in the late Soviet period to less than 15% in 2012-2013. Thus, up to 10% of GDP was annually diverted to current consumption, with the result that people were under the illusion that the economy was performing much better than was actually the case.

The first signs of overheating were detected in 2008, and the bubble burst in 2014 when the rouble went into freefall and the economy plunged into crisis. In addition, Russia's attack on Ukraine provoked a wave of Western sanctions, which deprived the country of at least \$150 billion in the first twelve months of imposition alone in the form of repayment of foreign debts. The crash in the oil market led annual oil export revenues to fall by another \$140 billion in 2015. Obsession with grand projects (the Winter Olympic Games, World Cup, etc.) as well as ongoing militarisation has led to more and more unproductive investment (which has increased from \$30 billion to \$45 billion a year).³ So, to put it bluntly, in 2013-2014 the Russian economy went into reverse, and right now it is difficult to envision how it could get back on track. Therefore, while the current downturn might not be as deep as the previous one, it may prove to be quite protracted.

The prevailing pessimism about Russia's economic prospects contributes to the assumption of a crisis that is set to go on for a long time. In other words, during the period between 2000 and 2009 Russia was one of the best performing economies in the world, so many investors bet on its further growth and flocked to the country. Nowadays they are disinvesting and pulling out. Opel, TUI and Air Berlin of Germany, General Motors

3. See: Valery Zubov and Vladislav Inozemtsev, 'Russian Economy's "White Elephants": On what the Government Spends Its Money', *RBC Daily*, 1 September 2015; and Valery Zubov and Vladislav Inozemtsev, 'Why the State Must Stop Investing', *RBC Daily*, 14 September 2015 [both in Russian].

and Adobe Systems of the US are only a few of the companies that have withdrawn from Russia in the last two years. In 2008 analysts believed Russia would emerge as Europe's largest automobile market, but in 2015 it was ranked fourth (being roughly two times smaller than Germany's); similarly, it was surmised that Gazprom would be worth \$1 trillion by the mid-2010s, whereas its market capitalisation has plummeted and it is now valued 8 times less than it was in 2008, at only \$44.9 billion. So the sense of optimism that once prevailed regarding Russia's economic fortunes has given way to pessimism and disillusionment.⁴ This profound sense of downturn and decline will dominate the whole period up until the mid-2020s, with increasingly negative repercussions.

Mismanagement and overstretch

Assessing both economic trends and political developments in Russia at the moment it is difficult to see how the economy will emerge from the doldrums. All the indicators point to a long period of stagnation that may be ascribed to two interrelated developments.

The first is economic and is caused by declining export revenues, restrictions on new loans and a fall in consumer spending – the latter was one of the key drivers of the economy up until 2008. But even withstanding these negative trends, Russia's economy might manage to weather the storm if it were not for the second crucial factor: chronic mismanagement combined with financial overstretch and widespread corruption. As is well-known, an economy deprived of external revenues should turn into a more efficient and competitive one. However, such an option seems to be impossible in Putin's Russia due to endemic corruption.

As is well-known the ruling political elite in Moscow reacts to economic hardship by establishing tighter administrative control over businesses, raising taxes, and strengthening law enforcement bodies that become economic actors in their own right. This only serves to exacerbate the downturn since the business climate deteriorates rapidly, and indeed several Russian industries already appear to be on the brink of collapse. What seems more intriguing is the fact that this stagnation, or non-development (being, in fact, the essence of Putin's much-vaunted 'stability'), is welcomed by the majority of Russians who have been successfully indoctrinated by Putin's propaganda. Both the mass of the Russian people and the political elites have always regarded business as an unethical and dishonest activity reeking of capitalist exploitation, speculation, and irresponsible self-enrichment; so most Russians approve of the increasingly important role played by the state in the economy and even the renationalisation of many private enterprises. President Putin has done a lot to encourage such attitudes, and has capitalised on this to ensure that he completely dominates economic policymaking.⁵ The trend

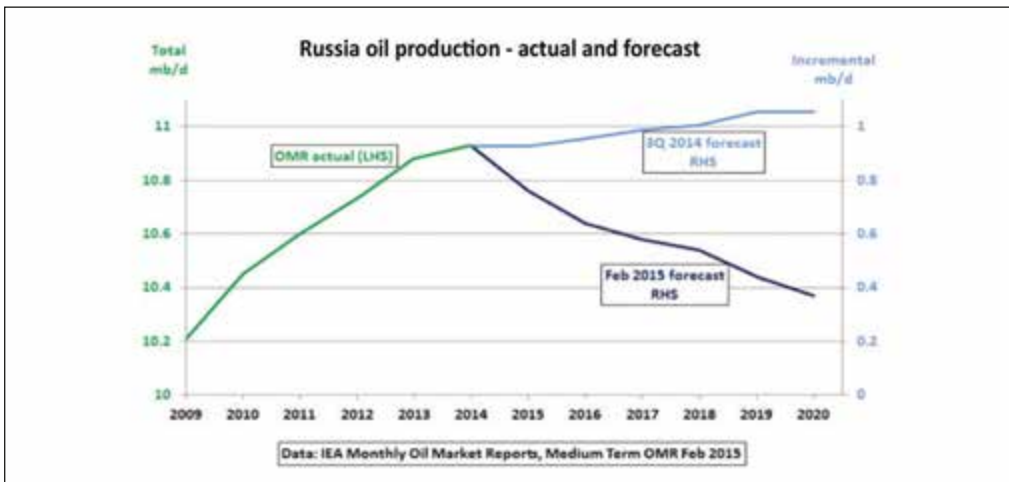
4. For more details, see: Vladislav Inozemtsev, 'Putin's self-destructing economy', *The Washington Post*, 18 January 2016.

5. For more details, see: Ioulia Joutchkova and Vladislav Inozemtsev, 'La « logique non économique » de Vladimir Poutine', *Politique étrangère*, no. 2, 2015, pp. 39–51.

appears to be so deeply entrenched these days that it seems unlikely that even Putin's removal from power would change it.

The anti-business views and mindset of Russia's rulers are buoyed up by the idea that the energy sector can generate all necessary budget revenues that in more 'normal' countries are provided by income and profit taxes (statistics show the so-called 'oil and gas-related revenues' accounted for 45% of total revenues of the federal budget in 2015). The share may fall in 2016 with the oil price touching \$30 per barrel but the energy sector will continue to enjoy a privileged position in Russia. Nevertheless, the future of Russia's energy sector does not appear too bright: the industry suffers from a high fiscal burden (taxes may rise further in 2016), is effectively closed to foreign investment and heavily monopolised. Today Russia pumps out the same volume of oil and gas that was produced in the late Soviet era, and there do not appear to be any grounds for believing that production will increase, as President Putin recently promised.⁶ The main problem for the Russian energy sector is the Kremlin's politically motivated desire to diversify supplies – presumably from Europe (which now accounts for at least 69% of Russia's oil and 59% of its gas exports) to China (currently accounting for 10.3 and 0.2% of Russian oil and gas exports). This ties in with what appears to be a current rather irrational obsession with China in the Kremlin: it seems doubtful that *rapprochement* with Beijing will help Russia to overcome its economic problems. Today it seems that the construction of new pipelines has been predicated on the assumption that production will increase substantially, while Russia's output is actually expected to fall in the coming years (see Figure 2).

Figure 2: Russia's oil output forecast



Source: IEA

6. See: Vladimir Putin, 'Speech at the 3rd Forum of the Gas Exporting Countries', November 2015. Available at: www.en.kremlin.ru/events/president/news/50755.

Moreover, in the energy sector Russia will redirect the focus of trade heavily towards China, while Europe tries to reorient towards alternative suppliers and increase competition that impacts negatively on Russia's interests. Even today EU-Russia energy relations cannot really be conceived as an 'energy partnership'. It is more probable that Russia will simply remain a supplier of oil and gas to Europe in the same way that it has been doing for the last 30 years, while the EU will just be a buyer. Moreover, Russia will become less significant for Europe as an energy supplier by 2025 – primarily for three reasons. Firstly, Russia will become less crucial to the EU since it is virtually certain that oil and gas prices will remain under pressure at least until the early 2020s. Secondly, Middle East suppliers will compete with Russia more actively due to geostrategic rivalry. Thirdly, Russia having 'lost' Ukraine, a political dimension of the energy issue has been removed, and Russia will become less inflexible in this kind of dialogue. On the eastern 'front' nothing significant will happen for a while: the 'Siberia Force' gas pipeline will not come into operation until 2020, while China will import a lot of liquefied natural gas (LNG) from Australia and Indonesia at the same time as it ramps up domestic gas production. Therefore between 2020 and 2025 Sino-Russian cooperation will be less intensive, and Russia will once again turn to Europe – not as an equal trading partner but as a last resort option. Europe, for its part, will seek to constrain Gazprom not by building Nabucco or something similar, but rather by making better use of its extensive LNG regasification facilities and building a transit gas pipeline from Croatia to Poland, thus securing the supply to the Central European nations, which have been overdependent on Russia until now.

Domestic developments and foreign policy

The impact of economic developments on politics tends to conform to the following formula: the weaker the economy is, the stronger the political component becomes. Actually, this is classic Soviet tactics: for example, the country's disastrous economic performance in the early 1930s was matched by increasingly repressive state authoritarianism, just as the economic hardships of the second half of the 1970s coincided with an increasingly autocratic style of governance. Meanwhile, if the country is experiencing a gradual economic meltdown, the rise of authoritarianism will be gradual as well, hence not too visible, thereby giving people time to get accustomed to it.

All this will provoke a rise in Russia's aggressiveness, but at a rather limited level. It means that Moscow might initiate bellicose actions against states which are either located inside its sphere of interest, not protected by treaties with NATO or other collective defence alliances, or already weakened by internal strains. At the same time, the reinforcement of Russian military bases abroad (from Kyrgyzstan to Armenia, and, of course, Syria) is more expected in a mid- and long-term perspective. All this makes Russia the kind of regional power that may 'disturb' the global powers, but is unable either to challenge them or to engage with them on an equal basis. It is also doubtful that the Russian military-industrial complex will lead the economic upturn, both because

it has too minimal an impact on other sectors of the economy and because it is extremely dependent on foreign supplies (according to Western sources, up to 90% of electronic components used in Russian armaments are imported).⁷

When analysing economic issues, it is impossible to avoid the topic of the sanctions recently imposed on Russia by the Western nations. Of course they are important, but much more significant is the fact that Russia is unable to respond to them in an effective way. Its economy is so lopsided that if Russia chooses to stop supplying oil or gas to foreign markets, the country's economy will simply collapse. Therefore, it reacted by trying to limit Western countries' access to its domestic market, and introduced counter-sanctions in August 2014. The latter might seem a strange but one-off reaction until one considers Russia's response to the downing of its fighter jet by Turkey in November 2015. Rather than seek to circumvent the sanctions, by unilaterally applying counter-sanctions Russia is paradoxically behaving in such a way as to reinforce their effects, thereby making the policy of asymmetric economic retaliation one of the pillars of its policy. The sanctions have thus activated in Russia a dormant virus of self-isolationism, and now it has begun its destructive work that may determine the fate of the country for the coming decade. Deeply offended by the West's imposition of sanctions, Russia has reacted masochistically by going down a road that puts its own economy in jeopardy: indeed it ultimately risks destroying its own economy if it persists in this course of economic isolationism.

In addition, it is commonly assumed that the Western-imposed sanctions will have political as well as economic consequences for Russia. However, it is by no means sure that the sanctions will destabilise the regime for at least three reasons. Firstly, the government engages in sophisticated subliminal propaganda, which has convinced much of the population that liberal Europe exerts a malign influence on the rest of the world. Secondly, to destabilise the regime it is necessary to be able to count on a real opposition. But in Russia today the political opposition is weak and fragmented. Thirdly, Russian citizens still remember the disastrous neoliberal experiment with freemarket economics that took place in the 1990s, and references to those times only add further fuel to the ongoing 'demonisation' of the liberals conducted by the Russian media. Given that the majority of Russian citizens feel better off than they were in the 1990s, they do not tend to favour exchanging Putin's mantra of stability (even if the once prosperous economy is now badly battered) for liberal concepts of freedom and democracy.

7. See Susanne Oxenstierna and Per Olsson, *The Economic Sanctions against Russia: Impact and Prospects of Success* (Stockholm: FOI, 2015), p. 54.

Conclusion: Russia in 2025

It seems all but inevitable that in the coming years Russia will undergo a severe economic downturn, a stark contrast to the heyday of economic growth and prosperity that the country experienced from 2000 to 2008. This downturn is already underway, and it might well continue until at least the early 2020s. Russia's economy will prove unable to diversify, and the energy sector, even if contracted, will remain its core industry. The prospects for Russia's economic modernisation also appear dim: in most cases the prerequisites for such modernisation are an open economy, an active inflow of foreign capital and huge technology transfers which are clearly not on the cards in the current circumstances. Moreover it will be extremely difficult for Russia to diversify its energy flows; therefore it seems likely that Europe will remain its core market. All this will happen at a time when the economy is increasingly coming under state control and political/civil freedoms are being curtailed. However despite this climate of authoritarianism and repression, the majority of people still appear to favour Putin's anti-Western policy of self-isolationism.

Russia will not appear as an aggressive player on the international chessboard, but in 2020-2025 it will still try to consolidate its influence in the post-Soviet space since all other foreign policy adventures (the Syrian one included) will have run into the sand well before 2020. Russia's main focus will shift to the East, but not so much to the Pacific or China as to the Central Asia states, and primarily with a view to reasserting Russia's 'Eurasianism'.

III. THE FUTURE OF THE MILITARY

Gustav C. Gressel

Despite a declining economy and plummeting oil prices, Russia appears determined to maintain a high level of military spending and engagement. Even as Russia's economic model founders, the Kremlin has sought to make military glory the new centrepiece of Russian pride and identity. The development of the military-industrial complex plays a central role in Russia's 're-industrialisation' plans,¹ with the aim of modernising the economy through investment in the defence sector. Although decisions on future long-term armament plans have been postponed until the economic situation in Russia stabilises, there is no backtracking on defence as the new *raison d'état*.

The recent military reforms undertaken by consecutive defence ministers are part of a trend that is likely to continue. In the light of these developments it is possible to make some predictions on the following questions: (i) if military prowess and glory is to be the glue that binds regime and society together, what can we expect from an increasingly assertive Russia?; (ii) the wars in which Russia is currently engaged – in Ukraine and Syria – are very different in terms of risk, scope, stakes, aims, and military assets deployed. As a result, will Russia's military apparatus become more oriented towards expeditionary warfare? And finally: (iii) based on recent experience, how will Russia further adapt the structure of its armed forces and further develop its technical capabilities? Will the defence apparatus be able to keep up with the expectations invested in it?

The strategic level: the Russian armed forces and foreign policy

After the breakup of the Soviet Union, Russian defence policy was undercut by an internal contradiction: the Kremlin realised that the era of full-scale global wars was over, and that Russia's armed forces would in future be deployed essentially to fight local wars in the post-Soviet space. On the other hand, vested bureaucratic interests resisted change and sought to preserve the Soviet era defence structures tailored to fight a global war. Effectively Russia kept preparing for a regional war with a mass mobilisation-based army.

The defence reforms introduced by Anatoly Serdyukov put an end to this schizophrenic state of affairs.² Instead of relying on a mass army up to five million men strong, Russia

1. See Susanne Oxenstierna (ed.), *The Challenges for Russia's Politicised Economic System* (London: Routledge, 2015).

2. For a more detailed description of the reforms and their impact on the military situation in Europe see: Gustav C. Gressel, 'Russia's quiet military revolution and what it means for Europe', ECFR Policy Brief, October 2015, available at: http://ecfr.eu/page/-/Russias_Quiet_Military_Revolution.pdf.

restructured its army so as to be able to initiate limited operations much more quickly. As a result of this reform, a corps-sized offensive operation (50,000 to 65,000 men) could be conducted within a very short timeframe, while expanding this operation to a three-corps-sized operation could be accomplished within a month.

While military commanders usually referred to the envisaged war scenario as a ‘major regional war’, in fact Ukraine was at the heart of Russia’s military thinking. And indeed, within a week of the change of government in Ukraine on 21 February 2014, Russia had deployed a full-scale military operation to occupy Crimea,³ finally comprising about 25,000 soldiers. These contingents were subsequently reinforced: by the end of March, three corps-sized formations were deployed along Ukraine’s borders, and a strong amphibious presence assembled on the Crimean peninsula.⁴ Altogether, the force was about 150,000 men strong, and could have erased Ukraine from the political map of Europe in a matter of days. However, the Kremlin refrained from an all-out invasion of the country and instead opted for another hybrid campaign in eastern Ukraine.

While the military campaign in Ukraine closely reflected the core of Russia’s strategic and military thinking, Syria is a PR-war. Once the use of military force and revival of national pride became instruments of regime legitimisation at home, military victory had to be achieved elsewhere. In Syria, the Kremlin broke out of its diplomatic isolation, forced the West to re-engage with Russia, and gained further influence in Western Europe’s domestic constituencies, especially after portraying the intervention as an ‘anti-terrorist campaign’ against the so-called Islamic State.

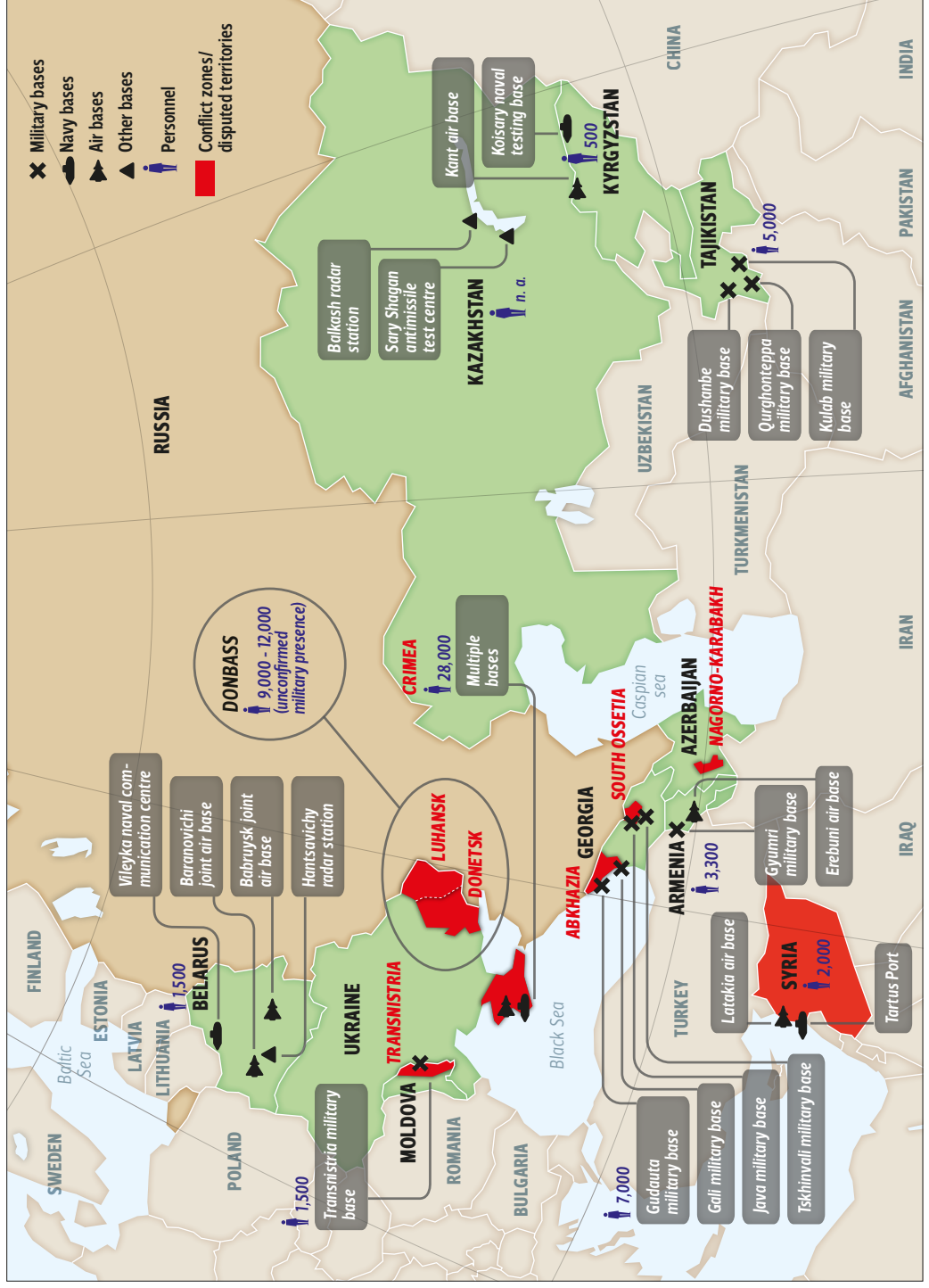
Militarily, however, Russia’s campaign in Syria remained a limited engagement which aimed in part at delivering a political shock to the West; once this objective had been achieved – and al-Assad’s position shored up – the intervention was terminated. Russia managed to gain centre stage on the diplomatic and political front in Syria, which again has boosted the domestic and international prestige of the Kremlin. But apart from stabilising the al-Assad regime, Russia did not take ownership in a sustainable resolution of the conflict or work towards a rollback against the self-styled Islamic State.

But it is highly likely that Russia will become engaged in further PR-wars of a similar kind. Such interventions have a high publicity value but entail little risk for Russia. However they require local allies on the ground that can run the main war effort.

3. See: Anton Lavrov, ‘The military operation for Crimea’, in: Colby Howard and Ruslan Pukhov (eds.), *Brothers Armed: Military Aspects of the Crisis in Ukraine* (Minneapolis: East View Press, 2014), p. 157-84.

4. See: ‘Russia’s buildup on the Ukraine border’, *The Washington Post*, 2 May 2014. Available at: <https://www.washingtonpost.com/apps/g/page/world/russias-buildup-on-the-ukraine-border/996/>; Igor Sutyagin and Michael Clarke, ‘Ukraine Military Dispositions: The Military Ticks Up while the Clock Ticks Down’, Royal United Service Institute Briefing Paper, April 2014, available at: https://www.rusi.org/downloads/assets/UKRANIANMILITARYDISPOSITIONS_RUSIBRIEFING.pdf.

Figure 3: Russian military presence abroad



Sources for data: *International Institute for Strategic Studies; Al Jazeera; Kommersant.*

This makes other potential theatres in the vicinity of Ukraine, Georgia or the Baltics likely targets. In the Western Balkans, for example, disillusionment with the EU accession process, dysfunctional states, corrupt elites, economic decline, and still flourishing nationalism provide fertile ground for an escalation into violence. Russia has long-standing contacts with nationalist movements that could play the role of the local ally. In such circumstances the Europeans would need some time to react and re-assess the situation, and Russia could pre-empt any European action with a limited intervention, forcing Europe to renegotiate on Russia's terms.

Propaganda wars aside, Russia will of course underpin its quest for pre-eminence in the post-Soviet space with military force. Real or imagined threats to the Russian 'ownership' of this space could emerge if one of the current authoritarian regimes in Belarus or Central Asia crumbles.

In any kind of larger military scenario involving NATO, the dictum that Russia can successfully start a war against NATO but not sustain it will remain true for the foreseeable future. Whether Russia would be able to challenge NATO militarily or not will very much depend on NATO and the willingness of the Europeans in particular to reinvigorate their defence capabilities.

Russia could hardly sustain the economic costs of total isolation from the West – which would be the logical outcome of such a situation. But Moscow's swift resort to economic sanctions after tensions with Ankara over the downing of a Russian Su-24 fighter jet along the Turkey-Syria border in November 2015 illustrates that the Kremlin is not averse to isolationist policies. The other issue is that the Kremlin perceives the West as being in decline. Europe is already seen as being 'flooded by migrants', unable to maintain public order and secure the state's monopoly on violence, while political leaders are unable to make or implement decisions on a wide range of economic or societal issues. If the West enters deeper into a cycle of serious domestic and/or economic crisis, Moscow may reckon that dealing a strategic shock to the West is an appropriate means of accelerating this collapse. Therefore economic interdependence is no guarantee against strategic miscalculations.

The operative level: what capabilities for what kind of war?

From the perspective of Russia's military commanders, conducting a major regional war in the post-Soviet periphery while deterring the US from intervening is still the primary scenario dominating strategic planning and military thinking up to 2025 and beyond.

A credible nuclear deterrence *vis-à-vis* the United States is a prerequisite for Russia's great power status. Russia has modernised its strategic nuclear arsenal during recent decades, and is determined to retain a meaningful second-strike capability (i.e. ballistic missile submarines).

The militarisation of space is another field in which Russia wants to gain leverage.⁵ In Russian defence circles the US missile defence programme is perceived as a way of denying adversaries access to space, indicating that Russia needs to develop its own system. Western economies and military machines are increasingly dependent on space-based assets. Developing a strategic anti-satellite system would offer Russia another tool to blackmail and deter the West without having to resort to playing the nuclear card.

On the European continent, Russia will rely on anti-access systems and tactics to deter or delay NATO reaction against any possible Russian move on the Alliance's eastern border. It can be inferred from Russian war games and manoeuvres⁶ that any war in Eastern Europe that might involve NATO would be planned with the following operative phases in mind: the first phase would consist of a provocation created using hybrid tactics designed to provide Russia with the reason to strike, at the same time testing NATO's readiness to react militarily. The second phase would involve a quick mechanised thrust into the territory under attack, relying on the new high-readiness brigades. The third phase would consist of dissuasive actions, intended to deter the other NATO states from interfering and leading them to settle for another 'Minsk agreement'.

The main trump card of the Russian armed forces in this regard is their stockpile of non-strategic nuclear weapons. The doctrine of 'de-escalative nuclear strikes', informally discussed in Russian defence circles,⁷ would suggest the pre-emptive use of a non-strategic nuclear weapon once Russia has achieved its war aims in order to dissuade NATO from assisting the victim of Russia's aggression. However, this is a high-risk strategy, and Russia would face long-term ecological and environmental consequences. Western intelligence services have suspected Russia of developing new, extremely low-yield nuclear warheads since the 1990s.⁸ A limited nuclear strike involving those warheads would show the West that Russia is serious about nuclear escalation but on the other hand would result in too little damage to legitimise immediate nuclear retaliation by the West. However, there is no indication of their deployment yet. But Russia's lack of transparency regarding non-strategic nuclear weapons, especially when considered in conjunction with its display of possible nuclear strike platforms in Syria and incursions into NATO airspace, suggest that Russia considers non-strategic nuclear weapons and the threat of first-use as a legitimate political tool.

5. See A.L. Khryapin, D.A. Kalinkin and V.V. Matvichuk, 'Strategic Deterrence against the U.S. Global ABM System and Prompt Global Strike Capabilities', *Military Thought*, vol. 24, no. 1, 2015, pp. 1-6; Yu. A. Vartanian, I.I. Olienkov, D. Yu Ubozhenko, 'A Space Monitoring System as Part of Strategic Deterrence', *Military Thought*, vol. 24, no. 3, 2015, pp. 16-23;

6. See Johan Norberg, *Training to Fight – Russia's Major Military Exercises 2011–2014*, FOI Report, December 2015. Available at: <http://www.foi.se/Documents/foir4128.pdf>.

7. Dave Majumdar, '5 Russian Nuclear "Weapons" of War the West Should Fear', *The National Interest*, 31 January 2015. Available at: <http://nationalinterest.org/feature/5-russian-nuclear-weapons-war-the-west-should-fear-12159>;

8. Central Intelligence Agency, Intelligence Memorandum, 'Evidence of Russian Development of New Subkiloton Nuclear Warheads', 30 August 2000. Available at: http://www.foia.cia.gov/sites/default/files/document_conversions/89801/DOC_0001260463.pdf.

The fourth phase would secure the conquered territory, install a puppet regime, set up new administrative structures, and militarily strengthen the area against any attempt by the West to take it back. Judging by the Russian campaigns in Ukraine and Syria, it must be said that Russia's track record of stabilising conquered territories is rather poor.

Since the second Chechen war, quelling domestic unrest and guerilla warfare have been the key fields of expertise of the 'Internal Troops' of the Ministry of the Interior, not the Russian armed forces as such. The latter hardly saw action beyond Russian borders,⁹ and hence have been largely absent in wars that have caught the attention of the Western media.

One reason for past reluctance to send those troops abroad was intelligence. Russian troops rely heavily on human intelligence for gathering information. In all domestic contingencies, the troops maintained by the Ministry of the Interior closely cooperate with the domestic intelligence service, the Federal Security Service (FSB). Abroad, the Main Intelligence Directorate of the General Staff of the Armed Forces (GRU) conducts the same tasks along with its own special forces. Moreover, the GRU's elite *Spetsnaz* troops are far fewer in number than the troops controlled by the Ministry of the Interior, hence the capacities of the armed forces to subjugate hostile populations are severely limited.

The neglect of expeditionary warfare by all previous generations of military planners in the Russian Federation will constrain Russia's ability to conduct 'PR-wars'. Reliance on terrestrial infrastructure and railways to support troops in the field has remained high. In Ukraine, Russia still relied on railway transport to rotate its troop battalions in the Donbass. Although in summer 2015 the Russian armed forces trained to deploy larger forces into Central Siberia without relying on permanent infrastructure and railways,¹⁰ in the autumn, most military cargo to Syria was supplied by ship.

Another constraint is the limited reach of Russia's technical intelligence assets. In Syria Russian strikes have tended not to target ISIS proper, but rather rebel groups in the vicinity of government-controlled areas, indicating Russia's heavy dependence on local proxies' intelligence services to locate and designate targets.

Hence, Russia's actual capabilities to engage in expeditionary warfare are limited and it is as yet uncertain how much effort Russia will put into developing them.

9. 'Why Russia will send more troops to Central Asia', *Stratfor Global Intelligence*, 11 April 2015. Available at: <https://www.stratfor.com/analysis/why-russia-will-send-more-troops-central-asia>.

10. Roger McDermott, 'Russia's strategic mobility and its military deployment in Syria', FOI document, November 2015. Available at: <http://www.foi.se/Documents/RUFS%20Briefing%20No.%2031%20.pdf>.

The practical level: equipment, organisation and doctrine

Most likely, Russia's armed forces in 2025 will be very similar to those that exist today. Although the military reforms introduced by Sergey Shoigu (2007-2011) were quite radical, they represented a compromise between conservatism, innovation and adaptation.

A conventional confrontation with Western forces will remain the core mission of the Russian armed forces. The neglect and inattention to conventional warfare in the West during the 'expeditionary era' has provided Russia with an opportunity to catch up. However this situation may now change, if the West refocuses on the importance of conventional warfare capabilities.

Meanwhile Russia will most likely not succeed in replacing 70% of Cold War-era military equipment with new weapons even by 2025. Most of the platforms and equipment will be around 30 years old by that date: however they will be better maintained and upgraded. The revitalisation of the Russian defence sector will not depend solely on the oil price. Russia's defence industrial base has shrunk since the end of the Cold War, and in several key aspects Russia has lost its innovative edge. The modernisation partnerships with Western Europe were partially designed to overcome shortfalls in this sector. But how far has the Russian defence industry caught up and how quickly will Russia resume 'business as usual' with the West?

While European sanctions affect few defence programmes directly, they will have an impact on the Russian defence sector's access to new technologies, precision tools, new materials and research networks. This makes them an important and effective policy tool, if maintained over a long period of time.

Conclusion

The future of the Russian armed forces might be likened to a lake full of black swans. The latent aggressiveness of the regime, the mobilisation of populist sentiment through militarism and nationalism, and the prominent role assigned to the military suggest an assertive and less predictable foreign policy. But what will be the next lightning rod for Russian nationalism? Current frozen conflicts and Ukraine remain on the agenda. Syria for the time being is an open-ended war whose resolution still seems a distant prospect. Beyond that, one has to look at smaller-scale conflicts where Russia has local proxies to rely on, that can be managed with limited resources, and serve to demonstrate Russia's strategic relevance and might *vis-à-vis* the West. Hence in dealing with Russia, Europe cannot revert to a purely defensive stance within NATO. Managing the common neighbourhood and preventing Russian PR-wars from destabilising Europe will remain a task that needs to be tackled beyond the borders of the Alliance. Crisis management is part of an extended defence posture. When it comes to EU and US sanctions against Russia, if they are to be re-evaluated, the

EU cannot agree on business as usual in terms of defence and technology. This would significantly endanger Europe's own security, for whereas Russia's political modernisation might be in the EU's interest, its defence modernisation is not.

The economic and technological sustainability of the planned military modernisation is the biggest uncertainty surrounding the future of Russia's armed forces. Given current economic trends, the outlook does not appear positive for Russia. All previous defence programmes have fallen considerably short of their goals. And the economy has not improved – quite the reverse. However Russian ingenuity at outmanoeuvring the West, and skill in exploiting the strengths of its intelligence agencies (including in the sphere of industrial espionage), should never be underestimated – especially when the West's naiveté and propensity to blunder are added to the equation.

Ultimately, more dangerous escalation scenarios are less likely, but still possible. This will depend above all on the European defence posture and the credibility of NATO's deterrence in Europe. Hence 'normalisation' of the strategic relationship, let alone a 'strategic partnership', with Russia will remain an illusory goal. Even if the level of rhetorical confrontation abates and confidence-building measures and resumed arms control negotiations make European-Russian relations more predictable, the basic paradigm of this relationship will still be a kind of 'managed confrontation'.

Section 2:

**The drivers of Russian
foreign policy**

IV. FUTURE APPROACHES TO THE US

Samuel A. Greene

‘Barack Obama made us do it!’ That, in a nutshell, was the excuse thrown up by *Ekspert*, the closest thing Russia’s ruling elite have to a journal of record, the morning after the Moscow municipal authorities razed more than a hundred kiosks and shops around the city in a midnight raid. Ostensibly, the municipality was simply restoring order by demolishing buildings erected in the 1990s in violation of city regulations; no matter, Mayor Sergei Sobianin said, that the owners were ‘hiding behind flimsy deeds of title’, or that, on some estimates, 3,000 jobs were lost overnight in the midst of a deep recession. State TV put a brave face on it, praising Sobianin for ‘returning Moscow to Muscovites’, but the public reaction was livid. Some Muscovites were incensed about property rights, others about losing access to cheap groceries, but they all seemed to settle on dubbing 8 February ‘the night of the long bulldozers’.

It was almost inevitable, then, that *Ekspert* would blame it on the West, whose transnational ‘Big Food’ corporations had, the magazine argued, forced their Russian proxies to lobby for the move, which would drive business into supermarkets stocked full of Western goods.¹ (*Ekspert* forgot to mention, of course, that those supermarkets are now bare of Western-made goods, thanks to Russian counter-sanctions. Goods produced under licence in Russian factories remain.) Russia’s relationship with the West is at its lowest point since Soviet times: Moscow is fighting two proxy wars with Western powers and is engaged in a mutual sanctions war, and there is no end in sight on any front. Nor is this just a government-to-government problem. Public opinion towards the United States turned negative in January 2014 and has remained that way ever since, the longest period of anti-American sentiment in post-Soviet history. Two months later, sentiment towards the European Union turned negative for the first time in history and has remained that way ever since.²

This sea change in Russia’s relationship with the West emerged as a solution to a political problem, specifically the problem of Vladimir Putin’s (at the time) waning legitimacy. Whether the shift was ever intended to go this far or last this long is an open question; it would not have been the first time Putin – or, indeed, numerous Kremlin incumbents before him – pivoted back and forth around foreign policy for domestic political gain (nor is that an exclusively Russian habit). But the question is also moot, for the pivot has been broken, and the shift to confrontation with the West is now structural, built into the fabric of the new kind of regime Putin has put in place

1. Oleg Stulov, ‘Transnatsional’nye kompanii unichtozhili nesetevuiu roznitsu’, *Expert Online*, 9 February 2016. Available at: <http://expert.ru/2016/02/9/transnatsionalnyie-kompanii-unichtozhili-moskovskuyu-roznitsu/>

2. Levada Center, ‘Otnoshenie k stranam’, 2016. Available at: <http://www.levada.ru/indikatory/otnoshenie-k-stranam/>

to rule Russia. It will, as a result, last as long as he does in office. And, while much of Moscow's choicest rhetoric is aimed at Washington, the relationship with Europe is, if anything, worse.

The foreign-domestic policy nexus

In the view of this author, Russian foreign policy forms part of a continuous and contiguous whole with domestic politics; it is impossible, both conceptually and empirically, to separate the two. As a result, they must be understood as two reflections of a single system, and any perceived fundamental contradiction between the domestic and foreign political courses should be presumed to be attributable either to an unstable equilibrium (if it is real) or an error of perception (if it is not). As a corollary, in any situation in which the ruling elite perceive a domestic threat to their survival and prosperity, any contemporaneous adjustments to foreign policy should serve the cause of ameliorating that threat.

And so it came as no surprise that, when his impending return to the Kremlin after four years as Dmitry Medvedev's prime minister was greeted with Russia's largest post-Soviet wave of protest, Putin pivoted away from Medvedev's 'reset' with Washington, accused the protesters of being backed by 'foreign powers' seeking 'hegemony' and called for all patriotic Russians to come to the defence of their motherland – by voting for him. Eventually, the rhetorical shift that helped secure Putin's March 2012 reelection began to take on more concrete shape. In September 2012, the Kremlin announced the eviction of the US Agency for International Development; the next month, Russia announced its withdrawal from the Nunn-Lugar Cooperative Threat Reduction Program. In December 2012, Moscow disavowed a bilateral agreement with the US on child adoption that had come into force only a month earlier. And in January 2013 Russia pulled out of an agreement to cooperate with Washington on combating narcotics and human trafficking. When North Korea tested a nuclear device in February 2013, Russian Foreign Minister Sergei Lavrov declined to accept a call from US Secretary of State John Kerry for a period of almost 72 hours, citing a trip to Africa.

The reasons for this shift were clear enough: by 2013, Russia's economy was already beginning to slow down, with many economists predicting (mistakenly, as it turned out) recession by 2014. Thus, the technocratic narrative that had buoyed Putin's popularity for his first 12 years was no longer as persuasive, but the key divisive issues that had worked so well during the election campaign were still effectively keeping the opposition at bay, by lumping them together with an ontologically – if not yet militarily – threatening West.³ From the vantage point of early 2016, however, the US-Russian relationship of early 2013 looks almost idyllic. In late February 2016, a senior Russian

3. Samuel Greene and Graeme Robertson, 'Identity, Nationalism, and the Limits of Liberalism in Russian Popular Politics', PONARS Policy Memo no. 323, Washington, PONARS Eurasia, 2014. Available at: <http://www.ponarseurasia.org/memo/identity-nationalism-and-limits-liberalism-russian-popular-politics>

diplomat announced unceremoniously that Moscow was ‘tired’ of cooperating with Washington in Afghanistan.⁴ For the West’s part, both Washington and London have identified Russia as a primary threat to their security. The exigencies of domestic politicking do not appear to be a sufficient explanation.

Encirclement by regulation

To understand how things got this bad, and why they are unlikely to get much better, we have to understand why Russia went to war over a trade treaty. While Putin’s domestic political strategy made significant confrontation with the West inevitable, it did not have to lead to a conflict of this depth and ferocity. The war in Ukraine is prosecuted by a Russian leader building a basis for charismatic legitimacy, is ripe with the rhetoric of civilisational conflict and has excavated old geopolitical stereotypes, but its roots lie in the structures of political and economic governance that make Russia and the European Union such different places.

For all its flaws, the European Union is institutional *par excellence*: the EU’s power lies in the stability and predictability of its rules and regulations, which, even if sometimes infuriating in their complexity, are open and navigable to anyone willing to play by the rules (and even to many who are not). Moreover, this institutional power is brought to bear most forcefully on the issue of competition, where it is most effective at limiting both state preference and monopolistic market power. It is thus no surprise that Europe does not typically think of itself in geopolitical terms.

Russia, on the other hand, is supremely *deinstitutionalised*. Its political economy is dominated by actors – the line between political and economic elites blurred to the point of nonexistence – who benefit from state-sponsored ‘first-mover advantages’ and state-sanctioned protected competitive positions. This is an environment that rewards scale, rather than efficiency, and in which fortunes are made by exploiting uncertainty (primarily the uncertainty of others). Russian firms can succeed in a European environment, just as European companies can do well in Russia, but to do so they have to play by European rules, which imposes a cost.

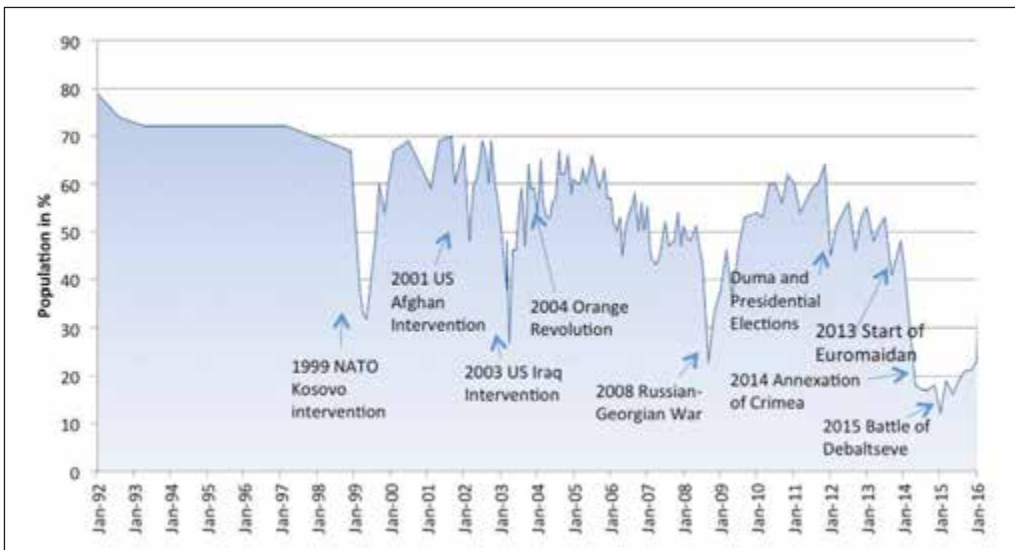
Right now, Ukraine’s political and economic governance landscape looks much more like Russia’s than like the EU’s; indeed, the same is true throughout the EU’s Eastern Neighbourhood. Successful implementation of the Association Agreement would change that, transforming these countries from a zone where Russia’s elite can do business into one where they cannot. For Russia, then, encirclement by regulation is at least as much of a geopolitical threat as any missile defence system.

4. RIA Novosti, ‘Moskva ne budet podkliuchat’sia k initsiative SShA v Afganistane’, 15 February 2016. Available at: <http://ria.ru/world/20160215/1374680277.html>.

Swings of the political pendulum

Most analyses of post-Soviet foreign policy – and virtually all analyses of foreign policy since the ascent of Vladimir Putin in 2000 – have noted the periodic fluctuations in the Kremlin’s official stance towards the West in general and the United States in particular. The most comprehensive analysis of this ebb and flow, reviewing the period from 1992 to 2011, finds three competing ‘camps’ within the policy establishment, whose varying distance from the centre of power seems to coincide with the broad course taken at any given time.⁵ Broadly speaking, these groupings comprise ‘pro-Western Liberals’ – ideological adherents to a Western-centric project of liberalism and integration; ‘Great Power balancers’ – more or less realist, state-centric establishment foreign policy adepts seeking the maximisation of power; and ‘Nationalists’ – a loose congregation of ‘neo-imperialists’, ‘proponents of ... regional domination’ and ethnic chauvinists. Each is seen to have historical roots, allies in parliament and the executive branch, and among policy ‘think tanks’ and other centres of intellectual gravity (if not necessarily *gravitas*). None is seen to be durably dominant, as forces ranging from oil prices to the relative assertiveness of American foreign policy shape the sovereign’s preferences at any given point in time. The rotation among these approaches is generally seen as being cyclical.

Figure 4: Positive attitudes towards the US in Russia



Source for data: Levada Center

5. Andrew C. Kuchins and Igor Zevelev, ‘Russia’s contested national identity and foreign policy’, in Henry R. Nau and Deepa M. Ollapally, (eds.), *Worldviews of Aspiring Powers: Domestic Foreign Policy Debates in China, India, Iran, Japan, and Russia* (Oxford: Oxford University Press, 2012).

There are cycles, of course, and there are cycles. In the longer arc of history, there is little to suggest that the 'on-again off-again' pattern of Russia's relations with the West – and with the US in particular – will change. As one commentator has demonstrated convincingly, for some 200 years Russia has looked Westward both for identity and ideas, shaping its sense of self both positively and negatively, while importing technologies and innovations to boost economic growth and standards of living.⁶ There is no reason to believe that this larger trend has come to an end; indeed, the West very much remains Russia's constitutive other and is right at the heart of Russian politics. But the swings from cooperation to confrontation and back again do not happen entirely of their own accord; rather, at each change of direction there were various factors pushing and pulling the relationship in one direction or the other. Remarkably, the position of the pendulum seemed to depend very little on who was in power in Russia: Stalin, Khrushchev, Brezhnev and Yeltsin all played the confrontation/cooperation game to their situational advantage, and the pendulum swung repeatedly during each ruler's reign. The same has been true of Putin – until now. This is not to say that the pendulum will not eventually swing back to cooperation.

For that to happen, however, two structural shifts will have to occur. The first is clear, if not easy: it will have to become possible for a Russian leader to build his (or, less likely, her) legitimacy on a technocratic basis, thus reviving the language of pragmatic cooperation. It is all but impossible to see how this leader can be Putin. But that problem pales in comparison next to the complexity of the bigger structural issue: as long as Russia is governed the way it is, its elite will be threatened by the European ambitions of neighbouring states and, indeed, by the policies of the European Union itself.

Conclusion: prospects for Russian-Western relations in 2025

For Russia's relationship with the West to improve, the fulcrum of the pivot will have to be restored. For the first 12 or so years of Putin's reign, his strategic flexibility – his remarkable ability to be all things to all people, both foreign and domestic – was underpinned by a fortuitous combination of financial and ideological liquidity. With oil prices in the doldrums and sanctions raising the cost of capital, financial liquidity has been sapped and is unlikely to return any time soon. Without it, the Kremlin will find it increasingly difficult to manage the competing demands of a voracious, rent-seeking elite and key social constituencies accustomed to budgetary *largesse*. And having shifted the basis for Putin's legitimacy from rationalist, technocratic arguments about economic growth to the idealational language of charisma and tradition, the Kremlin has deprived itself of ideological liquidity as well: it cannot purchase a different form of legitimacy without first liquidating the one it has only recently acquired, and risking a loss of power and control in the process.

6. Ivan Kurilla, '12 tezisov po istorii rossiisko-amerikanskikh otnoshenii', *Rossia v global'noi politike*, 17 September 2015. Available at: <http://www.globalaffairs.ru/global-processes/12-tezisov-po-istorii-rossiisko-amerikanskikh-otnoshenii-17685>.

Those looking for a light at the end of the tunnel will likely have to wait until Putin is reelected. Russia enters the parliamentary election cycle this year in the midst of a deep and ongoing recession, which in 2015 alone pushed down incomes by at least 4% and consumption by 9%.⁷ The task for the Kremlin, then, is either to find the resources in the budget to pay for populism – a cost the Ministry of Finance has thus far not been willing to accommodate, while Putin’s commitment to fiscal discipline as a way of staying out of the clutches of Western lenders appears undiminished – or to find a way to infuse the decidedly uncharismatic United Russia party with Putin’s magnetism. The price, either in terms of money or ideology, that the Kremlin has to pay to win the Duma elections – and nothing short of an absolute majority will be acceptable – will, in turn, determine the cost of the presidential elections, currently scheduled for 2018. From now until then, the Kremlin will have a single focus and, if history is any guide, will be extremely risk averse: it will seek to bolster its current sources of legitimacy, which have proved their effectiveness, rather than to build new ones, which may or may not work.

In the longer term, if we are to arrive at a new relationship with Russia Moscow will have to find a way of restoring the financial and ideological liquidity that makes a pivot possible. At the crux of this question is whether Putin – or a challenger – can formulate an alternative basis for legitimacy, a narrative that returns the focus to rationalist, technocratic arguments about economic growth and public welfare. That, in turn, will require whoever rules Russia to begin a new kind of dialogue with the country’s public and elite, one that would engender confidence and investment (financial, political and emotional) in a very different kind of political project. It is a risky thing for any politician to attempt, much less one seeking to stay afloat in a country where the stakes are as high as they are in Russia. It would require nothing short of a radical change in Russian politics.

7. Olga Kuvshinova, 'Rossiiane perekhodiat na model' vyzhivaniia', *Vedomosti*, 10 February 2016.

V. FUTURE APPROACHES TO CHINA

Alexander Gabuev

China and Russia began to build closer ties as of early 2014. The catalyst for the *rapprochement* between Moscow and Beijing was the international crisis over Ukraine, which estranged Russia from the West. For many observers it was the \$400 billion gas deal signed in Shanghai in May 2014 that became the symbol of the emerging alliance. But the warming in Sino-Russian relations went much deeper than the clinching of this deal, which marked the conclusion of negotiations and bilateral cooperation efforts that have been ongoing for more than 15 years. The main shift after the crisis in Ukraine was that Russia has reassessed its strategy *vis-à-vis* China. Seeking a powerful partner to compensate for financial losses incurred as a result of Western sanctions and the outflow of foreign investment and capital from the Russian economy, Moscow started to take a fresh look at many issues which had been blocking cooperation with Beijing for years. This process resulted in the removal of three key informal barriers to cooperation: (i) Russia's reticence with regard to selling advanced weaponry to China; (ii) the *de facto* ban on Chinese participation in large infrastructure projects; and (iii) Moscow's reluctance to sell stakes in strategic resource deposits to Chinese investors. Examples of this new approach as applied by the Kremlin in 2014-2015 were limited, but they may serve as an important indicator of what may happen in the future on a larger scale.

Trends that will shape the future

Predicting the future is an onerous task. One approach is to extrapolate current trends and try to predict their most likely outcome. This also involves gauging the longer-term significance of recent developments. Short of Russia or China undergoing a dramatic upheaval that would have major implications for both countries' ties with the West and the global economy, a number of existing factors and conditions are likely to shape Sino-Russian relations in 2026.

The first set of conditions concerns the global economy. Commodity prices will remain low, due to the fact that there will be a drop in demand for commodities, as the world economy undergoes a painful readjustment process that will last for most of the decade.

The second set of conditions concerns Russia. Vladimir Putin will maintain his position as the national leader or will be replaced by a likeminded Kremlin-anointed successor. Under such circumstances the nature of the Russian polity will remain basically the same: the political system is dominated by a powerful, though inefficient, bureau-

cracy; political opposition is not tolerated; civil society remains fragmented and disorganised, while the majority of the population is disengaged from politics and preoccupied with day-to-day survival. Relations between Russia and the West have deteriorated and entered a new phase that might best be described as 'cold peace'. The situation in Ukraine appears to have stabilised for now, but the country is battling its many domestic problems and not attracting too much attention from the West beyond symbolic support. Donbass has turned into a frozen conflict. Crimea remains under Russian control. Western sanctions against Russia remain in place. European businesses are learning to live without the Russian market, particularly as the Russian economy shrinks and becomes a less attractive prospect for investors. Moscow is still an important supplier of hydrocarbons to Europe, but no single European country is 100% dependent on Russian gas anymore as costly diversification has taken place (fighting for a slice of this lucrative market, many producers have invested in building LNG terminals in Europe).

Russia is disengaged from economic integration with the EU, and remains equally aloof from economic integration mechanisms in Asia like the Trans-Pacific Partnership (TTP). Currently the Shanghai Cooperation Organisation has an ambitious economic integration agenda, featuring the proposed creation of a free trade zone, which would strengthen China's economic grip over Russia and Central Asia. Russia's economy continues to be heavily dependent on commodities. The state and private companies close to the Kremlin dominate the economy, while the share of SMEs in the Russian economy remains quite small. The need to guarantee popular support means that the government pays lip service to promoting economic and infrastructural development but the country manages to avoid painful structural reforms by kicking the 'resource curse' can down the road. As a major exporter of commodities, Russia's attractiveness to foreign investors remains limited as commodities are cheap and available in other parts of the world and the domestic market is small due to falling incomes.

The third set of conditions concerns China. The Chinese Communist Party (CCP) maintains its rule. It is currently presiding over a painful rebalancing process with GDP growing on average by 2-4% over the next decade. China still continues to import hydrocarbons and commodities, but a shift to clean energy is taking place as there is increasing public and political awareness of environmental issues. China continues to suffer from huge overcapacity in the industrial sector, particularly in infrastructure industries. Beijing adopts a pragmatic stance and maintains a stable relationship with the US, Japan and ASEAN countries despite some tensions and a growing arms race in the region.

Having outlined existing conditions and trends that may shape the future of Sino-Russian relations, we need to look at the fundamentals of the relationship – the factors which have a significant and lasting effect on decision-making on both sides.

Closer ...

There are two sets of factors which push China and Russia closer together – the first being economic, and the second political in nature.

The Russian and Chinese economies are complementary, just as Russia's economy is complementary to that of the EU. Russia, despite all its industrial capacity, dynamic IT sector and educated workforce, is by and large a commodity-based economy. Russia's principal exports are hydrocarbons, metals, timber and chemicals. At the same time China imports large volumes of commodities and is heavily reliant on imported hydrocarbons, metals and food crops. Physical proximity and ability to build secure land-based supply routes mean that there is potential for a natural synergy between the Russian and Chinese economies. For a long time Russia was reluctant to allow massive Chinese (and other Asian) investment in developing its Siberian and Far Eastern resources, but after Ukraine the policy is starting to change. As China moves from an investment-led to a consumption-led growth model, Russia still has many things to offer: inexpensive food products for the Chinese middle class concerned about food safety; natural gas for cities in Northern and Central China where air pollution is becoming a social problem; Russia's cold climate (reducing costs for cooling servers) and inexpensive electricity mean that it is an attractive location for data storage facilities to cater for China's growing online population.

China has many other things to offer to Russia besides its huge market. Chinese companies have strong expertise in building infrastructure, which is badly needed in the vast and underdeveloped territories of Siberia. China has developed advanced industrial technologies and could be a key source of high-tech imports if Russia were to become serious about modernisation. Beijing presides over a huge stockpile of cash, and private companies are increasingly looking for opportunities to diversify their investments. In recent years the Hong Kong Stock Exchange has attracted a large number of mining and natural resource company listings and could become one of the platforms for Russian companies to raise capital. The Shanghai and Shenzhen stock exchanges are also likely to catch up in terms of regulatory standards and a diverse range of investors.

Politically Russia and China are likely to remain non-democratic regimes, suspicious both about the activities and allegiances of their own citizens and about the intentions of the West. This reality is likely to drive them closer on many issues, including key questions of global governance. Moscow and Beijing will continue to proclaim their support for reform of the United Nations Security Council (UNSC), while at the same time trying to maintain their privileged position as permanent members. They will continue to call for the redistribution of votes inside Bretton Woods institutions like the International Monetary Fund (IMF) and the World Bank, and will be active in promoting interest-based clubs like BRICS. Moscow and Beijing will seek to jointly promote 'cyber-sovereignty' in internet governance. Both countries will continue to be vocal critics of 'Arab spring'-style popular uprisings and will continue to object to the ousting of dictatorships by force.

Central Asia will be a region where Russia and China will engage in increased cooperation. The interests of the two powers in this region overlap to a significant degree: maintaining political stability, supporting local secular rulers and regimes, combating jihadists who pose a threat to the Xinjiang-Uighur region in PRC and Muslim-populated Volga regions in the Russian Federation (RF), and ensuring that the US cannot establish a military presence in the area. As China's economic clout in the region grows, fuelled by commodities imports and increased infrastructure investment, and Russia's economic power diminishes *vis-à-vis* China, Moscow will realise that it does not have the resources to compete with Beijing in Central Asia on the trade and investment front. Thus the two countries may strike a deal. China will be the major spender and engine of economic growth in Central Asia, while Russia will remain the major provider of hard security. Local states seek to balance between the two bigger players and are uncomfortable about China's strong military presence in the region, so an eventual division of labour between Moscow and Beijing can accommodate everybody's interests and receive local elites' and peoples' support.

... but still apart

At the same time there are still limits to the Sino-Russian partnership which will prevent it from evolving into a fully-fledged alliance. The major barrier is the different political philosophies of the two countries. Beijing's foreign policy is still driven by a strategy of securing a peaceful and supportive external environment in order to address mounting domestic challenges. Despite the fact that Deng Xiaoping's formula of *taoguang yanghui* ('hiding our capacities and biding our time') is often questioned in China, as the world's second-largest economy and one of the largest military powers can hardly hide its extensive capacities, Beijing still tries to avoid direct claims for global leadership or confrontation with major powers. Its foreign policy priorities are good relations with countries that can provide investment and technology to China, serve as markets for Chinese exports or as sources of commodities vital for economic growth.

Only recently has China started experimenting with Beijing-led institutions emulating global formats like the Asian Infrastructure Investment Bank – modelled on the World Bank – and embarked on massive albeit somewhat ambiguous projects like the 'One Belt One Road' initiative. Even the recent tensions in the South China Sea can be viewed as an attempt to channel domestic nationalist sentiment and at the same time create more options for addressing the 'Malacca Dilemma'. The level of provocations is carefully managed by leaders in Beijing, who do not want to cross a certain threshold that would activate the US alliance system in the Asia-Pacific.

Russia is pursuing an entirely different strategy. Moscow's foreign policy is driven by a quest for geopolitical security and international respect as a global powerhouse. Creating 'spheres of influence' in Russia's neighborhood is serving these two objectives. For

Moscow its 'equal' relationship status *vis-à-vis* the West is a goal in itself, while China is more pragmatic and opportunistic. Russia is ready to sacrifice economic benefits of trade and investment if this is the necessary price to pay for national prestige. Undermining Western dominance and creating a multipolar world through multilateral fora like BRICS is a much more important task for Russian foreign policy than it is for Beijing. This gap between the two foreign policy strategies makes it impossible to create a real alliance between Russia and China. Beijing does not want to be constrained by collective defence mechanisms along the lines of NATO's Article 5 principles, particularly if that implies the possibility of entering into a conflict with the US over something as irrelevant for China as Crimea. Beijing's natural inclination to prioritise a harmonious relationship with the West over taking sides with 'strategic partners' in conflicts where China's core national interests are not affected has been demonstrated in the past (notably in its non-recognition of Abkhazia and South Ossetia and non-recognition of Crimea) and is unlikely to change in the next decade. At the same time Russia is not willing to be dragged into potential conflicts over issues it deems irrelevant for its strategic interests like the Senkaku/Diaoyu islands or the South China Sea. It is thus more likely that while moving closer on the international stage and trying to establish cooperation on Central Asia, Russia and China will still look for options to diversify their partners in Asia and Eurasia.

The second barrier is essentially cultural. Despite all the hostile rhetoric and the Kremlin's widely touted notion of a 'declining West', Russia still remains rooted in European civilisation and values. The spending patterns and aspirations of the elite and the middle class still connect it to Europe and the West more than to China and Asia, which influences pragmatic choices such as venues for raising capital (most Russian business leaders would prefer London over Hong Kong), education of children (Switzerland rather than Singapore) and travel (Turkey and Sardinia rather than Hainan island). The physical and cultural proximity of Europe make it unlikely that this link, which has been cultivated over several centuries, will vanish in the space of a decade. This deep-seated cultural barrier has constrained Russia's cooperation with China as few Kremlin decision-makers have a genuine interest in Asia, and this relative indifference has had a lasting legacy. At the same time, from China's perspective, Russia is a 'declining power', no longer an inspirational role model or potential soulmate. The aspirations of the Chinese elite are either nationalistic, or are oriented towards closer association with the West (or both at the same time).

The third barrier is an intellectual one. Despite having invested in research expertise on Russia driven by the CPC's interest in the collapse of the USSR, China's understanding of Russia is still limited. This is likely to change in the upcoming decade as more Chinese companies may establish a presence in Russia, but the transition will take time. This is even more true for Russia. 25 years after the breakup of the USSR, its school of China watchers, including independent experts as well as officials and analysts in the corporate sector, has shrunk dramatically. The crisis over Ukraine and 'pivot to China' have not generated a momentum for the state and corporate sector to invest in 'China watching'. Giv-

en the harsh economic constraints Russia is likely to face in the coming decade, it is even more unrealistic to expect that the country will invest resources in rebuilding the necessary capacity. These developments may add to the growing imbalance in the relationship: ultimately China will understand Russia much better than Russia understands China.

Asymmetric interdependence

The most likely outcome of the interplay between the various factors and dynamics described in this chapter will be Russia's growing dependency on China. The process will be slow and gradual, but steady. As economic conditions worsen and international investors are less attracted by what Russia has to offer, the Russian political and economic elites will become more responsive to Chinese demands. The crucial goal for Moscow will be to guarantee the survival of the regime by securing sufficient cash flow to keep the country afloat. This will mean reaching out to markets for commodities, and seeking alternative sources of capital and technology. China will provide Russia with an economic lifeline, but will not put significant effort into modernising the Russian economy and making it successful. At the same time the volume of Chinese investment in Russia and China's exposure to the vagaries of the Russian economy will be limited: Beijing will not want to overly annoy the US and also will not risk putting too many eggs in the Russian basket.

After bargaining hard, Moscow will surrender to Chinese demands and open the Russian economy to wider penetration by the PRC. This will take several forms. The major and most important change will be that all future gas and oil pipelines will be built to China only, denying Russia a diversification option through the Pacific with potential markets in Japan and South Korea. The second major shift will be Moscow's acceptance of Chinese companies' ownership of substantial stakes (including joint control with Russian minority stakeholders) in strategic deposits of natural resources. The third step will be joint ventures between Chinese companies and Russian companies close to the Kremlin (like the companies controlled by Gennady Timchenko and Arkady Rotenberg). The Chinese will provide technology and financing, while the Russians will automatically give their seal of approval to these projects. It is likely that over the long run the bulk of industrial equipment in Russia will be manufactured in China.

The partnership will not be as beneficial as it might be under normal market conditions with built-in competition, but it will be a win-win solution for both sides (with China reaping the lion's share of the benefits). China will become a key source of capital for the Russian economy. This process will be slow and painful, the financing will be expensive and delivered with many conditions attached (including mandatory buying of Chinese equipment etc.), but will be necessary to foster economic growth in Russia. Beijing may start to make inroads into the Russian financial system through rounds of privatisation – minority stakes in strategic banks like Sberbank and VTB or control over smaller banks are likely developments.

Russian scientific knowledge and expertise will be more linked to the Chinese economy and scientific community than before. Informal regulations limiting Chinese players' access to Russian technological know-how and research capabilities in non-military sectors are likely to be gradually relaxed. At the same time China will be keen to attract talented young people to universities in the PRC and promote the teaching of the Chinese language in Russia through Confucius Institutes and other means.

In terms of politics Russia will become a more loyal supporter of Chinese initiatives globally. Coordination in the UN may become more organised, with Russia not only playing a devious role by defending non-democratic allies of China in the Security Council, but doing so at Beijing's request. Moscow is unlikely to directly support Beijing in its territorial conflicts, but it will be ready to sell more sophisticated weapons to China such as its new missile defence systems and fighter jets, which will influence the military balance of power in some critical hotspots around Asia (notably Taiwan and the South China Sea). At the same time towards the end of the next decade Moscow may be forced to choose between the large arms market in China and the smaller market in Vietnam and other ASEAN states. The only place where real cooperation may take place is Central Asia, with China playing a more dominant role.

Thus, both countries are likely to depend on each other more than they do now. But this dependence will be asymmetrical as Moscow will play a much weaker hand. This is quite different from Russia's previous economic dependence on Europe in the 1990s and 2000s. Inside the EU Moscow could reach out to different governments and companies and play individual member states off against each other. China will present much more of a united front in its dealings with Russia. Given the scale of Russia's needs, it may also impose economic conditions in a more uncompromising way than Europe ever tried to do.

Conclusion

The likely evolution of Sino-Russian ties will be towards a partnership, where one side (Moscow) will be more dependent on the other side (Beijing). In normal circumstances where it would not be subject to intense geopolitical and economic pressure Russia would never accept this kind of relationship. But tensions with the West and negative trends in the commodity markets will force Russia to adopt a more submissive posture. For the Kremlin and the Russian elite the bottom line will no longer be modernisation, but the regime's – and thus, using the Kremlin's logic, the country's – survival. Awareness of its inferior status in the relationship may wound the Kremlin's feeling of pride. But to sugar this bitter pill, the Chinese leadership is ready to show formal respect towards Russia and recognition for its special interests, thus smoothing over the fact that the two countries are not on an equal footing in this partnership. The Russians are now busy inventing creative formulas themselves, like that describing Russia as an 'elder

sister of China' – a woman occupying a senior position in the family hierarchy, towards whom a stronger China needs to be protective and respectful. But at the end of the day it will be reality, not polite diplomatic formulas, that matters. For Russia this reality may turn out to be uncomfortably close to the dystopian scenario portrayed in a futuristic novel published in 2006, *Day of the Oprichnik* by Vladimir Sorokin.

The picture may be very different if the EU-Russia relationship radically improves, but this is unlikely to happen as long as the political system put in place by Putin survives another ten years and the West is not willing to engage Russia through compromises. From the EU's perspective, a possible Sino-Russian *rapprochement* in the coming decade will not be a threat. Europe will have less leverage over Russia, but this may be compensated by Russia's growing irrelevance for Europe. But negative repercussions for the West will include more competitive Chinese companies benefiting from access to Russia's cheap natural resources and human capital, as well as a more robust posture of the two P5 members on all issues debated in the UN, G20, WTO and all other international fora and organisations. Last but not least will be the growing capabilities of the Chinese armed forces, as sophisticated Russian weaponry may be a gamechanger in conflicts over Taiwan (the new-generation S-500 air defence system covers all the sky over the island and requires more US investment in Taiwan's defence) and the South China Sea.

VI. FUTURE APPROACHES TO THE GREATER MIDDLE EAST

Pavel K. Baev

There used to be a lot of continuity in Russian policy in the Middle East, which theoretically at least made it possible to map a coherent trajectory and extrapolate predictions for the next 10 years. The turmoil that has engulfed the region since early 2011 would have made such extrapolation hazardous, but what makes it plain impossible is Russia's bold departure from its traditional pattern of cautious opportunistic manoeuvring as exemplified by the military intervention in Syria. This risk-prone enterprise has added significantly to the burden of Russia's military engagements, and in the current context of economic recession the Kremlin may find that it is overstretching its economic and military resources. Following its annexation of Crimea in spring 2014 Russia has found itself confronted with acute challenges on both the domestic and international fronts. At home Vladimir Putin's government is facing a crisis of governance, which makes the continuation of the existing corrupt authoritarian regime highly unlikely, and a series of painful domestic crises in the period to 2025 nearly inevitable. This means that foreign policymaking is likely to be significantly unstable both in the short term and in the post-Putin period, when at least it will be less influenced by the idiosyncrasies of a particular leader than is presently the case.

Russia's stakes in the Middle East: oil remains paramount

Whatever political vicissitudes await Russia, it is fairly certain that its economy will remain commodities-oriented and its budget will significantly depend upon revenues from its oil and gas exports. It will, therefore, set great store by high oil prices, and this overriding imperative will dictate its policies in the greater Middle East. It is essential to note that Russia's vested interest in oil prices remaining high is not in conflict with US energy-security interests but clashes directly with Chinese interest in securing a stable supply of oil and gas from the Middle East at the lowest possible prices. This economic lop-sidedness constitutes a major underlying weakness in Russian strategy in the region and may bring about a decline in its influence.

Russia's dependency on high oil prices does not necessarily translate directly into the goal of fostering conflict in the petroleum-producing states, but in much the same way that in the previous decade it benefited from the wars in Iraq and the tough sanctions against Iran, in the coming ten years it might benefit from the sectarian geopolitical

conflict between Iran and Saudi Arabia and from the probable destabilisation of the latter state. It is hardly by strategic design but rather by default that the military intervention in Syria has aligned Russia with the motley Shia alliance including Iran, the government in Iraq, the al-Assad regime, and Hizbullah. It was only the sharp escalation of tensions between Iran and Saudi Arabia at the very start of 2016 that revealed to Moscow that, in the eyes of most Middle Eastern ‘conflict entrepreneurs’, it is indeed a key member of this coalition. The Syrian intervention might yet end in failure, but Russia could still conclude that its interests both in the Middle East and in the Caspian region are best served by a strategic partnership with Iran.

This partnership in the making can hardly involve expanded energy cooperation because Russian oil companies are running short of investment capital and Iran is more interested in reviving its oil and gas sector with the participation of Western and Chinese companies. One particular dimension is nuclear energy: Moscow is currently gearing up to focus its efforts on obtaining new contracts for building facilities in the Iranian nuclear power sector. There is certainly an implicit contradiction between this policy and the Kremlin’s fundamental concern about the oil price, as the more electricity Iran would be able to produce at Bushehr and other nuclear plants, the more gas it would have for export. Nevertheless, Russia perceives its experience in and technology for constructing nuclear reactors as a major foreign policy asset and is set to continue its policy of capturing a large share of the emerging nuclear energy market across the region.

Conflict management and manipulation

The military intervention in Syria has strongly reinforced Russia’s claim that it is an ‘indispensable power’ in the international political process aimed at bringing this protracted civil war to an end. It has also drawn attention to growing Russian influence in the Arab world – and to growing demand in such key regional powers as Egypt for a more active Russian role in managing numerous conflicts. By spring 2016, however, it had become clear that this impression of Russian ascendancy was illusory: Russia’s projection of power and military might has produced a measure of impact but is not sustainable even in the short term. As for the mid-term, this impression does not correspond to the actual reality of Russia’s military and economic weaknesses and its inability to support its ambitious policy with sufficient resources.

Russia’s motivations for launching the high-risk intervention were complex, but the desire to demonstrate its increased capability for projecting military power was a major one. In support of that aim, Moscow has sought to bolster the deployment of a mixed air force regiment with the application of long-range weapon systems, including ship-based cruise missiles and strategic bombers; however it only managed to temporarily strengthen al-Assad’s position in the protracted civil war (whatever the outcome of the

ceasefire that interrupted the battle for Aleppo), while exposing itself to various risks, including technical failures and terrorist attacks. A major negative consequence of this intervention has been the derailment of the strategic partnership with Turkey, triggered by the downing of a Russian bomber on 24 November 2015, but ultimately caused by the irreconcilable positions of the two states in the Syrian war. Ankara has good reason to expect that a chain of setbacks and casualties might compel Moscow to withdraw its forces from Latakia/Tartus, but that would hardly help in rebuilding the bilateral partnership, which has become a hostage to a personal quarrel between the countries' two egocentric leaders.¹

While Moscow likes to claim that its foreign policy is pragmatic, in fact it is increasingly driven by ideological opposition to revolutions, and the intervention in Syria, for that matter, was conceived and executed not as a calculated move in the complex conflict zone but rather as a crucial advance in the counter-revolutionary struggle. This obsession denies Russian policy the flexibility necessary for exploiting some conflict situations, but it sometimes works to Moscow's advantage – and the recent *rapprochement* with Egypt is one such case. The Kremlin was firmly against the anti-Mubarak uprising and welcomed the military *coup* in July 2013, which secured an avenue for building top-level ties; it was distracted from capitalising on this opportunity, but for President Abdel Fattah al-Sisi, the Russian connection was useful primarily for restoring relations with the US.²

Despite the pronounced emphasis in the Kremlin's official rhetoric on the struggle against terrorism, Russia is not much concerned about the spread of this security threat across the Middle East and is not contributing in any significant way to the fight against the Islamic State of Iraq and the Levant (ISIL) in Syria.³ This indifference is rooted in Russia's perception of victory in its own war against terrorism in 1999-2005, but a new wave of terrorist attacks originating in the deeply unstable North Caucasus may hit Russia again in the near future, and its intervention in Syria might produce new connections between domestic extremist cells and the Islamic terrorist networks based in the Middle East.

Another ideological dimension in Russia's policy is compulsive anti-Americanism, which is partly shaped by the evolving confrontation with the West and partly by the conviction that the US leadership sponsored and manipulated the wave of 'colour revolutions' in the post-Soviet space. The desire to sabotage US initiatives in the Middle East complicates Russia's relations with many regional powers, but it does not make Russian policy attractive for the so-called 'Arab street', where anti-Americanism also has

1. See Fiona Hill and Kemal Kirisci, 'Clash of the Titans brings down a Russian jet', *Up-Front*, Brookings blog, 24 November 2015. Available at: <http://www.brookings.edu/blogs/up-front/posts/2015/11/24-titans-clash-russian-jet-hill-kirisci>.

2. See Mark N. Katz, 'Closer ties between Russia and Egypt', *The Arab Weekly*, 4 September 2015. Available at: <http://www.thearabweekly.com/?id=1829>.

3. See Hugo Spaulding, '5 huge myths about Russian military intervention in Syria', *Business Insider*, 30 November 2015. Available at: <http://www.businessinsider.com/5-huge-myths-about-russias-military-intervention-in-syria-2015-11?IR=T>.

deep roots. Even before the Syrian intervention, public opinion in Jordan was 80% unfavourable to Russia, while 64% held negative views in Turkey, and 52% in the Palestinian Territories.⁴ This negative perception is going to remain a significant factor influencing political choices over the next decade.

Moscow has never quite managed to disentangle its networking in the Arab world from the desire to build special relations with Israel, where a numerous and politically active Russian-speaking community could, in principle, constitute an asset for Russia's policy. Israel would not welcome the prospect of the collapse of the al-Assad regime, but has recognised the Russian intervention in Syria as a blunder, not least because of the close coordination with Iran and in particular because of the direct military links with Hizbullah. Public opinion in Israel was as of mid-2015 as much as 74% unfavourable to Russia, which signifies strong disapproval of both Russia's regional manoeuvring and the conflict with Ukraine despite Israel's non-participation in the sanctions regime.⁵ Russia's aspirations to play a special role in the so-called 'Madrid Quartet' (comprised also of the UN, the EU and the US representatives) never really materialised, and the erosion of trust in relations with Israel effectively rules out future opportunities for useful engagement in this process.

The trajectory of diminishing opportunities

Despite Russia's self-portrayal as a major international player in the greater Middle East, its real role in political processes and its stakes in most conflicts from Libya to Yemen are minuscule. If in the decade preceding the 'Arab spring' Moscow sought to increase its presence in countries like Algeria, Libya and even Sudan, presently its efforts are narrowly focused on Syria and this trend of reduced engagement with most of the vast region is set to continue. The shortage of resources available for foreign policy will most likely force Russia to concentrate on the nearest and most immediately important neighbourhood – Turkey and Iran. The configuration of this northernmost and non-Arab part of the Middle East might change in the coming decade with the probable emergence of a Kurdish state, but Moscow has not cultivated useful political connections with the leaders of key Kurdish factions and so is hardly in a position to take advantage of such state-building.

It is impossible to foresee how and when the tragic civil war in Syria might be brought to an end, but the inevitable dismantling of the al-Assad regime is certain to eliminate Russia's key ally in this calamity, and Moscow has antagonised just about every

4. See Bruce Stokes, 'Russia, Putin held in low regard around the world', *Global Attitudes and Trends*, Pew Research Center, 5 August 2015. Available at: <http://www.pewglobal.org/2015/08/05/russia-putin-held-in-low-regard-around-the-world/>.

5. Ibid.; see also Isi Leibler, 'Candidly speaking: Israel and Putin's Russia – A tenuous relationship', *Jerusalem Post*, 1 November 2015. Available at: <http://www.jpost.com/Opinion/Candidly-speaking-Israel-and-Putins-Russia-A-tenuous-relationship-431747>.

other stakeholder in a possible solution.⁶ It is equally unforeseeable how the complex breakdown of Iraq will be sorted out, but for Russia the key entry point into this disaster zone is the presence of Lukoil and Gazprom Neft, and it is very likely that both companies will have to sell their stakes in oil projects. There is a slim chance that Russia might find an opportunity to partake in the development of newly-discovered gas fields in the eastern Mediterranean, but without a solid economic foundation its political ties with Egypt are certain to expire. Russia will also be reduced to an irrelevant presence in the Israeli-Palestinian peace process – uncertain as that is – due to its inability to influence the behaviour of the Palestinian parties and the fact that the Israelis regard Russia with distrust.

There is presently a fundamental disconnect between Russia's principled counter-revolutionary stance and the dynamics of change in the Middle East: as Russia itself will in all likelihood be exposed to inescapable changes caused by mounting economic and political pressure, this incompatibility could be reduced, but the perception in the region of Russia as an inflexible and declining power will continue. The only instrument for upholding influence available for the Russian leadership in the near future is the export of arms, and the relatively cheap and unsophisticated weapon systems promoted by Rosoboronexport have certain advantages on the market, which is set to remain depressed due to reduced petro-revenues. China will target the same market offering not only long-term loans but also attractive service packages, so the inflow of weapons into conflict zones in the region will continue undiminished.⁷

Moscow will continue to position itself as a major force in the global struggle against terrorism and could experience yet another wave of domestic terror attacks driven by internal conflicts and inspired by Islamic extremism. However, despite the exposure to this threat, the desire to derail and frustrate US efforts is likely to remain more important in Russian counter-terrorist policy than the struggle against ISIL and its successors. One particular set of problems will unfold around Western efforts at curtailing financing of Islamic extremism because this surveillance will also impact on the flows of Russian 'dirty money', and Moscow will seek to protect the networks it uses in its export of corruption.

For the EU, the incentives for engaging with Russia in managing conflicts in the greater Middle East, which the launch of the Syrian intervention has momentarily strengthened, will gradually evaporate. Moscow, for that matter, is not only irrelevant in the collective European search for solutions to the problem of mass migration across the Mediterranean but seeks to exploit the issue in order to score tactical points. The newly-revised Russian National Security Strategy claims that the increase of migration flows has demonstrated the 'failure of the Euro-Atlantic security system

6. See Georgy Mirsky, 'The Syrian labyrinth: Entry and exit', *New Times* (in Russian), 15 November 2015. Available at: <http://www.newtimes.ru/articles/detail/104041>.

7. See Robert Farley, 'Russia vs China: The race to dominate the defense market', *The National Interest*, 13 July 2015. Available at: <http://nationalinterest.org/feature/russia-vs-china-the-race-dominate-the-defense-market-13316>.

built around NATO and the European Union.⁸ The opportunities for Russia to arrogate for itself a prominent role in the Middle Eastern dialogues are created primarily by the setbacks of the EU and US policies, and the exploitation of these opportunities will be aimed primarily at exacerbating these setbacks.

Conflicts in the Middle East, therefore, are unlikely to have a significant impact on Russia-EU relations, even if such conflicts may have even greater consequences for the Union than the current migration crisis. Russia's decline is not going to take the form of a smooth and comfortable 'downsizing' process and its repercussions would be a major problem for the EU, but the Middle East cannot be the theatre where this problem is played out. The peculiarity of the Kremlin's present and near-term political posture is that Russia is trying to compensate for its decline with a proactive foreign policy, but Moscow's every attempt at projecting power only adds to the waste of diminishing resources and contributes to the strategic overstretch. The Middle East constitutes a key arena for the current efforts at positioning Russia as an 'indispensable power', but what matters for the EU engagement with the region is the unsustainability of these efforts. The political dividends from the Syrian intervention are meagre because Russia has nothing to contribute to peace-building, but the setbacks that the risky military deployment is set to encounter could turn the tide against the Kremlin and signify such a huge reduction of Russian influence in the Middle East that even a more cost-efficient spoiler role would be beyond its reach. The EU will have to take due account of the trajectory of Russia-Turkey relations and to carefully monitor Russia's *rapprochement* with Iran, but can actually benefit from the disappearance of Russian intrigues in most of the conflict zones in the Middle East.

8. Author's translation from 'Presidential decree No. 683 on revised National Security Strategy', *Kremlin.ru*, 31 December 2015. Available at: <http://kremlin.ru/acts/news/51129>.

Section 3:

Russia as a European power

VII. FUTURE APPROACHES TO THE SHARED NEIGHBOURHOOD

Carolina Vendil Pallin

It could be argued that Belarus, Moldova, Ukraine, Armenia, Azerbaijan and Georgia all belong to a neighbourhood shared by the European Union (EU) and Russia. Certainly, prior to the Ukraine crisis and Russia's annexation of Crimea in 2014, the EU's discourse of 'win-win situations' implied that it did not regard this region as a theatre of geopolitical competition. However, if Russia's initial attitude to the European Neighbourhood Policy (ENP) was guarded, then its position on the Eastern Partnership (EaP) policy became increasingly hostile as Association Agreements (AAs) were progressively signed with Moldova, Georgia and Ukraine and the process of implementing Deep and Comprehensive Free Trade Areas (DCFTAs) moved forward. Russia, which shuns the use of the term 'common' or 'shared' neighbourhood in favour of the 'post-Soviet space', saw the EU as encroaching on its traditional sphere of influence and on its commercial and, in a long-term perspective, even on its national security interests.¹ There are good reasons for looking more closely at the Russian position: how it has evolved; what are the domestic drivers; how Russia puts its policy goals into practice; and what we can expect in the future.

Russia's policy goals

Further integration with the former post-Soviet republics has moved steadily up the Russian agenda in the past few years. The Russian Federation's National Security Strategy up to 2020, which was adopted in 2009 during Dmitry Medvedev's presidency, only talks vaguely of integration within the Commonwealth of Independent States (CIS) as a priority; the Collective Security Treaty Organisation (CSTO) is not mentioned in the section on national defence and the Union state with Belarus only in passing. Integration with the shared neighbourhood is notably absent in the section on economic growth.²

This changed when Vladimir Putin launched his idea of creating a Eurasian Union in the run-up to the presidential election in 2012. The EU was held up as a model of how the Eurasian Economic Union should develop: the by then already existing Customs Union and the Common Economic Space were to form the basis for launching the Eurasian

1. In the National Security Doctrine of December 2015, Russia states that it is in favour of cooperation with the EU, but also 'harmonisation of the integration processes in Europe and the post-Soviet space'. *Strategija natsionalnoi bezopasnosti Rossiiskoi Federatsii*, 31 December 2015. Available at: <http://static.kremlin.ru/media/events/files/ru/18iXkR8XLAtx-eilX7JK3XXy6Y0AsHD5v.pdf>.

2. *Strategija natsionalnoi bezopasnosti Rossiiskoi Federatsii do 2020 goda*, 13 May 2009. Available at: <http://kremlin.ru/supplement/424>.

Economic Union, later to develop into an Eurasian Union.³ The foreign policy concept that was adopted in 2013 translated Putin's thoughts into official policy in the section on integration within the CIS, where the intention to form a Eurasian Economic Union was articulated.⁴

The military doctrine unveiled in late 2014 was much more specific on the dangers that Russia sees lurking in increased Western influence in the CIS countries. The doctrine refers to the 'protest potential' exploited by foreign powers to destabilise a country's political system as one of the distinctive traits of modern military conflicts and to 'the establishment of regimes ... whose policy threatens Russian interests in neighbouring states' as a military danger to Russia.⁵ A change from the military doctrine in 2010 is that Abkhazia and South Ossetia are mentioned together with members of the CSTO as countries with which Russia intends to establish and develop allied relations (*soiuznicheskie otnosheniia*).

In January 2015, the Eurasian Economic Union (EEU) became a reality, building on the membership of the Customs Union (Russia, Kazakhstan and Belarus). Armenia joined the EEU on 2 January and Kyrgyzstan in August 2015. But even though the union encompassed over 180 million people, from a Russian perspective one important member was missing: Ukraine. Ukraine occupies a special place in Russia's historical narrative, identity and political psyche, and is therefore of central importance for Moscow's policy in the shared neighbourhood. Illustrative of Moscow's interpretation of events in Ukraine were Putin's remarks at a meeting with students in Saint Petersburg in January 2015:

'Essentially, this is not an army but is a foreign legion, in this particular case, a NATO foreign legion, which is not pursuing Ukraine's national interests of course. They have completely different goals, related to achieving their geopolitical aim of containing Russia, and this is absolutely not in the Ukrainian people's national interests.'⁶

In other words, Russia is under attack in Ukraine and Russia sees itself as the arbiter and guardian of Ukraine's true national interests. The emphasis that Russia places on Ukraine and the events there following EuroMaidan is also evident from the new National Security Strategy that was adopted on 31 December 2015. Ukraine is explicitly mentioned and the US and EU blamed for supporting an anti-constitutional *coup* in Ukraine. According to the strategy, Ukraine has turned into 'a long-term hearth of instability in Europe and directly at Russia's border'.

Geopolitical motives behind Russia's approach to the shared neighbourhood are thus closely intertwined with value-based or ideological ones. As one author has put it, this is a 'post-modern empire' where Russia does not want to rebuild the Soviet Union territo-

3. Vladimir Putin, 'Novyi integratsionnyi proekt dlia Yevrazii – budushchee, kotoroe rozhdaetsia segodnia', *Izvestia*, 3 October 2011. Available at: <http://izvestia.ru/news/502761>.

4. *Kontseptsia vneshnei politiki Rossiiskoi Federatsii*, 12 February 2013. Available at: http://www.mid.ru/foreign_policy/official_documents/-/asset_publisher/CptlCk86BZ29/content/id/122186. See also the Presidential Decree, 'O merakh po realizatsii vneshpoliticheskogo kursa Rossiiskoi Federatsii', no. 605, 7 May 2012.

5. *Voennaia doktrina Rossiiskoi Federatsii*, 30 December 2014. Available at: <http://www.rg.ru/2014/12/30/doktrina-dok.html>.

6. 'Meeting with Mining Students', 26 January 2015. Available at: <http://en.kremlin.ru/events/president/transcripts/47519>.

rially, but does seek 'strategic, economic, and normative leadership in post-Soviet Eurasia' – also with the goal of countering Western interests and influence in the region.⁷

In Moscow's view, the shared neighbourhood is part of a region where Russia has long been dominant and where its deep-seated influence has created a space with a unique common culture, institutions and values. Western values are seen as alien and artificially imposed from without. Countering Western influence, Russia seeks to promote what it perceives as its unique spiritual and moral values as well as the Russian language and its distinctive view of history. These themes are, moreover, also present in the 2015 National Security Strategy, which talks of the need to protect the Russian population – especially the young – from foreign values and emphasises the importance of promoting the Russian language and culture in the CIS countries to speed up Eurasian integration.

Domestic drivers

Russia's geopolitical and ideological motives are, in turn, closely linked to domestic politics. Russia wants to be recognised as a great power. This is an important goal for the Kremlin in the international arena, but is also a rationale for legitimising the political and economic system offered by Putin at home: repression and diminishing real wages in exchange for a sense of national pride and a sense of entitlement *vis-à-vis* the countries in the post-Soviet space.

In addition, the rhetoric emanating from the Kremlin has been increasingly anti-Western – a trend that accelerated following the annexation of Crimea. Geopolitically, Russia is concerned that EU membership or even just closer relations with the EU are a stepping stone towards NATO accession. Therefore, the countries in the shared neighbourhood cannot be allowed to make their own security policy choices. Nor can they be left to decide which development model they would like to adopt. Russia wants its proposed blueprint for modernisation to be recognised as being as valid as the one offered by the EU through the AAs/DCFTAs.

This insistence on a special Russian path of development also underlines a rationale underpinning the Kremlin's policy in Moldova, Ukraine and Georgia. A neighbouring country that chooses to align itself with the EU and with its development model also implicitly makes a choice against the one offered to Russia's population. Indeed, a future prosperous and democratic Ukraine would demonstrate to Russian public opinion that there are alternatives available.

Domestically, Putin's ratings give the impression that his position has never been more secure when it comes to winning the next elections. And, yet, there seems to be no end to the new measures to increase control over society and political life. For Russia's political leadership, the anti-government demonstrations in 2011–2012 raised the spectre of the colour revolutions, of the Arab Spring and perhaps also the fall of the Iron Curtain and

7. Bobo Lo, *Russia and the New World Disorder* (Washington DC:Brookings Institution Press, 2015), p. 101.

disintegration of the Soviet Union. In other words, EuroMaidan in Kiev was not just a Ukrainian concern, a foreign policy concern, but very much one that goes to the heart of Russian domestic politics.

External instruments

Russia has developed a wide array of policies to influence its neighbours, and all of these are characterised by having both positive and negative dimensions. Different policies have proven effective for influencing specific countries depending on the political system, demographics, economy and national security situation.

When Russia uses its power of attraction it has thus learnt to adapt its measures to the local conditions.⁸ Russian television is effective in Belarus and parts of Ukraine and Moldova but less influential in countries where the Russian language is weaker or national television strong. But Russian television and other means of communication are also employed in information warfare.

Russia works actively with Russian compatriots in the shared neighbourhood. This can be a positive force in that it can distribute subsidies to Russian diaspora communities. However, the minorities often also constitute a potentially destabilising force. In Moldova they are concentrated in a specific geographical region, Transnistria, which is also home to a so-called frozen conflict and a constant source of worry to Chisinau. Russia even justified its military operation on Crimea by claiming that it was carried out to protect Russians under threat. This message is probably not lost on countries with sizeable Russian minorities. In a country like Belarus, neighbouring Ukraine's destiny is seen as a warning.

There are also strong trade links that bring benefits to the countries in the shared neighbourhood. This includes the energy sphere. Belarus, for example, profits greatly from relatively cheap energy imports from Russia. However, the flip side of the coin is that Russia has not hesitated to cut off trade or energy supplies to punish countries wishing to escape its influence. For countries that are heavily dependent on Russia this is an ongoing latent threat. Russia, on the other hand, is worried about trade growth patterns and how these are evolving. With the exception of Belarus and Armenia, all of the countries in the shared neighbourhood export more to the EU than they do to Russia.⁹ The Kremlin's fear that closer relations with the EU result in less trade with Russia would seem to have some validity.

All of the countries in the shared neighbourhood are either brittle political systems struggling to move towards democracy or authoritarian ones. Georgia has perhaps managed best when it comes to introducing the rule of law and engaging with the West,

8. Gudrun Persson, 'Russian Influence and Soft Power in the Baltic States: the View from Moscow', in Mike Winnerstig (ed.) *Tools of Destabilization: Russian Soft Power and Non-Military Influence in the Baltic States*, (FOI Report, FOI-R-3990-SE, December 2014), pp. 17-29

9. Nicu Popescu, "The Eastern Neighbours - Two Decades on", in Florence Gaub and Nicu Popescu, 'The EU Neighbours 1995 - 2015: Shades of Grey', *Chaillot Paper* no. 136, EUISS, December 2015, pp. 50-54.

but it no longer exercises full sovereignty over all of its own territory following the war in 2008, when Abkhazia and South Ossetia fell under Russian control. Similarly, Moldova and Ukraine have tried to turn to the EU rather than to Russia in spite of Russia's control of Transnistria and the war in Donbass. In the South Caucasus, Armenia is heavily dependent on Russia because of its ongoing conflict over Nagorno-Karabakh with Azerbaijan. For the authoritarian regimes in Azerbaijan and Belarus, turning to the EU to balance Russia is not an option since the political reforms that the EU would demand are incompatible with these regimes staying in power.

With the existence of the CIS, the CSTO, the EEU, and the Union state with Belarus, Russia has developed a multi-layered approach to integration reminiscent of that offered by the EU. In spite of the EEU offering a more developed and balanced institutional framework than previous such arrangements, both Kazakhstan and Belarus have displayed a reluctance to enter unconditionally into Russia's institutional embrace. There are clear carrots involved when it comes to conditions of trade inside the EEU, but there are also clear concerns about giving up national sovereignty and fears that this loss will become irrevocable.

At the same time, the war in Ukraine has demonstrated what the ultimate cost for not complying could be. No country in the shared neighbourhood can match Russia's military power and Russia has shown that it is willing to use force to achieve prioritised goals in Georgia and in Ukraine. It is perhaps unlikely that Russia will opt for a full-scale invasion of any of the countries in the shared neighbourhood to control them militarily. Far more likely is that Russia's continued military build-up will make the threat to use military force, outspoken or implied, an effective stick. Increased Russian military exercise activity – often close to the borders of the countries in the shared neighbourhood – will furthermore be a constant reminder of this.

In Moldova, Ukraine and Georgia, Russia has effectively exploited the ambiguity that has arisen around regions that these countries no longer control. The EU has invested much in trying to resolve the frozen conflicts, but since Transnistria, Abkhazia, South Ossetia, Crimea and Donbass can be used by Moscow to destabilise polities and to influence events in Moldova, Georgia and Ukraine respectively, it is unlikely that Russia will change tack. In the case of Nagorno-Karabakh, Armenia will continue to be dependent on Russia for its military security and looks likely to remain so.

The future

The prospects for Russia and the EU finding a common position *vis-à-vis* the shared neighbourhood have deteriorated. Not only has the Russian annexation of Crimea made progress more difficult; it has also become increasingly obvious that the profound differences in values will be hard to bridge in the foreseeable future. Values are more than simply ornaments and rhetoric. For the EU, they are central to how institutions are constructed and held together, and indeed, to the very cohesion of the EU as a whole.

For Russia, on the other hand, adapting the EU's values and principles would entail a threat to the *status quo* and therefore to regime security. As the EU and Russia are moving increasingly away from each other on values, it will also become more difficult to arrive at a compromise based on interests, since the two are intertwined.

In Russia's view, the Eastern neighbourhood is not common or shared. It is a region where Russia's long-term goal is to increase economic, security and, ultimately, political integration around Russia. There is no sign that this policy will change in a ten-year perspective – rather the opposite. The current political leadership in Moscow is intent on remaining in power and on strengthening its position. The focus in the National Security Doctrine on instilling Russian 'spiritual-moral values' from an early age testifies to this resolve. Russia has been outspoken about its long-term goals, but the problem has been that the message was not picked up or understood in the West. Russia sees the West, including the EU, as a competitor for influence in the 'post-Soviet space', but also as weak and fraught with inner divisions and tensions. In spite of Russia's current economic woes, there is thus little reason to believe that the Kremlin will be willing to compromise on influence in the shared neighbourhood.

If the shared neighbourhood has to make a choice between the EU and Russia, the possibility to do so varies considerably between the different countries in a short-term perspective. For some, like Belarus, the economy is closely dependent on the Russian economy and likely to remain so. Others, like Armenia, are dependent on Russia for military security. The EU is unlikely to step in to replace Russia in the near future in either of these cases. Others, like Georgia, Ukraine and Moldova, have proven more prone to turn to the West, but this will require political will in Brussels to devote the effort and resources needed. Otherwise, the countries in the shared neighbourhood could find themselves in a position where Russia is the only place to turn if they find themselves in a military or economic crisis.

Increasing its influence in the post-Soviet space is a long-term priority for Russia that is intimately connected to the overarching goal of transforming the European and transatlantic security order. Moscow has been outspoken about its discontent with the prevailing security architecture at least since Vladimir Putin's 2007 Munich speech. Dmitry Medvedev's proposal for a European Security Treaty during his presidency was an attempt at achieving this and the National Security Strategy of 2015 is explicit in stating that Russia considers the 'bloc approach' that rests on NATO and the EU inadequate as a regional security system. Gaining recognition for a Russian sphere of interest is an integral part of this policy. Ever conscious of its prestige, Russia will continue to commit resources to increasing its hold on the post-Soviet space. This will probably not amount to establishing complete military and political control over all of the countries in the shared neighbourhood. Achieving that would demand more resources than Russia has at its disposal. But Moscow will aim to establish its leadership while counteracting Western influence when it comes to security, values, economic dependency and trade. There is thus every reason to expect that the region will continue to be a bone of contention between Russia and the EU.

VIII. THE FUTURE OF EU-RUSSIA RELATIONS

Hiski Haukkala and Nicu Popescu

Barring fundamental changes in either the EU, the Russian Federation or both, in 2025 the EU-Russia relationship will remain complicated, to say the least – an uneasy mix of continued cooperation interspersed with bouts of confrontation. The relationship will be defined by a number of factors: from continued (and often uneasy) interdependence, to how the EU and Russia perceive themselves and each other. This chapter looks at how EU-Russia relations may have evolved a decade from now *vis-à-vis* a whole range of strategic issues, including the future of economic cooperation, Russia's modernisation, EU/NATO enlargements and the role of military power in Europe.

Future foundations

With regard to the country's domestic evolution, the analysis in this Report indicates that the likeliest scenario for Russia by 2025 is one of 'muddling along' in a difficult context where the country will face years of economic stagnation, even increasing hardship. Nevertheless, Russia will not slip into a state of total collapse. Moscow will command enough resources to maintain essential levels of stability at home and conduct a robust foreign policy. Furthermore, public fatigue with 1990s-style instability and upheavals works in the government's favour. The Russian leadership exploits this in its domestic propaganda: the fact that the majority of Russian voters are weary of domestic upheaval buttresses the legitimacy and continued stability of the political system established by Vladimir Putin.

Problems in the economic sphere will spill over into relations with the EU and have negative repercussions. Although both Russia and the EU will be forced to engage with each other politically, any prospects of a strategic partnership will remain unrealised by 2025. Instead, the two will have an increasingly transactional relationship, in which trust and mutual goodwill will be lacking. At the same time several international processes that currently generate significant bad blood in EU-Russia relations will have run their course by 2025. This should help to stave off an even more serious rupture in relations.

Hope that such a major rift can be averted is nurtured by the fact that Russia will probably try to avoid an all-out conflict with the West, the EU included. To begin with, Moscow will simply not have the resources to sustain such a conflict. Several geostrategic realities will also make for a potentially less conflictual dynamic on at least a number of key issues. Neither the EU nor NATO will have enlarged further into the post-Soviet space. Ukraine,

Moldova and Georgia might improve their domestic governance by 2025, but nowhere near a level that would make them credible accession candidates for either NATO or the EU.

The construction of installations for the US anti-ballistic missile shield in Central Europe will have been completed, and the US will also have established a stronger conventional military presence in NATO's eastern member states. That said, by 2025 this will no longer be a fresh irritant in relations, and might actually become a stabilising factor, since good military fences might make both Russia and NATO slightly better neighbours. At the same time there will be no NATO military presence beyond NATO's eastern borders either, i.e. in other post-Soviet states. The implementation of the Association Agreements by three post-Soviet states will have advanced, making it unlikely that any of them will yield to Moscow's pressure and join the Eurasian Economic Union (EEU), which would require denunciation of the Association Agreement with the EU. Several years of lower oil prices will also have defused potential tensions around the Arctic since, apart from posturing, there will be fewer economic or other stakes for rival players to fight over.

The EU will remain by far Moscow's biggest trading partner, and in 2025 will still account for a much bigger share of Russian trade than China. While some targeted sanctions, mainly Crimea-related, will remain in place, most of the sectoral (financial and energy-related) sanctions will have been removed or relaxed. Yet there will be no return to business as usual, as the EU will have to contend with internal conflicting attitudes towards the question of Russia's modernisation. Whereas Russia's political modernisation will be considered a positive development, its military modernisation will certainly be more problematic. And when it comes to economic modernisation, whereas this will be mostly welcomed by the EU, it will not be unambiguously supported if it feeds back again into military development. Thus, while sanctions will mostly be relaxed, some forms of restrictions on the transfer of sensitive technologies will in all likelihood be continued.

The question of energy will have important ramifications, being simultaneously the essential backbone of the Russian economy and EU-Russia trade, as well as one of the most sensitive issues dominating relations between the EU and Russia. Russia will remain a key supplier of energy resources to the EU for the foreseeable future. At the same time the EU will have mostly implemented the Third Energy Package, will have new infrastructure connecting member states and will have enforced several anti-monopoly safeguards against Gazprom. Moreover, even if new pipelines are built from Russia into the EU – an eventuality that is far from certain – Gazprom will be operating in an altered regulatory and infrastructural environment which will drastically decrease the vulnerability of EU member states *vis-à-vis* Russia. In some ways the energy relationship will be more stable because, due to mutual disappointment, both sides will have found alternative partnerships elsewhere.

At a societal level the EU and Russia will still be bound by a complex network of people-to-people ties. Although these links will be positive in many ways, they will also be ac-

accompanied by some problematic trends. On the one hand, more Russians than ever will have first-hand experience of studying, living in or at least travelling to the EU. On the other, this will not necessarily act as a safeguard for the wider political relationship between Russia and the EU. Russia's depressed economy and isolationist tendencies will inevitably have an adverse impact on such contacts. Large pockets of Russian speakers living in the EU will be targets for information campaigns, which could fuel further political disagreements. In diplomatic terms the EU might face Russian interlocutors who have studied and know the EU well, but this will not necessarily make them easier to deal with. And while people-to-people interaction is good in itself, such links will not suffice to significantly influence EU-Russia relations in a positive way in the face of other factors complicating the relationship.

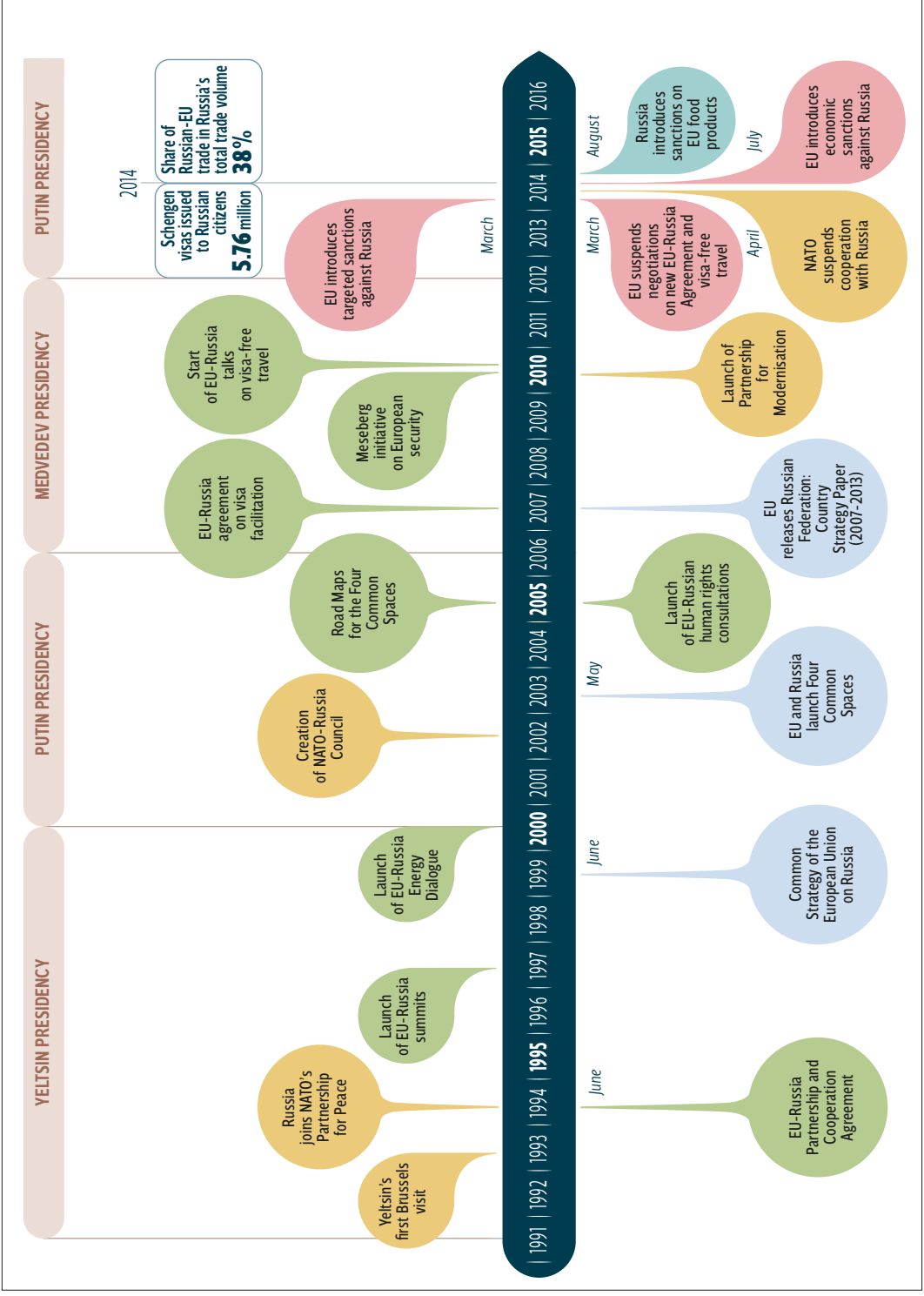
On a whole range of international issues, the EU and Russia will strive to see eye-to-eye on some questions where their mutual interests coincide while agreeing to disagree on others. The acute phase of violent conflicts in the Middle East will probably subside, although the region will still remain in flux. The regional dynamic will be increasingly driven by the early phases of post-conflict reconstruction needs, like Lebanon in the 1990s, and there will be substantial international financial support for this process. As a result of these developments money will overtake weapons as the overriding concern of many of the Middle Eastern leaders. As money will also become the primary conduit of external powers vying for influence in the region, and given Russia's troubled economic situation, some of the regional influence acquired by the Kremlin in the wake of the Syrian military intervention will be diluted. When it comes to EU-Russia relations, even if there seems to be a wide basis of interconnections and potential common interests, engagement will not be easy and no overarching agreement between Moscow and the EU – let alone the wider West – concerning the future of the region will be forthcoming.

Unresolved problems

Europe in 2025 will not reflect the aspirations of either Russia or the EU. Their two visions will continue to differ and clash. Europe beyond the EU will not be an integrated space of democracy, peace and prosperity, looking to Brussels for leadership. Nor will it be a 'bipolar' Europe, with one axis centred on the EU and another on Moscow.

To begin with, the Eurasian Economic Union's potential will suffer significantly because of the troubled state of Russia's economy, Russia's problematic relations with many of its neighbours, and the rising importance of economic partnerships with China for Central Asia and with the EU for most of the Eastern Partnership states. But nonetheless Russia will muster enough security and diplomatic weight to maintain its significant influence in the countries that have joined the EEU (and the Collective Security Treaty Organisation). At the same time some kind of engagement between the EU and the EEU will already take place, softening the edges of various trade and political differences.

Figure 5: Timeline of Russia-EU relations



The question of a common – or shared – neighbourhood will remain troublesome. Ukraine, Moldova and Georgia will implement large parts of the Association Agreements, but not entirely. They will significantly deepen their economic relationship with the EU, but will also experience anti-EU domestic backlashes. None will be able to make a firm domestic choice to engage in deep reforms, or a firm foreign policy choice to gravitate towards either the EU or Russia for that matter. In effect this will mean that the geopolitics of the region will remain volatile, and particularly so as the issue of military power as a factor in European (geo)politics will not go away.

In the next decade Russia will continue to rely on military power projection as not simply an acceptable, but a quintessential foreign policy tool. The incentive to use force could stem from domestic needs to consolidate the Kremlin's authority and support among public opinion, but also occasionally from a lack of other reliable tools for influencing regional dynamics at particular geopolitical junctures. This means that conflictual tendencies and dynamics in Russia can easily override the need and willingness to cooperate even in cases where it might otherwise be mutually advantageous. With Russia's economic and financial capacity constrained and soft power resources limited, the temptation to resort to forceful diplomacy and military power projection will remain very strong. As a consequence, crises that will include a military dimension are likely, which will clearly cast a shadow on the EU's relationship with Russia. Of particular concern will be Ukraine, where the toxic mix of continued state weakness and insufficient reform, coupled with continued attrition and pressures from Russia, and potential domestic incentives in Moscow to trigger a new international crisis, could all lead to renewed violence.

The risks of negative scenarios are exacerbated by another issue – that of unpredictability. In Russia, foreign policy surprises and unpredictability will continue to be deemed useful tools. They will help deceive other international players and throw them off balance. Yet this will also complicate the relationship with the rest of Europe, since other states of the region – inside and outside the EU – will need to prepare for future unpredictability, not least by paying more attention to security and defence issues, which could heighten the security dilemma with Russia.

Equally problematic will be the absence of clearly defined rules of the game concerning European security. Here the EU is faced with a clear asymmetry: from a European perspective the non-use of military force will be a fundamental 'red line'. But as one Russian expert consulted in the course of this project has put it, 'everyone uses what they have. The EU is economically strong, and it uses market access or economic sanctions as foreign policy tools. Russia will use the military.' Thus, from a Russian perspective the military arm will continue to remain better developed than its financial, economic or soft power arms, and therefore more prone to be used. And whereas Russia might not have the resources for global power projection and mounting a fully-fledged challenge to the US or EU in global affairs, sub-regionally Russia is and will remain preponderant.

Russia's perception of itself and the EU will be key to the shape of Russian foreign policy in the coming decade. When it comes to Russia's own self-perception the outlook is not very encouraging considering the fact that a more assertive foreign policy can be driven by both self-perceived strength and weakness. A feeling of strength might lead to a belligerent foreign policy as happened towards the end of the last decade, when Russia's drive to regain international influence was supported by its economic recovery, culminating in the 2008 Georgian war. But equally in moments of economic and especially political weakness the leadership has opted to pursue an aggressive foreign policy, especially after the 2014 crisis in Ukraine. Thus, diametrically opposite states of domestic affairs in Russia might lead the Kremlin to pursue an assertive foreign policy.

The state of the EU also matters. The weaker Russia perceives the EU to be, the less willing to compromise it will be. Conversely, the more united a front the EU presents on a whole range of issues – from refugees and financial issues, to foreign policy – the more stable the EU-Russia relationship will be. Thus in many ways EU unity across the board will be a prerequisite for keeping potential crises in EU-Russia relations at bay.

Conclusions: Russia and the EU in 2025

Although the danger of a truly calamitous scenario of NATO/EU-Russian military confrontation is fairly low, there is little reason to be optimistic about the mid-term future of either Russia or, by extension, EU-Russia relations. To a degree, if both sides manage to avoid a more dramatic disruption of ties, it will already be a victory of sorts. In any case, the current stalemate with Russia is not something that can be easily and quickly overcome, thereby enabling both parties to return to a path of partnership, however desirable that might be. Instead, the challenge is to carefully manage the conflict potential, while working towards keeping lines of communication and pockets of positive cooperation open. This will be far from straightforward and for the EU there will be no easy victories in the offing. In other words, a diplomatic 'reset' is neither likely, nor possible, since the underlying issues at stake and foreign policy instincts of both Russia and the EU can be managed, but not eliminated entirely, by careful diplomacy.

In many ways, a realistic agenda for the decade ahead is a conservative one: seeking to hold on to existing forms of cooperation in the face of growing friction and to prevent potential new crises in the post-Soviet space through a strong EU diplomatic posture. Even if positive cooperation can take place on an array of issues – from anti-terrorism to reconstruction of the Middle East – it is unlikely that there will be much potential for a positive spillover into the wider relationship. And whereas neither Russia nor the EU are bent on 'destroying' each other, and the chances are that both sides have in fact learned more about each other's 'red lines' in the recent crisis, there is ample scope for miscalculations, misunderstandings and improvisation, possibly with a military edge, that might plunge the continent into an even greater security predicament at any moment.

Annexes

ABBREVIATIONS

AA	Association Agreement
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China and South Africa
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organisation
DCFTA	Deep and Comprehensive Free Trade Area
EEU	Eurasian Economic Union
EaP	Eastern Partnership
ENP	European Neighbourhood Policy
FSB	Federal Security Service
GDP	Gross Domestic Product
GRU	Main Intelligence Directorate of the General Staff of the Armed Forces
IMF	International Monetary Fund
ISIL	Islamic State of Iraq and the Levant
IT	Information Technology
LNG	Liquefied Natural Gas
NATO	North Atlantic Treaty Organisation
PRC	People's Republic of China
R&D	Research and Development
R&T	Research and Technology
TTP	Trans-Pacific Partnership
UN	United Nations
UNSC	United Nations Security Council
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation

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