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Summary

- In recent years, Russia's resurgence has been driven by favourable conditions rather than solid foundations.
- Despite the favourable conditions, Russia's resurgence has only achieved mixed results. Buoyed by economic growth, Russia has become wealthy, assertive and confident; but the country has also alienated and provoked its neighbours and the West.
- Sustaining these conditions is unlikely due to problems resulting from Russia's internal structural weaknesses and assertive foreign policy.
- Without change, these problems are likely to worsen. Energy exports – the cornerstone of Russia's resurgence – are set to decline. The end of this boom threatens Russia's domestic stability and ability to tackle other long-term threats as external resistance to Russia hardens.

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Tsentr Informatchionnaya obespetcheniya,
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In the past eight years, Russia has experienced massive growth in both international stature and power. During that time, the country's economy recovered from and surpassed the troughs of the 1990s, its political system stabilized and its military strength revived. However, with deteriorating relations and conflict with its neighbours and the West, Russia has faced mixed results. The country's recent growth has not been built on solid foundations but on favourable economic and international conditions. As such, it reflects a resurgence – significant but only temporary – and not a lasting rise for Russia. It is unlikely that Russia can continue to sustain its resurgence due to substantive problems resulting from a forceful foreign policy and structural problems stemming from the country's internal weaknesses.

Mixed results

Russia's resurgence can be assessed through three main aims: become an energy superpower, balance against the West and reassert influence over the near abroad. On all counts Russia has enjoyed some success. Energy power is synonymous with Russian influence; Russia has presented itself as both independent from and opposed to the West; Russian pressure has been brought to bear on Belarus, Ukraine and Georgia. The notion of being a great power is very popular in Russia and the resultant confidence is visible in the forceful nature of Russian foreign policy coupled with a non-cooperative and intransigent tone. This in turn has been perceived as hostile and belligerent by others. While it isn't necessarily so, this line of foreign policy demonstrates Russian strength but unnerves its neighbours. The enabling factor and dominant element of Russia's resurgence has been the spectacular rise in revenue from the export of hydrocarbons (oil and natural gas). For example, revenue from oil exports grew tenfold between 1999 and 2006. But on closer inspection, Russia's resurgence is less impressive than it would appear.

Russia is heavily reliant on hydrocarbon exports, with hydrocarbons accounting for some two-thirds of the country's exports overall. In 2006, revenue from hydrocarbon exports comprised around 50% of the Russian federal budget. Hydrocarbons aside, the remainder of the Russian economy is quite unimpressive. Manufacturing and industry remain weak and uncompetitive, corruption and inefficiency are significant problems and the much-needed economic reform has not been forthcoming. This reliance on hydrocarbons has led some to dub Russia an emergent "petro-state." This exaggerates the situation but conveys the real problem. The economic foundation of the Russian juggernaut remains frail.

It must also be emphasized that many foreign policy events have not fared well for Russia. Despite displays of force and a rising international profile, Russia's grip over the post-Soviet space has weakened. The lopsided and highly publicized confrontations with Ukraine and Georgia ended with paltry gains for Russia, inflicting immeasurable damage on the country's reputation. The recent conflict between Russia and Georgia is a case in point. Although the conflict was triggered by Georgian actions, Russia's use of overwhelming force did not differ from its earlier policies: it emasculated a recalcitrant neighbour, exposed Western weakness and reinforced Russia's resurgent image. But its most lasting impact

Press conference after the 21st EU–Russia Summit UKOM/Bor Slana

was in the West, where it raised alarm and further tarnished Russia's image. Russian 'success' in the conflict is thus quite debatable. Other provocative events, such as recrimination against a limited missile-defence shield in Europe or publicly recognizing Hamas have gained little for Russia but have resulted in acrimony with the West. The superficial success of Russia's resurgence has disguised this rather poor track record.

Russia's intransigent line has only proved exceptionally successful due to the failure by the West to present even a semblance of a unified reaction to Russia's provocations. On issues as divergent as Iraq and energy security, Russia has managed to exploit differences in intra-European relations to advance its own agenda. This has played considerably into Russia's hands. Even when faced with heavy Russian pressure on an EU and NATO member, Estonia, the result was mere waffling. However, it is unlikely that Russia can continue to exploit European differences and it will be Russian interests that suffer the most if relations deteriorate further.

Reactions and risks

No one should be under the illusion that a conflict between Russia and the West would be advantageous for anyone, least of all Russia. However, a reaction against Russian foreign policy can already be discerned. The use of aggressive rhetoric has backfired internationally for Russia. Relations between Russia and the West are at a low, with few signs of improvement. *The Economist*, among others, has argued that fear of Russia could renew the 'Euroatlantic glue.' The use of energy for political ends has alienated customers. Signs of a reaction can also be detected in Russia's near abroad. Central Asian states have consistently demanded better rates for their energy exports. The frozen conflicts remain volatile. Georgia and Ukraine have moved closer to NATO – a prospect that Russia finds unacceptable. Without a change in the nature of Russian foreign policy, the current line runs a high risk of provoking unnecessary conflict between Russia and its neighbours.

In such a conflict, the biggest casualty would be EU-Russian relations. For both sides, the relationship is critical, though it remains marred by disagreements and mutual disdain. Regardless of disenchantment, business between the two is booming. Economic relations between the EU and Russia are close to interdependence, but asymmetrically in favour of the EU. Much has been made of European dependence on energy imports from Russia; however, Russia is also dependent on trade with Europe. European capital and investment generated by energy export has been integral to Russia's economic success. Russia cannot diversify its customer base for energy exports to Asia as it lacks the infrastructure. Overall, the EU is by far Russia's largest trade partner (the EU accounts for some 50% of overall Russian trade), but the converse is not true (Russia accounts for less than 10% of overall EU trade). This striking disparity means that, for Russia, cutting exports would be akin to economic suicide; Russia needs its European customers.

More problems ahead

While energy is currently the source of Russia's strength, it could soon turn out to be Russia's curse. The favourable energy situation that has fostered

OSCE/Alex Nitzsche

Russia's growth is unlikely to last. This period of increasing hydrocarbon revenue has not been driven by increases in volume but by increases in global prices. Though high energy prices are set to continue, Russia will face problems sustaining the existing level of production, let alone profits. In early 2008, Russian oil output declined and gas production is predicted to follow suit unless new reserves are tapped.

Although Russia has vast hydrocarbon reserves, neglect and underinvestment mean that Russia cannot rely on an increase in volume in the short-term. One World Bank study reckons that the Russian gas industry will need to invest some $173-203 billion to sustain production. Nor is it likely that Russia can increase the volume of cheap re-exported Central Asian gas. For example, in the past few years Turkmenistan has tripled the rate at which it sells gas to Russia. In addition, domestic demand for subsidized gas will continue to grow. Though European demand for gas is predicted to rise by as much as 150% by 2030 according to the International Energy Agency, most of this demand will be met by countries other than Russia – reducing the country's share in European gas imports from some 70% to 35-40%. The picture is even gloomier for Russian oil exports as its oil reserves are less accessible and would require even more investment. Thus it is unlikely that Russia can sustain its level of hydrocarbon export profits.

Moreover, this boom has not been used to lay a solid economic foundation. Despite the creation of a stabilization fund and the elimination of foreign debt, larger socioeconomic problems have not been dealt with. Russia faces problems such as a declining population, a lack of skilled workers, and dysfunctional social welfare and educational systems. Though these are long-term threats they are nonetheless real. The economy is also showing short-term cracks. After an impeccable record for several years, Russia's macroeconomic stability has declined slightly, along with signs of an overheating economy according to the World Bank. As a growing economy and macroeconomic stability were the key underpinnings of political stability during the Putin era, a declining economy could trigger domestic unrest, particularly if inflation were to spiral out of control. As Russia's new president remains largely untested, it is uncertain whether he can preserve Russia's newfound stability. He has tough times ahead.

Prospects and policies

In light of the aforementioned problems afflicting the sustainability of Russia's resurgence, the prospects are not exactly rosy. It is especially noteworthy that Russia is currently benefiting from a situation verging on the best case scenario: a booming economy, a popular unilateral foreign policy and great-power status. Yet the situation is bound to get worse, and without either substantive or structural change, Russia will be heading for a fall. The worst case scenario for the country would be a combination of substantive and structural problems erupting simultaneously: hostile neighbours and a sharp economic downturn. This worst case is unlikely, but an unchanged Russia will eventually slide into a difficult socioeconomic limbo and/or unnecessary confrontation with the West. Recent calibrations of Russia's foreign policy suggest little change of course, rather a reinforcement of energy as the core of Russian might. This is folly, for in domestic policy energy is

unreliable and in foreign policy it is too blunt a tool; above all, it is unsustainable.

The West is not a passive bystander in all of this. Interdependence ties the future of the EU and Russia together. Thus understanding the nature of Russia's resurgence is vital. Provoking Russia serves no purpose, but neither does acquiescence. In developing the optimal conditions for Russia's resurgence, the West has been unwittingly instrumental. Russia's resurgence, with its adverse effects, would not have been possible without a divided West. The EU's lack of a unified position has helped Russia but hurt the West. The challenge is for the EU to lever Russia away from aggressive behaviour, but encourage Russian growth. To this end, the EU needs to realize its asymmetric advantages over Russia and be more assertive in its stance. As noted by EU Commissioner Benita Ferrero-Waldner, the West has leverage – and needs to use it – with which it can pressure Russia away from antagonistic behaviour and into a more sustainable relationship.

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