

Russia Should Not Miss its Chance

Development Scenarios

Valdai Discussion Club

Valdai Discussion Club Analytical report

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During the preparation of this report, the authors studied numerous materials and articles analyzing the situation in Russia and the country's future prospects. Of special interest were reports prepared by the Institute of Contemporary Development (INSOR), the Center for Strategic Studies, the Institute of Sociology at the Russian Academy of Sciences (jointly with the Friedrich Ebert Foundation), the National Research University-Higher School of Economics, the Levada Center, the Institute of Strategic Assessments and Analysis, the Institute of Public Design, the Political Criticism Workshop, and other organizations.

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1. Introductory Notes

1.1. The following material does not claim to be an absolute truth, rather, it is intended as a modest contribution to the national discussion on Russia's future. Dmitry Medvedev's decision to step down put an end to guesswork as to who will be the next president of Russia. In any case, this is a secondary ques-

So far, Russia has developed quite predictably

tion, the main one being what the next Russian leader will do in this extremely difficult time for the global development. Clearly, in light of the growing need for changes, on the one hand, and the rigid given conditions, on the other hand, – this is the situation the new president will have to deal with. He will have to act within the framework set by the state of society, the structure of the economy, the developments in the outside world, and the established system of power

and property. A leader or a ruling group can have only a limited influence on the current development of the country – although action or inaction of that person or group will have strategic implications during the next four to six years. *So far, Russia has developed quite predictably.* There is, however, a growing realization that, without policy change, Russia will be doomed to a predictable trajectory of decline and the loss of positions gained at such tremendous pains.

1.2. It is particularly important that foreign experts take part in this discussion alongside major Russian experts, because Russian members cannot help being politically and intellectually biased. "A face is blurred, seen eye to eye. Contours emerge only at a distance." //The quote from Sergey Esenin, Russian poet of the first quarter of the 20th century.// An outside view adds depth to assessments and judgments.





1.3. Despite the understandable aversion among our contemporaries, including the authors of the report, to many aspects of life in Russia today, we should possibly admit that the 2000s were probably the best period in Russian history in the last hundred years. Russia had a streak of luck. The favorable situation on foreign markets (the demand for and price of commodities) and in foreign affairs (the lack of any clear enemies) has opened opportunities for future success. However, whether Russia will use these opportunities is in question.

The 2000s were probably the best period in Russian history in the last hundred years

1.3.1. The situation inside Russia is the main factor for potential success.

1.3.1.1. At the end of the 20th century, Russia carried out a profound social, political, and anti-militarist revolution (the Soviet Union spent not less than one quarter of GDP on defense; economically the country had not emerged from a state of war). //The country in which communism took deep root rejected it. Although Russia did not have private property for several generations, the country privatized – quickly, albeit unfairly – the majority of state property and made a transition to capitalism. In the socialist countries of Central and Eastern Europe, the communist ideology, the socialist economy, and, especially, the militarization of all walks of life was not so entrenched. This is why the changes in Russia, although incomplete, can be described as a

revolution. These were more like a transition in other socialist countries. Moreover, they were facilitated by Western aid, which Russia did not receive (aid only came from Germany for the withdrawal of Soviet troops, humanitarian parcels in 1991–1992, and commercial loans, which Russia has paid off in full).// The country brought down communism on its own. This revolution was relatively bloodless, but it cost the country a part of historical Russia, which was a severe psychological trauma for the country, and caused the temporary impoverishment of large sections of the population.

Yet, amazingly, the country survived. It stopped the momentum towards collapse fueled by the destruction of the Soviet Union. Unlike other empires, Russia did not try to slow down disintegration, but, on the contrary, it facilitated the peaceful break-up of the Socialist camp, or “the external empire”.

1.3.1.2. The history of developing through non-economic, forceful coercion, which has been traditional for Russia, especially in the 20th century, was ended.

1.3.1.3. In 1999–2000, facing the threat of renewed disintegration processes due to post-revolutionary chaos, *a political counterrevolution began in Russia*, or, in other words, there was a restoration of governability. This was also a success and was undertaken without much violence. Mikhail Khodorkovsky and Platon Lebedev became the victims for the entire capitalist class. Regional barons surrendered power without resistance – perhaps because of the crisis, or under impression of Moscow’s resolve in the war in Chechnya.

1.3.1.4. The two Chechen wars, with their enormous death tolls, were the price for a relatively smooth withdrawal from the revolution of the 1990s. As a result, Moscow scored a victory and *became the only great power to win a war at the beginning of the 21st century*. This factor helped Russia consolidate its international positions and showed its readiness to fight for Russian interests. Russia will have to pay for this victory with decades of chronic instability throughout the Caucasus and with financial inputs in the region. As Russia is still paying for the victories achieved by General Alexei Yermolov in the Caucasus 150 years ago. //Although Great Britain and France attempted to repeat this success in Libya, this seems to have been even more of a Pyrrhic victory than Russia's.//

As in the case with domestic policy, Russia's successful development is also due to a reasonable economic, especially fiscal, policy that has been conducted since the late 1990s. The growth of the Russian economy began not with commodity price hikes, but with normal recovery growth

1.3.1.5. The post-revolutionary reconstruction had another price. *Bureaucracy received a de facto carte blanche to steal, provided that it would help rebuild the country*. As a result, governability was restored and the country regained its sovereignty, but corruption became systemic.

1.3.1.6. The country also had to waive the formal democracy of the 1990s, which was inefficient, but pleasant to part of the elite, including many of the authors of this report. *A gradual systemic curtailment of political pluralism and freedom of expression in the mainstream media began in the country. A system of soft authoritarianism is taking shape, but for the first time in Russian history this is happening without widespread restrictions on individual freedoms*. And the majority of population is generally politically passive and relatively content with the status quo.

1.3.2. Another prerequisite for success pertains to foreign trade. *The demand for and prices of raw materials and energy*, driven by the rise of newly industrialized countries, are behind the sharp increase in Russia's GDP and budget revenues. The demand for water-intensive goods, especially food, is one more, less obvious, factor. This is a possible resource for a relatively simple growth in the future. At the same time, as in the case with domestic policy, Russia's successful development is also due to a reasonable economic, especially fiscal, policy that has been conducted since the late 1990s. The growth of the Russian economy began not with commodity price hikes, but with normal recovery growth.

1.3.3. Another important, albeit secondary, factor was a favorable outside environment:

1.3.3.1. Real external threats to Russia that could escalate into military conflicts were virtually non-existent already in the last third of the 20th century. Beginning in the 1970s, rivalry assumed a different, primarily economic, dimension.

1.3.3.2. Since the 2000s, habitual rivals have become weaker, and even a rising China is still more an opportunity than a challenge, much less a threat.

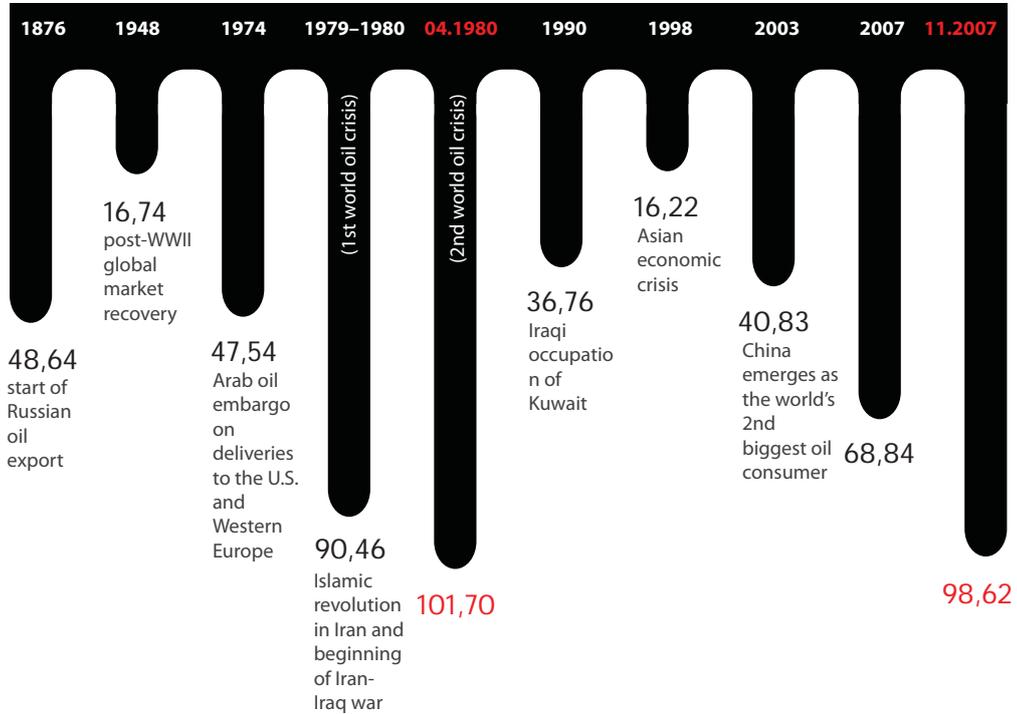
1.3.3.3. Long-term markets have been established for traditional exports – energy, raw materials and foodstuffs.

1.3.3.4. The global system as a whole is returning to reliance on nation-states, and international diplomacy is shaking off post-modernist trends, which are alien to Russian diplomacy.

1.3.5. A sensible foreign policy replaced the post-revolutionary idealistic extravagance, and this has also contributed to Russia's success. The country retained its key assets, and since the 2000s it has been consistently revising the rules of the game that had been imposed on it or assumed by it in the years of weakness and chaos. This understandably irritated the West, which was upset by Russia's arrogance,

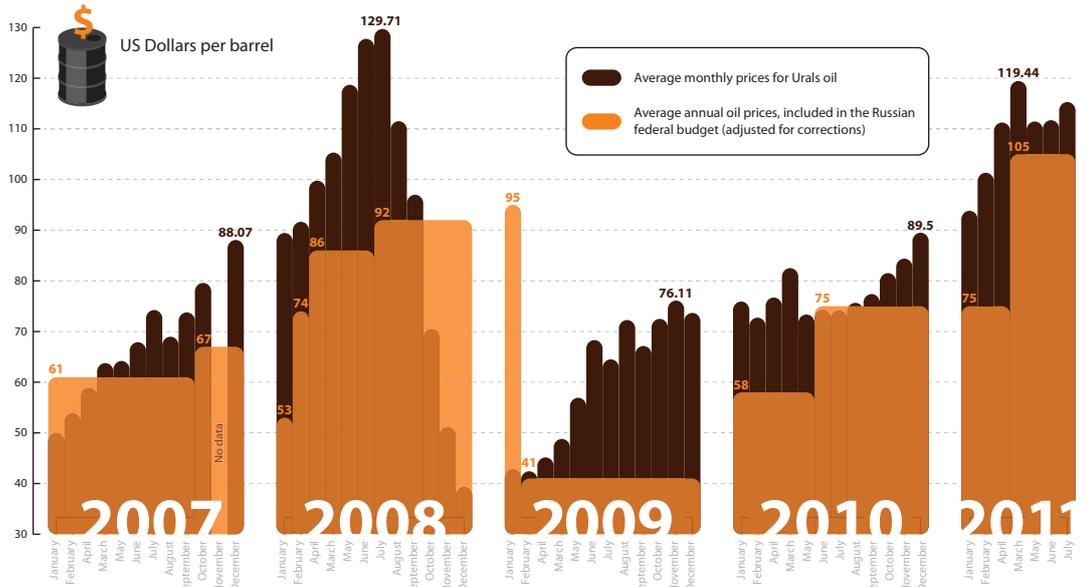
World oil price fluctuations

(\$ per barrel, inflation-pegged average annual prices)



Oil prices on the stock exchange and in the Russian budget

The average annual oil price is the key parameter in estimating revenues of the Russian federal budget



Most dynamically developing countries

Forecasts say the BRICS countries – Brazil, Russia, India, China and South Africa – will see rapid economic growth within the next decade



* Purchasing power parity is a ratio of two or several currencies established with respect to their purchasing power as applied to a fixed basket of goods and services

sometimes unreasonable, for which it now has to pay.

1.4. In both domestic and foreign policy, *the peak of the successful counterrevolution took place in August 2008*. The autumn 2008 financial crisis showed the inefficiency of Russia's economic model. However, this inefficiency was relative, as Russia managed to preserve its political stability and avoided a break-up. The operation in Georgia delivered a

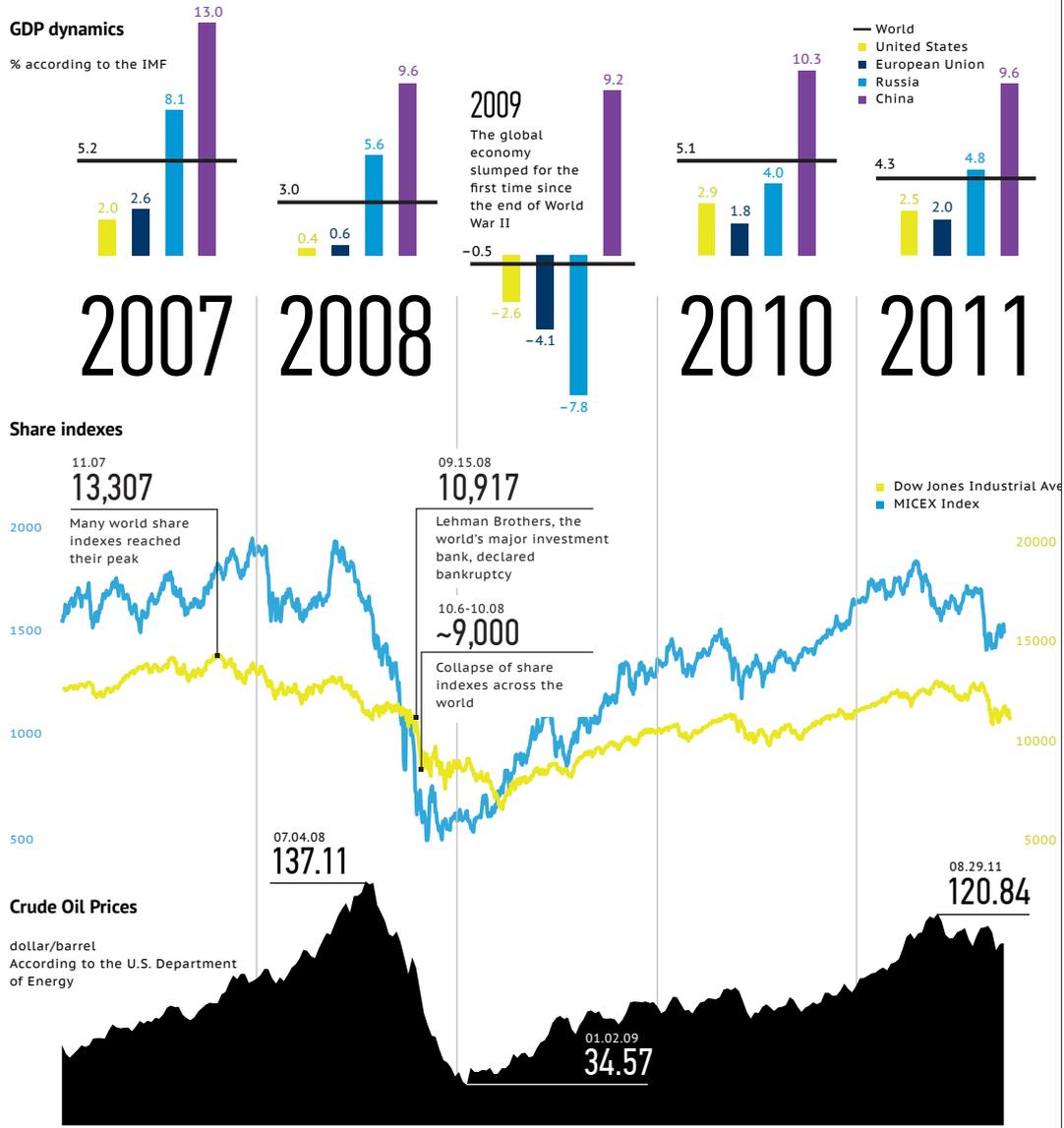
defeat to forces that had tried to halt the consolidation of Russia's foreign-policy positions.

1.4.1. The economic crisis could have been also a factor of potential success. It revealed many weak points in the Russian economic model and areas requiring early reforms. However, Russia has not used this chance yet.

1.5. Since 2008–2009, there has been a growing feeling of ill-being and of a need for

Chronicle of the global crisis in key macroeconomic indicators

The painful effects of the global economic crisis that hit in autumn 2008 are still being felt



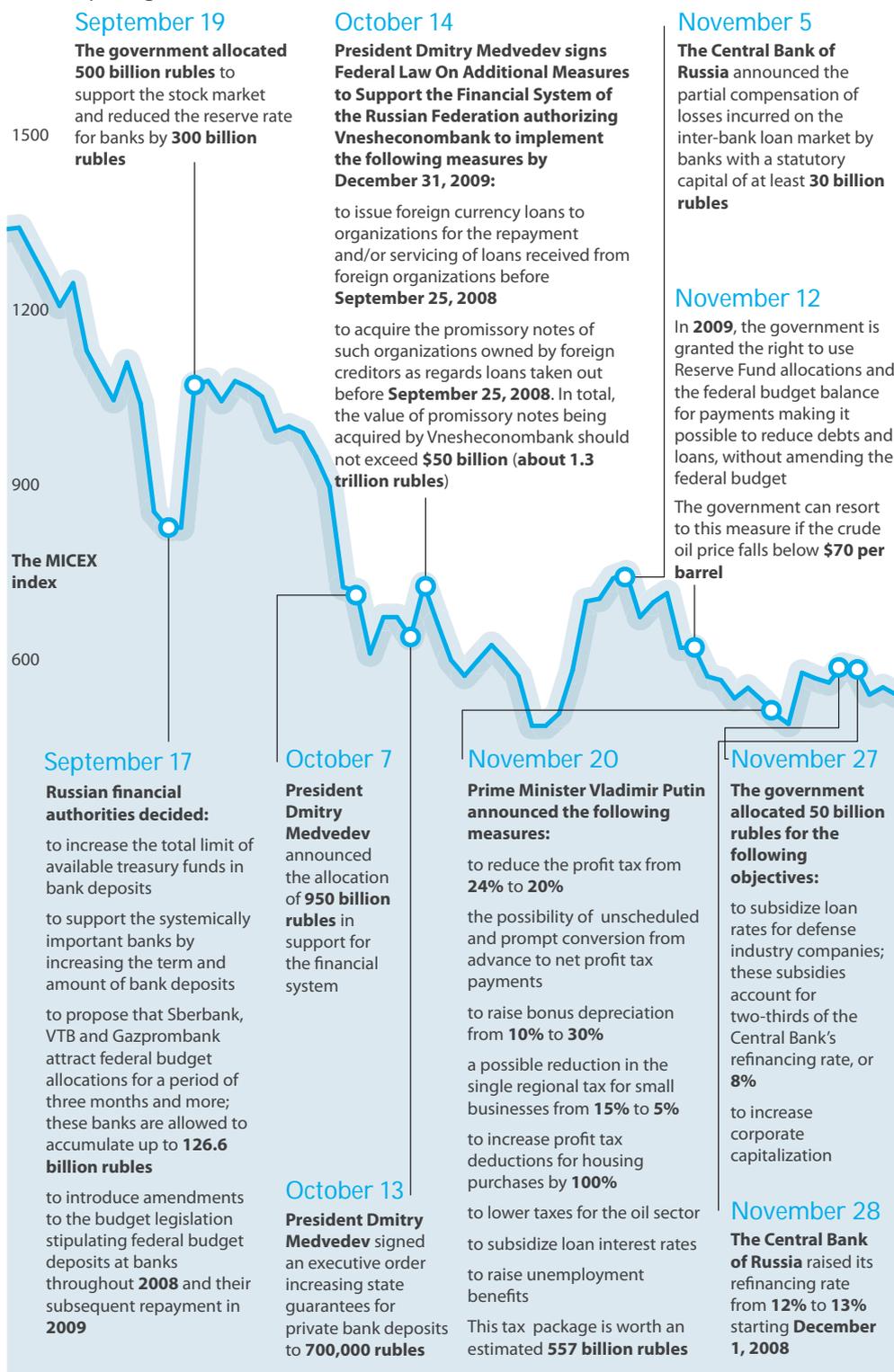
change, which was expressed, in particular, in vague calls for modernization.

1.6. The main factors behind the favorable economic and foreign-policy situation will remain for several more years. They played a positive role when the country was overcoming its post-revolutionary chaos, but now those factors have begun to work for stagnation. Fur-

thermore, Russia has a unique opportunity to make a leap forward because of the lack of external threats in their traditional interpretation; the relative weakness of Russia's competitors; the passivity of main population groups; and the financial fat accumulated over the past years. All these factors even make it possible for the government to begin relatively radical reforms.

The Russian government's anti-crisis measures

At the onset of the financial crisis, the Russian government introduced an economic stimulus package



1.7. The early 2010s marked a new turning point. Russia can increase the efficiency of its political and economic model, but it also can plunge into stagnation, which will fuel growing dissent among the more active part of society and cause the government to rely more on authoritarian, violent measures. The Russian political system will again become fragile and unstable, especially during unpredictable crises – known as “black swans”, which are almost inevitable in today’s world.

1.8. Before we propose possible *scenarios of political development*, we will try to describe in more details the general context that will shape

them: external factors and the state of society, government, and the economy. Any politician will have to act within very rigid frameworks. For example, Vladimir Putin led the country in the same direction that Yevgeny Primakov or even a liberal politician would have done in his place – naturally, with some slight, but not fundamental, changes. What made Putin’s turnaround efficient was that he relied on a corporation, which he strengthened even more by redistributing resources in its favor. But the “power vertical” and the more or less authoritarian regime was predetermined by the level of the development of society and the economy, and by the need to stop the country’s collapse.

2. External Factors

2.1. *In the short term, external factors will have the least impact on Russia in its entire history, but due to Russia's increased economic dependence on the surrounding world, they will determine the overall context of its development.*

2.2. Competitors and partners are relatively weak and can neither offer a stick nor a carrot.

The main vector of global development is growing chaos and a widening gap between the globalization of major economic, environmental and political processes, and a decline in their governability

2.3. There is no clear need for mobilization, either economic or military. Russia, which historically was built according to a defense mentality, is in a unique position today. Russia has lost its thousand-year-old national idea, which was based on the necessity of defending itself against foreign enemies.

2.4. On the other hand, there is no positive challenge from more efficient systems, either. The attractiveness of the Western model has declined due to a series of crises and military defeats. The Eastern model is obviously inapplicable.

2.5. The lack of obvious foreign challenges relaxes society and the authorities. Society

talks about modernization, criticizes the government, and engage in its own affairs, tolerating relatively inefficient governance. The government may freely redistribute property in its own favor, simply steal, or substitute efficient work with PR activities.

2.6. External conditions are pushing Russia away from the path of innovation. On the one hand, there is a growing and long-term demand for energy and raw materials. On the other hand, the rapid development of Asia accounts for a prohibitively high level of competition for most industries.

2.7. The main vector of global development is growing chaos and a widening gap between the globalization of major economic, environmental and political processes, and a decline in their governability. This has brought about the need, although not fully realized, for *a dramatic improvement in the quality of state governance* in Russia, and for a better ability to quickly and efficiently respond to unforeseen challenges. The outside world is not threatening, as it did before, with aggression or a direct challenge to sovereignty. But the world has not become safer, and competition, especially economic, has become more acute.

2.7.1. A dangerous paradox is emerging. The outside world does not pose obvious habitual threats, so the situation has a "relaxing" effect. *However, this is deceptive.* The world as a

whole is becoming increasingly less predictable; it is more chaotic and dangerous. These challenges are more difficult to prepare for, and it is hard to mobilize the nation to confront them.

2.7.2. At the same time, Russia boasts notable foreign policy advantages: its auspicious geographical position; the fact that many countries

and factors depend on it; and a cynical, overly rational but efficient foreign policy. Although Russia's image in the West can be described as anything but attractive, on the whole, its "soft power" is gaining momentum, especially among neighboring states and non-Western countries. Public interest in the Russian language is rapidly reviving. Last but not least, a majority of states no longer regard Russia as a threat.

3. The State of Society

3.1. Russian society is getting a break after 70 years of repression during Communism, and after ensuing decade of turmoil. Now Russians are enjoying modest, but growing, consumption, unprecedented individual freedoms, and private life. Russians, for the most part, have never had such a level of individual freedoms and consumption opportunities at the same time (except, perhaps, in the late 19th-early 20th century).

3.2. Over the past 20 years, Russian society has made a breakthrough to a different quality of nutrition, mass motorization, telephone coverage, and distribution of communications media, in particular the Internet. The country has seen a revolution in consumption.

3.3. There has been no widespread demand for change in society yet. Russians do not want a return to the totalitarian system and harsh authoritarianism, but they do not want radical reforms either, as this may require sacrificing part of what they have now. There is a demand for change only among small parts of the elite,

who are aware that the current path of development is leading to a dead end, or who want to return to power.

3.4. Society has not yet recovered from the traumas inflicted by communism. There is no respect for law and property rights. Paternalistic attitudes are still strong in the country. Political morality has been declining rapidly, and the principles of meritocracy are not being observed. A true national elite, which would be guided by the idea of serving society and the state, is almost non-existent.

3.5. The authorities still can buy the loyalty of the majority of the population with modest social transfers, coupled with sophisticated propaganda – primarily through diverting people's attention to other things and artificial problems.

3.5.1. *The possibility of free movement* is a major source of stability. The more active part of the population prefers to go abroad, but these people can return whenever they want.



At the same time, this is also a source for the long-term weakening of the country and its international competitiveness. By losing the class of creative, energetic and well-educated people, above all young people, Russia is evolving towards the “African” path of development, in fact towards decline.

There has been no widespread demand for change in society yet. There is a demand for change only among small parts of the elite, who are aware that the current path of development is leading to a dead end, or who want to return to power

3.6. There is a strong feeling that has not been clearly articulated yet of injustice in the existing order. The closure of channels of upward social mobility for most 20–30 year olds (the post-Soviet “freedom generation”) and their political representatives is a source of growing instability.

3.7. Thus, there has been a growth in nationalism and the anti-system opposition, partly leftist nationalist (lower social strata) and partly antiregime (the intelligentsia). Since 2011, according to several reliable public opinion polls, anger with the status quo has been quickly growing, along with a feeling that the country is moving in the wrong direction. This anger could erupt during a crisis with extremely unpleasant consequences. Russia will not survive another revolution.

3.7.1. The level of xenophobia and nationalism among ethnic groups in the Russian regions is

still unclear, especially in the North Caucasus. However, the problem is obviously growing.

3.8. The intellectual elite and the more active part of the population – luckily, not yet the majority – have begun to think of Russia as “this country” (instead of the traditional “our country”) and to believe that “the worse (the situation in the country), the better.” This is a dangerous symptom, which resembles the frame of mind of a large part of the Soviet intelligentsia in the late 1980s and the early 1990s.

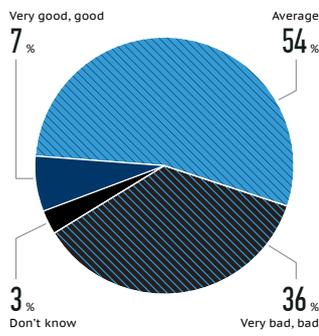
3.9. The main reason for discontent is the gap between society (especially its active part) and the authorities. The current political system is only increasing this gap. There are no people or forces in power, or those close to power, that would represent a thinned-out and modified, yet traditionally strong, intellectual class. In a crisis the authorities would not have reliable support and a “reserve” in the elite, which bailed them out on more than one occasion in the 1990s. The nomenklatura is unlikely to put up a fight, because the bulk of it is a product of negative selection. A growing section of the intellectual elite wants to see a defeat for the authorities, although this may result in a defeat of the country (which is what happened in the late 1980s-early 1990s.).

3.10. There is a growing feeling of anxiety, ill-being and insecurity in society, on the one hand, and of the omnipotence of the bureaucratic elite, which is estranged from its citizens, on the other. Thus, almost all recent intellectual analyses contain negative and cat-



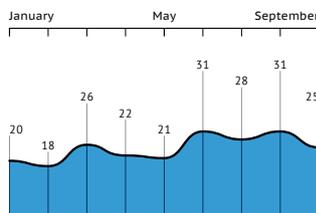
What Russians think about the domestic economic situation

How would you assess current economic conditions in Russia?



Courtesy of the National Public Opinion Research Center (VTsIOM)

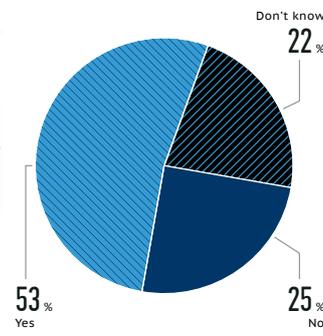
Changes in the 2011 domestic economic condition index*



* The index of national economic condition assessments is calculated by subtracting the sum total of negative assessments from the sum total of positive and average assessments. The higher the index, the more positively Russians assess the economic situation

Courtesy of the National Public Opinion Research Center (VTsIOM)

Will there be a second wave of the global financial crisis?



COURTESY OF ROMIR-GALLUP INTERNATIONAL

astrophic predictions, many of them possibly exaggerated.

3.11. The number of Russians with a formal education is growing, but the quality of education is declining. The current economic structure in the country does not require so many formally educated people (or even those with a better education).

There is a growing feeling of anxiety, ill-being and insecurity in society, on the one hand, and of the omnipotence of the bureaucratic elite, which is estranged from its citizens, on the other

3.12. At the same time, *positive processes are taking place in society as well*. Civil activity has begun to grow (such as the Society of Blue Buckets, and the self-organization and mutual aid that took place during forest fires in the summer of 2010).

3.13. Contrary to frequent statements, *there is no desire in society for a firm hand (according to recent polls)*, and the totalitarian past is not very popular. What society really wants (albeit it has not been insistent enough on this point) is more openness, democracy, and a curb on corruption and bureaucratic arbitrariness. This desire has evolved into nostal-

gia among some Russians for the Soviet era, which was allegedly fairer, but communism in Russia is dead.

3.14. The urban middle class has been growing, albeit slowly, which almost inevitably is creating a need for greater political representation and a growth of self-consciousness. By the late 2010s it could yet become a decisive political force able to demand that its interests are represented.

3.15. *The "freedom generation" – the first generation to not live under the Soviet system – is growing up* and has been less affected by its vices: universal lies, wage-leveling, lack of principles, disrespect for property rights and law, and fear of the outside world. If this generation does not emigrate and if it does not decay amid the current corrupt system, it will come to power at some point. Russia will then have a better chance for progressive development.

3.16. *The question is whether it is possible to speed up the generational change of the elite*, which has slowed, if not stopped, and to ensure the middle class is able to influence decision-making. Currently the middle class is barely represented in the political process. This, per se, is a challenge to sustainable evolutionary progress.

4. Political System and Power

4.1. *The Russian political system as a whole corresponds to the level of development level of the country and Russian society in the 2000s. However, it has ceased to contribute to progress. Society is developing faster than the political system. There is a cultural and moral vacuum in society.*

The authorities have legitimacy – mainly personified – which, however, is gradually decreasing

4.2. The political system's biggest systemic flaw is the lack of efficient institutions – in addition to the executive vertical – that could ensure effective development. There is no efficient, even to a limited extent, parliamentary system, no independent judicial system, and no developed municipal administration. Political parties are imitations as well.

4.3. The authorities have legitimacy – mainly personified – which, however, is gradually decreasing, but not so much as to threaten the system's stability.

4.4. The authorities have efficient and ramified machinery for suppression, which is largely used in the “deterrence” mode through demonstrative pinpoint use of force against dissenters.

4.5. Taking advantage of society's non-resistance (indifference), the authorities have bought the loyalty of the bureaucracy by giving it the opportunity to illegally enrich itself. Thus, the leadership has hooked in the bureaucrats.

4.6. However, governance through “managed corruption” has exhausted itself. The bureaucracy is going out of control and is increasingly less subordinate to the Kremlin. Corruption





has become the main factor determining state policy in many areas, thus weakening the Kremlin's power and even reducing the level of the country's security (bribes for letting terrorists through, man-made disasters caused by corruption or irresponsibility, and dishonesty born out of corruption).

4.7. The political party system is performing largely a formal function. Parties have no ideology and are not real mechanisms for vertical mobility.

The political party system is performing largely a formal function. Parties have no ideology and are not real mechanisms for vertical mobility

4.7.1. On the other hand, the weakening of political party systems is a worldwide phenomenon, although there is no alternative to the party or even quasi-party system yet. In Russia, the development of parliamentary parties has been artificially slowed down and deformed for the sake of stability and governability.

4.7.2. As a result, it is not only the "freedom generation" that is not represented in power, but also a large part of the intellectual elite and the new bourgeoisie, especially the middle and

petty bourgeoisie. Actually all active development groups are not represented.

4.8. The widespread proliferation of the Internet and social networks make control over television less and less efficient. There are now two "parties" in the country: the Internet party and the television party. The former ignores elections or "loses" them, but it is this "party" that determines the development and the future of the country. A situation when national television is ignored by the active part of the population is not normal.

4.9. The combination of this fatigue following 100 years of revolutions and privation with sophisticated, effective propaganda, and higher living standards renders the country immune, to an extent, to the virus of "flower revolutions" or "the Arab Spring". The situation, however, is visibly weakening.

4.10. The afore-described relationship between the authorities and society does not stimulate quick radical changes. Rather, it increases the likelihood of a stagnant path of development, with fading prospects for development. On the other hand, this configuration can still open a window of opportunity for the authorities to initiate longterm reforms.

5. Economic Trends

5.1. The economic context looks as follows if present trends persist:

5.1.1. A slowdown in GNP growth – most probably from 4%, despite the favorable situation on foreign markets (this will partly happen just because of that, because such a favorable situation has a relaxing effect and paralyzes the will for reform). Sentiments can change only after a sharp and long-term decline in oil prices or as a result of a new cyclical world economic crisis (sometime in the second half of the 2010s), a new powerful wave of the current crisis, or some unpredictable development.

The Russian economy is becoming more primitive. This trend can only be reversed by a radical change in economic policy, an improvement in the investment climate, a sensible redistribution of oil revenue, and close alliances with leading world companies

5.1.2. There are many reasons why Russia may continue along the path of inertia. These include: systemic corruption; a highly unfavorable business climate (illegal corporate raiding, with tens of thousands of economic criminal cases); and the influence of exporters on government policy. Russian exporters do need not modernization, but a cheap ruble and investment abroad. The state has become addicted to this, too. Cheap rubles provides for high tax revenues.

5.1.2.1. The decline of legality in Russia, large-scale corruption, and corporate raiding *make it harder to find a solution to the problem of legitimacy of private property*. As a result, financially successful Russians either emigrate, or keep a large part of their assets abroad, thus subsidizing the outside world, or simply do not invest in the Russian economy. Russia is not attractive for investment, especially among Russians themselves.

5.1.2.2. The lack of an answer to the question of legitimacy of property is perhaps the main economic and political problem in Russia. If this is not solved in one way or another, the country is doomed to sink further into stagnation.

5.1.2.3. Russia is facing a worsening demographic situation and is not efficiently using its available labor force. There are more than one million private security guards in the country and a bloated number of security services (except for the armed forces). Moreover, Russia is experiencing

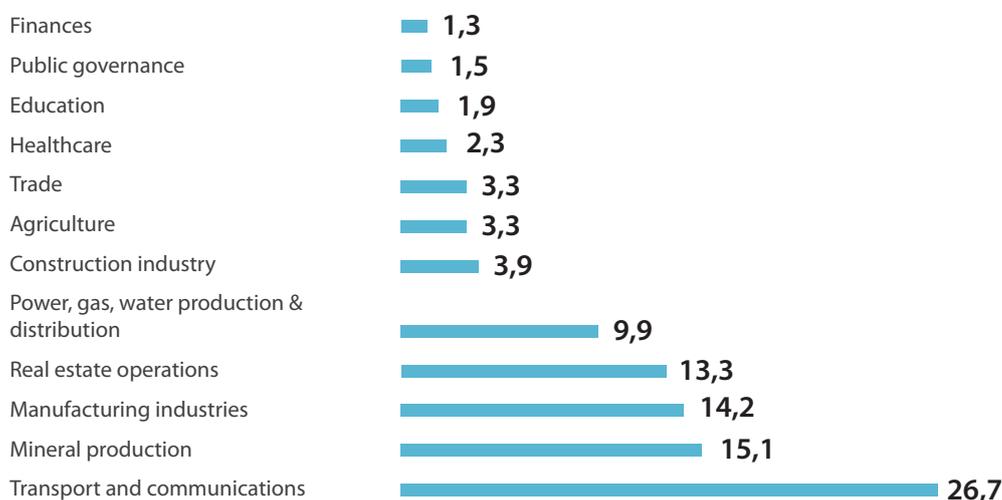
a “brain drain” from the country, and in some cases talented people are joining the bureaucracy for its “administrative rent” and are lost for the society.

5.1.2.4. There is a critical gap in investment in the rapidly-decaying infrastructure, especially in the transport sector.

5.1.2.5. The gap in living standards in Russian regions actually mirrors the unevenness of

2010 investments in fixed assets as per type of business activity

(in % to performance)



Source: Rosstat

development among UN member states. As a result, huge capital transfers are required to reduce discontent. Approximately one-quarter of Russians is satisfied with current living standards and quality of life. Unfortunately, this figure is not growing.

5.2. Thus, there is an extremely low percentage of savings to GDP – about 20 percent. Corruption and administrative revenue make it impossible to raise this figure to the required 25-30 percent.

5.3. High value-added industries are being driven out by competitors offering better quality (for example, Germany) and prices (China, where product quality is growing, too). The Russian economy is becoming more primitive. This trend can only be reversed by a radical change in economic policy, an improvement in the investment climate, a sensible redistribution of oil revenue, and close alliances with leading world companies. But even in the best case scenario, changes for the better will not begin sooner than in four to five years.

5.4. Other trends include:

5.4.1. Russian life is becoming increasingly more modern and comfortable due to technological modernization. However, all this modernization is imported.

5.4.2. The country is growing increasingly dependent on the outside world, becoming part of it economically, technologically, and in regards to food production and consumption. This process cannot be stopped.

5.5. If current trends continue, Russia will keep its status as a relatively strong world player (due to geopolitical factors), but will keep losing its influence (due to economic tendencies). Russia's leading industries produce and transport raw materials and primary products. The country's main government agencies are the Foreign Ministry and the Defense Ministry, which ensure the protection of resources, and the Emergency Situations Ministry. Individual industries also play an important role, among them the atomic industry and the defense sector, as well as the

Russia's macroeconomic indicators from January 2010 through August 2011

Gross Domestic Product (GDP)*, %



Retail trade turnover*, %



Consumer price index, %**



Industrial production index*, %



Unemployment, %



* – December 2008 = 100%

** – Reflects changes in the consumer basket price for a certain period of time

Source: The Ministry of Economic Development of the Russian Federation

chemical, aerospace and pharmaceutical industries. All of them have the potential to create and develop international networks.

5.6. In general, the economic context is more negative than the political or social situation.

Theoretically, the country can continue to exist in this way for many years. However, the longer Russia does nothing, the more difficult it will be to fight for a place among the leading powers, and to react to an increasingly unpredictable outside world.

6. Scenarios for Russia's Political Development

6.1. The following scenarios describe possible paths for Russia's development. They are rather relative and instrumental. The proposals are based on a description of economic and social trends that will shape the political development framework. The timeframe is from five to seven years.

6.2. This paper gives a brief description of seven possible development scenarios. The first six are:

- **The Inertial negative scenario** – most likely in the short term (for more details see 6.3.1)
- **The Inertial positive scenario** (6.3.2)

For the time being the following four scenarios look less likely, although to varying degrees.

- **Authoritarian modernization** (6.3.2)
- **Liberal-democratic reform** (6.3.3)
- **Democratic revolution** (6.3.4)
- **Hard-line authoritarianism** (6.3.5)

Finally, in conclusion, we shall offer the seventh, *best case scenario*, which combines the authors' subjective ideas of what is not only desirable, but also and possible under the current circumstances (see section 8).

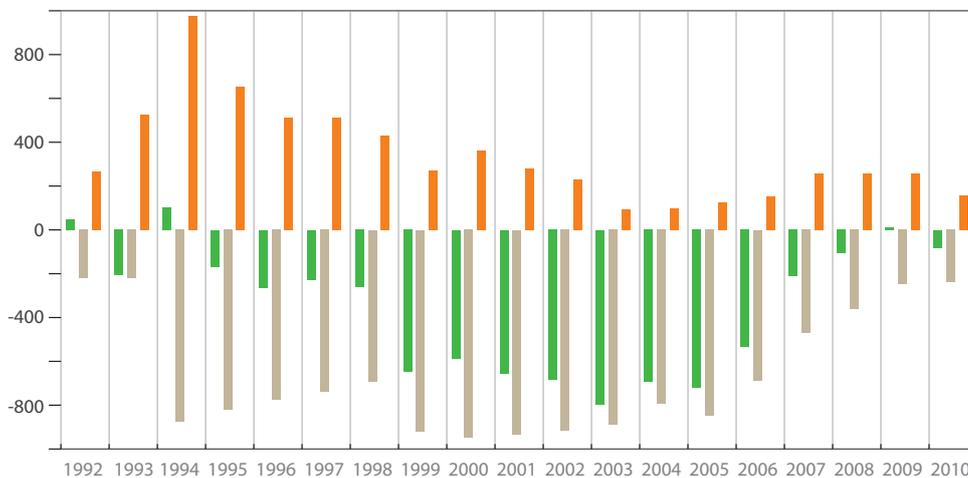
6.3.1. Scenario 1. The inertial negative scenario, or preservation of the status quo

6.3.1.1. The likelihood is so high that the status quo will be preserved that we, unfortunately, believe this scenario is the main one. As mentioned above, the status quo suits the ruling stratum, and pressure from below is weak. A feeling of unease and awareness that the current path of political development is going nowhere has not been formalized politically yet. Moreover, outside challenges are not pushing towards immediate action. The foreign environment is deceptively "relaxed". This scenario has already been largely described in sections 1–5.



Changes in Russia's population statistics in 1992 – 2010

(thousand people) ■ General growth ■ Migration-aided growth ■ Natural decline



Source: Rosstat

6.3.1.2. Economic growth will continue, but at an ever slower pace. The growth will be fragile and depend on the situation on commodity markets.

The status quo suits the ruling stratum, and pressure from below is weak. A feeling of unease and awareness that the current path of political development is going nowhere has not been formalized politically yet. Moreover, outside challenges are not pushing towards immediate action

6.3.1.3. The Russian economy will continue to grow more primitive. The economy's partial upgrade is almost exclusively based on imported technology, and the country is increasingly dependent on the outside world. Russia has become part of the world economy – not an active part, but rather a peripheral player that does not create its own new rules, but accepts somebody else's. Russia is not a doer, but an object.

6.3.1.4. Cuts to and decline in the quality of social services, health care and education in Russia continues.

6.3.1.5. Russia is experiencing stagnation, a decline in living standards for a majority of the population, and a growth in social inequality. The middle class is growing slowly, which will result in a gradual increase in social discontent. Social unrest will be controlled with casual handouts by the authorities, but more often by force.

6.3.1.6. Russia will experience a decline in the quality of human capital, above all, due to emigration.

6.3.1.7. Capital flight will continue, and not only westwards, but eastwards.

6.3.1.8. The Russian elite's pessimism about the future will spread to the outside world. Russia will start losing its ability to effectively protect its interests at key international fora and become a "shrinking factor", precisely as it happened in the 1980–1990s.

International migration

Arrived in the Russian Federation (number of people)

	1997	2000	2005	2006	2007	2008	2009	2010
from CIS countries	547386	326561	163101	170851	263277	261170	261495	171940
from outside of the former USSR	50265	32769	14129	15529	23679	20444	18412	19716
other countries	5319	2927	1303	1323	2156	1726	1946	4205
total	597651	359330	177230	186380	286956	281614	279907	191656

Left the Russian Federation (number of people)

	1997	2000	2005	2006	2007	2008	2009	2010
from CIS countries	143675	80510	35418	34669	30726	25542	20326	21206
from outside of the former USSR	89312	65210	34380	19392	16287	13966	12132	12372
other countries	6537	3538	2668	2563	2464	2435	2097	2715
total	232987	145720	69798	54061	47013	39508	32458	33578

Source: Rosstat

6.3.1.9. Russia will find it harder to reintegrate some of the territory of the former Soviet Union.

6.3.1.10. Estrangement between the people and the authorities will increase. Society will be enveloped by amorality, legal nihilism and cynicism.

6.3.1.11. Positive developments will include a growth in the urban middle class. This sector will need to represent its interests and be ready to organize itself outside the official establishment. The further spread of the Internet and social networks will contribute to this.

6.3.1.12. “The freedom generation” – Russians born in the 1980s-1990s and who were not raised under communism – will become more active.

6.3.1.13. There will be growing sentiment in support of modernization and weaker paternalistic instincts. The authorities and the state will progressively lose the ability to maintain paternalistic tendencies. All of these factors,

combined with a growing protest potential and the arrival of the “freedom generation” to politics, will create conditions for greater pressure on the government from below. However, the authorities will retain for quite some time a significant potential for easing this sentiment with PR-technologies and soft repression.

6.3.1.14. National heroes will include Peter the Great, Pyotr Stolypin and Alexander II. This will please all these groups and preserve the status quo.

6.3.1.15. The biggest danger for the inertial negative scenario is that the country will decline in terms of domestic stability (society’s support for the government), and Russia will not be able to provide an effective response to increasingly formidable challenges from the outside world.

6.3.2. Scenario 2. The inertial positive scenario

6.3.2.1. Valdai Club experts do not rule out that, given a particularly favorable combina-

tion of external factors (growing prices for traditional exports), a rational economic policy, and anticorruption efforts that deliver at least in part, Russia might slowly and sluggishly gain strength for upward progress – as Brazil has begun to overcome its lengthy stagnation.

6.3.2.2. The expansion of the middle class, imported economic modernization, increased public self-organization, and a certain liberalization of political life (the development of democracy on a municipal level and a return to elected governors and senators) are all factors which would fuel the development of this scenario. The incumbent authorities have not ruled out these prospects.

Now the possibility of authoritarian reform is not an issue in view of the extremely high degree of degradation and corruption among the ruling bureaucracy

6.3.2.3. The state is launching several ambitious economic projects, e.g. for infrastructure development.

6.3.2.4. Essentially, this is protective conservative modernization.

6.3.2.5. It could be symbolized by Alexander III.

6.3.2.6. It is quite likely that today's authorities will embark on this path. However, experts think that this "inertial" modernization is unlikely to be successful. In today's rapidly changing world this project will not get the

several decades that it needs. The population's social structure and expectations will start to undergo rapid change in the mid-2010s.

6.3.3. Scenario 3. Authoritarian modernization

6.3.3.1. Authoritarian modernization might have been possible in the final years of the Soviet Union if the country's leadership had dared to carry out what might be termed "nomenklatura privatization", and had given property and power to the modernist wing of the Communist Party. But that theoretical chance was missed. While a certain level of confidence in authoritarian methods existed in the first half and middle of the 2000s,

now the concept of authoritarian reform is complicated due to the high degree of degradation and corruption among the ruling bureaucracy. In fact, the tools for this kind of modernization would have to be created from scratch.

6.3.3.2. This path might look as follows:

In the political sphere

- this scenario would require resolute measures against corruption and replacing the state apparatus, including recruiting the generation of the 1990s to take governing and managerial positions.
- In economic terms there would be a long-term strategic development plan, based on Russia's real competitive advantages, and not on hypothetical speculation about modernization.
- The state will launch a long-term investment policy aimed at the development of



industries and regional economic clusters with the involvement of international capital and foreign know-how. This will include the extraction and deep processing of oil and gas, other minerals, the petrochemical industry, and metallurgy.

- A modern export-oriented agricultural sector will be created, including for Asian markets.

6.3.3.3. The likely driving force for growth would be the wide-scale launch of infrastructure projects and new development in Siberia and the Far East. The emphasis would be on using foreign capital to create infrastructure, and on industries working for the Asian market (the deep processing of raw materials, modern agriculture, construction of pulp and paper mills, and production of energy for export).

6.3.3.4. The innovative hi-tech component of the economy would develop in an enclave-like manner, in close cooperation with outside sources of technology and knowledge.

6.3.3.5. There would be a radical reform of higher education, drastically cutting the number of universities and sharply increasing funding for those that remain.

6.3.3.6. The rapid change over of the armed forces to a contract army.

6.3.3.7. A clampdown on the opposition, especially left-wing forces.

6.3.3.8. The authorities would go through a self-cleansing, albeit an ostentatious one. The ruling party would be reformatted and

rejuvenated, and obvious ballast would be eliminated.

6.3.3.9. Law enforcement agencies would, at least in part, undergo similar “self-cleansing” rituals, staff cuts, and wage and social benefit increases (pensions, medical care). (Creating a new “oprichnina”).

6.3.3.10. Active promotion through the media of patriotic ideology, conservative values, including ethical ideals, and fighting amorality.

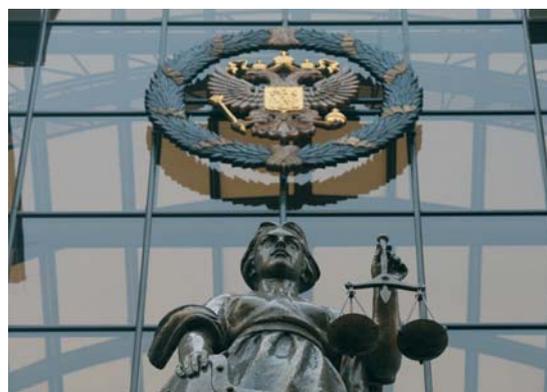
6.3.3.11. Pyotr Stolypin and Peter the Great will remain to be viewed as national heroes, and the end of the 19th and beginning of the 20th century as the best time in Russia’s history.

6.3.3.12. This scenario is generally possible under the current structure of the government, economy and society. However, implementing this scenario will require extraordinary political will and an awareness of internal and outside challengers. At this point no such determination is in sight. This kind of commitment may emerge in a year or two, when the dead end of the inertia scenario becomes still more apparent.

6.3.3.13. Unexpectedly for the authors of this report, Valdai Club experts found that this scenario is, excepting Scenario 1, the most likely to come to pass. The probability that it will be implemented will increase as the inertial scenarios exhaust themselves.

6.3.4. **Scenario 4. Liberal-democratic reforms**

6.3.4.1. This development option has been proposed by elite groups that are oriented



towards the slogan of “modernization”. The gist of this scenario is this: an economy based on natural revenue and natural resources not only requires technological, but also complex social and political modernization, tapping the creative energy of the people. This type of modernization is enshrined in the Russia-EU Partnership for Modernization concept.

An economy based on natural revenue and natural resources not only requires technological, but also complex social and political modernization, tapping the creative energy of the people

Specifically, various scenarios for liberal-democratic modernization suggest, in particular:

- evolutionary democratization and the pluralization of the political system;
- restarting real inter-party competition, albeit limited, at all levels;
- elimination of political censorship on federal TV channels;
- easing executive control over representative institutions of power;
- restoring an independent judicial system, which has sharply declined in recent years;
- active measures to overcome the legacy of the totalitarian communist regime;
- the maximum security of property rights, starting with the modernization of criminal economic law;
- reduction of government control over NGOs and an increase in their financial support;

- the partial reverse redistribution of resources and prerogatives of power from the center to the constituent territories of the Russian Federation, and from them to the municipalities. This would include the restoration of direct elections for governors, members of the Federation Council, and mayors of major cities.

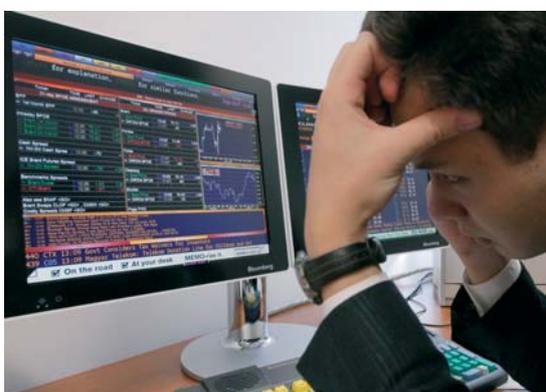
6.3.4.2. In words, some elements of the fourth scenario are even being implemented, but in practice there is an apparent movement backwards. This scenario implies a fundamental change in the way the authorities see the country's future and their own place in it. This scenario's weak point is that it is too systematic

and complex for Russia. Purposeful changes to the entire system are required. Today this system is satisfactory for the ruling stratum, and the public has not rejected it so far.

6.3.4.3. A strong authoritarian leader, who would consciously lead the country and people away from authoritarianism to freedom, is needed to implement this scenario. Such a leader must enjoy strong support from the ruling class. There are very few global examples of this, though Tsar Alexander II is one example.

6.3.4.4. Alexander II and Boris Yeltsin would become national symbols under such a scenario.

6.3.4.5. An additional obstacle is the fact that the West, especially Europe, which has always





been a source of momentum for the implementation of such a scenario, is undergoing a systemic crisis. The attractiveness of the Western model is in question.

6.3.4.6. We consider partial movement in this direction possible, but unlikely, especially in a complex form. This scenario may be more likely in two to three years when the hopelessness of the inertial scenario becomes more apparent.

Despite little support from society, this scenario is growing ever more popular with the “talking class”

6.3.5. Scenario 5. A democratic revolution

6.3.5.1. In other words, this means the rapid fall or resignation of the current regime under the pressure of a crisis and/or widespread public discontent, with which the authorities would be unable or reluctant to cope. Charismatic leaders would emerge out of the protest movement, with radical democratic outlooks and rhetoric. One should keep in mind that democratic rhetoric does not necessarily mean that its advocates would promote liberal views.

6.3.5.2. Despite little support from society, this scenario is growing ever more popular with the “talking class”: the intellectuals, the elites barred from power and resources, and the part of society angry about widespread corruption, bureaucratic and political arbitrary-

ness, and the growing estrangement of the authorities.

6.3.5.3. Such a scenario might include the following elements:

- prolonged political instability;
- a government crisis;
- creation of a national salvation government;
- new parliamentary elections;
- early presidential elections;
- more economic problems and a growth in capital flight;
- a new wave of property redistribution.

6.3.5.4. If the authorities succumb to panic from the outset, such a revolution might be relatively successful in the first phase.

6.3.5.5. But in the short term – within one year – the revolutionary-democratic model will show its weakness in terms of disrespect for property and law, and in the absence of strong institutions, structures, and traditions of civil society.

6.3.5.6. A struggle of all against all will break out and there will be a new redistribution of property.

6.3.5.7. Power will fall into the hands of not only the intellectuals and marginalized part of the elite, but also non-systemic criminals. Ultra-nationalist populist politicians may also surface.

6.3.5.8. The results would be as follows: at best events would unfold like the Ukrainian

version – stagnant anarchy, pleasant only to some of the political and intellectual elite, with a slowly maturing society against a background of economic stagnation. At worst there would be a downwards turn towards “iron-hand rule”, with an openly criminal shade (in the Latin American style). Liberal-democratic ideas would be seriously discredited again.

6.3.5.9. However, nothing like the collapse of 1991–1992 will take place. Russia has already put itself on a new economic and social track. The population is much more independent than it was after communism. A revolution will take place only in politics and in the mass media. The outside world is unlikely to prove either able or eager to take advantage of a new version of “Russian turmoil light”. It will have other headaches to deal with.

Nothing like the collapse of 1991–1992 will take place. A revolution will take place only in politics and in the mass media

6.3.4.10. In their time Mikhail Gorbachev and Yegor Gaidar were symbols of Russia’s development along these lines. (Fortunately, Russia has not had a xenophobic-minded democratic leader, and, one hopes, it never will).

6.3.5.11. The likelihood that this scenario will take place in the near future was deemed very small. There is no outspoken longing for democracy in Russian society. The memories of the hardships of the 1990s, closely associated with democratic rhetoric, are still strong. Protest sentiment is growing, but is not yet very large. Most importantly – the people, despite hardships and inequality, are mostly well-nourished. Everyday life is getting better. Most people have something to lose, including those who live in big cities. In contrast to the intellectuals of the 1980s, the most active part of the population has adapted to the new situation and has gone into business, found a well-paid profession, or gone abroad. Anger with the authorities, bureaucratic corruption, and lawlessness have not yet reached a critical level, but the sense of the illegitimacy and injustice of the existing state of affairs will continue to grow. The elections of 2011 – 2012 will likely

only strengthen this impression. This scenario, just like scenario number six, may turn out to be more likely if the status quo is preserved.

6.3.6. Scenario 6. A hard-line authoritarian regime

6.3.6.1. This scenario is theoretically possible amid a deteriorating economy and society, a sharp decline in the popularity of and support for the country’s leaders, and a stronger opposition to the regime from below, with which it will be unable to cope. This could come as a reaction to a series of catastrophes, combined with a wave of discontent. As of yet, however, no potential actors for this scenario have emerged in society (except for a few reactionary commentators and marginal, mostly left-wing, semi-underground figures).

6.3.6.2. This scenario would include:

- police persecution of all who oppose the regime, including mass arrests, and even political assassinations (1950-s Central American style);
- closure of the remaining opposition and free media;
- attempts to strictly limit the Internet;
- further sharp curtailment of social programs in combination with populist policies and the pinpointed distribution of funds;
- total mass propaganda of the Soviet type;
- attempts to create an “enemy” – sometimes it would be the West, sometimes China (more cautiously), and sometimes the Muslim world;
- an inevitable reliance on Russian nationalism;
- an attempt to close the borders.

6.3.6.3. The country’s national symbols would be Peter the Great and Stalin.

6.3.6.4. Valdai Club experts find that this scenario is extremely unlikely and difficult to implement.

6.3.6.5. The regime does not have enough political legitimacy, the country and especially its elite are extremely dependent on the outside world. The political elite keeps its assets and wealth outside Russia, and counts

on the possibility of living in the West. In a country with such a high level of corruption, there is no repressive machinery effective

to create a “threat” image in people’s minds with the current level of mass media and public awareness.

The regime does not have enough political legitimacy, the country and especially its elite are extremely dependent on the outside world. The political elite keeps its assets and wealth outside Russia, and counts on the possibility of living in the West

enough to carry out such a policy. There is no external threat that might be pointed to as an excuse for such actions. It will be difficult

6.3.6.6. Nevertheless, we cannot completely disregard such a scenario. The likelihood for such a turn of events will soar in case of a prolonged development along the stagnation-inertia scenario, with an accompanying growth of its inherent contradictions and a sharp or long term (no less than a two to three yearlong) slump in energy prices.

6.3.6.7. In today’s Russia this scenario would lead either to the country’s disintegration or to a “democratic revolution” (see Scenario 5).

7. Foreign Policy under the First Six Scenarios

7.1. Russian foreign policy over the next five to eight years will only relatively depend on the internal development scenarios.

7.2. Foreign policy generally meets national interests and the interests of the ruling elite. But even if the current elite suddenly loses power (in a democratic revolution), foreign

Russian foreign policy over the next five to eight years will only relatively depend on the internal development scenarios

policy will not change dramatically. A pro-Western course resembling the early 1990s in style would be impossible by virtue of widespread public disappointment with that policy and the current weakness of the West. The West has lost its aura of omnipotence and is unable to convincingly promise any “carrots” of aid or threaten with tough sanctions.

7.3. Russia, in view of its qualitatively greater international involvement and dependence, cannot (just like other leading countries) return to self-isolationism and a hostile policy towards the main centers of power for a considerable period of time. The obstacles to such a policy would be, among other things, a massive westward flight of the elite’s capital and children (including those of the current corrupt bureaucrats), as well as the growing might of China, which leaves no room for labeling it an external enemy – that would be too dangerous.

7.4. In light of the continuing technological decline, even the slightest technological modernization of the armed forces would be impossible without the participation of the outside world – of the West and, to a growing extent, of Asia. In other words, whether Russia retains its status of a great power will depend on a constructive relationship with the world’s major centers. That status is part of national





identity, which cannot be abdicated. Moreover, Russian society is open and extremely commercialized. All this raises the price of bad relations with leading countries and rules out any alternatives to a more or less constructive policy. If, of course, no outright threats emerge to vital security interests (at this point this refers to new attempts to drag Ukraine into NATO, which the West, one would hope, has abandoned for the time being), or outspoken ultra-reactionaries come to power in the United States. But in this case the relationship will deteriorate only with the U.S. The entire complex of relations with the outside world – and even with the West – will not be affected very much.

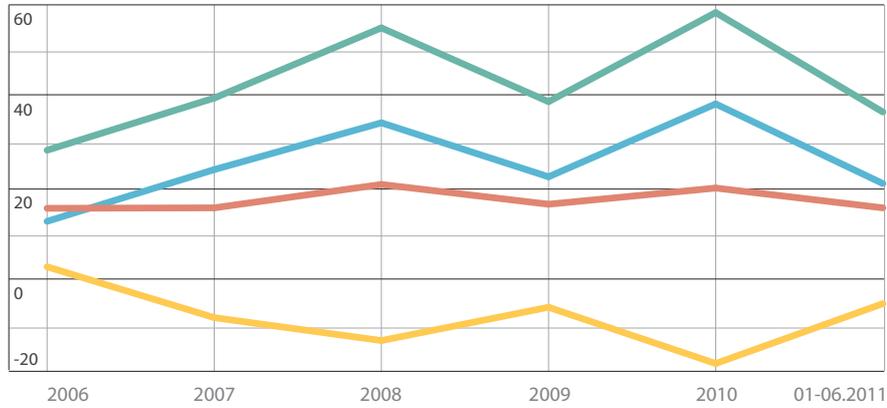
7.5. China's growing might is pushing Russia closer to Europe and the United States. For the liberally-minded strata of the elite, this con-

vergence is also attractive from the standpoint of an opportunity to strengthen the "European" elements in Russian politics – the rule of law, respect for human rights, and political democracy. However, the desire for convergence is non-partisan. It is no accident that the most far-reaching plans for closer integration with the EU and the creation of a common economic and humanitarian space and single energy complex – a kind of an Alliance of Europe – were put forward by the current Russian prime minister, who is considered a tough politician.

7.6. There is some room for maneuvering in Russian-U.S. relations. Russia is less dependent upon the U.S., the Americans can no longer dictate policy throughout the West, and the U.S. is highly dependent on Russia on some of its key interests. Anti-American senti-

Russia-China trade in 2006-2011

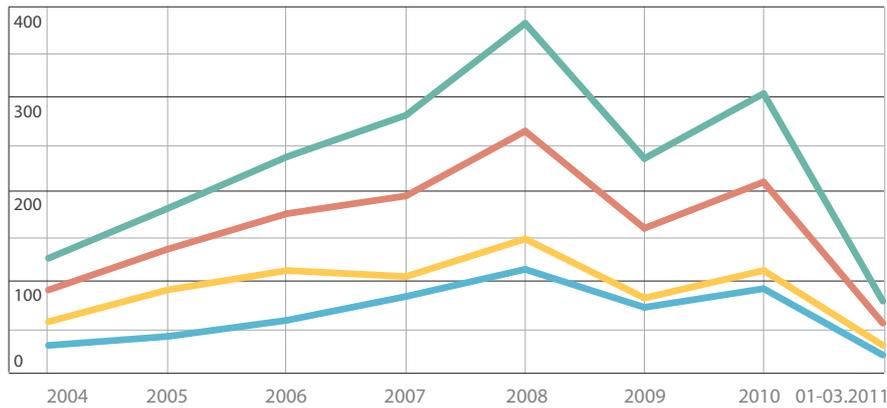
(\$ billion) Trade Exports Imports Balance



Source: Federal Customs Service

Russia-EU trade

(\$ billion) Trade Exports Imports Balance



Source: Federal Customs Service



ment is traditionally strong in Russia, but even here freedom of action is limited.

7.7. There is far less room in relations with China. Russia will just have to conduct a friendly policy towards it (“Finlandization”), especially since China itself conducts a pragmatic, but emphatically friendly, policy towards Russia, and will apparently continue to do so.

Russia, in view of its qualitatively greater international involvement and dependence, cannot (just like other leading countries) return to self-isolationism and a hostile policy towards the main centers of power for a considerably long time

7.8. However, Russia’s median position gives it significant advantages and opportunities for maneuvering.

7.9. The emerging realities, including the declining effectiveness and attractiveness of the EU, make a quick rapprochement with that region unlikely, even if there is a growing desire among the Russian elite for such a policy, and if the objective (geopolitical) benefits of this for both parties are apparent.

7.10. Though eager for a rapprochement with Europe, the country will experience an inevitable economic drift towards the more promising Asian markets. The question is whether this drift will be semi-spontaneous in nature,

leading only to greater dependence – this time on Asia – or whether it will be manageable and therefore more lucrative for Russia.

7.11. Policies towards the other former Soviet republics in the coming few years depend on the direction Russia’s internal development takes. If the ongoing trend towards a decline in Russia’s economic attractiveness continues, these

disintegrative tendencies will also continue. China will gradually replace Russia in Central Asia. Kazakhstan, Belarus and Ukraine, which have fewer chances of integration with Europe than Russia, will be adrift and steer towards Moscow. Russia will continue to create the Customs Union, plus Ukraine and Armenia. However, Russia will sacrifice resources for this purpose only as long as it can afford to do so, and as long

as the last Soviet generation is at the country’s helm. The reintegration policy may begin to be energized only if NATO resumes its plans for eastward expansion, which is unlikely.

7.11.1. The extent to which ideas like that for a “Eurasian Union” are practicable depends on whether Russia can overcome the trends of social and economic stagnation. This then calls into question the desire to incorporate blatantly backward Central Asian countries in this integrative union. We can hope that, as nostalgia for the past continues to subside, Russia will not repeat the Tsars’ error in annexing Central Asia, which cost the Russian Empire and the USSR a great deal in fiscal terms, bringing only token benefits in return.

7.12. Russia will remain where it is in terms of geopolitical influence. Russia is a traditional power, strong by geopolitical standards, which plays its game relying on hard power where it is still competitive, and practices the traditional balance of power diplomacy. Luckily for it, at the new stage the world is resuming this

this to protect itself from outside pressures and exchange sovereignty for protection of its property abroad. However, such a scenario (similar to Latin American in the 1930s–1970s, or North African in the 1970s–2000s) can no longer work.

Russia will remain where it is in terms of geopolitical influence. Russia is a traditional power, strong by geopolitical standards, which plays its game relying on hard power, and practices the traditional balance of power diplomacy

kind of diplomacy. However, one must realize that Russia's economic resources continue to display a tendency to decrease.

7.13. A drastic attempt to turn to the West or to China could only take place under the hard authoritarian scenario. Russian elite would do

7.14. In the case of inert development, Russia, in trying to get closer to the West, will de facto become ever more of a raw materials appendage not only to the West, but more to China. Furthermore, Russia would become a political semi-vassal of China at some point, losing its sovereignty in world affairs. This unpleasant trend could manifest itself in a few years' time. In order to take advantage of favorable conditions, Russia should overcome its traditional desire to do nothing and leave everything as is. This is the aim of the best case scenario, which is being proposed for discussion. It combines the desirable and, we think, the possible.

8. The Best Case Scenario

8.1. This scenario envisions a system of measures to improve governance and bring the broadest social forces into the development process to allow for stepped-up modernization and reform in Russia. It is targeted at overcoming the apparently ruinous stagnation through evolutionary development.

The main thrust of the best case option is to prepare for a modernization breakthrough by creating viable state and public institutions in addition to the “vertical chain of command”

8.1.1. The main thrust of the best case option is to prepare for a modernization breakthrough by creating viable state and public institutions in addition to the “vertical chain of command”. The 1990s were a period of revolutionary retreat from communism and militarism, while the 2000s were a time for the counter-revolutionary restoration of governance. However, *these twenty years did virtually nothing for the creation of effective institutions*, which are indispensable for modern development. There has to be a parliament, with at least legislative and, in particular, supervisory functions, even if without the possibility of forming a government. A judicial system needs to be in place that protects the rights of citizens, above all, property rights. A complex of measures needs to be adapted to legitimize private property (irrespective of how it was acquired). Private property must be declared sacred and corpo-

rate raiding as a sacrilege. Lastly, there has to be municipal self-government.

8.1.2. *The 2010s, especially the first half, should become a decade of building effective institutions of governance, public administration, and development.*

8.1.3. The historical precedent is the comprehensive institutional reforms of Alexander II, which gave Russia an opportunity to make rapid progress in the late 19th and early 20th centuries. It is important to try to ensure this before another “defeat in the Crimean War”, inevitable under the inertial scenario, which could be fatal in the 21st century, in contrast to the 19th century.

8.1.4. The national heroes and symbols for such a scenario are Alexander II and Pyotr Stolypin.

8.2. *The main purpose of political modernization is to begin a systemic struggle with corruption, which first helped the revolution, and then helped to restore governance. Today, corruption has become a major factor for the slowdown and deformation of development, and the degradation and destruction of public morality. Thus, it might be possible to suggest the following measures for the political sphere:*

8.2.1. A gradual, but rapid as much as possible, introduction of real inter-party competition,

and the emergence of two or three “ruling parties”. The single ruling party model has proven not effective for Russia because of its totalitarian legacy. The single party has become a pale replica of the Communist Party during the era of stagnation. The Communist Party failed to lie down and die. The United Russia Party should probably evolve towards a split into left-of-center and right-of-center parties; another right-wing party should emerge on its right-hand side, but be a real right-wing democratic opposition, with Communists on the left.

The main purpose of political modernization is to begin a systemic struggle with corruption, which first helped the revolution, and then helped to restore governance

8.2.2. Admit representatives to the State Duma, at least in the capacity of “backbenchers”, from the relatively radical (but systemic) opposition, which is being artificially treated as non-systemic. This would ensure a minimal pluralism of opinion and provide arguments for the authorities in the fight against corruption.

8.2.3. The sale of at least one of the federal TV channels into relatively independent foreign hands.

8.2.4. The prosecution and trial of several high-level officials for corruption.

8.2.5. Rejuvenate the executive authorities, for instance, by recruiting “the freedom gen-

eration” before it emigrates or disintegrates. Putin’s clarion call may provide decisive leverage for bloodless reform and modernization, along with the creation of institutions. Even extraordinary measures may be taken for the sake of rejuvenation, such as the introduction of age limits for senior officials.

8.2.6. Genuine reform and purging law enforcement institutions of corruption – at least in part – eliminating law enforcement agencies that cannot be reformed, and creating new ones to give the authorities an effective weapon with which to tackle bureaucratic corruption.

8.2.7. All-round support for NGOs and civic initiatives, including financial assistance with direct government funding. Also, funds should be created for political parties, political and fiscal support of private donations should be promoted.

8.2.8. Preservation of the personal nature of power for the near future. This is risky, but the country and society do not have any other option. In any case, they have “not earned” true democracy and freedom yet. When they got both from above in the early 1990s, they ruined the state – the Soviet Union, a later version of the Russian Empire – and by the end of that decade they nearly destroyed what was left of it – the Russian Federation. But there should be a gradual departure from an overly personalized system toward greater reliance on institutions, with the prospect of amending the constitution to replace the two term presidency with one, six or seven-year term.



8.3. *In the political and ideological field:*

8.3.1. De-commercialization of central television and the conversion of at least one of the leading TV channels into a public one (in addition to the Kultura channel).

8.3.2. Actively promoting national cultural values, conservative ethics and morality. The country should mobilize and promote the intellectual community, as well as leaders of online communities.

The government's goal in the political and ideological sector is to cultivate in Russia citizens and civil society, and give the people self-esteem, albeit through an understanding of the mistakes and crimes of the past, and respect for the individual. The preservation and development of the people is the highest goal

8.3.3. There needs to be an active promotion of a multiethnic Russia, its culture and history in all its complexity. Members of ethnic minorities should be involved as much as possible in the ruling class. Along with this, all Russian citizens must know the Russian language, culture and history, and respect prevailing practices in Russian society.

8.3.4. Restoration through the mass media, and especially through the Internet and educational programs, of society's identity, and its connection with the centuries-long history of Russia, especially the "brilliant" 19th century. This connection remains largely interrupted by the 70 years of communist propaganda.

8.3.5. Russia needs to complete the policy of "de-Stalinization," launched at the 20th Communist Party Congress, through a series of cultural and educational measures. This policy was extended by the democratization of the early 1990s, but has still not been completed. "De-Stalinization", in effect "de-Communization" needs to be carried out without denying or neglecting the best achievements and the best people who worked for and served Russia in the 20th century.

8.3.6. Resolute modernization and an increase in spending on all types of education, especially high-quality university education, including its accelerated internationalization. (The fear that this will encourage an outflow of young people is groundless: if the general climate does not change, many of the best will leave anyway.) The funding of education has begun to decline, which is astounding.

8.3.7. The government needs to promote an ideology of optimism, moral values, faith in God, and social success. Today, in fact, amorality, cynicism and greed are being dictated to society. History needs to be personalized and the best people of the past should be returned to society. The electronic media should offer positive examples to follow, such as an honest police officer, a respectable businessman, a high-principled judge, a successful and skilled worker, farmer or engineer. These examples should be of different nationalities, live in Russia, and have loving families. All these characters have almost entirely disappeared from the social scene, to be superseded by images of the bandit, notorious oligarch, corrupt policeman, frivolous women offering sexual services, criminal ethnic communities, and TV hosts who jeer at everything and everyone. In fact, this is a proposal for positive social engineering based on the best Soviet and U.S. examples.

8.3.8. The government's goal in the political and ideological sector is to cultivate in Russia citizens and civil society, and give the people self-esteem, albeit through an understanding of the mistakes and crimes of the past, and respect for the individual. The preservation and development of the people is the highest goal.

8.4. *The economic sector:*

8.4.1. The main objective should be completing the process of privatizing property in Russia. The main goal is to legitimize this process and the institution of private property as such. Otherwise, political struggles will continue to revolve around the possibility of redistributing property. Thus, the country will continue to follow the vicious circle of post-socialist transition.



8.4.2. For this to happen in the current environment, foreign capital, or Russian capital in the form of foreign, will have to be attracted on a massive scale. Foreign capital still enjoys better protection in Russia than domestic capital. In other words, this will require the massive legalization of capital irrespective of how it was amassed, no matter how unpleasant this may sound.

The main objective should be completing the process of privatizing property in Russia

8.4.3. Another related problem is the early improvement in any way possible of the dismal investment climate, including the creation of special presidential commissioners authorized to protect investment, especially foreign investment, in the early stages. The idea of creating special economic zones will probably have to be brought up again. Something in that area has begun to change in 2011.

8.4.4. Another related problem is the resolute struggle against corporate raids by the authorities and especially by law enforcement agencies.

8.4.5. The government needs to implement one or two powerful economic programs, instead of largely imitative “national projects”. There is an obvious need for a new program of development of Siberia and the Far East that would develop infrastructures, promote the high value-added processing

of raw materials and timber, target agriculture towards the vast markets of Asia, and stimulate other “water-intensive” industries. We call this the Siberia Project, which would entail large-scale participation by foreign investors from the U.S., the European Union, China, Japan, and other Asian countries. The project would provide the maximum benefits and guarantees for foreign capital, tapping

labor from different countries.

The managerial personnel will be Russia’s talented younger generation, for whom the “special economic zone of Siberia” will become an alternative to leaving for the West or entering the corrupt web of modern bureaucracy. After a few years these young people, with capital in hand, and business and management experience, may return to commanding heights in Moscow.

8.4.5.1. The new development of Siberia is such an obvious goal from the economic and geopolitical perspectives, that we even propose moving the country’s capital or at least partially ceding metropolitan functions and transferring some federal agencies to a city in Siberia or Russia’s Far East (Krasnoyarsk, Irkutsk or Vladivostok). Achieving this economic re-orientation toward Asia will require something similar to what Peter the Great and his associates did when they “opened up a window onto Europe” by establishing St. Petersburg in what hitherto had been unpromising swampland.

8.4.6. In addition to developing the sectors included in the Siberia Project and promoting

the general improvement of the investment climate, the state should focus its support on a very narrow group of industries – nuclear power, space, arms manufacturing, chemicals, gas and oil refining, and possibly the pharmaceutical industry. It is here, rather than “everywhere in general”, that innovative clusters should be set up with the active participation of foreign capital and technology. The time is ripe to abandon the illusion of new comprehensive industrialization/post-industrialization in a country that cannot compete in quality with Germany, and in price/quality terms with China.

8.5. In foreign policy the scenario seems the most obvious.

8.5.1. The prompt transition (within two or three years) to a contract military, in addition to establishing a National Guard-like mobilization reserve. There should also be continued reliance on the modernized nuclear deterrent, as well as modern, highly mobile, general purpose forces. The armed forces should be designed to respond to any threat, rather than deter a specific enemy.

8.5.2. Amid growing international chaos the possibility and desirability of entering into alliances has been missed.

8.5.3. At the same time, given Russia’s cultural and historical roots and the geopolitical challenges that are shared with Europe, Russia should attempt the maximum possible structured convergence with the EU (see the report by the Russian group of the Valdai Club: Towards an Alliance of Europe // <http://valdaiclub.com/publication/22128.html>).

8.5.4. In relations with the United States, Russia should maximize constructive relations on a broad range of issues, primarily military-strategic ones. Russia should remain focused on eventually establishing a close partnership with elements of an alliance in that field. (See the report by the Russian group of the Valdai Club, U.S.-Russia Relations after the ‘Reset’: Building a New Agenda A View from Russia // <http://valdaiclub.com/publication/22285.html>).

8.5.5. Russia needs to fundamentally reorient its economy towards the markets of China and

Asia, primarily through the new development of Siberia and the Far East (Project Siberia). (See the abstracts of the Russian-Chinese section of the Valdai Club: Regional Stability through Harmonious Development: Russia and China in the New Global Architecture // <http://valdaiclub.com/publication/28280.html>). (The Valdai Club is drawing a special report about Russia’s Asian strategies.)

8.5.6. Russia should simultaneously initiate the urgent establishment of a Pacific security and cooperation system – principally with China, but also pooling efforts with Japan, the United States, South Korea, ASEAN countries, and Australia among others. At first, any such system should at least involve East Asia. Its central goal is preemptively filling the security vacuum emerging in the region, and also preventing the development of an apparently inevitable Chinese-American rivalry into a military-political confrontation.

8.5.7. Promotion of tripartite dialogues in the format Russia-U.S.-China and Russia-U.S.-EU.

8.5.8. In general, Russia should promote active diplomacy and minimize direct involvement, especially in conflict zones. The 2000s clearly showed that the one who meddles almost always loses.

8.6. Russia, under this scenario, will enter the second half of the 2010s as a still powerful geopolitical player (third in the world in terms of total capacity), with approximately its current level of economic development. Russia will have the institutional and human capacity for a breakthrough in modernization, without which the country, even in favorable circumstances, will be doomed to deteriorate to a third-rate status with a loss of real sovereignty.

8.7. If this scenario, or a similar one, is not implemented, then, we fear, good fortune will turn its back on Russia.

P.S. Understandably, this best case scenario part is not completely practicable, and cannot be used to generate exhaustive recipes for possible positive development. However, these proposals also can be deployed if any of the other more or less rational scenarios are implemented.

