

STATEMENT

**by Dmitri Trenin, Deputy Director, Carnegie Moscow Center,
at a hearing at the U.S. Senate Foreign Relations Committee
on “Russia: Back to the Future?”**

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Mr. Chairman, Ladies and Gentlemen of the Committee,

It is an honor and a privilege to be asked to testify before this Committee. Let me address the issues I was asked to comment on in the letter of invitation signed by Senator Lugar.

Developments in Russia and their potential impact on the future of the U.S.- Russia relationship

Political reform

Russia has a tsarist political system, in which all major decisions are taken by one institution, the presidency. In fact, this is the only functioning political institution in the country. Separation of powers, enshrined in the 1993 Constitution, does not exist in reality. On the contrary, *unity* of power and authority has become the new state-building doctrine. All other federal institutions (i.e. the parliament, the cabinet, the high courts) are dependent on, and de facto subordinate to the President and his private office (collectively referred to as the Kremlin). The tradition is back in the saddle.

Over the last six years, the degree of power centralization has grown dramatically. Regional legislation has been brought in conformity with the federal Constitution and federal laws. The Federation Council (upper chamber) has ceased to be the regional leaders' club and has become a Russian version of the German *Bundesrat*, with its members (who proudly call themselves senators) appointed, and recalled, by the regional authorities. The governors of Russia's 88 regions have lost their independence rooted in direct elections, and are now hired and fired by the Kremlin. Single-mandate constituencies in the elections to the State Duma (lower chamber) are being phased out. From the next election (December 2007) on, only party lists will compete, with the entrance bar set very high (7% of the popular vote). The reform of the judiciary has not resulted in expanding its independence. The courts are even more dependent on the authorities, and the State Prosecutor's office has become the principal political instrument in the hands of the Kremlin for dealing with its adversaries.

While authoritarian and over-centralized, the Russian political system rests on the acquiescence of the governed. Vladimir Putin has remained popular throughout the six years he has been in power. Above all, he is credited with reinstating stability lacking under both Boris Yeltsin and Mikhail Gorbachev. For this democratically-legitimized authoritarian system to continue to operate in the current mode, Putin's successor needs to be genuinely popular.

Managing succession under such conditions is extremely difficult. All indicators point to Putin's desire to step aside when his term is up (spring of 2008) and let a new man take over. Yet, both informal successors (first deputy Prime Minister Dmitri Medvedev and Defense Minister Sergei Ivanov who is also a deputy PM) have obvious problems with electoral appeal. Thus, Putin may make an 11th hour surprise choice in favor of a lesser-known figure who would be able to

galvanize support for the supreme authority and allow it to sail smoothly through the succession straits.

There can be no guarantee of a smooth sailing, of course. It is true that political opposition in Russia is no match for the authorities. The Communist party, Yeltsin's former nemesis, has been much reduced in influence and effectively locked up in a niche of elderly nostalgics. The liberals and democrats remain pathetically disunited and are growing increasingly marginal. Nationalists represent a more serious challenge. In the past, the Kremlin was able to tame them with the help of super-loyal Mr. Zhirinovskiy. However, a recent project to found a pro-Kremlin nationalist party, *Rodina* (Motherland), led by Dmitri Rogozin, had to be terminated when the party threatened to spin out of control and become a real opposition force. Currently, the Kremlin's strategy is to give a new lease on political life to Mr. Zhirinovskiy; to co-opt the more conformist nationalist elements within the ruling bloc, United Russia; and to present extreme nationalists as a "clear and present danger" (to replace the now emasculated Communists) which can only be effectively dealt with by the Kremlin itself.

It is true that ultra-nationalism and populism are the biggest threat to Russia's domestic development and to Russia's relations with the rest of the world, starting with its neighbors. The problem is the Kremlin's own political effectiveness.

All the unity of power notwithstanding, the Kremlin itself is far from united. The constellation of clans, which could be visibly represented by the many towers of the Kremlin fortress, is never static. There have always been different interests (including some very material ones), different instincts (depending on the people's past experiences), and different views about the way the world goes and the way Russia should be run. While the President reigns, he acts as an arbiter. As he is preparing to hand over power, the situation becomes highly dynamic.

Grosso modo, there are two competing groups whose membership does not neatly coincide with the popular notions of the *siloviks* vs the liberals. Both factions agree on the need for a strong authority at home and a great-power policy abroad. They differ (apart from their private business interests) on the degree of bureaucratic control over the economy and the assertiveness and unilateralism in Russia's foreign policy. Thus, it is the internal rivalries and clashes, whether within the Presidential administration, the cabinet, or the ruling bloc as a whole, rather than open political competition, that is likely to mark and shape Russia's politics in the near and even medium term.

The implications for the United States and indeed for all other countries are as follows. One has to accept the reality of a highly centralized political system with a sole decision-maker. One needs to acknowledge the weakness of the political forces who seek to modernize the system by bringing the competition into the public domain and turning the presently undivided "Authority" into a combination of an accountable government and a professional civil service. One has to guard against the (still distant) possibility of ultra-nationalists and populists taking over the state machine and pushing Russia down the path of absolute state domination at home and revanchism abroad.

Yet, Russia, seen historically, is not going in the wrong direction. Rather, it has returned to the path of natural development which she was forced to abandon by the Bolsheviks. It was never serious to expect Russia to emerge as a liberal democracy after three quarters of a century of Communist rule. By the same token, to regard Yeltsin's Russia as a democracy was wishful thinking. Russia was freer, and more pluralist, and the state was very weak, but it was not democratic. In future, there will be no cutting corners. For a number of reasons, Russia's modernization can not proceed through integration into the European and Euro-Atlantic

institutions, as it did in Central Europe and can do in Eastern Europe. Russia would have to perform that feat on its own. There are many factors working against it. There are a few, however, two working for. One is the factor of money, i.e. indigenous capitalist development. The other one is the country's openness to the outside world.

The economy and social affairs

The effect of high energy prices on the Russian economy is two-fold: robust economic growth has continued for seven years; but the serious economic reforms started in 2000 have been stopped for the time being. The Russian government now wields substantial financial power. Yet, it has been rather conservative with regards to spending money. The Kremlin has created a stabilization fund as a cushion against a steep fall in oil and gas prices. Russia's currency reserves are third-largest in the world. Moscow has been repaying its foreign debt ahead of schedule.

Russian living standards have been steadily rising since the 1998 financial collapse. In the 2000s, an average annual increase in take-home pay has been in the range of 10%. In fact, most Russians have never had it so good in their entire history. This, however, is not how a significant portion of the population view things.

In contrast to Soviet uniformity, Russia's social picture is characterized by striking inequality. The top 10% of the population have an income 15 times higher than the bottom 10%. The middle class comprises a mere 25%, but it shows signs of growing. The future of the country will depend on whether some two-fifths of the population immediately beneath it will rise to join the middle class or finally sink into poverty.

Freedom and independence of the media

Russia's electronic media, a powerful political instrument, are controlled by the authorities. The printed press is relatively free still, although this is changing, but their print runs are very small. The Internet is vibrant and free, with the number of users rapidly rising. It has to be borne in mind, however, that the former pluralism of Russian TV was part of the arrangement between the Kremlin and the oligarchs rather than a result of a genuine development of civil society.

On civil society itself, let me say that the process of its formation is clearly linked with the emergence of the middle class, a long and difficult process. At present, the authorities attempt to build institutions of civil society "from above", even as they seek to minimize or eliminate the role of potential political challengers, such as the former oligarchs, or foreign funders, who are feared to be promoters of "orange-style" revolutions.

Status of the rule of law in Russia

President Putin's first-term slogan was establishing the "dictatorship of law". He promoted a legal reform, designed by his close associate, Dmitri Kozak. Among other things, the reform introduced trial by jury in the more serious cases, and transferred control over the penitentiary system from the Ministry of Internal Affairs (i.e., the police) to the Ministry of Justice. Not surprisingly, reforming the legal system, traditionally but a tool of the authorities, has proven to be exceedingly difficult. Moreover, President Putin has been using the Prosecutor General's office as an instrument of choice to destroy the power of the more ambitious oligarchs: Berezovsky, Gusinsky and Khodorkovsky. Since the initial accumulation of capital in Russia

was essentially lawless, virtually all new capitalists can be plausibly accused of breaking laws. In this situation, political challengers or business rivals can easily be subjected to selective application of justice.

Yet, property ownership requires protection. It would not be too far-fetched to suggest that the Russian elites will be progressively more interested in establishing a system which would guarantee their possessions irrespective of which group happens to control the Kremlin. The emerging Russian middle class, too, is interested in a system that would protect their rights against both the swindlers in the private sector and the arbitrariness of the government bureaucracy. Small public campaigns have already spontaneously risen in defense of a falsely accused motorist; crooked property developers; and homeowners evicted from their houses without fair compensation.

What should be on the U.S. agenda at the G-8 summit

The G-8 summit and the bilateral meeting of U.S. and Russian presidents in St. Petersburg next month offer a chance to clarify the U.S. agenda regarding Russia.

While Russia is by no means a priority for U.S. foreign policy, it deserves more attention than she is usually given. Very importantly, to bring positive results and satisfaction, that attention needs to be properly focused.

The United States will be best served by a frank, principled and realistic attitude toward Russia. American leaders should feel free to raise any concerns that they have regarding developments in Russia or in Moscow's foreign policy. Even as they do it, however, they must realize that their chances of influencing the Kremlin's behavior at home or abroad are at best very limited. They should also be ready to hear Russian criticism of U.S. government's policies, and Russian dismissal of many U.S. claims as either based on double standards, or disingenuous, or devalued by America's own imperfect record.

The common weak point of many Russian and Western critics of the Kremlin is the assumption, either stated or not, that should pressure on the Russian authorities be kept up at a high level for a sufficiently long time, either the Kremlin will relent, or it will be defeated in some version of an democratic revolution, and a new, and better Russia would emerge. This is an illusion. Positive changes in Russia will come, and they will come from within, but they will need time to coalesce. The principal outside factor will not be some foreign government's pressure, but Russia's general openness to the outside world, in particular the proximity of the European Union.

Americans need to realize that in contrast to the 1990s and the early 2000s, the Russian leadership is no longer practicing accommodation and adjustment *par excellence* to the international environment. Rather, it is seeking to return to the world scene as a major independent player.

In this situation, a reasonable policy by the U.S. would be to look for areas of common ground. There are several such clusters. One is nuclear issues, starting with WMD proliferation. Though Russia disagrees with some U.S. policy options regarding Iran and North Korea, nuclear weapons in the hands of either regime would adversely affect Russia's national security. U.S.-Russian, although understandably not easy, would further U.S. non-proliferation goals; a break with Russia on that fundamental issue would encourage the proliferators. Thus, Iran and North Korea should be at the top of the list.

Nuclear arms control is another area which needs revisiting. U.S.-Russian relations are not as amicable as they should be. Mutual suspicions are high. As the bilateral treaties governing nuclear weapons reductions are approaching expiry dates, some thought needs to be given as to the nature of the nuclear weapons relationship between the two nuclear superpowers.

Finally, nuclear energy is a potential area of very productive collaboration. Letting Russia to be a significant player in the market presently dominated by the United States and France would be a major incentive for a closer overall relationship between Washington and Moscow. Indeed, it would put a major economic pillar under that relationship, thus stabilizing it.

Another such pillar would be created through U.S. companies' participation in the exploration of the Shtokman gas field in the Arctic, and the Russian company Gazprom's access to the U.S. LNG market. While Russia cannot be expected to allow foreigners majority stakes in its oil and gas fields, its policy of swapping upstream assets for downstream ones would create real energy interdependence and thus a much higher degree of security.

One way for the U.S. to contribute to Russia's modernization is through sharing with Russia its best business practices. It is the evolution of Russian capitalism which will push the evolution of Russian society and eventually also Russian polity. In the area of education, creating opportunities for many more Russian students to come to study in the United States would be a major investment into a better future for Russia and a safer world for the U.S.

Finally, the challenge of international terrorism and related security threats require closer cooperation in places like Afghanistan. Russia cannot be interested in a U.S./NATO failure in Afghanistan and the return of the Taliban whom Moscow regarded only five years ago as the greatest external military threat. The issue of drugs trafficking from Afghanistan calls for joint action between Russia and the U.S. (and others, including NATO states and the neighboring countries).

Dealing with the problems in U.S.-Russian relations is as important as exploring the potential of the areas of common ground.

Russia's policies and influence in the former Soviet Union

The Putin administration's strategic objective is creating a Moscow-led power center in the former Soviet Union. This is not a new version of the Russian empire of the U.S.S.R. Rather, the goal is to help Russian companies to acquire lucrative economic assets in the neighboring states (starting with the energy sector), ensure those states' general political loyalty to Russia and full cooperation with it in security matters, and promote the Russian language and culture across the former Soviet space. The principal instruments of this policy, alongside the bilateral contacts, and its symbols, are the Eurasian Economic Community and the Collective Security Treaty Organization.

Most of their member states are likely to respect Russia's interests, and will seek in return to draw benefits from their close relations with Russia. However, they are unlikely to become Russian satellites. Kazakhstan and Belarus, the two countries that are most integrated with Russia economically, are good examples. The former is pursuing a carefully balanced foreign policy, maneuvering among Russia, China and the United States. The latter, though effectively isolated by the U.S. and the EU, and heavily dependent on Moscow, refuses to merge into the Russian Federation. Armenia, though it looks to Russia as its historical protector, seeks to strengthen its ties to both the United States and Europe. Uzbekistan, which only last year

abruptly turned away from the U.S. and embraced Moscow, has a long-standing ambition of a regional power, which complicates (also Russia's) relations with the smaller countries, such as Kyrgyzstan and Tajikistan. More ominously, Uzbekistan's Fergana valley continues to be the hotbed of Islamist extremism.

Not all former Soviet countries belong to the Eurasian Economic Community or the Collective Security Treaty Organization. Some of them have come together in alternative communities, supported by the United States, which challenge Russia's policy goals. Among these countries, Ukraine and Georgia are of special importance, from the standpoint of Russia's relations with the United States.

Over the past decade and a half, Russia has internalized both **Ukraine's** independence and the border dividing the two countries. More recently, it has learned to live with the consequences of the Orange revolution, and Ukraine's political pluralism. However, Ukraine's bid to join NATO and the prospect of a membership action plan (MAP) being offered to Ukraine at the next NATO summit in Riga (late November 2006) puts this relationship to a very major test. Ironically, the step designed to finally guarantee Ukraine's territorial integrity has the potential of reawakening the sleeping issues such as the status of the heavily Russian-populated Crimea, home of the Black Sea Fleet. The situation is highly complex due to the low popularity of NATO accession among the Ukrainian population who will need to vote on the issue in a national referendum. There are differences on the NATO issue even among the coalition partners, and ambivalence within the principal political parties. The stakes are unusually high, not to be compared with either the Polish/Czech/Hungarian or the Baltic/Romanian/Bulgarian accessions. Not only is Ukraine different from Poland or Latvia; the Russia of 2006 is very different from the Russia of 1996 or even 2002. In the next few months and years, Ukraine can well become a political battleground between the competing domestic forces, and also between Russia and the United States, with important consequences for all the parties involved.

Georgia's prospects of joining NATO are more remote. Here, as in Moldova, the relevant issue is the frozen conflicts. Tbilisi's desire to resolve the conflicts in Abkhazia and South Ossetia by imposing a solution, if necessary, contrasts with Moscow's references to the Kosovo model, i.e. promoting a final separation of rebel enclaves. The solution of the Kosovo problem by means of separation and conditional independence, expected by the end of the year, will not lead to Russia's automatic recognition of the breakaway regions, but it would push the situation closer to the red line: formally revising post-Soviet border arrangements.

Although many in the Russian policy establishment view the situation in terms of a zero-sum game, with the United States actively working to undermine Moscow's influence in the new states, developments in Ukraine and Georgia, which are approaching danger points, call for a serious dialogue which would help avoid misunderstanding and avert confrontation which would push the U.S.-Russian relationship toward a new low.

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In **conclusion**, let me say that the title of the hearing, "Russia: Back to the Future?" should be read as Russia returning to the path it quit 90 years ago on its Communist adventure, rather than backsliding to Soviet days. It is tsarist, capitalist, open, relatively free in many respects (though not in the political sphere), increasingly nationalist (the last former Communist country to have discovered nationalism, though of a peculiar post-imperial variety), and assertive internationally. It is neither pro-U.S. nor anti-U.S. It is a challenge to deal with, but ignoring or misreading it carries a price.

Thank you very much.