Russia's Solution to the Global Financial Crisis

by Nicolai N. Petro and Oleksandr V. Kovriga

This paper looks at Russia's response to the global financial crisis. After a brief introduction to the financial crisis, it examines trends throughout the Commonwealth of Independent States, (CIS) and the lessons learned by Russian and regional elites. Finally, it explores whether these states will be successful in adapting to emerging global trends, and whether they will do so in concert or individually.

The Financial Crisis and its Impact on Western Economies

It is widely acknowledged that the global financial crisis was triggered by a shortfall in the liquidity of the US banking system. Major banks securitized highly profitable, but very risky sub-prime mortgages. They created complicated Collateralized Debt Obligations (CDOs) that masked the higher risks and resold the securitized sub-prime mortgages as AAA rated securities. The entire financial industry, first in America and then overseas, was caught up in a vortex of greed so enormous that by the summer of 2008 the market for credit default swaps had exceeded the world's total economic output of $50 trillion.[1]

In the United States the economic bubble burst in March 2008. Between June 2007 and November 2008, Americans lost more than a quarter of their collective net worth. The S&P 500 dropped 45 percent from its 2007 high. From 2006 to mid-2008 total retirement assets, lost a staggering $8.3 trillion.[2]

Having been the first to feel the brunt of the crash, the United States led the global response by passing an Emergency Economic Stabilization package that will cost US taxpayers close to $10 trillion dollars over the next several years. According to economist Laurence Kotlikoff, this astronomical amount is an ominous portent of future insolvency. The US fiscal gap — the present value of all its future spending, less all its future taxes of $202 trillion — is already almost 14 times the GDP. Greece, by comparison, has a fiscal gap of about 11 times the GDP. Closing this fiscal gap would require the raising all federal taxes, immediately and permanently by almost two-thirds![3]

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For now, global markets appear to have stabilized at about 80-85 percent of their pre-crisis value. There is evidence of a modest industrial recovery in Western economies, although unemployment remains at record levels.[4] Massive social spending during the crisis has created unprecedented strains on many advanced economies. And serious questions still remain about whether an economic system that is geared mostly to the production of financial capital, rather than goods and services, is ultimately sustainable.[5] Financial globalization has created "money manager capitalism," where profits are increasingly divorced from industrial productivity.[6] The resulting dynamic has led to increasing calls from emerging market economies, especially the BRIC states (Brazil, Russia, India, and China), to have a greater voice in the management of the global economic system.[7]

Russia before the Crisis

In the two decades prior to the current global financial crisis, the Russian economy engaged in a wide variety of speculative financial operations, a phenomenon aptly labeled "casino capitalism" by the late Susan Strange.[8] This led to a veritable explosion of consumer credit in 2004-2008, as per capita consumption in major Russian cities began to rival that of the United States and Western Europe.[9] While incomes rose at rates exceeding 10 percent annually from 1999 to 2007, productivity and industrial production lagged significantly. Russia's "economic boom" was fueled by high oil and natural gas prices, which sparked short-term speculative investment in the Russian stock markets. One side effect of this new found wealth is the rapid growth of income inequality. The Gini coefficient, which is the relationship of wealth between the wealthiest ten percent and poorest ten percent of the population, has more than doubled in the last sixteen years.[10] This enormous gap in wealth, along with pervasive high inflation, has eroded much of the wage gains. At the same time, key indicators on housing, health care, and life expectancy all plummeted after the collapse of the USSR.[11] Renewed social spending in these areas was just beginning when the global economic collapse forced a shift in government priorities.[12]

Another lingering problem for Russia is the dearth of investment capital. Under Boris Yeltsin capital flight ranged from $15 billion to $25 billion a year.[13] Only in 2006 did Russia see the first steady inflow of private capital, totaling $30 billion, a figure that tripled in 2008.[14] However, these recent positive trends were disrupted by the global financial crisis, and Russia remains desperately in need of greater foreign investments to leverage its highly ambitious programs for infrastructure renewal and modernization.[15]

Interest rates in Russia continue to be the highest among emerging markets, suggesting a level of risk that is incompatible with long-term growth and investment. Under these conditions, investment in infrastructure, real estate, insurance, and manufacturing are at a disadvantage because they are unable to produce profits comparable with speculative investments. The global financial crisis revealed the risks associated with this kind of "rentier capitalism," and sharpened the Russian government's focus on the need for a new industrial policy and overall modernization of the economy. Russia's critique of the current international financial system, and its efforts to establish Moscow as a new global financial center, thus derive from the painful lessons it has learned from the current crisis.

How Russia Weathered the Crisis

Russian leaders recognize that the country will not be able to compete successfully in the global economy unless it can convert its short-term speculative economic growth into long-term structural growth. Moreover, it must accomplish this transition under highly unfavorable economic and demographic conditions.

During the last century, Russia's economic crises were generally asynchronous to global economic crises. While the Great Depression ravaged the economies of the West, the USSR experienced a period of rapid industrial growth. Similarly, during the global oil crisis at the beginning of the 1970s, the Soviet economy continued to grow at a respectable rate.[16] And, in the first quarter of 2008, as economic chaos spread from the United States to Western Europe, Russia's GDP was still growing at a very robust 8.5 percent, leading some to predict that Russia might provide a "safe haven" for investors during this global storm.[17]

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Instead, two factors conspired to produce a spectacular 7.8 percent contraction of the Russian economy in 2009, the highest among the G20 countries. The first was the withdrawal of foreign investments from Russia in the wake of the August 2008 armed conflict in Georgia — a tacit sanction imposed on Russia for its intervention. The second was a 70 percent drop in the price of oil from its peak price in early July 2008. Since oil and gas exports account for nearly two-thirds of all the money Russia earns abroad, the fall of oil prices soon led to a comparable fall in the Russian stock market.[18] Even after the crisis had peaked for Russia in mid-2009, foreign direct investments remained low — only $15.9 billion in 2009, and less than 40 billion in 2010.[19]

To counter the effects of this crisis, the Russian government enacted its own stimulus package, injecting massive liquidity into the economy.[20] But the similarities with the West end there. Under Putin, Russia had built up over $600 billion in currency reserves and rainy-day funds. It now drew upon this reserve to shield its population from declines in living standards and widespread unemployment.[21] As part of its emergency measures, the government released more than $200 billion of its reserves for the support of major banks and government corporations. In 2009 and 2010 further credit guarantees in the amount of $10 billion were offered to Russia's strategic industries.[22]

By drawing on its own cash reserves and running a modest budget deficit (the first in a decade), the Russian government was able to fund its stimulus program and simultaneously raise maternity payments to expectant families to nearly $11,500 while expanding eligibility to fathers and adopted children, increase pensions by more than 10 percent in 2009, and significantly increase teacher's salaries and spending on education.[23] Even as industrial production collapsed, real disposable monetary income, when adjusted for inflation, rose by 1.9 percent. Moreover, unlike the crisis of 1998, the Russian government was careful to ensure that there were no increases in wage arrears.[24]

By the end of 2010 Prime Minister Putin could boast that, despite the crisis, the Russian government had accomplished a significant milestone; there were no more pensioners with incomes below the official poverty level.[25] Meanwhile, average per capita incomes had once again exceeded their pre-crisis levels, and unemployment had fallen from a peak of 9.2 percent to just over 7 percent.[26] Western reporters noted that the overall sense of material well being among Russians was "now at an all time high."[27] Economists at the Goldman Sachs Group predict that over the next few years Russia would have "one of the most rapid fiscal consolidations in the world,"[28] spurred on by a second wave of privatizations that is expected to bring in as much as $50 billion dollars. In addition, a massive wave of infrastructure development linked to the 2014 Winter Olympics and the 2018 soccer World Cup, which Russia will host, is expected over the next several years.[29]

WHILE RUSSIA STILL SEEMS ON TRACK TO BECOME EUROPE'S LARGEST ECONOMY BY THE END OF THIS DECADE, SERIOUS QUESTIONS LINGER ABOUT SUSTAINABILITY.

While Russia still seems on track to become Europe's largest economy by the end of this decade, serious questions linger about sustainability.[30] According to some critics, Russia's recovery has relied too much on state intervention to boost consumer demand. Moreover, Russia continues to depend on high prices for natural resources, and ongoing negative demographic trends may create unbearable stresses on social payments.[31] Others, while not denying these long-term dangers, see the rapid recovery of all the BRIC states as a vindication of the idea of substantial government control over markets.[32]

The truth seems to lie somewhere in the middle. Thanks to conditions that are largely *sui generis*, Russia has overcome the worst of the global economic crisis quicker than many Western states. First, it did not face any major debt issues. Russian consumers, companies, and the government can afford to spend because their debt-to-GDP ratio is about one-fifth of US levels.[33] Not only does Russia have no debt to speak of, it has $24 in cash to cover each dollar the government plans to borrow.[34] This has allowed it to give priority to maintaining the standard of living, which in turn has fueled pent-up consumer demand, propelling economic growth. Finally, the Russian government was simply lucky. It won a crucial bet that oil prices would rebound quickly enough that the budget shortfalls it suffered in 2009 could be comfortably absorbed by drawing on domestic savings, rather than by increasing overall debt.[35]

Chris Weafer, an analyst at UralSib notes, "for once its [the state's] interests are aligned with those of investors as it wants to see the market do well even more than anyone else."[36] However, this coincidence is more the result of serendipity than of strategy. Whether or not it can be sustained will depend on reversing demographic trends, diversifying the economy, and modernizing Russia's social and political system.

Playing to Russia's Short Term Advantages

The previous discussion reveals why, despite the daunting problems facing the country, the global economic crisis has actually raised Russia's foreign policy ambitions. The speed of Russia's recovery has filled its leaders with a renewed confidence. President Medvedev recently said that Russia "will be one of the co-founders of the new global economic order and a full participant in the post-crisis world's collective political leadership."[37] Russia has since called for a comprehensive overhaul of the international monetary and financial systems, while simultaneously seeking a deeper integration of its economy into global markets. This seeming contradiction is resolved when one understands that Russia does not want to bolster the current global financial system (beyond maintaining its stability), but rather aims to create an entirely new global financial structure. For Russia, this involves two steps. First, a short-term strategy of deriving maximum advantage from the current system, while simultaneously positioning Russia to effectively promote a long-term strategy of building a more interdependent and multi-polar world, with Russia as one of its key pillars. As we shall see, it has not always proved easy to reconcile these two strategies.

Perhaps the major effect of the global economic crisis on Russia's elite has been the realization that joining the global economy will only benefit Russia if there is a clear understanding of the country's long-term objectives. How does the country construct a multi-polar world, while simultaneously affirming its role in the present? An additional challenge is doing both with the 2012 Russian presidential election looming.

Constructing a new global economic and financial order has been a mantra for Russian political economists since 2008. Two different responses to this challenge have emerged. The first is continuing "business as usual," i.e., returning to the old pattern of deriving profits from existing revenue streams and counting on the stability of the current global financial institutions. In this view, Russia must do all that it can to join global institutions, especially the World Trade Organization.[38]

The second response embraces the idea that a new global financial system creates a new world order. To be a major player in this new order, Russia must modernize its domestic governance and foreign policy by actively strengthening the country's capacity to defend its strategic interests, while shaping the world economy after the crisis. Russia's current policies contain elements of both these approaches, albeit with different timelines for their realization.

Recognizing that the most difficult period in any transition is extracting oneself from the old order, Prime Minister Putin has tasked the Higher School of Economics and the Russian Academy of Economics and Civil Service to develop a post-crisis model of development for the Russian economy. At its working group meeting in February 2011, he underscored that Russia cannot simply pursue the type of austerity programs proposed in the West, "at the expense of its citizens."[39] The government's key task, he said, was "preserving the people . . . [an area] where, of course, stinginess is utterly impermissible."[40] The basis of Russia's future development is to be investment in science and education, tied into the construction of a new national industrial infrastructure.

The global crisis, however, has also drawn the government's attention to the amount of time that is needed to develop and implement strategic decisions, and to create the proper international environment for the exchange of information and experience. Hence, Russian foreign minister Sergei Lavrov's recent remark during a state visit in London that Russia's modernization should be "a common European project, just as it was during the reign of Peter the Great."[41]

The EU-Russia partnership initiative recently became the "Partnership for the Modernization of Russia," and Russia is seeking to establish something similar within the Asia-Pacific Economic Cooperation (APEC), which it will assume the chairmanship of in 2012, the Eurasian Economic Community (EurASec), and the Shanghai Cooperation Organization. In Russia's mind, in all these initiatives a revitalized role for the CIS is crucial.[42] Although the CIS countries comprise less than 15 percent of Russia's international trade (compared with 50 percent for the EU), Russia's hopes for economic modernization and a new world order depend on the transformation of the entire Eurasian region.

In the short-term, therefore, Russia gives absolute priority to close ties with its CIS neighbors. As President Medvedev famously remarked, this is a region of "privileged interests" for Russia, a phrase often interpreted by Western analysts to mean the establishment of a Russian version of the Monroe Doctrine over the former Soviet Union. In reality, however, it should be translated as a "special relationship" deriving from long standing cultural, linguistic, and historical ties, similar to the relationship that the United States shares with Canada and the United Kingdom.[43]

Russia needs close ties to its CIS neighbors not to impose any sort of ideological conformity on its neighbors, but to lay the foundations for regional prosperity and a new multi-polar order in which different civilizations share responsibility for international stability. Russia alone cannot aspire to be such a civilization, but Russia in conjunction with the CIS states can and does.[44] That is why the near abroad occupies such a central place in all post-Soviet Russian security doctrines. Regional stability and global acceptance of Russia's status as a regional great power are thus seen by Russian policy-makers as intimately connected.

Russia starts with a clear advantage in its dealing with their CIS neighbors — a legacy of having lived together in a single state for centuries. Whereas Russia is often perceived negatively in the West, it is a net advantage in dealing with the CIS state, where "the Russian brand" is familiar, culturally attractive, and technologically competitive.[45] Russia's goal objective is to use this advantage to promote greater CIS integration with Russia. Greater integration allows Russia to combine its key resources with those of its neighbors, providing an attractive market outlet for the smaller CIS states that wish to avoid being swallowed up by the larger markets of China and Europe.

Russia's greatest potential competitor in the region is the European Union. Fortunately for Russia, the EU is seen by many regional elites as an external power that seeks to impose its will and values over them. By refusing to endorse fixed steps that would lead to membership, the EU lacks the leverage needed to attract local elites. The resulting disenchantment redounds very much to Russia's benefit, which has negotiated arrangements (such as the Customs Union, EurASec, CSTO) that give people tangible economic benefits in the form of lower prices on goods and services. These improvements were one of the main reasons cited by Ukrainian president Viktor Yanukovych for signing the Kharkov Accords with Russia in April 2010. In addition, closer economic ties with Russia are seen by many CIS states as offering them a bit of leverage against China, which also has ample resources to invest, but unlike the EU does not make such investments conditional on changes in the region's social and political values.

Russia's second advantage is its abundance of energy resources. To maximize this advantage, it is systematically seeking to become a global energy superpower. Somewhat counter-intuitively, this involves diversifying its energy profile by expanding the concept of marketable energy resources to areas such as nuclear energy, grain, and even water.[46]

This highlights a contradiction at the heart of Russia's foreign policy. On the one hand, it is assumed in Moscow that any leverage Russia has in forging a new international order comes from its status as an energy superpower. At the same time, however, Russia cannot overplay its hand if it hopes to convince other states that it is serious about sharing power and wealth more equitably in a multi-polar world. Within the CIS, fears of Russian influence are somewhat offset by fear of US, European, and Chinese influence. When combined with the already noted cultural affinity, Russia has an easier time making the case to its neighbors that deeper integration will enhance the prosperity and security of all. In the West, however, Russia faces the more daunting task of convincing its former adversaries (and now economic competitors) that deeper energy integration will create a "virtuous circle" of mutual dependence.[47]

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Still, Russia did achieve some notable successes in this task in 2010. These include the resolution of a forty year-old border dispute with Norway over the boundaries of Europe's northern continental shelf, paving the way for joint commercial exploitation of the Barents Sea, and a landmark $16 billion agreement between Rosneft and BP that would have established the world's largest Arctic oil exploring consortium.[48] These achievements give Russia a considerable head start in the race for the exploitation of Arctic resources. Also of note has been the rapid expansion of energy ties with China. Thanks to an agreement signed at the end of 2010, Russia will supply up to 4 percent of China's rapidly growing energy demand, in exchange for which China will invest $25 billion in Russian oil companies.[49] Some analysts predict that over the next two decades Southeast Asia's energy demand will grow seven times faster than demand in Europe and the Americas.[50]

But while Russia derives vital revenues from its natural resources, revenues that proved to be critical during the global financial crisis, it is easy to squander such fleeting wealth. Partly to offset this, President Medvedev has adopted embraced a program of modernization that will diversify the economy in phases. During the first phase Russia will diversify its own energy production by assuming a larger role in every aspect of the production chain, becoming a dominant global actor through partnerships with existing international companies. Later on the emphasis will shift to diversifying the entire economy, moving it from resource dependence to a 'knowledge based economy.' However, this will take time and money, money that will come from the revenues generated by natural resources.

Some Foreign Policy Implications of the Crisis in the CIS

Kazkhstan and Belarus, have both weathered the economic recession relatively well.[51] Presently, these two countries are among the most consolidated socially and have a consensus on the direction of future development. Local elites often give credit for this to the longevity of their rulers, but a large role is also played by the close economic, political, and cultural ties with Russia. By contrast, attempts to dislodge Russian cultural influence from Ukraine and export democracy to Central Asia have proven quite disappointing. The question of which model of development will prove more successful, Russian or Western, is considered an open one among local elites, as is the question of whether Russia will be able to continue its traditional mentoring role in the region.

Kazakhstan, Russia, and China: The New Golden Triangle?

One reason for the growing cooperation of these three crucial regional actors in recent years is alarm at the impact of narcotics and terrorism on southern Central Asia. The modernization of Central Asia has emerged as a key area of cooperation among the countries of the Shanghai Cooperation Organization (SCO). In the absence of any effective effort by NATO to stem the flow of this traffic, Kazakhstan, which sees itself as a cultural and economic hub for the region, now welcomes Russia's involvement. Promoting itself as a model of dialogue among civilizations, Kazakhstan advocates a conversation among "native civilizations and peoples" as the key to achieving security and building stable institutions. NATO-led efforts are seen as doomed to failure precisely because they are built around an external (specifically, Western) model of development.

The global economic crisis has also led to a rapid rise in Chinese investment in mineral and resource extraction in the region. With this alternative leverage, Kazakhstan has renegotiated its original PSA agreements with many Western oil companies. The main beneficiaries have been Chinese companies, which now extract 23 percent of Kazakhstan's oil.[52] The energy relationship between the two states has become so vibrant that during a six-month period in early 2010 Chinese President Hu Jintao visited Kazakhstan twice to conclude lucrative business arrangements.[53]

Yet, at the same time Kazakh leaders realize that it is a disadvantage to rely exclusively on China, and hence also promote closer ties with Russia. Kazakhstan's potential as an energy power makes it a critical partner in any regional development initiatives. So far the three countries seem to share a common hope for a Chinese-Russian-Kazakh energy consortium that would integrate and bolster the economies of all three countries. Its success, however, may well depend on how quickly (and on what terms for its own oil and gas industries) Russia joins the WTO.

Ukraine and Russia

The other major state affecting regional developments is Ukraine. Within the USSR, Ukraine was among the more industrially developed and prosperous republics. Not surprisingly, separation from the deeply integrated Soviet economic system had devastating economic consequences, from which Ukraine has been slow to recover.

With roots in Byzantine, Orthodox, and Russian culture, as well as deep historical ties with Austro-Hungary and Poland, Ukraine's cultural diversity has made the establishment of a unified and sovereign state a very difficult challenge. Despite its potential wealth and resources, neither the EU nor post-Soviet Russia have devoted the resources necessary to integrate Ukraine into their respective political and economic spheres. Without acknowledging the common cultural framework that binds Russia and Ukraine, Ukrainian elites have little chance of forging internal political unity. The existing political context, where some consider these two countries too intimate to be deemed separate, while others find relations to be already unbearably close, gives Ukrainian political and economic life an aura of permanent uncertainty. This political ambivalence toward Russia has compounded the domestic impact of the global economic crisis.

At the end of 2009 the country neared bankruptcy, and only the timely injection of emergency credits by the IMF, coupled with austerity measures prevented an economic collapse. Russia likewise offered assistance, some say to "save the day," others say as an attempt to take advantage of the situation.[54] A new course in bilateral relations was set by the signing of several key economic and security accords in April 2010 in the Ukrainian city of Kharkiv, and by the end of that year Russian-Ukrainian trade and economic ties, which had suffered as a result of Ukraine's entry into the WTO and the anti-Russian course of President Viktor Yushchenko, had improved dramatically.[55]

At the same time, the absence of a clear strategic choice to integrate more fully with the Russian economy continues to limit Ukraine's economic growth. Presently, Ukraine's strategic exports are only competitive thanks to the low price that Russia charges for gas. The terms upon which gas will be provided in the future is critical, and it is not a good sign for Ukraine that it has been unable to convince Russia to abandon its South Stream project and invest in Ukrainian pipeline infrastructure instead.

Since the prospect of Western investment has receded in the global crisis, Russia has emerged as the most plausible source of major investment. But while the prospect of rapid integration into Europe, promoted by former President Viktor Yushchenko, may have faded, the "spiritual unity," actively promoted by the Orthodox church in Russia and Ukraine, has not yet found concrete political expression. The fundamental historical and civilizational realities that have formed Ukraine however remain, and it should therefore be expected that over time Orthodoxy's impact in local politics will grow, and with it Russia's influence in Ukraine's economic and political future.

The political and economic integration of the CIS core states (Russia, Belarus, Ukraine, and Kazakhstan) is aimed at creating a new world order in which they hope to play a key role. The Russian Orthodox Church is also one of the central actors in this strategy, hoping that it will be at the center of any multicultural integration efforts spearheaded by Russia. With an eye to its neighbors, Russian President Medvedev recently embraced the concept of multiculturalism, just as it is being disavowed by Western European leaders.[56]

Global Risk Sharing

Just as Russia seeks to manage the transition out of the most recent crisis global economic by maximizing the utility of facets of the current system, such as CIS integration and Russia's energy wealth to its maximum advantage, it simultaneously seeks to lay the groundwork for an entirely new global financial and political architecture that would provide it with global status and long-term stability. Some insight into how it intends to do so can be gleaned from a leaked classified foreign policy memo, published by *Russian Newsweek*, under the jaunty title of "Let the Sun Shine In."[57] While the memo itself is rather prosaic, foreign minister Sergei Lavrov's introduction to it is an interesting balance of cautious optimism about global trends, with a sense of their fragility.

Lavrov blames the global financial crisis on the "western-centric system of global management dominated by the USA." The dire state of the current global financial system and the "utopian" efforts to restore "wild capitalism" has revealed the current international order to be fundamentally unstable. At the same time, he says, the crisis has had a "leveling effect" by creating significant budgetary problems in the most advanced economies. One positive outcome of this is that global politics has become more regionalized.[58]

The post-crisis political and economic environment therefore creates significant new opportunities for multi-polar diplomacy. Russia should actively support these changes by "strengthening mutually dependent relations among leading global and regional powers through the interpenetration of economies and cultures, initiating external sources of [Russian] modernization through the establishment of 'modernization alliances,' [and] focusing attention on the objective competitive advantages created for all those who participate in the processes of integration."[59]

In this new era the criterion of success will be a country's ability to take into account the interests of medium and small countries, those not represented in the G20 and other "exclusive clubs." The president's press secretary summarized this new vision by saying, "the world probably needs new rules . . . because there are no blocs now, no conflict between capitalist and socialist regimes, no ideological differences; there is one single common civilization."[60] Presidential advisor Gleb Pavlovsky summed it up even more succinctly: Pax Medvedica.[61]

While we still do not know if Medvedev will be president after 2012, this matters less now than it did in the past, because a stable consensus has emerged on the future direction of Russian foreign policy, one that elites around both Putin and Medvedev support. Independent polls consistently show that their "tandemocracy" has the support of about three-quarters of the population. Barring some unforeseen calamity, therefore, the broad outlines of Russian foreign policy appear to be stable for the foreseeable future.

The central focus of this elite new consensus is on the need for a new international security architecture that simultaneously strengthens global security in all arenas (political, military, economic, environmental, and energy) by dividing risk and responsibility among its stakeholders. While stakeholders are not all governments, in Russia's view, agreements about how to share the risks and responsibilities of global governance should be taken by the largest, practical number of actors, and always under the aegis of the United Nations.

For Russia, "risk sharing" should be the new guiding principle in international relations, and all international organizations should be encouraged to embrace it. "It is essential to find a new point for risk sharing because," Medvedev says, "the risks are so high."[62] The crux of future debates within the Russian elite will therefore be on where to draw the line between national, regional, and international responsibility in assuming risks, not on the desirability of doing so. This explains why the country has carved out the lead role in the relatively new area of energy security and interdependence. It hopes to make these into its foreign policy "trump card."

Skeptics will point to the renewal of Russian bases in the CIS as reasons to Russia's commitment to globalism, but even the staunchest advocates of re-conceptualizing security do not discount the need for military preparedness. In any case, the latest extensions of the lease agreements on bases in Armenia, Ukraine, and Kyrgyzstan have been welcomed by local leaders, who have portrayed them as lucrative deals that add to the overall security of the region.

Of more serious concern is what sort of multi-polar world order Russia intends to pursue. Is it the kind in which the BRIC states (a designation that now includes South Africa)[63] form their own distinct power bloc, which will compete with rival power blocs for power, resources, and influence? Or will it be a more global vision of multi-polarity, in which traditional definitions of power slowly give way to a system based on "human security?"[64] At times the language used by foreign minister Sergei Lavrov or influential political analyst Sergei Karaganov seems reminiscent of the former, while the language of Gleb Pavlovsky sounds more like the latter. There is also considerable debate in Russian foreign policy circles about how much the West will support such a "new world order." Liberal commentators like Igor Yurgens and Yevgeni Gontmakher see the West as an eager partner of a modernizing Russia. Others, like Sergei Markov and Fyodor Lukyanov, see them as afraid of a rising Russia and willing to engage only in very limited and self-interested partnerships.[65] Russia's choice will be significantly affected by how its initiatives are treated by the West.

Finally, having mentioned the central significance of energy in Russia's foreign policy, it is appropriate to ask whether the country's continued dependence on energy as an instrument of foreign policy creates structural impediments to the adoption of a more global foreign policy agenda (or as the Russian foreign ministry describes it, a more "humanistic" foreign policy). Some analysts see democracy and resource wealth as fundamentally incompatible.[66] Others are less convinced of this.[67]

In the foreseeable future, therefore, Russia will continue to formulate its foreign policy in such a way as to maximize the advantages that it can derive from its two strongest suits, those of energy and regional integration. At the same time, it is important to recognize that Russia is moving toward a new conception of its security and foreign policy interests. It is promoting a multi-polar security architecture in which the sharing of mutual risk and responsibility is the binding framework of international relations. It is within this latter context that efforts to build stable and long-lasting relations with Russia are likely to prove the most fruitful.

The creation of more promising and less dangerous global economic order will require many new types of partnerships, as well as a global agenda for modernization. Russia's central role in the development of Eurasia (and the CIS macro-region) suggests that promoting such partnerships with Russia could provide the foundation for a new era of prosperity in the region.

Notes

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The highest rates are in Spain (20.2%), Lithuania and Latvia (both 18.3% in the third quarter of 2010, in Greece 12.9 %, Bulgaria 10.1% and Slovenia 7.8%. In the United Kingdom 7.9%, in Sweden 7.8%, in Germany 6.6% and in Finland 8.1%. Eurostat. "Unemployment Statistics," Available at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics.

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[8]Susan Strange, *Casino Capitalism* (Manchester: Manchester University Press, 1997).

[9]V. N. Ivanov and A. V. Suvorov, "Dokhody i potreblienie rossiiskogo naseleniya v usloviyakh krizisa i alternativy gosudarstvennoi politiki v etoi sfere," *Ekonomicheskii Portal*, Available at: http://institutiones.com/general/1735-doxody-i-potreblenie-rossijskogo-naseleniya.html; Peter Odland, former Ikea project manager once explained that the average Moscow customer spends about the same as the average customer in Sweden by saying: "We have given up on statistics; we are relying on reality," Robert Cottrell "We Have Given Up on Statistics; We Are Relying on Reality." *Financial Times* (UK) (April 26, 2002). Available at: http://globalarchive.ft.com/globalarchive/article.html?id-020426001433&query=russia.

[10]Rosgosstrakh data published in *Kommersant-Daily* (February 27, 2008). When taking unofficial incomes into account, the gap grows to 44 times. See also Russia in figures – 2010, an official publication of the Russian State Statistics Committee. Available at: http://www.gks.ru/bgd/regl/b10_12/Main.htm.

[11]The number of hospitals (in thousands) decreased from 12.6 in 1992, to 6.5 in 2008; the number of hospital beds per 10,000 decreased from 131 in 1992, to 99 in 2008. *Russia in figures – 2010*, Table 9.1 "Basic Indicators of Public Health," Russian State Statistics Committee, Available at: http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d01/09-01.htm.

[12]Housing is created at two-thirds of pre-reform rate. As of 2009, the average Russian life expectancy of 68.67 years at birth is nearly 10 years shorter than the overall average figure for the European Union. *Russia in figures – 2010*, Table 9.3 "Population Morbidity." Federal State Committee on Statistics of the Ministry for Health and the Russian State Statistics Committee, Available at: http://www.minzdravsoc.ru/health/cooperation/11, http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d01/09-03.htm.

[13]Vladimir Putin, "Transcript of Press Conference with the Russian and Foreign Media," Embassy of the Russian Federation in the Republic of South Africa, February 1, 2007, Available at: http://www.russianembassy.org.za/statements/text/feb07/press%20eng.html; William H. Copper and John P. Hardt, "Russian Capital Flight, Economic Reforms, and U.S. Interests," March 10, 2000. Some estimates put the total figure for capital flight as high as $2 trillion, see B. A. Kheifets, *Offshornye yurisdiktsii v global'noi i natsional'noi ekomonike*, (Moscow: Ekonomika, 2008) 166-167.

[14]"Foreign investment in Russia down 14.2% in 2008 to $103.8 bln," *RIA Novosti*, February 25, 2009, Available at: http://en.rian.ru/russia/20090225/120294735.html.

[15]Chris Weafer, "Economic Glasnost,"*Moscow Times*, December 20, 2010, Available at: http://www.themoscowtimes.com/opinion/article/economic-glasnost/427178.html.

[16] The first decade of the XXIst century in many respects replicates the oil crisis of forty years ago. At that time, the Soviet leadership benefited from a steady growth in oil prices from the early 70s to the mid-1980s (see V. I. Yakunin, "Prirodnye resursy Rosii," Nauchnyi Ekspert, 2007, Issue No. 8, 16, Available at: http://rusrand.ru/public/public_61.html. By the mid-1980s "the share of fuel and energy exports in hard currency revenues reached its highest level (55 percent) in 1984. In 1985, oil exports accounted for 38.8% of hard currency revenues." Alexander Arbatov, Vladimir Feygin, and Victor Smirnov, "Unrelenting Oil Addiction," *Russia in Global Affairs*, (April/June 2005), Available at: http://eng.globalaffairs.ru/number/n_4960 Moreover, the need for reforms in the Soviet economy arose only after oil prices collapsed between the end of 1985 and beginning of 1987, from $30 to $12 per barrel, significantly reducing Soviet hard currency earnings. Daniel Yergin, *The Price. The Epic Quest for Oil, Money, and Power*, (London: Simon & Schuster, 1993) 764.

[17]Michael Stott, "Moscow to be major world financial centre –bank," *Reuters*, June 16, 2008, Available at: http://uk.reuters.com/article/2008/06/16/russia-renaissance-idUKZWE65445220080616.

[18]Clare Nuttall, "Russia is not a petro-economy," *Daily Telegraph*, March 4, 2010, Available at: http://www.telegraph.co.uk/sponsored/russianow/business/7370121/Russia-is-not-a-petro-economy.htmlFrom a high of $129.3 per barrel in July 2008, that price of Urals brand petroleum dropped to $38.1 per barrel in December 2008.

[19]Alexander Kolyandr, "Russia Moves to Draw in More Foreign Investors," *Wall Street Journal*, December 29, 2010, Available at: http://online.wsj.com/article/SB10001424052970204467204576047853439849810.html.
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[21]C.G. Gaddy and B.W. Ickes, "Putin's Third Way," *The National Interest*, January 6, 2009, Available at: http://nationalinterest.org/article/putins-third-way-2958.
[22]It is estimated that much of this assistance was transferred overseas to cover debt repayments and establish hard currency reserves. Academician O. T. Bogomolov V. N. Kuzyk, *Noneconomic Facets of Economy: Unknown Mutual Influence. Scientific and Public Notes of Social Scientists*, Interdisciplinary Project, Moscow: Institute for Economic Strategies and Russian Academy of Science, 2010, 26-33.
[23]Derek Andersen, "Putin's Baby Boom Spurs Importers," *Moscow Times*, October 26, 2010, Available at: http://www.themoscowtimes.com/business/article/putins-baby-boom-spurs-importers/421024.html. Depending on exchange rates, the family can receive a lump sum payment as high as 60-75% of annual income, a significant boost to disposable income. "Number of Russians With Incomes Below Subsistence Level Decreases," *ITAR-TASS*, May 6, 2010. Cited in Johnson's Russia List, Available at: http://www.cdi.org/russia/johnson/7062-4.cfm.
[24]Natalya Prikhodko, "Ob"em prosrochennoi zadolzhennosti po zarplate snizilsya na 3.7%," *Strana.ru* (April 16, 2010), Available at: http://www.strana.ru/doc.html?id=137615&cid=1.
[25]Vladimir Putin, "V pryamom efire telekanalov 'Rossiya,' 'Rossiya 24,' radiostantsii 'Mayak," Vesti FM' i 'Radio Rossii' vyshla sptesialnaya programma . . ." *Premier.Gov.Ru*, December 16, 2010, Available at: http://premier.gov.ru/events/news/13427/.
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[27]Ibid.; "Russian feel good factor at all time high," *Business New Europe*, September 3, 2010, Available at: http://www.bne.eu/; Alena Chechel, "An assessment of Russia," *Vedomosti*, October 12, 2010, Available at: http://www.vedomosti.ru/. Trade unions and independent experts, however, estimate the total number of unemployed as much as four times higher. "Unemployment In Russia To Be Growing Till End 2012 – Unions," *Itar-Tass*, January 21, 2010, Available at: http://www.itar-tass.com/.
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http://txt.newsru.com/finance/11mar2011/azarov_print.html.
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