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Summary

This *Occasional Paper* outlines alternative scenarios for Russia's short-term future with a focus on potential outcomes of the March 2012 presidential elections.

To construct these scenarios, the paper first identifies key predetermined factors in Russia's domestic and foreign policy domains.

The paper then outlines and analyses key factors of uncertainty, which the authors define as events that could be 'game changers', having the potential to lead to a significant change in the course of Russia's development over the coming twelve months. The paper goes on to present three scenarios, based on three different interpretations of key areas of uncertainty and their interaction with predetermined factors.

The paper concludes which scenarios are more probable and which are more favourable for Russia and by extension for its partners, and primarily the European Union.



Introduction

In the spring of 2012 Russians will go to polling stations to elect the country's president for the 2012-2018 term. In actual fact, voters will formalise the choice that the top tier of Russia's ruling elite will have made by the end of 2011, unless destabilising events disrupt the established procedures governing the elite's choice of the nation's leader.

Both Prime Minister Vladimir Putin and President Dmitry Medvedev have repeatedly suggested that they may run in the 2012 presidential election, but neither of them has announced an official bid so far and they have put considerable effort into keeping everyone guessing. When questioned, Putin and Medvedev say that they will consult with each other in order to decide who will seek the presidency.

This *Occasional Paper* argues that Putin – Russia's most powerful and popular politician – and his supporters in the political and business elites of the country will have the decisive say in determining who will be Russia's president in 2012-2018. Once this choice is made sometime this year, the vast majority of Russia's ruling elite will close ranks and support the chosen candidate. There is little doubt that the outcome of this informal choice will then be formalised at the March 2012 elections, given Putin's popularity, the enormous capability of the ruling elite to implement their preferences and the questionable fairness of Russia's recent elections.

Medvedev will most probably accept Putin's choice even if it entails his own departure from the Kremlin and Putin's return to the presidency. Unless a major crisis, whether naturally occurring or orchestrated, intervenes, however, it would not be easy for Putin to convince the Russian population that the country needs him to return to the Kremlin for another term, after having stepped down in 2008 to give way to his designated successor Dmitry Medvedev.

If there is a deep crisis in 2011 that the ruling tandem cannot manage without risking their own political and business interests, they may have to back a third candidate.

Even without a serious crisis, however, Prime Minister Putin's loss of confidence in President Medvedev's ability and/or willingness to respect the interests of his political mentor coupled with Putin's own fatigue could prompt him to back a third candidate. As noted above, there is also a possibility that disruptive events on the scale of the current revolutions in the Arab world could erupt, leading to a change of power that neither Putin nor Medvedev would support. However, we assume that the probability of

such a development is low for a number of reasons, as explained in this *Occasional Paper*.

Based on the analysis of structural factors favouring continuity and factors of uncertainty that could potentially trigger change, this paper presents alternative scenarios for the period leading up to the Russian presidential elections and beyond: (i) Medvedev stays in power; (ii) Putin returns to power; (iii) President X. These scenarios would have markedly different implications for domestic politics in Russia. As argued in the conclusion, however, a certain continuity across scenarios can be assumed for Moscow's foreign policy.

1. Continuity: structural indicators 2011-2012

Domestic developments

The 'tandem': Putin and Medvedev

- *Vladimir Putin decides*: Putin will remain the key decision-maker at least until the 2012 elections, in spite of the fact that he only holds the position of prime minister in the administration of President Medvedev. Putin has repeatedly said that, together with Medvedev, he will decide which of them will run for president in 2012, but Putin will most likely make the final decision himself, after consultations with Medvedev and his own entourage.¹ So far, no political leader or political entity has proved capable of challenging Putin's decision-making authority.
- *Putin's power base and popularity exceed Medvedev's*: Since Medvedev's inauguration as president of Russia in May 2008, he has fired many of the governors who entered office under his predecessors and has installed a number of *protégés* in key positions in the executive and judiciary branches of government. Overall, however, Russia's political establishment is still dominated by *protégés* of Putin who, in addition to being the premier, is also the leader of the United Russia Party, which has the majority in the lower chamber of the federal parliament, controls the upper chamber and controls nearly all the regional parliaments. Yury Shuvalov, Deputy Secretary of this party's presidium, announced in April 2011 that this party would like Putin to run in the 2012 elections and will support him if he does.
- *The siloviki are the strongest political clan in Putin's power base*: Of all the groupings Putin brought to power after 2000, when he became president, the *siloviki* – former officials in the *silovye struktury* ('force structures'), i.e. the intelligence agencies, armed services and law en-

1. Both have denied that they have any disagreements in spite of the poorly camouflaged animosities that have developed between their entourages. Most respondents (71 percent) in a 2011 nationwide opinion poll are firmly convinced that Medvedev and Putin will continue to promote a coordinated policy for a while longer (two to three years), and in any event certainly until March 2012. *Russia & CIS Military Daily*, Interfax, 24 February 2011.

forcement agencies, and those who had worked with him during his KGB career – are the strongest political entity, in spite of the schisms between competing groups. Most of the *siloviki* suspect that the aim of Western powers' Russia policy is to bring about a regime change through a velvet *coup* and to align Russia's post-Soviet neighbours with the West. They also want the state to play a significant role in the economy and favour so-called 'managed democracy' if not outright autocracy, in the democratisation of Russia. This stems from their perception that Russia is not ready for a liberal democracy and that its vast territory requires strong rule, even if at the expense of democracy. The *siloviki's* clout stems from the fact that they control the law enforcement and security agencies that can prosecute individuals and entities they perceive as hostile or as rivals in the absence of a truly independent judicial system.

- *United Russia is the majority party in parliament and Putin's main power base:* The December 2011 elections to the lower chamber of the federal parliament are predicted to solidify the pro-Kremlin United Russia's majority in the State Duma. It might, however, be a smaller majority, allowing what the Kremlin has defined as the 'systemic opposition', such as the Communist Party, to expand its representation.² United Russia will also continue to control the upper chamber of parliament and most of the regional parliaments. The 13 March 2011 regional elections saw United Russia performing essentially the same as it did in the 2007 regional elections, which could be a predictor for the upcoming federal vote.³
- *Medvedev's lack of a consolidated power base:* In spite of the fact that Medvedev has for three years been Russia's formally highest-ranking official, he has failed to build a loyal power base. There is neither a major political party nor a national political movement that could be characterised as truly loyal to him. Nor are there distinct niches of collective support for the incumbent within either federal or regional

2. Of the 546 seats that were up for vote in 12 Russian regions, the ruling party won 375. The Communist Party was next, with 71, followed by A Just Russia (46), the Liberal Democratic Party of Russia (LDPR, 33), Patriots of Russia (10) and independent candidates (11). See Evgeniya Chaykovskaya, 'United Russia Hails Election Triumph', *Moscow News*, 14 March 2011.

3. The United Russia party managed to win 50 percent or more of the votes in only 5 of 12 regions that held elections on that day. In comparison, United Russia won half or more of the votes in 5 of 6 regions in the 2007 regional elections. Both Communists and A Just Russia did better in the March 2011 elections than in the 2007 elections. See: 'Tsaritsa Taigi', *Vedomosti*, 15 March 2011.

governments. Instead, Medvedev's high-profile loyalists are scattered throughout the government, while his own administration is controlled by Putin's appointees.

- *Putin's and Medvedev's popularity has declined, but still remains high:* In reaction to the effects of the economic crisis, the Russian population has less trust in the government's political leadership. In a February 2011 nationwide poll conducted by the Levada Center, 69 percent of respondents approved of Putin as prime minister, compared with 79 percent in December 2010. His 2011 approval rating is his lowest since mid-2005. Medvedev received a 66 percent approval rating, down from his December rating of 75 percent, which is the lowest approval rating for Medvedev since 2008, when he was elected president.⁴ Putin was approved as president by 22 percent of the respondents, while only 19 percent preferred Medvedev.

Politics, the economy and society

- *Dominance of federal executive power:* The prime minister, president and their allies continue to exercise control over most of the regional governments and the federal and regional parliaments. They also exercise formidable influence on the judiciary, the electronic mass media and parts of civil society. While there is a clear centralisation of power in the Kremlin and the Moscow White House, the level of control that this so-called 'power vertical' exercises over regional actors varies from province to province. Moscow and most of the central Russian regions are under rather firm control, but federal oversight over some of Russia's ethnic republics in the North Caucasus has been far less robust because of tacit arrangements between their leaders and the Kremlin. The former have more autonomy, experience less intrusion into local schemes of wealth distribution and benefit from a constant flow of federal subsidies in exchange for the loyalty of local elites.
- *Radicalisation of the opposition:* While pressure on those entities defined during Putin's presidency as belonging to the 'non-systemic opposi-

4. Maria Tsvetkova, 'Putin's approval rating falls to lowest since 2005', *Reuters*, 24 March 2011. These outcomes are confirmed by other polls, for instance by the Public Opinion Fund; see Sergei Belanovsky and Mikhail Dmitryev, 'Political Crisis in Russia and Possible Mechanism of this Crisis's Development,' Center for Strategic Studies, Moscow, March 2011.

tion⁵ was initially eased under Medvedev, they continue to become more radical. Many of them join forces with other groups, even ones with whom they have political differences, simply in order to challenge the authorities. And they are prepared even to clash with the police.

- *Decline of traditional public politics and voters' increasing frustration:* Russia's political parties, the parliament and the state-controlled media are all currently failing to perform the traditional function of acting as channels of communication between the ruling circles and the general public. These institutions often either ignore or are too slow to notice important social developments, which undermines public trust in them. Even the state authorities acknowledge this loss of trust⁶ and lack of communication through traditional channels of public politics. Pundits have recently pointed out that the growing gap between the ruling class and institutions on the one hand and the Russian population on the other could trigger a major political crisis.⁷
- *Rise of internet-based social activism:* Since it has become difficult to officially register political entities, an increasing number of Russians are turning to the internet to organise around issues of common interest. Among the most popular online groups are those that focus their activities on exposing corruption and abuse of privileges by senior officials and supporting individuals, groups and causes endangered by government actions, such as preservationists or ecologists. The authorities generally tolerate such online activism but the government usually cracks down when groups take their grievances to the street in demonstrations. The 2011 revolutions in North Africa, in which internet social networks played such a prominent role, have made the Russian authorities more alert to online activism and prompted them to consider introducing restrictions on such activities.

5. The term 'non-systemic opposition' was coined during Putin's presidency to describe political parties and movements that represented implacable opposition to Putin. They failed to be officially registered and thus to be eligible for election to the federal or regional parliaments, sometimes because of concerted efforts by federal and regional authorities. The 'non-systemic opposition' currently includes such entities as Eduard Limonov's banned National Bolshevik Party, Garry Kasparov's United Civil Front, Sergei Udaltsov's Left Front, Mikhail Kasyanov's Russian People's Democratic Union, Boris Nemtsov's For Russia Without Lawlessness and Corruption party and several entities purported to serve as umbrella organisations, such as The Other Russia and Solidarity.

6. The 13 March 2011 regional elections, in which 46.2 percent voted for United Russia, according to Putin's count, showed that Russians are disillusioned, but still hope for changes. See *Gazeta.ru*, 14 March 2011.

7. For example, Sergei Belanovsky and Mikhail Dmitryev, 'Political Crisis in Russia and Possible Mechanisms of This Crisis's Development', Center for Strategic Studies, Moscow, March 2011. Available online at: <http://www.csr.ru>.

- The country's dependence on oil persists and economic reform is stalling:* The Russian budget, which relies on exports of oil and gas for over half of revenues, remains very dependent on the price of oil on world markets. Each additional dollar per barrel results in another 60 billion rubles (€1.5 billion) for the federal budget, which is to total €262 billion this year.⁸ If the price of oil remains high – in January 2011 it was nearly \$100 a barrel – Russia's real GDP will grow by 4.3 percent in 2011 and 4.5 percent in 2012, compared to a growth of 4 percent in 2010 and a decline of 7.9 percent in 2009.⁹ However, economic recovery makes the Kremlin less motivated to pursue much-needed reforms, including diversification of energy sources, modernisation of the economy and control of the current rampant corruption. Reform is also undermined by a corrupt and ineffective bureaucracy and the educated class's unmistakable mistrust of Putin and his style of governance. There is no broad popular demand for economic reforms because Russians have notably little trust in business, political and social institutions and the government. The government, for its part, has not achieved any qualitative breakthroughs in improving the country's economic climate. At the same time, and in spite of President Medvedev's repeated calls for diversification and modernisation, the Russian economy will remain affected by world oil prices, which it can neither control nor accurately predict.
- Corruption:* Widespread corruption will continue to undermine the government's efforts to modernise and diversify the economy, improve governance and strengthen the rule of law, in spite of Medvedev's efforts to fight corruption. The presidential administration estimates that corruption costs Russia the equivalent of 2.9 percent of its annual GDP. Kickbacks in state procurement programmes alone account for 1 trillion roubles (€25 billion) yearly, according to the Kremlin's own estimates.¹⁰
- Significant social and economic disparity:* This will persist, undermining the efforts of the central government to streamline the social, economic, political and security environment across the regions of the

8. Editorial, 'The Mystery of Oil Prices', *St. Petersburg Times/Vedomosti*, 20 April 2011.

9. 'Russia: Country Forecast Summary', Economist Intelligence Unit, 14 February 2011.

10. 'Corruption Costs Russia 3 Percent of GDP Yearly', *RIA Novosti*, 1 November 2011.

country. Russia has a Gini Coefficient of inequality of 42.2,¹¹ which is close to levels found in Latin America. There are also significant disparities between the regions in terms of economic development. Before the 2009 economic crisis only 11 of Russia's 81 regions were net donors to the federal budget while the rest received more from the federal budget than they contributed to it. Moreover, in mid-2009 the government predicted that the number of regions that could contribute might shrink from 11 to 2 (Moscow and St Petersburg).¹² In some of the poorest regions, such as Ingushetia, federal subsidies accounted for over 70 percent of the national revenue. In 2008, the gross regional product of Ingushetia was 440 times smaller than that of Moscow.¹³ Such disparities, if allowed to grow, may eventually threaten Russia's territorial integrity.

- *Continuing decline and ageing of the population result in growing labour shortages:* Russia's population declined by almost 3.4 million in 2000-2011, according to national census figures released in March 2011. The census carried out in October 2010 showed that the population had fallen from 146.3 million in 2001 to 142.9 million, according to Russia's Federal Service of State Statistics.¹⁴ The service's medium-term forecast shows that the Russian population will decline by 274,000 in 2011 and by 382,800 in 2012.¹⁵ This will result in a lack of a skilled labour force, which is becoming an increasing problem, hindering growth of the national economy and its diversification. Russia is expected to lose an estimated one million workers every year until 2017, according to the Federal Service of State Statistics.¹⁶

Security and defence

- *The Russian military's nuclear deterrent remains robust:* Russia's strategic nuclear forces will remain a strong deterrent force, maintaining rela-

11. CIA World Factbook, available online at: <https://www.cia.gov/library/publications/the-world-factbook/fields/2172.html>.

12. 'Chislo Regionov-Donorov Mozhet k Kontsu Goda Sokratsiya s 11 do 2', *RIA Novosti*, 27 March 2009.

13. 'Valoviy Regionalny Produkt po Subyektam Rossiiskoi Federatsii 1998-2009', Federal Service of State Statistics. See: http://www.gks.ru/free_doc/new_site/vvp/vrp98-08.xls.

14. 'Russia: New Census Shows Population Decline', *Reuters*, 28 March 2011.

15. 'Change of the Population. Forecast Variants', Federal Service of State Statistics. Available at: http://www.gks.ru/free_doc/new_site/population/demo/progn1.htm.

16. 'Russia: New Census Shows Population Decline', *Reuters*, 28 March 2011.

tive parity with the United States under the 2010 New START Treaty. Russia's conventional forces will remain inferior to those of NATO and China, but still robust enough to prevail in a conflict along its southern borders. Its overall combat readiness will improve somewhat thanks to reforms pursued by Defence Minister Anatoly Serdyukov: he has shortened the command and control chain, reformed divisions into more mobile brigades and almost halved the number of officers to 220,000. The Russian government has approved an ambitious €435 billion arms procurement programme for 2011-2020. If fully implemented, this re-armament programme will allow the one million-strong Russian armed forces to increase the share of state-of-the-art equipment in its arsenal from 15-20 percent to 70 percent by 2020, according to Serdyukov.¹⁷

- *Security and law-enforcement agencies continue to be powerful:* While unable to fully contain the insurgency in the North Caucasus, security and law-enforcement services will remain strong, with the Federal Security Service as the most politically powerful agency. The agencies are capable of effectively quelling opposition protests. The Interior Ministry will continue to undergo reform in the remaining months of 2011. These agencies will probably continue to receive more funding and to be granted wider powers since the government will need to ensure a smooth and secure transfer of power in 2012.
- *Terrorism and insurgency will continue to threaten security:* After a relative lull of several years, the number of terrorist acts in Russia has been steadily increasing since at least 2008. In the entire North Caucasus the number of terrorist attacks doubled in the first 11 months of 2010, according to the region's top prosecutor, Ivan Sydoruk: 218 law-enforcement officers and military servicemen were killed and 536 wounded in that period, he said. Particularly worrisome is the resurgence of suicide bombings, since this has a strong psychological impact on the public. While there was only one suicide bombing in Russia in 2007 and the only victim of that attack was the bomber himself, the years 2008, 2009 and 2010 saw the total number of those killed or injured in such attacks soar to 71,234 and 506 respectively. The resur-

17. Ilya Arkhipov and Lyubov Pronina, 'Russia Boosts Arms Spree to \$613 Billion, Seeks U.S. Technology', Bloomberg, 20 September 2010.

gence of attacks also indicates that terrorist networks have formidable organisational capabilities and a certain degree of public support. The attacks have continued unabated in 2011. In February insurgents in Kabardino-Balkaria staged a series of terrorist attacks on the territory of the republic and a simultaneous armed assault on five official installations in the capital Nalchik. Some of the earlier attacks, including hostage-taking raids and raids on cities, were executed by groups with *shakhids* among them and that relied on corrupt or ideologically sympathetic law-enforcement officers to facilitate deployment to targets. Such raids are particularly hard for security services to stop. These attacks demonstrate the potential capability of these groups to attack high-security facilities, including nuclear facilities. Terrorist networks in the North Caucasus continue to have enough members, resources and support to carry on with the low-intensity conflict, staging terrorist attacks within and outside the region, including attacks on major cities in mainland Russia. They may benefit from the withdrawal of the United States and NATO forces from Iraq and Afghanistan because this will prompt jihadist networks to divert some of their attention to the North Caucasus.

- *Rise of violent ultra-nationalism*: The series of racially motivated attacks, including a xenophobic anti-immigrant rampage in downtown Moscow in December 2010, indicates that violent ultra-nationalism is becoming stronger and more widespread in Russia. Official statistics show that the number of officially registered hate crimes has increased nearly fourfold: from 152 in 2005 to 548 in 2009. Of the respondents in a nationwide poll conducted by the Levada Center in November 2009, 56 percent not only supported the idea of 'Russia for Russians' but also wanted such a policy to be implemented.¹⁸ A national poll conducted in January 2011 showed that 58 percent of Russians support the idea of 'Russia for Russians'.¹⁹ Some violent ultra-nationalist groups and individuals in Russia are increasingly adopting methods used by terrorist groups and are willing to inflict greater casualties. Both the government and Russia's mainstream opposition parties have tried to win over the more moderate wing of ultra-nationalists in

18. Simon Saradzhyan and Monica Duffy Toft, 'Working Toward a Russia for All', *Moscow Times*, 22 December 2010.

19. 'Moscow Awaits Clashes', *Gazeta.ru*, 31 January 2011.

an effort to channel their activities into less radical forms, while also trying to win their support for the upcoming elections.

Foreign policy

- Pragmatism for the sake of modernisation:* Russian government agencies will continue to heed Medvedev's call to 'stop puffing your chest' and focus foreign policy on advancing cooperation with Western countries in order to gain access to their expertise and technologies to reinvigorate Russian economy. During his meeting with Russian ambassadors in Moscow in July 2010, Medvedev stated that the 'main, if not the only goal' of Russia's foreign policy must be to 'facilitate growth of the prosperity of our citizens'. Among the specific goals for Russian diplomacy the president identified the need to seek 'modernisation alliances' with Germany, France, Italy and the EU as a whole, as well as with the United States. The Kremlin will also promote integration of the Russian economy into major global systems, including membership of the World Trade Organisation (WTO) and the Organisation for Economic Co-operation and Development (OECD). Also, Russian political and business elites have personally invested in Western assets: many senior Russian officials own expensive property in the West and have family members living in Europe and the United States. Strong antagonism with the West would endanger the personal interests of the Russian elite there.
- Gain a greater say on the world scene while retaining control throughout the former Soviet Union:* Efforts to expand Russia's political and economic clout on the global scene will continue. They will be bolstered by efforts to establish friendly regimes in the post-Soviet neighbourhood and to anchor them to Moscow, and to control energy flows in the area. Russia will advance this agenda through such post-Soviet integration mechanisms as the Eurasian Economic Community (EAEC), the Commonwealth of Independent States (CIS) and the Collective Security Treaty Organisation (CSTO). The government will also try to ensure the viability and stability of major markets for Russian exports and imports, including acquisition of downstream gas transportation infrastructure and other assets by Russian national champions abroad.

- *Convergence of select vital interests of Russia and the West:* Russia shares the United States' and EU's interest in combating international terrorism and organised criminal networks as well as in countering the proliferation of weapons of mass destruction. The three entities should be able to cooperate most closely in these areas, and this cooperation will have an impact on Russia's own policy *vis-à-vis* countries that harbour sources of such threats, including Afghanistan (production and trafficking of opiates) and North Korea (its nuclear weapons programme). But the approach would be different from that of the EU and the US if Russia has other interests at stake in relations with a third country, such as Iran.
- *Russia will continue to improve its relations with the United States:* While their interests diverge on a number of issues – including missile defence in Europe, diversification of routes of energy exports from the post-Soviet neighbourhood, Kosovo's status, Georgia's separatist republics Abkhazia and South Ossetia – this will not derail the thaw in US-Russian relations. Medvedev will continue to pursue a pragmatic policy towards Washington, seeking US assistance to modernise the Russian economy among other things. Russia will give itself, the US and NATO several years to prove that they all mean business before planning to cooperate on any missile defence project. So even though no truly joint NATO-Russian missile defence system is likely to emerge from these efforts, the probability that this will derail relations in 2011 or 2012 is rather low.
- *Cooperation with NATO will continue:* Because NATO has delayed any plans to admit Georgia and Ukraine into the alliance, Russia's relations with NATO will continue to thaw in 2011-2012 as Moscow and Brussels advance their mutual interest on such issues as stabilising Afghanistan and preventing unresolved conflicts from flaring up in the former Soviet Union. Differences over cooperation on a missile defence system could hamper relations since Russia seeks a joint sectoral system with dual launch keys while Washington and Brussels insist on two separate systems. But, as pointed out above, these disagreements are unlikely in the short term to derail the relationship.
- *Positive dynamics in relations with the EU:* The dynamics of EU-Russian relations should continuously improve, but no positive qualitative breakthroughs are expected. Negotiations on a new energy agreement

will proceed slowly, and progress in the areas of trade and economic relations will depend on Russia's pending admission to the WTO. Russia will press for the lifting of trade restrictions and a visa-free regime with the EU, while the EU will make this dependent on progress in the liberalisation of Russia's own investment climate, Russia's entry into the WTO and further harmonisation of laws. At the same time, and very much in line with the Russian president's modernisation efforts, Brussels and Moscow will continue to elaborate their partnership for modernisation. Trade with Russia's largest trading partner will flourish, even though the EU will continue to try to diversify routes of energy exports from the post-Soviet neighbourhood. Apart from diverging from the EU on energy routes, Russia will also remain wary of the EU's Eastern Partnership since it is being implemented in the post-Soviet neighbourhood. The EU will continue to implement this partnership in Russia's neighbourhood while also lobbying for its economic interests in Russia and keeping the issue of rights and freedoms relatively high on the bilateral agenda, especially during Denmark's EU presidency in the first half of 2012. More attention will be devoted to economic interests while rights and freedoms may not be so actively pursued when Cyprus assumes presidency of the EU in the second half of 2012. Russia may pursue a visa-free regime with the EU as well as seeing that Russia's higher education diplomas are recognised by the members of the Union.

- *No antagonising of Iran*: Russia will continue to tap into Iran's demand for goods and services from Russia, as long as this does not tilt the overall balance in the region or help Tehran to acquire nuclear weapons or longer-range delivery systems. Even though it is in Russia's vital interest to prevent an expansion of the 'nuclear club', Russia has no leverage on Iran. Iran's imports of Russian goods and services, such as arms, account for 90 percent of Russia's bilateral trade. Tehran can easily choose another source, such as China, and the Bushehr nuclear power plant is in any case now completed. Russia can assist the US and the EU in their efforts to convince Iran to refrain from acquiring nuclear weapons, but only if this does not antagonise Iran. Iran has a formidable potential to act as a spoiler *vis-à-vis* Russia in the South Caucasus, the Caspian region and Central Asia as well as in Russia's North Caucasus, where Islamists continue to run a campaign of insurgency and terrorism.

- *Cautious cooperation with China:* Sino-Russian cooperation will continue to centre on energy, the trade in arms and other goods, and regional security. Energy-hungry China will continue to try to secure more oil imports, if not ownership of oilfields, in Russia and Central Asia. The two countries will also cooperate in projecting their influence in Central Asia through the Shanghai Cooperation Organisation even though Russia is interested in maintaining maximum control of energy flows from this region. At the same time, Russia is concerned about this rapidly rising neighbour, which should come as no surprise given growing disparities between the two countries.²⁰
- *Wariness of popular revolts in other parts of the world:* In February 2011 President Medvedev stated that the recent revolutions in the Arab world were instigated by outside forces that were also scheming to topple the authorities in Russia.²¹ He also predicted decades of instability in the Arab world if protesters whom he called ‘fanatics’ come to power, adding that no such scenario will be permitted ‘at home’.²² Prime Minister Putin publicly raised concern that supporting regime changes in this part of the world will result in the explosive growth of radical Islamism, which will threaten, among other regions, Russia’s North Caucasus.²³ Russia will probably continue to avoid any active involvement in such regional affairs. For example, in the United Nations Security Council Russia voted to condemn Libya’s Muammar Gaddafi for using force against protesters in February 2011 but made it clear that it would not support a military intervention.²⁴

20. China’s GDP was the world’s second largest in 2010 while Russia’s GDP was ninth largest, according to data from the International Monetary Fund. In 2016, China’s GDP will total 11.22 trillion in current USD while Russia’s will be only 3.237 trillion, according to the IMF. See International Monetary Fund, ‘World Economic Outlook Database’, April 2011. China’s population will total 1.396 billion in 2015 while Russia’s will be 138 million, according to the United Nations forecast. See United Nations, ‘World Population Prospects’, 3 May 2011. China’s defence expenditure grew from \$29.5 billion in 2005 to \$91.5 billion in 2010 while Russia’s defence expenditure grew from €19 billion to only €45 billion over the same period of time. See International Institute for Strategic Studies, *The Military Balance 2006* and *The Military Balance 2011* (London: Routledge, 2006 and 2011).

21. Nabi Abdullaev, ‘Kremlin Sees Peril in Arab Unrest’, *Moscow Times*, 24 February 2011.

22. Ibid.

23. ‘Rising influence of Mid East Islamists may affect N. Caucasus – Putin’, *Russia Today*, 24 February 2011.

24. President Medvedev condemned the use of force against civilians in Libya and warned that the Libyan authorities would face prosecution under international law if they did not stop the violence. ‘Medvedev Condemns Libya Over Use of Force Against Civilians’, *Reuters*, 25 February 2011.

2. Potential change: key uncertainties in 2011

Below we identify key uncertainties in 2011, which could make a difference by leading to a change of guard in the Kremlin and a serious change in the course of Russia's development.

- *Will Putin feel that Medvedev can and will cope and protect his interests in 2012–2018?*: There is little doubt that Putin may return to the Kremlin or install another president in 2012 if he decides to do so, given Medvedev's current loyalty to his mentor, Putin's power base and the ability of the authorities to influence the election and the vote count. Putin will still prevail even if Medvedev rebels against him and refuses to step down. Putin may decide to change the Kremlin regime for several reasons. For instance, he may feel that there is a chance that Medvedev may lose his grip on power during his second term due to external or internal challenges. Or he may feel that Medvedev will stay in power, but will not guarantee protection of his allies' business interests during his second term. So far Putin has not explicitly indicated publicly whether he will run, although there are signs that he would like to stay in power in some capacity beyond 2012.²⁵
- *Putin and the 'fatigue factor'*: Reports in the press and leaked US diplomatic cables indicate that Putin's appetite for work is flagging and he might be suffering from fatigue.²⁶ If that is true, he may already be exploring ways to withdraw from government for good. But such an exit would mean that he would no longer be able to take over from Medvedev if the latter loses control or fails to protect his mentor's interests during his second term. As a result of personal fatigue and lack of confidence in Medvedev, Putin may want to choose someone he regards as a more able and loyal candidate for the 2012 elections.
- *Will Medvedev feel it is time to rid himself of Putin's patronage?*: President Medvedev may decide that he has a better vision for and more energy to promote the development of Russia in the next term without Pu-

25. These indicators include his decision to chair preparations for the 2018 World Cup.

26. C.J. Chivers, 'Below Surface, U.S. Has Dim View of Putin and Russia', *New York Times*, 1 December 2010.

tin's patronage. In that case he could take steps to increase his chances in negotiations with Putin on the 2012 elections by shifting the balance between their bureaucratic power bases. For instance, Medvedev may use his constitutional powers to remove top officials and may start a broad campaign of replacing Putin's appointees in key government positions with his own loyalists. Putin's policy of installing his friends, classmates and colleagues has now left them in a rather vulnerable position, since many are now about 60 years old, which is the retirement age for public servants in Russia. Staying in public service beyond that age requires a presidential decree. This presents a formidable opportunity for Medvedev or whoever else may be in his seat if he decides to purge Putin's power base in the government before the elections after May 2012. The president has already demonstrated his preparedness for tough personnel decisions, for instance replacing several entrenched governors, including Moscow Mayor Yuri Luzhkov, in 2010. Medvedev's March 2011 decision that a number of top government officials, including Putin's close ally Igor Sechin, must resign from the boards of Russia's state-controlled flagships companies, such as Rosneft and Gazprom, could be a sign that the president has begun to do just that.²⁷

- *'Terrorist nightmare', a meltdown in the North Caucasus:* Terrorism in the North Caucasus appears to be manageable, with networks capable of only hit-and-run operations in the region and occasional terrorist attacks in 'mainland' Russia. Nonetheless, it is possible that terrorists may initiate action that will lead to a qualitative deterioration of this situation. Insurgent and terrorist networks may manage to acquire and use WMD in a major Russian city or in a series of coordinated attacks, including seizures of towns and hostage-takings, and trigger a massive, indiscriminate government response. This would result in a long-term destabilisation of the region, with the re-emergence of rebel-controlled pockets in far-flung corners of the North Caucasus and frequent attacks against official targets in urban areas.²⁸ Violence could reach a qualitatively new level, reminiscent of situations in the

27. Anna Smolchenko, 'Increasingly Assertive, Medvedev Attacks Putin Allies', AFP, 31 March 2011.

28. A nationwide poll carried out by the Russian Public Opinion Research Centre showed that 60 percent of respondents believe that terrorist attacks are the greatest danger and 65 percent cited drug addiction. The poll was carried out on 3-4 April 2010 with 1600 people in 42 Russian regions. 'Russians are Most Afraid of Terrorist Attacks, Drugs - Poll', *RIA Novosti*, 20 April 2010.

late 1990s when mountain areas declared their independence as Islamic territories.

- *Escalation of ethnic riots*: There could be simultaneous riots in major Russian cities similar to those staged in December 2010 by ethnic Russian ultra-nationalists in Moscow, but resulting in double-digit casualties and generating a violent response by non-Russians. In such circumstances the authorities would use force to disperse rioters, initiating massive arrests and taking a tougher stance against public activism in general. This would create a backlash in which ethnic Russian ultra-nationalists would be in conflict with non-Russians in major cities, and both sides would resist any attempt by the government to subdue riots. The authorities have shown that their ability to prevent riots is limited and this is reflected in public perceptions: a national poll conducted by the Levada Center in January 2011 shows that 56 percent of Russian respondents expect ethnic violence to break out in the country. In Moscow, the share is 75 percent.²⁹
- *Protracted deep economic crisis coupled with low oil prices*: In the short term Russia will to some extent be affected by external factors that it can neither forecast nor control, such as energy prices on world markets. Overall, the price of oil is the uncertainty that the Russian government is least able to control and will have the greatest impact on the country. The Russian economy is still very dependent on exports of natural resources, with other sectors lagging behind the global market leaders in productivity and efficiency. A new, protracted global economic crisis may hit Russia hard, forcing the government to spend all its reserves. Russia's sovereign Reserve Fund contained 775.2 billion roubles (€19.4 billion at the 1 January 2011 exchange rate), down 57.6 percent from 1.8 trillion roubles (€45 billion) on 1 January 2010 as the government drew from reserves to cover the budget deficit.³⁰ Russia's 2011 budget is based on the assumption that the price of Urals blend oil will stay at \$75 or more per barrel, and the government has forecast the average price in 2011 as \$80 a barrel. If oil prices stay close to \$100 a barrel, as so far this year, or if they rise, the Russian economy will continue to recover from the crisis, according to forecasts by *The*

29. 'Moscow Awaits Clashes', *Gazeta.ru*, 31 January 2011.

30. *Russia & CIS Banking and Finance Weekly*, Interfax, 21 January 2011.

Economist.³¹ If the price of oil falls by over 50 percent and stays at that level due to a global crisis or other developments, however, the government will quickly deplete its reserves and be unable to honour its obligations to the population without raising taxes, which would cause protests. Polls show that the Russian public is very concerned about the country's dependence on mineral resources and the weakness of the national economy.

- *A massive and lasting infrastructure failure or natural disaster*: Events that would be similar in nature to the 2009 Sayano-Shushenskaya power plant disaster or the fires and smog that gripped central Russia during the unusually hot summer of 2010 or even a flu pandemic, but with a far greater impact, causing hundreds or thousands of deaths and a contraction of the economy, may lead to a sharp increase in the Russian public's discontent with the government, especially if the latter is as slow to respond as it was during the summer fires. This discontent will affect the United Russia party's ability to retain its majority in the December 2011 elections. Putin's and Medvedev's personal popularity might decline slightly after such events but, given the Kremlin's control of the national television channels, their popularity would be restored quickly.
- *An escalation of frozen conflicts in the former Soviet Union*: This would have a profoundly destabilising impact on Russia's neighbourhood. A renewed armed conflict with Georgia over South Ossetia and Abkhazia would spread violence and instability into Russia's already volatile North Caucasus. The ultimate defeat of Russia's foes in such a conflict could create a failed or failing state that would serve as a springboard for terrorist and insurgency networks. A resumption and expansion of the Nagorno-Karabakh conflict may also require Russia's involvement since Russia has treaty obligations to come to Armenia's defence in a conflict.

31. Russia's GDP will grow by 4.3 percent in 2011 and 4.5 percent in 2012 compared to 4.0 percent in 2010. 'Russia: Country Forecast Summary', Economist Intelligence Unit, 14 February 2011. According to a more drastic estimate by the *Wall Street Journal*, however, the 2011 budget needs an average 2011 oil price of \$115 to balance. William Mauldin, 'Oil's Drop Tests Russia's Budget', *Wall Street Journal*, 6 May 2011.

3. Alternative futures: Russia's presidential elections 2012

Depending on how all these uncertain structural indicators play out and how they interact with other factors, we identify the following three possible scenarios for 2011-2012.³²

Scenario 1: Medvedev stays in power

We believe that Medvedev is more likely to remain in power for a second term while Putin will either remain a power broker for the entire second term or perhaps gradually exit from politics if these key uncertainties play out in the following way in 2011-2012:

- Putin feels Medvedev will cope and protect his interests in 2012-2018.
- Putin is increasingly suffering from fatigue.
- Medvedev does not feel it is time to shed Putin's patronage.
- None of the following occurs:
 - A 'terrorist nightmare' or meltdown in the North Caucasus.
 - Escalation of ethnic riots.
 - Protracted deep economic crisis.
 - Massive and lasting infrastructure failure or natural disaster.
 - Escalation of frozen conflicts in the former Soviet Union.

Domestic policy

Instability in North Africa and tensions over Iran's nuclear programme, coupled with the continuing recovery of the global economy, keep oil prices hovering at \$100 per barrel or above. As a result, Russia's GDP grows by 4.3 percent in 2011 and continues to grow in 2012 at the same or a higher rate. This allows the government to not only honour but also add to its social obligations ahead of the December 2011 parliamentary and March 2012 presidential elections. Neither a terrorist meltdown nor a massive and lasting infrastructure failure nor a major natural calamity occur in the months preceding the elections.

32. The following scenarios are based on the assumption that the presidential elections will take place in March 2012 as scheduled, unless there is an early exit by Medvedev due to a failure to cope with a crisis. We believe the window of opportunity for Putin's decision on who will run in this election as the ruling elite's candidate (Putin, Medvedev or a third person) will close by late December 2011.

Content with Medvedev's peacetime performance and with no major crisis on the horizon, Putin meets with Medvedev at the Bocharov Ruchey presidential retreat on the Black Sea in early September 2011. They congratulate themselves on their performance since 2008 and agree that Medvedev will run again, while Putin will stay on as the premier until March 2014.

Medvedev announces his re-election bid in mid-September 2011. The United Russia party and Putin support the incumbent. United Russia manages to maintain a majority of over 50 percent in the State Duma after the December 2011 elections but loses its constitutional majority in the lower chamber as opposition and quasi-opposition parties gain more seats.

Presidential campaigning officially begins in late December 2011 but gains real momentum after the New Year-Orthodox Christmas break. Medvedev has the lion's share of airtime on national channels but rival candidates get more time than they had in the 2008 elections. During the campaign Medvedev takes a tougher rhetorical stance on foreign policy issues, while also ordering tough crackdowns on select cases of corruption and chastising the least popular ministers for being too slow in raising social expenditures among other things.

Medvedev wins the March 2012 vote in the first round.³³ After the election Medvedev adjusts his rhetoric to the pre-campaign tone, pursuing essentially the same domestic policies as he did during his first term but more decisively in the sphere of economic liberalisation and reduction of opportunities for corruption. He is more cautious and incremental with reforms that affect the interests of elites or provide for political liberalisation. Each serious reform in these spheres is preceded by a public discussion, both in online forums and among experts. More importantly, each reform is cleared with Putin, at least in the first year of Medvedev's second term.

Foreign policy

Russian government agencies continue to work to heed Medvedev's directive to seek modernisation alliances with Western countries. Russia accedes to the WTO in early 2012, while the US Congress repeals the Jackson-Vanik Amendment to the 1974 Trade Act (the amendment stipulates trade restrictions with certain countries, notably countries in the communist bloc at that time). At their 2012 summit in Washington, DC, Medvedev and US President Barack Obama strike a deal, according to

33. Victory with less than 60 percent of the vote could be a predictor that Putin decides to remain in politics for a longer period, requiring a president with a low level of legitimacy in order to take over easily. A higher percentage of votes for Medvedev (65 percent or more) could mean that Putin is confident in his successor and may gradually withdraw.

which the United States declares that it has 'no intention or plans' to target its missile defence elements in Europe on Russian strategic forces and Russia commits to sharing data from early-warning radars in Gabala and Armavir as part of the missile defence cooperation effort with the United States and its NATO allies. The two leaders also order their diplomats and generals to negotiate a new treaty that would limit the number of non-deployed nuclear weapons but would allow each side to choose whether it will limit its strategic or non-strategic weapons. At a 2012 NATO-Russia summit, the parties also agree to engage in missile defence cooperation as well as to resume joint military exercises. The Western alliance also signs a memorandum with the Russia-led CSTO to facilitate cooperation on Afghanistan.

At an EU-Russia summit in 2012, Brussels and Moscow agree on a deadline for introducing a visa-free regime and on further investment of European companies in the upstream assets of Russia's energy and high-technology sectors. Georgia continues to object to Russia's entry into the WTO, demanding that Moscow allows Tbilisi to post its customs officers on Russia's borders with the separatist republics of Abkhazia and South Ossetia, but the two sides incrementally move towards a compromise solution.

Russia advances its agenda through post-Soviet integration organisations while maintaining its grip on a smaller but still substantial part of the export routes, but achieves no qualitative breakthroughs. The relationship with Belarus remains ambiguous, with no integration breakthroughs and occasional conflicts over the price of Russian energy supply and transit. The separatist republics of Abkhazia, South Ossetia and Nagorno Karabakh continue to remain *de facto* independent, while Moldova's conflict with Transnistria progresses towards resolution thanks to the joint efforts in 2012 of Russia, Ukraine and powerful EU members such as Germany.

Russia continues to oppose 'crippling sanctions' on Iran but prods Tehran to cooperate with the IAEA and allow more transparency regarding its nuclear programme.

Scenario 2: Putin returns to power

We suggest that the probability of Vladimir Putin's return to power will increase substantially if any of the following key events occur before Medvedev's first term expires:

- Putin comes to believe that Medvedev will fail to either cope with challenges or protect his interests in 2012-2018.
- A 'terrorist nightmare' or meltdown in the North Caucasus materialises.

- Ethnic riots escalate.
- Massive and lasting infrastructure failure or a natural disaster.
- Escalation of frozen conflicts in the former Soviet Union.

Should any of these uncertain events (or a combination of them) occur in 2011 or in the first weeks of 2012, Putin will replace Medvedev in the Kremlin to ensure political stability and solidify his own policies. That could happen even before Medvedev's first term expires: he could resign and Putin become acting president, but it is more likely that they would wait until after the elections to change the Kremlin guard. Medvedev publicly announces that he chooses not to run for a second term (or steps down early), stating that the nation needs a leader with a successful record of having saved the country from looming disaster.

Domestic policy

Having waned during Medvedev's term of office, the concept of 'sovereign' democracy stages a triumphant return as the core of Russia's national ideology. For opposition groups, it means a further stifling of their legal activities as the government increases control over NGOs under the pretence of fighting terrorism and extremism. The State Duma passes a new set of laws further curtailing civil liberties and media freedoms. Courts find fault with established political parties, such as Yabloko, in order to bar them from local elections. Leaders and activists of what Putin's Kremlin has dubbed 'non-systemic opposition', such as the banned National Bolshevik Party or Garry Kasparov's Civil Front, are either jailed for extremist activities or leave the country.

The influence of the *siloviki* escalates, but Putin does not allow any particular group in this clan to dominate. Putin keeps his retinue in suspense by not announcing whether he will run again in 2018 or groom a successor, at least not before the spring of 2017.

Trying to offset the impact that a more aggressive foreign policy might have had on international investors, Putin – understanding full well the need to diversify the economy – decides to liberalise foreign corporations' access to the Russian market. The decision is difficult, especially after several Western governments openly speak out and act against anything that allows Russian capital to encroach on their economies. The attempts by Russian companies to acquire downstream energy transportation infrastructure continue to meet the tacit but formidable resistance of most European governments.

The favourable conditions offered by the Russian government have attracted quite a few major international companies, from oil and gas

giants to retail firms. While state champions continue to dominate in the so-called strategic industries – such as Gazprom and Rosneft in the energy sector and Russian Technologies in the defence industry sector – private companies, both Russian and international, thrive in the retail trade, construction, agriculture, food, entertainment and automobile sectors.

Foreign policy

Even before he is re-elected by a wide margin in the presidential election, Putin sets out to tackle the crisis caused by one or a combination of the aforementioned uncertainties before beginning to revise and toughen Russia's foreign and domestic politics after four years of Medvedev's accommodating engagement with the West, which was regarded by the *siloviki* clan as compromising Russian national interests.

A new war of words flares up between Moscow and Washington and Brussels over missile defence deployment. However, pragmatic approaches on both sides help gradually to relieve tensions as Washington and Moscow converge on the perception that their common immediate security threat is posed not by each other but by a new wave of militant Islamism, which galvanises North Caucasus religious extremists and creates new risks for the United States and NATO personnel deployed abroad.

Russia increases its involvement in Belarus, progressing towards incorporating the country by solidifying its control over the economy of its neighbour. Belarus' authoritarian leader Alexander Lukashenko lacks alternatives due to his increasing isolation from the West.

Moscow also increases its presence in Central Asia as the growth of religious extremism there prompts regional elites to seek a strong and unscrupulous ally in the fight against Muslim radicals. Although Chinese influence on the economy of these states is increasing, it is Russia that remains the centre of gravity for the Central Asian republics. The strong authoritarian political model that is being rebuilt by Putin is increasingly appealing to the Central Asian leaders. Putin also continues to anchor these and other former Soviet republics to Moscow through integration projects such as the Collective Security Treaty Organisation, the Eurasian Economic Community and the Commonwealth of Independent States. Moscow also economically penalises 'disloyal' post-Soviet neighbours, such as Georgia.

Having cooled Russia's engagement with the West, Putin adopts a more cooperative approach to China, further increasing energy exports to this country. Overall, however, Putin remains wary of China's growing influence.

Cooperation with the West in curbing Iran's nuclear ambitions stalls as Tehran awards Moscow new multi-billion dollar contracts to build nuclear power plants and deliver machinery.

Russia has still not been admitted to the WTO. The US Congress refuses to repeal the Jackson-Vanik amendment while the OSCE's Parliamentary Assembly increases its criticism of Moscow's domestic policies. Moscow preserves its membership of the Group of Eight most industrialised countries, although it may be left out of negotiations on some key decisions. Russia responds by accusing international organisations of attempting to undermine its sovereignty.

Scenario 3: President X

We believe that Putin is likely to facilitate the ascent of a third candidate if in 2011:

- Putin feels that Medvedev is no longer willing or able to protect his interests in 2012-2018 while Putin is suffering from fatigue – combined with one or several of the following factors of uncertainty:
 - Protracted economic crisis.
 - Escalation of ethnic riots.
 - A massive and lasting infrastructure failure or a natural disaster.

A protracted global crisis erupts, spurred by a domino effect on the world economy – a combination of colossal earthquakes in Japan and California and bankruptcy of several international investment powerhouses that have worked their way around newly imposed regulations to resume risky betting on the rise of certain derivatives. Oil prices drop to \$50 per barrel and remain at that level until at least early 2012. By September 2011 Putin and Medvedev conclude that on the current trajectory the government will run out of cash reserves sometime in 2012, making public authorities unable to honour their social obligations. Since corporate taxation options have been all but exhausted, Putin and Medvedev see no other choice but to plan for a sharp increase in personal taxes, while also cutting back social expenditures. Both realise that this approach will give rise to protests that may undermine political stability and affect positions held by the ruling tandem and Putin's business allies. Putin sees no major problem in arranging his own election in 2012 and re-election in 2018. But he is also overwhelmed with fatigue and does not want to bear responsibility for all the country's pending troubles as this would bring an end to his prestige as the national leader and, consequently, to his status of powerbroker between the ruling clans.

To make things worse, North Caucasus-based networks stage simultaneous terrorist acts in Moscow and other major cities; they kill dozens of people. Russian ultra-nationalists exploit these attacks for instance to rally support for their marches planned for the 4 November 2011 National Unity holiday. Riots break out not only in Moscow, but also in St. Petersburg and other large cities. Ultra-nationalists attack dark-skinned natives of the North Caucasus and foreign countries. After some serious reflection as well as pressure from Putin, Medvedev announces that he will not run for re-election in March 2012. By then Putin has already picked a candidate – 40-year old Colonel X, commander of a unit of the Interior Troops who has been decorated with a Hero of Russia medal for his distinguished combat service in the North Caucasus (see box).

Alternatively, as some analysts have speculated, Putin can pick Deputy Prime Minister Igor Sechin, his long-time confidant, who has been tipped as the third most powerful man in Russia. He also served in the Soviet intelligence community. But his candidacy would not go down with the Russian public since in such a crisis he would be as associated with government failures as Putin is. Sechin's candidacy would also antagonise some of Russia's intellectual elite for his perceived leading role in the onslaught on Yukos and its top managers in 2004. For the same reason, it would be difficult for Putin to introduce Sechin as a comfortable partner for the West.

Shortly after United Russia's victory in the December elections, Putin and Medvedev jointly announce that neither of them will run but will instead back X as their candidate in 2012. X is elected Russian president in the first round in March 2012. Medvedev moves back to St. Petersburg to become chairman of the Constitutional Court while Putin remains the prime minister and leader of United Russia.

Domestic policy

President X, like his mentor Putin, believes in a strong central government, in the dominance of the executive branch of government and in other features of 'managed democracy'. The new president therefore sets out to consolidate the dominance of the executive over the legislative and judiciary branches as well as over regional authorities. He also acts to increase the federal government's control over civil society, the mass media and other non-state actors. Nationalism with strong ethnic overtones – disguised as patriotism – plays a central role in the state ideology and is used to win the support of ultra-nationalists as well as to mobilise and unify Russian society.

The government proceeds with preparations for the Sochi 2014 Olympics, but other ambitious spending initiatives are put on the backburner because revenues will shrink due to the low prices of export commodities. Faced with this budget crunch, in mid-2012 the new president announces a sharp increase in both real estate and income taxes.

While slashing defence spending, the new president increases the budgets for law-enforcement agencies and secret services and expands their powers to strengthen the Kremlin's capacity to enforce its will and prosecute. These agencies are also allowed to take any necessary measures to control the 'non-systemic' opposition as well as for fighting insurgency networks and suppressing dissent in the North Caucasus.

He cuts education and health budgets while leaving pensions and other social benefit payments intact. The police crack down on those who attempt to protest against these measures. *X*'s general response is to stifle opposition and intimidate independent political and social entities in order to prevent them from organising scattered public protests into a nationwide movement.

Foreign policy

President *X* pursues projects that would help anchor post-Soviet states to Moscow. He treats Russia's near neighbourhood as a zone for zero-sum games with the West that Moscow must win to advance its interests, such as the formation of friendly regimes along its borders and control of energy export routes from the former Soviet area.

Russia supports independence for the separatist Abkhazia and South Ossetia republics but will cooperate with the EU on the settlement of Moldova's conflict with the Transnistria republic.

President *X* also pursues closer cooperation with other countries that oppose the spread of Western influence in the post-Soviet neighbourhood, such as Iran and China, seeking direct investments from the latter and arms sales to both. At the same time Moscow remains wary, particularly about the rise of China.

The president also adopts a harder stance on such issues as US and NATO plans to deploy missile defence elements in Eastern Europe and refuses to revive the Treaty on Conventional Armed Forces in Europe (CFE). As the US and NATO move forward with plans for missile shield installations in Europe, the president orders deployment of medium-range missiles in the Kaliningrad exclave. In relations with individual Western countries the president seeks closer ties with EU members rather than NATO or the United States. Russia sees the EU as a much more benign actor but continues to play individual members off against one another.

In spite of all these developments, the president refrains from pursuing excessively confrontational policies with the West. While lambasting the West in addresses to domestic audiences, he is pragmatic: he realises that the national interests of Russia and such major Western actors as the United States and the EU converge on a number of issues, including terrorism and non-proliferation of WMD. He is also well aware that Russia could not afford a new Cold War. More importantly, *X* knows that Russia is facing a budget crunch and needs direct foreign investments and Western expertise in efficient production methods much more than it did when booming oil prices ensured a steady flow of revenues and low interest rates for borrowing cash abroad.

X boosts efforts to barter access of Western companies to Russian oil and gas fields in exchange for downstream assets in the West. At the same time, he is less willing to make concessions to enter international economic cooperation organisations, such as the WTO, as he is concerned that membership may hurt some sectors of the Russian economy that are weakened by the crisis and less capable of competing with foreign rivals. At the same time his willingness to cooperate with the West will remain inversely related to Russia's recovery from the crisis.

Other scenarios – why not?

The recent changes of regime in countries in North Africa and the massive popular uprisings in the Middle East have led to discussions in Russia about whether a scenario in which **protesters demanding social justice and political freedoms topple the regime** might materialise in Russia. The authors of this paper do not believe that this will happen.

Like many countries in North Africa, Russia has problems with political freedoms, corruption and vulnerability to consumer price shocks as well as extensive internet access, which can facilitate the organisation of protests. However, all this is unlikely to lead to a revolution in Russia for a number of reasons.

In the Arab countries, Islam was the unifying ideology for many of the protesters. Russia's Christian Orthodox Church, which is widely recognised as the legitimate authority on issues of religion, has long been aligned with the government authorities and will not support any political activism.

Popular unrest could succeed and spread to other parts of the country only if it is staged in Moscow. However, Moscow, unlike Cairo or Tunis, has an abundance of economic opportunities. The rate of unemployment is considerably below the Russian national average level.

Other social factors that facilitate revolt, such as a 'youth bulge' and relative poverty, hardly apply to Moscow. The average age of Moscow residents was 40 years in 2009 – one of the highest of the Russian regions³⁴ – and the average Moscow family owns property worth hundreds of thousands of dollars. Moscow also has one of the highest gross regional products *per capita*, or about €19,400.³⁵ Lastly, Moscow's law-enforcement troops have the resources to suppress any such protests.

However, should developments nevertheless take this course, we would still expect the situation to evolve along the lines of the third-candidate scenario outlined above, especially in the latter stages.

It is even less likely that **Putin and Medvedev will run against each other in the 2012 presidential elections** even though Putin did declare in April 2011 that he cannot rule out that both he and Medvedev will run for president in 2012. We interpret Putin's statement as another attempt by the prime minister to maintain a shroud of secrecy over which one of the ruling tandem will run rather than revealing a real intention. For his part Medvedev reiterated at his May 2011 press conference that he rules out a situation in which he would run against Putin in the March 2012 elections. Medvedev realises that he would most likely lose to Putin and that he could face a *coup* if he doesn't concede defeat. Such a scenario would also be damaging for their personal political images and, more importantly, for Russia's whole 'power vertical' system. It could lead to a schism and general dismay within the Russian ruling elite, weakening the government to an extent that would enable outside actors, such as ultranationalists acting in alliance with the radical wing of the 'non-systemic opposition', to stage a takeover.

34. Svetlana Lyuboshitz, 'Vysoky, s dlynnymi rukami', *Rossiiskaya Gazeta*, 11 January 2010.

35. Nadezhda Gurina, 'S&P: Moskva imeet vysokie pokazateli likvidnosti', *RBC Daily*, 30 November 2010.

Conclusion

This *Occasional Paper* has focused on Russia's short-term future and on factors and events which are likely to determine who Russia's ruling elite will pick to run the country in 2012-2018 – with Prime Minister Vladimir Putin playing the lead role in that decision and elections formalising it.

Clearly, out of the many factors which shape developments in Russia the oil price is the one which the leadership is least able to predict or control and which has the strongest impact on Russia's short-term future. As discussed in the previous chapters, other key uncertainties which could alter the pre-election situation in Russia are a dramatic escalation of violence in the North Caucasus coupled with a sharp increase in the number of deadly terrorist attacks in 'mainland' Russia and subsequent large-scale ethnic riots; an accelerating campaign by Medvedev to remove Putin's loyalists from key posts in the government and state-owned companies; or a flare-up of one of the unresolved conflicts in Georgia.

The lack of transparency of the political system makes it difficult to predict even Russia's short-term future. Nonetheless we consider the first scenario (Medvedev stays in power) more likely than scenarios 2 (Putin returns to power) or 3 (X becomes president) for the following reasons:

- A drop of the oil price to \$50 would be surprising in the short term given the current volatility in North Africa and the Middle East. Should the price of oil plummet next year, implications would kick in after the presidential elections and therefore would not have an impact on the selection of the ruling elite's favourite candidate and the March 2012 poll.
- Terrorist networks in the North Caucasus are unlikely to suddenly gain qualitatively new capabilities that would allow them to take the level of violence within and without the region beyond the current low-intensity conflict. Nor are violent ultra-nationalists capable of large-scale destabilisation
- Medvedev will not jeopardise his chances of being approved by Putin for a second term by unseating many more of his mentor's loyalists.
- Georgia suffered a devastating defeat in the 2008 war and is unlikely to try and regain one of its separatist provinces by force. With the Sochi Olympic Games approaching Moscow has a vested interest in stability along its southern border. An escalation of the conflicts in Abkhazia or South Ossetia is, therefore, unlikely.

Hence, it currently appears that Medvedev's staying on in the Kremlin beyond May 2012 is more likely than either Putin's return or the emergence of a third candidate.

None of the three scenarios outlined in this paper implies a major crisis in Russia's relations with the European Union and the United States. While less inclined to pursue stronger ties, neither Putin nor *X* would want to antagonise Russia's Western partners. Putin, despite his generally distrustful attitude, has repeatedly demonstrated pragmatism and willingness to cooperate with Western countries on issues of common interest, such as Afghanistan and counter-terrorism. *X*, brought to power in the Kremlin by a severe economic crisis, would need to cooperate with the West to overcome exactly that crisis. Another factor that would push any leader in the Kremlin towards considering closer relations with EU and United States is the relative decline of both Russia and the West and the simultaneous rise of Asia and China in particular.

Of the three candidates, however, Medvedev is more likely to pursue real and lasting *rapprochement* between Russia and the West. In the past four years Medvedev has declared Russia's foreign policy a tool to facilitate Russia's comprehensive modernisation. Cooperation with Western states and companies looks most promising in this respect. Medvedev will also be more willing to allow Western investment in the Russian energy sector and less inclined to use energy as a tool to pressure Russia's neighbours, which will in turn reduce the risk of disruption of gas supplies to Europe. At the same time, however, even in the event of the continuation of Medvedev's presidency, Russia will remain eager to preserve a dominant role in its immediate neighbourhood – and ready to put its foot down when it considers its interests compromised in that area.

Regardless of who finds himself in the Kremlin in May 2012, the Russian state and society will still continue to face existential medium-term challenges. The inefficiency of the economy, political, social and economic disparities, depopulation of large areas, particularly in the East of the country, and the rise of violent xenophobia are systemic problems which urgently require systemic reforms. Currently, Medvedev appears as the only political figure in the ruling elite with a genuine interest in urgent economic and political modernisation and liberalisation that could help Russia to tackle these challenges. Even though he has not succeeded in putting into practice the ideas articulated in the past four years his commitment to innovation makes him the better option for sustainable development in the country.

Annex

Abbreviations

CFE	Treaty on Conventional Armed Forces in Europe
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organisation
EAEC	Eurasian Economic Community
GDP	Gross Domestic Product
IAEA	International Atomic Energy Agency
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Cooperation in Europe
USD	United States Dollars
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

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