

Illusion of Power: Russia after the South Caucasus Battle

CEPS Working Document No. 311/February 2009

Stanislav Secrieru

Abstract

The war in the South Caucasus sent shockwaves throughout the post-Soviet world, European capitals and across the Atlantic, making more urgent the demand for a re-evaluation of policies towards Russia. The projection of hard power in Georgia generated a number of unintended consequences for the Russian state. The crisis and war unveiled many of Russia's weaknesses and vulnerabilities across four crucial dimensions: the military, the 'power vertical' and federalism, the economy and Russia's international position. This paper aims at reassessing Russia's military, political, economic and diplomatic might after the battle in the South Caucasus. The research concludes with proposals for a new Western strategy on Russia and the EU's Eastern Neighbourhood which would ensure an undivided and sustainable European order.

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ISBN 978-92-9079-855-2

Available for free downloading from the CEPS website (<http://www.ceps.eu>)

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ILLUSION OF POWER:

RUSSIA AFTER THE SOUTH CAUCASUS BATTLE

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STANISLAV SECRIERU*

1. The weakness of power

Russia's first major military operation outside its territory since the end of Cold War was not just a demonstration of renewed strength in its own backyard, but represented the culmination of the Kremlin's efforts to return to a multipolar international system, where it feels it belonged for the last three centuries. The war in the South Caucasus sent shockwaves throughout the post-Soviet space, European capitals and across the Atlantic, making more urgent the demand for a re-evaluation of policies towards Russia. But the crisis and war also unveiled many of the country's weaknesses and vulnerabilities across four crucial dimensions of the Russian state: the military, the "power *vertikal*" and federalism, the economy, and Russia's international position. The analysis therefore seeks to address the following questions: What did the conflict tell about the current state of the Russian military? How did the war impact on the *tandemocracy*, regional politics in the Northern Caucasus, and the Russian economy? How successful was Russia in providing public information support for its "peace enforcement" operation in Georgia? What was the short term impact on Russia's relations with the post-Soviet states, the strategic 'multi-vectoral' partners and the West? The evaluation will conclude with proposals for an EU-US strategy on Russia which would ensure an undivided and sustainable European order that includes Russia.

2. The test of war: how reassuring is the military victory?

2.1 "Hard power" in action

Russia rushed into the war with its traditional approach - intense artillery and air strike against the enemy, followed by the deployment of large contingents of ground troops. Russia overwhelmed and ultimately defeated a numerically inferior Georgian army. Nevertheless, the assessment of the Russian military performance, equipment employed and losses suffered during the conflict are also indicative of the limited success of the reforms carried in the army since 2000 and of the current state of the military.

Russia conducted a 20th century military campaign. It relied on the sheer size of its intervention to crush the Georgian resistance on the ground by deploying two battalions of the 19th Motor Rifle Division of the 58th Army unit. Their advance into South Ossetia initially stalled when the commander of the strike force was wounded as he was leading the column. During the fighting in Georgia, airborne troops from the 76th (Pskov), the 98th (Ivanovo), the 31st Air Assault Brigade (Ulyanovsk) and the special battalions units "Zapad" and "Vostok"¹ (Chechnya) proved

* Center for East-European and Asian Studies (Bucharest). The author would like to express his gratitude to Michael Emerson, Nicu Popescu, Andrew Wilson, Andrew Monaghan and Sandra Fernandez for their insightful comments and suggestions on earlier versions of this paper. The author is also grateful to the anonymous reviewer for numerous helpful remarks.

¹ The battalion "Vostok" was led by Sulima Yamadaev, who had been declared wanted by the federal prosecutor's office for alleged kidnappings, murder and other serious crimes.

to be more efficient. As some analysts observed, the immediate call-up of elite airborne forces betrayed a clear lack of confidence that the motor rifle divisions were able to carry out their own combat missions successfully.² Significant Russian fatalities on the ground (according to official estimates - 21 soldiers) were also registered during the advance towards Tskhinvali, a fact that could be explained by deficient reconnaissance and lack of air cover for the infantry during the early combat stages.

In comparison with its last campaign in the North Caucasus between 1999 and 2000, the performance of the Russian military has improved. The Russian army was much better organized. It demonstrated not only the efficiency of its airlift capabilities, but also the capacity to assemble with speed and project military power into a mountainous and hilly terrain. The Russian military seemed not to have problems with the distribution of ammunition, and displayed enhanced organizational skills with logistical supplies.³ All these developments served as an indicator of the qualitative improvements of the Russian army since the last full-scale offensive in the North Caucasus. Russia might not have a more modern army, but it is at least functioning better.

However, experts are almost unanimous that the speed and efficiency of the military operation in Georgia was undermined by the lack of coordination between the various types of forces, indicating that previous reorganization measures in command structures were ineffective.⁴ There are at least two factors behind the dysfunctional interplay between the infantry, artillery, air force and intelligence. Firstly, the lengthy and inefficient command system where competences are over-concentrated within the General Staff. As a consequence, while enjoying limited autonomy, the commanders on the ground were not able to react promptly to changes on the battlefield. The lack of a unified combat command that would coordinate locally the joint efforts of different types of forces and services on the ground further undermined the military's performance. Secondly, the military campaign unveiled the failure of the Russian-made global positioning system (GLONASS), the lack of modern means of communication between the units and the chronic shortage of portable navigation devices. Despite substantial investments made in recent years by the government, GLONASS is still not fully operational, mainly due to the insufficient number of satellites⁵ in orbit. In order to compensate for this handicap, the Russian military tried to make use of civilian GPS signals, which was not ideal for a military campaign. This resulted in difficulties in establishing the exact position of their own troops and the enemy, and in "friendly-fire" incidents among the Russian forces.⁶ Finally, deficient communication and the lack of sophisticated night-vision equipment seriously reduced the Russian army's ability to conduct operations at night.

The war revealed some of the structural inefficiencies of the Russian army's modernization process as well as the lack of precision-guided munitions. Because of the shortages of smart

² See for example, Aleksandr Khranchikhin, "Uroki Ratnyh Uspehov i Neudachi", *Nezavisimoe Voennoe Obozrenie*, 22 August 2008 (available at http://nvo.ng.ru/wars/2008-08-22/1_uroki.html).

³ Alexandr Artemiev, "Nesoglasovannaya Pobeda", *Gazeta.ru*, 14 August 2008 (available at http://www.gazeta.ru/politics/2008/08/14_a_2810868.shtml); Felix K. Chang, "Russia Resurgent: An Initial Look at Russian Military Performance in Georgia", *E-Notes*, Foreign Policy Research Institute, 13 August 2008 (available at <http://www.fpri.org/enotes/200808.chang.russiaresurgentgeorgia.html>).

⁴ Anatoli Tsyganok, "Uroki Pyatidnevnoi Voiny v Zakavkazie", *Nezavisimoe Voennoe Obozrenie*, 29 August 2008 (available at http://nvo.ng.ru/wars/2008-08-29/1_uroki.html).

⁵ Currently on orbit Russia possesses 13 satellites instead of 24 at minimum needed for GLONASS to become operational, and advisable 30 satellites in case of deficiencies of the old ones.

⁶ Said Aminov, "Georgia's Air Defense in the War with South Ossetia", *Moscow Defense Brief*, No. 3, 2008 (available at <http://mdb.cast.ru/mdb/3-2008/item3/article3/>).

weapons and substantial satellite coverage, the Russian artillery and aviation continued to rely on outdated rockets and bombs, which inevitably led to indiscriminate firing that hit civilian targets. A number of Russian tanks (old versions of the T-62 and T-72), which were designed almost 30 years ago, broke down at the entrance to South Ossetia via the Roki Tunnel, just before engaging the enemy units, and then blocked the already congested and narrow road to Tskhinvali. Russian soldiers preferred to ride Armoured Personnel Carriers (APCs: BMP-1, BMD-1) on top and not inside, because they had better chances of survival if hit by armour-piercing shells or land mines. According to a Russian high-ranking officer, in 2007 the share of modern military hardware was of 5% for tanks (T-90, T-80U) and 2% for APCs (BMP-3).⁷ After the military operation, Russia announced the army will keep for itself 44 out of the total of 65 captured tanks.⁸ In 2007 the Russian army received fewer tanks from the state procurement order than it captured in Georgia in a few days of the war.⁹

Official Russian statistics speak of 64 military killed (down from an initial estimate of 74) and 323 injured during the conflict. For such a short war and inferior enemy, the number of Russian casualties was relatively high. Although the Kremlin pledged never to use conscripts in action again after the second Chechen campaign, the deeply entrenched psychological propensity to seek numerical superiority made the Russian leadership backtrack on that promise and deploy conscripts in Georgia. Thus, the initial assurance by the General Staff that only *kontraktniki* (paid professional soldiers) would fight in Georgia was undermined. Under the pressure of numerous media reports about the casualties among the conscripts in the 58th Army, the Russian military officials recognized that minimal numbers of them were involved in combat operations. However, authorities were quick to emphasize that this had been done in full accordance with the law on military service and obligations.¹⁰

Owing to their poor performance, especially in the initial stages of the conflict, the air forces have been strongly criticized by experts, while a number of shortfalls have been reluctantly recognized by high ranking officers. Officially, Russia lost 4 aircraft, 3 SU-25 jets and one TU-22M3 supersonic bomber and reconnaissance aircraft. Independent media reported between 5 and 8 aircraft lost,¹¹ of which at least one was a SU-24 interceptor and attack aircraft. Such losses could have been avoided, if from the start the Russian air forces had used unmanned aerial vehicles (UAV) to precisely locate the Georgian radar network and successfully destroy it. Many observers believe that the decision adopted by the Russian government in 2006 to halt, until 2012, the development of a new UAV will have to be reconsidered in light of this August war in Georgia.¹² However, military experts warn that the Russian defense industry in the short

⁷ Vladislav Polonski, “Bronetehnika Budushego”, *Obozrenie Armii i Flota*, No. 6, December 2007, p. 26.

⁸ Russian army also seized in Georgia: 5 OSA surface-to-air missile systems; 15 infantry fighting vehicles BMP-2; 5 Humvies, a number of howitzers D-30; artillery ammunition, 664 US-made M-16 rifles, a number of M-40 sniper rifles, 28 machine guns M240, 745 guns AK, Global Positioning System equipment used in weapons targeting, friend-or-foe electronic gear and classified radio and reconnaissance equipment (high-tech equipment according to Pentagon owned by the US army).

⁹ Olga Bozhyeva, “Razoruzhonnye Sily Rossiskoi Federatsii”, *Moskovskii Komsomolets*, 21 August 2008 (available at <http://www.mk.ru/blogs/MK/2008/08/21/politic/367136/>).

¹⁰ High ranking officer from the General Staff quoted in Daniil Aizenshtadt, “Bufernaya Gruzya”, *Gazeta.ru*, 20 August 2008 (available at http://www.gazeta.ru/politics/2008/08/20_a_2816779.shtml).

¹¹ See for more details Vladimir Voronov, “Pocemu Gruzinskie Voiska Stoli Bistro Vyshli iz Boya?”, *Novoe Vremya*, No. 34, 25 August 2008 (available at <http://newtimes.ru/magazine/2008/issue080/doc-57257.html>); Aleksei Nikolski, “Voyna Menyaet Tehniku”, *Vedomosti*, 12 September 2008 (available at <http://www.vedomosti.ru/newspaper/article.shtml?2008/09/12/160916>).

¹² Anatoli Tsyganok, “Neotlozhnye Mery po Itogam Voiny”, *Polit.Ru*, 19 August 2008 (available at <http://www.polit.ru/analytics/2008/09/18/war.html>).

term will not be able to develop and start serial production of new competitive UAV.¹³ Fully aware of the time constraints and the imperatives of a modern UAV fleet, Ministry of Defense take seriously the possibility of acquiring a limited number of UAV from abroad.

Digging deeper into the questionable decision to use the TU-22M3 before the annihilation of the enemy's air defence system, the involvement in combat missions of elite pilots from the Chkalov Main Flight Test Centre indicates the low level qualification of the pilots from the regular units, a fact that has probably determined such an extreme decision. In spite of a slight increase (5%-7%) in flight hours in the period between 2000 and 2003, Russian air force pilots having been flying only 12-44 hours per year. These figures are noticeably below international standards, according to which pilots should fly 160-180 hours per year in order to maintain necessary combat aptitudes.¹⁴ Inexperience of the pilots and lack of training has been often the cause of accidents in the Russian air forces. In 2005, during a major military exercise a SU-33 jet sank in the Atlantic because the pilot failed to land correctly on the aircraft carrier "Admiral Kuznetsov". Besides insufficient training, the rapidly aging military aviation fleet contributed decisively to the increase of non-combat losses. Between October-December 2008 two MIG-29 jets of the Russian air forces crashed because of the flight control system failure. Renewed 'permanent' strategic bomber patrols and sustained heavy losses during the operation in Georgia suggests that the Russian air force is more prepared for strategic conflict than local ones.

2.2 Military modernization and reform agenda reloaded

The Kremlin's congratulations to all men in uniform for 'mission accomplished' have been followed by a critical assessment of the real state of affairs in the Russian army. Judging by the immediate actions taken in the field of national defence, the Russian executive was not satisfied with the achievements of its efforts at modernisation over the last decade, nor with the military operation itself. Throughout the last two decades Moscow has invested heavily in trying to maintain a strategic military balance with the US, which led to the degradation of Russia's conventional forces. There is no surprise that during the post-war meeting of President Medvedev with high rank officials from the Ministry of Defence and Ministry of Finance there was a discussion about the urgent purchase of newly-produced (but designed mainly in Soviet times) military hardware, a fact that would change priorities in current budget allocations. At the same time, Prime Minister Putin, announced a 27% increase in resources for defence in 2009, which will total approximately \$60 bn or 3% of the GDP. The prime-minister has paid special attention to the Russian space program; GLONASS alone has instantly received an additional \$2.6 bn (RUB 67 bn). Last but not least, Kremlin gave the green light for the most ambitious reorganization of the armed forces since World War II. The military reform plan envisages substantial personnel cuts and construction of a new command structure centered on three pillars: military district, operative command and brigade.

Despite fast growing defence spending in recent years, the highly corrupt and opaque army system was not able to efficiently absorb the resources allocated for the modernization of the army. During the Yeltsin epoch (1992-1999), the Russian military procured 92 intercontinental ballistic missiles (ICBM), 150 tanks, 7 heavy bombers and 100 air fighters. By comparison, in the Putin epoch (2000-2007), the Russian army has received 27 ICBMs, 90 tanks, 1 heavy

¹³ Vladimir Scherbakov, "Poisk Bepilotnikov dlya Rossiiskoi Armii", *Nezavisimoe Voennoe Obozrenie*, 28 November 2008 (available at http://nvo.ng.ru/armament/2008-11-28/8_bespilotnik.html).

¹⁴ Data taken from Vladimir Ivanov, "Glavnaya Tseli – Professionalinaya Armia", *Nezavisimoe Voennoe Obozrenie*, 5 November 2004 (available at http://nvo.ng.ru/wars/2004-11-05/2_army.html).

bomber and 2 strike aircrafts.¹⁵ According to the Russian Chamber of Public Accounts, the Ministry of Defence misallocated approximately \$61.7 mn (RUB 1.8 bn) in 2005 which made it the leading mismanager of budgetary funds in the country.¹⁶ As reported by the Chief Military Prosecutor damage from corruption in 2008 is estimated at \$58.1 mn (RUB 1.6 bn).¹⁷ However, the discoveries made by the investigators represent only the tip of the iceberg. Despite tough measures (290 officers were arrested in 11 months in 2008) corruption in the army is rapidly expanding. The most recent fraud case revealed by the Military Prosecutors Office, involved a group of high-ranking officers who attempted to sell rocket fuel components to private firms, in order to purchase it back later at a higher price (the damage of which is estimated at \$12.2 mn), which is illustrative of the state of the procurement system.

Moreover, the situation looks even bleaker, as inflation is on the rise and will push the price of weapon prices even higher. The case of the first Borey-class (project-955) strategic submarine “Yuri Dolgoruki” is revealing. In 2007, the construction cost of the submarine was estimated at approximately \$1 bn (24 bn RUB). In 2008, the same project was evaluated at \$1.7 bn (46 bn RUB), a figure which exceeds the cost (\$1.35 bn) of the US made Ohio-class (SSBN 726) strategic submarine.¹⁸ As the economic crisis unfolds and Russia faces the perspective of the first budget deficit since 1999, the leadership could delay the increase of the military expenditures or scale them down in the years to come. Such a decision will likely put on hold the new projects envisioned for the navy and air force modernization.

The Russian military industrial complex, a key to the modernization of the armed forces, is in a precarious situation. The defence industry faces a shortage of qualified personnel (the average age of workers in the industry is close to 60) and accelerated degradation of the infrastructure (80% of factories and industrial plants are technologically outdated), which diminishes the production capacity of the factories, and has a direct impact on the quality and untimely execution of both state orders and foreign contracts. Recent scandals confirmed Russia’s defense industry vulnerabilities. In 2007\2008 India and Algeria cancelled or postponed a number of arms-procurement contracts because Russian military factories were late in respecting the deadlines (for the former aircraft carrier “Admiral Gorshkov”), and because the hardware was of poor quality (the MIG-29SMT jet fighter aircraft, the diesel 877EKM submarine project, the IL-38SD long range maritime patrol and anti-submarine aircraft). It is an open question whether factories reported to be short of liquidity were able to execute state procurement orders for 2008, or will do so in 2009 in a timely manner, given Russia’s deepening economic crisis.

Russian military experts have voiced scepticism with regard to “whether the ‘power *vertikal*’ can effectively reform one of the biggest pillars of the [Russian] state – the armed forces.”¹⁹ Since 1992, Russian leaders regularly advanced plans to restructure the army in accordance with a fundamentally new international setting. Despite several attempts to implement the reforms,

¹⁵ Mikhail Remizov, Aleksandr Khranchikhin, Anatoli Tsyganok, Roman Karev and Stanislav Belkovski, *Itoghi s Vladimirom Putinyem: Krizis I Razlozhenie Rossiiskoi Armii*, Report of National Strategy Institute, Moscow, November 2007 (available at <http://www.apn.ru/userdata/files/ins/INS-MR-1.pdf>).

¹⁶ See Viktor Myasnikov, “Na Vysote v Armii – Vorovstvo”, *Nezavisimoe Voennoe Obozrenie*, 15 May 2006 (available at http://nvo.ng.ru/forces/2006-05-19/1_vor.html).

¹⁷ See Vladimir Mukhin, “Armeiskie Korruptsionery Pokazali Rost Pribyli”, *Nezavisimoe Voennoe Obozrenie*, 10 November 2008 (available at http://www.ng.ru/nvo/2008-11-10/100_koruptsiya.html).

¹⁸ See Nikolai Horunzhi, “Takie Lodki i Bez Okhrany?”, *Vremya Novostei*, 1 December 2008 (available at <http://www.vremya.ru/2008/222/4/218154.html>).

¹⁹ Aleksandr Goltz, “Slabaya Pozitsiya”, *Ezhednevnyy Zhurnal*, 1 December 2008 (available at <http://ej.ru/?a=note&id=8615>).

the armed forces command system, with a few exceptions, remained basically untouched. Two factors explain the failure of the reform: the involvement of the military establishment in politics (particularly after the 1993 constitutional crisis), hindering the development of an effective civilian control of the military; the amplification of the institutional decay in the Russian army manifested in “threats of resignation by leading generals to elicit policy modifications, the willingness of generals to mislead politicians, the spread of large-scale corruption and criminal behaviour, [...] the military elites’ public criticism of and opposition to state officials and policy”.²⁰

The military establishment views with reluctance the most recent push for a fundamental transformation of the armed forces. From the beginning, Minister Serdyukov, who was transferred in 2007 from the Tax Federal Service to put the army finances under a tight control, received an unwelcome treatment from the generals. In the aftermath of the operation in Georgia, the Kremlin decided to exploit the window of opportunity to re-energize the decade long reformist agenda. Regardless of the firm declarations to radically reorganize the armed forces, the minister of defense has not presented publically any detailed plans. The bulk of the available information on the upcoming command structure reorganization has leaked into the press from inside sources. Serdyukov’s stealth approach towards reform denotes his intention to avoid a public row with the top military brass opposed to the shake-up. This indicates a considerable potential for reform sabotage at the highest level of the Russian military. Mass media reported that many generals intend to resign or have already resigned in a sign of protest against the planned major cuts²¹: the number of generals to be reduced from 1.107 to 886, the number of colonels from 25.665 to 9.114, and the ministry central apparatus and the General Staff (from 21.873 to 8.500). It remains to be seen whether the Russian leadership, while compelled to deal with multiple consequences of the economic crisis, will continue the impending military reform with the risk of alienating an important social power-base for the regime.

3. The domestic front: sovereign democracy in action and its perils

3.1 *The test of the dual “power vertikal”*

The “peace enforcement” operation in Georgia represented the first serious test of the double-headed “power *vertikal*” of President Dmitri Medvedev and Prime Minister Vladimir Putin. From the outbreak of the hostilities, the prime minister, who was taking part in the opening ceremony of the Olympic Games in Beijing, proved to be more vocal than the president, who was enjoying his vacation on the Volga. By promising a strong and resolute response during the first two days of the war, Putin acted like the man in charge and it seemed that he was the real one giving orders to the “power *vertikal*”. He travelled to Vladikavkaz in North Ossetia, met field commanders and consoled injured and displaced civilians from South Ossetia. Even on his return to Moscow, during the first meeting with the president, aired on TV, Putin was prescriptively telling Medvedev which steps had to be taken, while the Kremlin leader was simply quietly confirming and paraphrasing the same prescriptions. Evidently, Medvedev was dissatisfied with such a start and tried to recover his authority with even more belligerent rhetoric and promoting a division of labour whereby the president was responsible for the military operation and war diplomacy, and the prime-minister was in charge of delivering

²⁰ Zoltan Barany, *Democratic Breakdown and the Decline of the Russian Military*, Princeton: Princeton University Press, 2007, p. 80.

²¹ Ivan Kononov, “Perestroiku Armii Provedut bez Glasnosti”, *Kommersant*, 29 November 2008 (available at <http://www.kommersant.ru/doc.aspx?DocsID=1085793>).

humanitarian aid and the economic recovery of South Ossetia. According to this scheme, Medvedev announced the end of the military operation in Georgia, led negotiations with the rotating president of the EU Nicolas Sarkozy, and appeared at the press conference where the conditions for the cease-fire were declared.

Ultimately, however, Dmitri Medvedev could hardly claim to be the only co-author of the “six-point plan”, as at some point of the negotiations that continued during lunch, Prime Minister Putin joined the French and Russian presidents. Questioning the degree of Vladimir Putin’s involvement in the military campaign in Georgia, many observers still wonder who took the decision to stop the Russian advance towards Tbilisi. It is worth mentioning that in an interview for a Russian newspaper, French foreign minister Bernard Kouchner instead of referring to President Medvedev order (August 12) to end the operation, referred to the Georgian version of events according to which it was Putin who stopped the Russian tanks.²² Hence, there are grounds to doubt whether the Russian prime minister strictly abides by the division of labour endorsed by Dmitri Medvedev.

Despite the exhibition of superficial harmony, this short episode demonstrated a certain degree of political jealousy and hidden low-intensity competition between the two custodians of the political power structure in Russia. There is a high probability that the power *vertikal* (especially the hardcore *siloviki*) is still inclined to obey their old master. It is unlikely that in the short and medium term, Dmitri Medvedev would try to challenge openly this status quo. At the same time, there is no doubt that he will continue to defend his authority by affirming himself as an independent, strong leader and upgrade his administrative resources. While Medvedev would try to strengthen his position as president, the potential for conflict within the *tandemocracy* could increase, making the functioning of the dual “power *vertikal*” even more difficult.

Notwithstanding the vulnerabilities of the Russian political edifice identified above, in the eyes of the ruling Russian political elite the crisis confirmed that their “sovereign democracy” model proved itself more efficient. Unlike liberal democratic regimes across the world, the Russian regime allows the necessary political decisions to be taken swiftly and smoothly, which is considered by the Kremlin to be an important asset in crisis situations. The Russian decision to invade Georgia without the approval of the legislative body could be seen as an example of this advantage in action. However this was in clear contradiction of article 102 of the Russian constitution that requests that the Federation Council to approve military actions abroad.

Deeper analysis suggests that any political regime characterized by almost unrestrained, unaccountable and uncensored exercise of power, is more susceptible to arbitrary decisions, less oriented towards long term policy thinking, lacks incentives to learn from mistakes, and can be stubbornly persistent in repeating them. While the decision to wage war against Georgia inflicted economic costs immediately (see below), the hasty recognitions of Abkhazia and South Ossetia may in the long run be seen as a strategic blunder in its effects on federal centre-periphery relations and particularly in the Northern Caucasus, given the long and often violent history of attempts to gain independence among the republics.

3.2 Regional politics - the Northern Caucasus in the spotlight

Back in 2003, in his address to the Federal Assembly, Vladimir Putin referred to the re-integration of the country and return of Chechnya to the legal, economic and political space of

²² Bernard Kouchner, “Interview”, *Kommersant*, 28 October 2008 (available at <http://www.kommersant.ru/doc.aspx?DocsID=1048686>). For more on this debate, see Aleksandr Ryklin, “Otpolzli...”, *Ezhednevnyi Zhurnal*, 13 August 2008 (available at <http://www.ej.ru/?a=note&id=8309>).

the Russian Federation.²³ Although the so-called policy of “Chechenization” (propping up loyal Chechen paramilitaries who conduct most of the fighting and then lead the reconstruction efforts)²⁴ was delivering moderate results, the tendency towards growing instability was visible in the rest of the region. Since 2004, events in the Northern Caucasus have proved that Russia was not facing just a contained terrorist threat in Chechnya, as politicians had previously affirmed, but multiple challenges originating in bad governance, in the often violent and abusive behaviour of the local military and police, the lack of transparency and rampant corruption, high rates of unemployment, breakdown of social infrastructure, and the persecution of various religious groups. As a result, almost all the republics in the region, even those previously stable such as Ingushetia, have experienced a number of shockwaves produced by hostage taking, actual or attempted murders of politicians, clan conflicts and vendettas, mass protests and sieges of local administration buildings, pipeline explosions, and daily ambushes of federal and local security forces and their families.

In 2005 Dmitri Kozak, delegated after the Beslan tragedy as envoy to the Southern District, prepared a detailed report on the situation in the region. The document that later leaked out to the press draws a picture of systemic crisis in the Northern Caucasus. Enumerating the causes responsible for the degradation of the situation, many of which have already been mentioned above, the Kremlin’s representative warned that the southern periphery of the Russian Federation can turn into a macro-region of political, economic and social instability encompassing the whole Northern Caucasus and Stavrapolski Krai. Anticipating this scenario, the special envoy foresaw the “radicalization and rise of extremism, and a widening gap between the prescriptions of the constitutional principles and democratic procedures and the processes that take place in reality”.²⁵

While accomplishing some primary tasks, “Chechenization” generated a whole set of new problems²⁶, while failing to address old structural problems. Kadyrov-ism in Chechnya was emulated successfully in other republics, transforming previously mild local autocrats into more assertive and violent rulers. Despite regional negative trends, the Kremlin opted for the traditional heavy-handed policy in the Northern Caucasus, blending the supervision of local authoritarianism with the injection of substantial financial resources to feed the governing elites’ loyalty, while maintaining an excessive militarization of the region to guard against the worst possible scenario.

The situation has little improved since 2005. As the Russian-Georgian crisis has unfolded, the regional situation has in fact further deteriorated. Paralleling Russia’s recognition of the two Georgian separatist enclaves’ independence, Ingushetia was heading into a new spiral of violence. On August the 31st, the Ingush journalist and the owner of the news website *Ingushetiya.ru*, Magomed Yevloyev, was detained by the local police and was later reported shot dead (in the head) in a police car. The political assassination sparked a demonstration during and after the burial, that was forcefully dispersed by the security forces. Previously, Yevloyev was known as a vehement critic of the Ingush president Murat Zyazikov, having pleaded for his replacement by the first president of the republic - Ruslan Aushev. According to

²³ Vladimir Putin, *Poslanie Federalinomu Sobraniu Rossiiskoi Federatsii*, 16 May 2003 (available at http://www.kremlin.ru/appears/2003/05/16/1259_type63372_44623.shtml).

²⁴ See for more, John Russell, “Ramzan Kadyrov: The Indigenous Key to Success in Putin’s Chechenization Strategy?”, *Nationalities Papers*, Vol. 36, No. 4, September 2008, pp. 659-687.

²⁵ Excerpts of the report appeared in Aleksandr Hinshtein, “Prodaem Kavkaz”, *Moskovski Komsomolets*, 16 June 2005 (available at <http://www.mk.ru/newshop/bask.asp?artid=110036>).

²⁶ For more, see Roland Dannreuther and Luke March, “Chechnya: Has Moscow Won?”, *Survival*, Vol. 50, No. 4, August-September 2008, pp. 97-112.

some reports, during the last days of his life Yevloyev was more inclined to agitate for independence. The same sources report the initiative of the unofficial Ingush parliament – *Mekhk Kkhel* – to begin gathering pro-independence signatures, launched one day before the murder.²⁷ The physical elimination of Yevloyev triggered a wave of violence, with the assassination of the president's cousin, an attack at Zyazikov's residence, a bombing aimed against the Malgobek imam Hussein Shadiev and numerous attacks on security forces, including the republican minister of interior. The escalation of violence in Ingushetia forced the Kremlin to replace the contested ex-FSB officer Zyazikov with a career military officer, Yunus-Bek Yevkurov, who commanded the Russian troops in Kosovo in 1999.

The volatility is not confined anymore to the Northern Caucasus alone, as the region is gradually turning into an exporter of instability into the neighbouring countries. For example there were clashes between Dagestani insurgents with the Azeri special forces that took place in late August in Azerbaijan's Gusar district. The contagion of violence has reached the Russian Black Sea shores. Between April and November 2008 seven explosions and one bomb attempt took place in Sochi, the city-host of the 2014 Winter Olympic Games, resulting in 6 dead and 20 injured.²⁸ In addition the Russian authorities have failed to speak publically about these cases or to arrest those responsible.

Nevertheless, Moscow continues to keep the upper hand over the region through military and financial levers. From the Russian perspective, inaction in South Ossetia would have weakened the Kremlin's position in the whole of the North Caucasus. Certainly, Russia's strong reaction against Georgia in the short and medium term might discourage local autocrats from driving for greater autonomy and ensure their short-term obedience. Still in the long run, if the situation further deteriorates in the North Caucasus, there could be a radicalisation of independence aspirations even in other federal republics²⁹. The likelihood of this scenario would increase if budget constraints on the federal government led to reduced regional funding. Significantly scaled down federal financial support might intensify the inter-clan competition for resources and stimulate the intra-republican separatism (for instance Cherkessians in Karachayevo-Cherkessia or the ever-lasting feuds in Dagestan). In the worst case scenario, following the example of Abkhazia and South Ossetia, the radicalized national independence movements might demand self-determination from Russia and would later legitimate their unilateral decisions by invoking the precedent of Kremlin's short-sighted recognition of the separatist enclaves in Georgia.

3.3 The economic crash and the creeping social unrest

The repercussions of the military campaign in the South Caucasus have hit negatively the Russian economy, despite the Kremlin leadership's attempts to refute or downplay a causal relationship.³⁰ Just a few months ago Medvedev claimed that Russia will be a "quiet harbour" in the stormy sea of the global financial crisis. But between May and November 2008 Russia

²⁷ Information appeared in the *Caucasus Times*, 1 September 2008 (available at <http://www.caucasustimes.com/article.asp?id=16361>).

²⁸ For more on the incidents, see Igor Glanin, "Vosmoi Vzryv v Sochi", *Vremya Novostei*, 12 November 2008 (available at <http://www.vremya.ru/2008/209/46/216841.html>).

²⁹ See Louk Hagendoorn, Edwin Poppe and Anca Minescu, "Support for Separatism in Ethnic Republics of the Russian Federation", *Europe-Asia Studies*, Vol. 60, No. 3, May 2008, pp. 353-373.

³⁰ During Valdai Club meeting president Medvedev claimed that domestic problems including the war in Georgia were responsible only in proportion of 25% for the fall of Russian stock exchange. See Dmitri Medvedev, *Stenograficeski Otchiot o Vstreche s Uchastnikami Mejdunarodnogo Kluba "Valdai"*, Moscow, 12 September 2008 (available at <http://www.kremlin.ru/text/appears/2008/09/206408.shtml>).

became the fastest and deepest falling major stock market in the world, performing worse than the US, EU, Brazil and China. The performance of the Russian market and financial sector unveiled the weaknesses and limits of the resource-based economy model of development assumed and continued by the Kremlin through the last decade.

Russia's financial and macro-economic performance between August and November cannot be attributed exclusively to the war in Georgia. With the US financial crisis and the collapse of the price of oil from its record height of \$147 in July 2008, Moscow discovered how profoundly it is interconnected with the rest of the economic world and how unrealistic and outdated are the self-isolationist declarations of some of its politicians. Yet, the short-term causes of the Russian economic troubles were also in part self-inflicted. The first negative reaction of the Russian Stock Exchange was registered after Putin's criticism of the pricing policy of the metal-mining company Mechel (which wiped \$5 bn off the company's share value), and with the conflict between the shareholders of TNK-BP which the Kremlin hardly averted. Both episodes sent disquieting signals to foreign investors in Russia. When the global crisis deepened, Russia became the first place from which many investors fled.

All the above-mentioned factors led to what became known as Russia's "black Wednesday". The capital outflow during the active phase of the military campaign from August 8 to 11 totalled \$7 bn, and continued at a rapid pace thereafter. According to governmental sources, in October the net capital outflow from Russia reached \$50 bn. Experts expect that the net foreign investment inflow for 2008 will have been closer to zero than to the previously projected \$40 bn (which was already lower than the net inflow of \$83 bn in 2007).³¹ Russian Ministry for Economic Development projects for 2009 the net capital outflow close to \$90 bn.³²

Russia's international reserves dropped from August 8 till August 15 by \$16.4 bn. The negative tendency persisted and in September the Russian reserve has been reduced by another \$13.3 bn, declining from an all-time high of \$597.5 bn to \$560.3 bn in five weeks. According to the Russian Central Bank, the speed of decline has increased and by the December 1st reserves fell to \$455.7 bn. Some forecasts for 2009 indicate a further reduction of the Russian international reserves by \$110-140 bn.³³ In the first week (9-16 January 2009) after holiday season, Russian reserves dropped to \$396.2 bn, the lowest level since May 2007.

Taking the lead among the emerging markets, the Russian Stock Exchange index has dropped from its highest value of 2498 in May to 1058 on September the 17th when the Federal Agency for Financial Markets closed the trading session to prevent further decline. Ever since, the financial index has been losing ground at a rapid pace, reaching 498 points on January the 23rd, 2009. All Russian blue-chips followed the market: Gazprom's value alone dropped 74% from its high of \$366 bn in May 2008 to about \$85 billion by the end of 2008.

As a result, the Russian markets' shortage of liquidity pushed the price of borrowing 2% to 3% higher. The credit rating agency Standards & Poors immediately reacted to this evolution and changed the Russian sovereign credit rating in the second half of September from "positive" to "stable". This move was duplicated by Moody's who applied the same rating change in the private sector for 12 Russian banks. In November Fitch Ratings downgraded Russia's credit

³¹ See Igor Nikolaev, "Ekonomika: Ne Gotovy k Ispytanyam", *Vedomosti*, 5 September 2008 (available at <http://www.vedomosti.ru/newspaper/article.shtml?2008/09/05/160055>).

³² Data collected in Aliona Checheli, Dmitri Kazimin and Anna Peretolcina, "Utociot \$90 mlrd", *Vedomosti*, 19 December 2008 (available at <http://www.vedomosti.ru/newspaper/article.shtml?2008/12/19/174495>).

³³ The forecast presented in "Rossii Mojet Potrebovatisya Mejdunarodnaya Finansovaya Pomoshi", *RB.ru*, 19 December 2008 (available at <http://www.rb.ru/topstory/economics/2008/12/19/160913.html>).

outlook from “stable” to “negative”. In December, for the second time in 2008, Standards & Poors further lowered Russia’s sovereign credit rating maintaining a negative outlook. The global banks promptly re-evaluated the country’s risks and reduced credit lines for the Russian corporate sector. In such circumstances, it is likely that Russian companies will be short of the much needed external finances for the massive investment projects, especially in the energy sector, be it production (new oil and gas wells) or infrastructure (pipelines).

Moreover, it will be harder to re-borrow money in order to pay older debts, many of which are quasi-governmental, like Gazprom’s \$44 bn debt. The Russian corporate debt amounted on April 1, 2008 to \$436 bn, of which \$47.5 bn was to be paid by the end of the year and \$115.7 billion in 2009. Facing a very bleak perspective, the Russian top oil and gas production companies – Gazprom, Rosneft, TNK-BP and Lukoil – have sought state financial infusions to repay their debts, maintain production at the current level and invest in new gas/oil fields and modernization of electric power grids. Gazprom alone has sought for \$3.58 bn (RUB 100 bn) in government aid for the implementation in 2009 of the investment program in electric-power production units owned by the Russian state monopoly.

The economic crisis has also hit the Russian industrial sector and ordinary citizens. In November, Rosstat reported a 8.7% drop of the industrial production in Russia, the sharpest decline since 1998 (8.9% in July 1998). According to the Russian statistical agency, the unemployment figures increased in the same month by 376.000, climbing to 5 mn in total. Federal authorities estimate that unemployment could reach 6.5 mn in 2009. For the first time since 2005, the average incomes of the Russian citizens fell in November by 6.2%. Experts predict that the incomes of the population will continue to decline (approximately by 4%) in the first half of 2009.³⁴ These evolutions, combined with a probable increase of the cost of utilities, will likely fuel the population’s potential for protest. Several opinion polls conducted in November-December 2008 by the Public Opinion Foundation revealed that 39% of the respondents are disillusioned with the government, 38% of the citizens remarked that the economic situation in the country was bad (the figure increased from 21% registered in October), and 27% of the workers are set to demonstrate in the streets.³⁵

Shocked by the magnitude of the domestic financial turmoil and its implications for the real economy, President Medvedev, one month after the violent clash in the South Caucasus, recognized that instead of the war with Georgia, the August month could have been spent more efficiently on solving Russia’s economic problems.³⁶ The sign of weakness was obvious on the other side of the executive when Prime Minister Putin backtracked from the threat to withdraw from some obligations assumed during the WTO membership talks and promised to pursue the institutional integration of Russia in the world economy, including full membership in WTO.³⁷ However, subsequently Russian leaders unanimously rebuffed any links between state policies and the internal economic crisis. Moscow blamed exclusively the US and the global recession

³⁴ Data collected from Aliona Checheli and Evghenya Pisimennaya, “Vozvrashenie v 1998 god”, *Vedomosti*, 17 December 2008 (available at <http://www.vedomosti.ru/newspaper/article.shtml?2008/12/17/174101>); Aliona Checheli, “Glavnaya Zhertva”, *Vedomosti*, 22 December 2008 (available at <http://www.vedomosti.ru/newspaper/article.shtml?2008/12/22/174673>).

³⁵ See surveys for November-December 2008 on the webpage of the Fond “Obshestvennoe Mnenie” (available at <http://bd.fom.ru/map/projects/dominant>).

³⁶ Dmitri Medvedev, *Stenograficeskii Otchet o Vstrece s Uchastnikami Mejdunarodnogo Cluba „Valdai”*, Moscow, 12 September 2008 (available at http://www.kremlin.ru/appears/2008/09/12/1518_type63374type63376type63381type82634_206408.shtml).

³⁷ Vladimir Putin, “Vstrechia s Frantsuzkimi i Rossiiskimi Biznesmenami v Sochi”, *RBK*, 20 September 2008 (available at <http://top.rbc.ru/economics/20/09/2008/247094.shtml>).

for Russia's economic troubles. Prime Minister Putin went so far as to claim that the value of securities sold on the Russian stock exchange was intentionally undermined by external financial players.³⁸

To stop the economic slide down, the Russian executive accessed the National Wealth Fund (as for November 17, 2008 18% of the fund had been already spent), poured money in the financial sector, promised protection measures and aid to major businesses. The impact of the anti-crisis measures has been contradictory. Russian banks (Sberbank, VTB, and Gazprombank), entrusted to distribute aid among the financial institutions, failed to provide an equal access to these resources to all the players on the market. In many cases, the financial resources allocated by the government have not reached those in need and have been instead channelled preferentially. The protectionist measures (the increase of car import duties) designated to shield the auto industry from the global crisis sparked popular protests across the country (especially in the Far East) and set the Russian auto producers on the wrong course towards ensuring a greater competitiveness.

Preoccupied with possible social unrest, the government decided to tighten the censorship on mass media in relation to the debate on the nature of the economic crisis in Russia. The Prosecutor-General Office circulated in the regions a directive which calls on its local branches to thoroughly monitor all media reports on the economic crisis in Russia. Since the adoption of the directive, several journalists, an opposition politician and a prestigious publication have been put under pressure. In a case which received wide attention, the prosecutors' office and the government's media watchdog - Rossvyazikomnadzor – warned the newspaper "Vedomosti" publishers against 'inciting to extremism'. The warning has been issued after the newspaper published the article "Novocherkassk-2009" which made reference to workers' riots and their violent suppression in the summer of 1962 in the city of Novocherkassk (USSR).³⁹ In another attempt to restrict the freedom of speech, the opposition politician from Russian Popular Democratic Union has been arrested for publishing an article in which the author assessed the impact of the economic crisis on the city Ulyanovsk.

However, in order to successfully implement the economic manifesto announced by Medvedev and centered on the "four I's – Institutions, Infrastructure, Innovation, and Investments",⁴⁰ the Russian president has to bring change and revive the process of structural reforms abandoned by the government. The war-time rhetoric, strong anti-Western sentiments and an apparent desire to re-assert Russian influence in the post-Soviet world is not a very fertile ground for the mobilization of the population for the necessary economic changes.⁴¹ The challenge looks even bigger, as a qualitative leap from the resource-based to knowledge-based economy would naturally undermine the bases of the authoritarian regime ("sovereign democracy"), and its replacement by a rule of law domestically and sustainable positive relations with, in particular, Europe and the US.

³⁸ *Stenogramma Zasedanya Prezidiuma Pravitelstva Rossiiskoi Federatsii*, 1 December 2008 (available at <http://premier.gov.ru/events/1317.html>).

³⁹ For more, see Evgheni Gontmakher, "Stsenarii: Novocherkassk-2009", *Vedomosti*, 6 November 2008 (available at <http://www.vedomosti.ru:80/newspaper/article.shtml?2008/11/06/167542>).

⁴⁰ See Dmitrii Medvedev, Speech at the Krasnoyarsk Economic Forum, 15 February 2008 (available at http://medvedev2008.ru/english_2008_02_15.htm).

⁴¹ A survey conducted in December 2008 by VTsIOM found that "defense of traditional Russian values, independence and sovereignty, reassertion of great power-ness, protection of Russian ethnical interests" are the most appealing ideas to Russians. See "'Levyi Povorot' v Rossiiskoi Politike: Realnosti ili Mirazh?", *Press-Vypusk VTsIOM*, No. 1107, 2 December 2008 (available at <http://wciom.ru/novosti/press-vypuski/press-vypusk/single/11070.html>).

4. The international front: the failure to convince and the shadow of marginalization

The new foreign policy concept, approved by president Medvedev just a month before the outbreak of the war in the South Caucasus, reiterated among other things that Russia's main priorities on the international scene are the "creation of a favourable external environment for the country's modernization [...], transition towards an innovative economy [...]; development of good-neighbourhood relations with the states on [Russia's] perimeter [...], the prevention of conflicts in adjacent regions [...]; the formation of an objective perception of Russia as a democratic state with a socially oriented economy and an independent foreign policy [through] complete and accurate information of the world public opinion about its positions on the main international problems, foreign policy initiatives and actions, [and] domestic social-economic developments [...]"⁴² Russia's performance during and after the hostilities in Georgia offers the opportunity to evaluate how far Moscow has advanced in the promotion of these priorities and the intermediate results of its actions.

4.1 The information back-up of the military campaign

Russia's attack on Georgia was not followed during the first 48 hours by a similarly intensive information campaign to influence world public opinion and present Moscow's version of events. The bureaucracy of the dual 'power *vertikal*', accustomed to a hands-on management of the system, was reluctant to muster any informational support behind the military operation in the absence of clear orders from above. There were some general statements of the prime-minister in Beijing and later in Vladikavkaz that Russia would react accordingly. What was expected to be Medvedev's detailed explanation on the situation in the South Ossetia turned out on August the 8th to be another ambiguous vow to act to protect the Russian citizens wherever they are. Dmitri Medvedev stated: "We will not allow the deaths of our fellow citizens to go unpunished. The perpetrators will receive the punishment they deserve."⁴³ The Kremlin leader said no word about the military operation, while the Russian army was engaging the Georgian forces in air and on the ground and the international media was starting to deliver reports. Only on August the 9th, during a meeting with the minister of defence and the chief of the General Staff, did president Medvedev mention between the lines for a first time that the Russian forces were executing a 'peace-enforcement' operation in Georgia – but without any further explanations. The official websites of the Russian president and of the ministry of foreign affairs issued some information about phone discussions with their Western counterparts, but official Russia was absent from the international media. International journalists encountered problems with getting interviews from Russian officials. Thus, initially Russia seemed disinterested in international opinion, failing to put out a clear message and was almost exclusively focused on the domestic audience.

The initial hesitation and vagueness in communication were gradually replaced by the opposite extreme. Moscow adopted an aggressive, rudimentary, and often incoherent strategy of information support for its actions in Georgia. The number of political voices in Moscow making comments on the Russian-Georgian conflict multiplied and amplified. However, this rhetorical inflation did little to clarify Russia's actions, leaving more confusion for global opinion about the goals Moscow was pursuing in Georgia. Instead of explaining Russia's actions, and its expansion deep into the Georgian territory, Russian politicians preferred to

⁴² See *Kontseptsya Vneshei Politiki Rossiskoi Federatsii*, approved by decree No. 1440, 12 July 2008 (available at <http://www.kremlin.ru/text/docs/2008/07/204108.shtml>).

⁴³ Dmitri Medvedev, Statement on the Situation in South Ossetia, Moscow, 8 August 2008 (available at http://www.kremlin.ru/eng/speeches/2008/08/08/1553_type82912type82913_205032.shtml).

attack the “insane” president Saakashvili, to criticize Georgian TV for its “Goebbelsian propaganda”, and to report on the “genocide” which was taking place in South Ossetia. In parallel, Russian diplomacy was building the case in the UN Security Council for “humanitarian intervention” as a label for Moscow’s actions in Georgia. Considering that previously Russia had considered the bombardment of Serbia as an act of aggression against an independent state, Russia’s appeal to NATO’s 1999 humanitarian intervention in Kosovo to legitimize and explain its own actions in South Ossetia was deeply ironic. In a dramatic turn, President Medvedev abandoned Russia’s traditionally conservative approach towards the sovereignty of nations, affirming that states are not free to do whatever they want and have to bear responsibility for their actions.⁴⁴

Moscow’s clumsy attempts to use Western language appeared less credible in the light of the two Chechnya wars and the “sovereign democracy” non-interference discourse that had been the previous Kremlin line. Minister Lavrov’s demand for Saakashvili to leave office during a phone call with the US Secretary of State Rice, which became public during the UN Security Council session, made Russia’s humanitarian motivation even less credible. After two weeks, aware of the informational strategy deficiencies, the Russian leadership gave a series of interviews to the global mass media outlets. Nevertheless, the Russian Prime Minister unleashed his criticism on the Western press for its supposedly biased coverage of the war in Georgia. The Kremlin’s speedy recognition of Abkhazia and South Ossetia, and Kokoity’s zigzagging discourse on independence or integration into the Russian Federation, undermined Moscow’s humanitarian cover story for the war. For many of Russia’s neighbours, its behaviour in the South Caucasus was interpreted as a revival of the old pattern of re-collecting lands lost during the “time of troubles”⁴⁵.

No doubt, even an excellent PR campaign could not have undone the damage caused by Russia on the ground through the bombardment of civilian targets, use of short-range land-land tactical ballistic missiles, lack of protection for Georgians in South Ossetian villages occupied by the Russian army, and looted Georgian settlements. At best, an efficient Russian PR campaign might have provided the tools for some kind of damage limitation in the global information network.

4.2 Russia in regional and global politics

The post-conflict regional and global dynamics served as a practical test of Russia’s real (rather than self-perceived) weight on the international arena. The war itself received express support from Venezuela, Cuba and, with a delay that was embarrassing for Moscow, from Belarus. Russia’s recognition of the separatist enclaves in Georgia was followed by Nicaragua, received sympathy from Venezuela and a promise to examine the issue in the Belarusian parliament. Support for Moscow from actors such as Hamas, Hezbollah and the government in exile of the self-proclaimed Republic of Serbian Krajina only highlighted Russia’s isolation. Outcast political regimes and rogue non-state actors do not make up a club Russia would like to join. After the war, no one from Kremlin’s main partners provided unequivocal support for Russia.

⁴⁴ *Press Konferentsiya Dmitriya Medvedeva i Nicolya Sarkozy*, 12 August 2008 (available at http://www.kremlin.ru/appears/2008/08/12/2004_type63374type63377type63380type82634_205199.shtm l).

⁴⁵ “Throughout its history, Russia has experienced several periods of state failure, followed by [...] political confusion, foreign intervention, and the loss of territory. [But] Russia managed to get back on its feet, recover lost ground, and eventually become bigger [...]”. Dmitri Trenin, *The End of Eurasia: Russia on the Border Between Geopolitics and Globalization*, Carnegie Endowment for International Peace, Washington, D.C., 2001, p.87.

Even China expressed its concern on the news of Kremlin's recognition of the separatist entities in Georgia and offered a cold shoulder to Russia in the UN Security Council. Even when perceived as a demonstration of power, the ill-conceived recognition of Abkhazia and South Ossetia could equally be seen a sign of weakness. Russian suspicion of other regional actors who could neutralize or "steal" the results of its victory forced it to rush out and conserve the gains on the ground and retain its military presence.

The most perverse effects of the Russian military campaign in Georgia could be observed at the institutional and bilateral level in the CIS space. The organizations supposed to deliver strong support for Russia – the Collective Security Treaty Organization (CSTO) and the Shanghai Cooperation Organization (SCO) – put forward only muted reaction. In its final declaration, the CSTO expressed concern over Georgia's military attempt to solve the conflict and its humanitarian consequences. Both organizations, recognizing Russia's important role for peace and stability in the region, called on all sides to respect the principles elaborated in the Medvedev-Sarkozy plan, including the call for international discussions of security guarantees.⁴⁶ Neither the CSTO, nor the SCO's final documents used the "genocide" term, or expressed particular understanding for Russia's recognition of separatist enclaves in Georgia. Moreover, the CSTO and SCO support of the six-point plan came at odds with the Kremlin's unilateral security guarantees, as in the bilateral agreements on friendship, cooperation and mutual aid signed later between Moscow, Sukhumi and Tskhinvali. The SCO meeting (August 27th-28th), which took place before the CSTO summit (September 5th), and set the tone for the latter, with the Central Asian leaders sticking virtually the same position. The SCO showed itself to be an institutional springboard for Beijing's influence in Central Asia and a useful instrument for counter-balancing Russia on a case-by-case basis.

The war in the South Caucasus sowed preoccupation equally among the former Soviet republics attracted by the soft power of the Russian authoritarian capitalism and those keener on the liberal democratic model of the prosperous Western societies. Initially it seemed that Russia had attained many of its objectives in the CIS space. Moscow reduced if not eliminated any chances for Georgia's MAP aspirations in the foreseeable future and significantly weakened President Saakashvili's domestic standing. Azerbaijan and Armenia acquiesced in signing with Moscow a declaration on Nagorno-Karabakh, signed by the leaders of all three countries in November 2008. Ukraine, seen by many analysts as the next Russian target, remained mired in deep political crisis over divisions in the "orange camp".

However, this is not a complete balance sheet. There are other tendencies in the CIS space, indicating that in the medium and long term Russia's positions could deteriorate. Once back home, after talks in Moscow and Sochi, CIS leaders continued to diversify their political, security and economic options pushing further the fragmentation of the CIS space. The authorities in Minsk have intensified their efforts to ease if not completely get rid of Western sanctions, to restore a balanced relationship with the EU and to open its economic sector for European investments. Ukraine attempted to settle through presidential decree the new rules on the movement of the Russian fleet dislocated in Crimea (which however has not been implemented), and reaffirmed its strategic choice towards integration in the EU and NATO. In addition to its previous supporting statement that Tbilisi's efforts to re-establish its authority in South Ossetia were in full accordance with international law, Azerbaijan reconfirmed its commitment to the Nabucco project and its intention to double its number of peacekeepers in

⁴⁶ See *Dushanbinskaya Deklatartsya Glav Gosudarstv Chlenov ShOS*, Dushanbe, 27-28 August 2008 (available at <http://www.kremlin.ru/events/articles/2008/08/205859/205904.shtml>); *Deklaratsya Moskovskoi Sessii Soveta Kolektivnoi Bezopasnosti ODKB*, Moscow, 5 September 2008 (available at <http://www.kremlin.ru/events/articles/2008/09/206197/206216.shtml>).

Afghanistan. Armenia, Russia's only ally in the South Caucasus, whose import and export flows were heavily disrupted by the actions of the Russian army against the Georgian transport infrastructure, reenergized its policy of 'complementarity'. It aims to "cultivate friendly relations with the world and regional powers – Russia, the US and Iran - [in order] to place Armenia into a network of relations [...] that is based on convergent interests".⁴⁷ In this context, prime-minister Tigran Sargsyan visited the US, and Armenia hosted the biggest NATO exercise within the PfP programme in the South Caucasus. The new opportunities "opened" by the war were rapidly seized by Turkey which launched the "Caucasus Stability and Cooperation Platform" and directly made contact at the highest level with the Armenian leadership in order to bolster its role in the regional affairs, seeking also to mediate in the unsolved Nagorno-Karabakh conflict. Finally, the pendulum of Uzbekistan's foreign policy swung again, Karimov initiating procedures to leave the Eurasian Economic Community and seemed to lean more towards the US and EU.

The energy agenda quickly resurfaced after the war. The South Caucasus and Central Asia still play an important role as transit routes and resource bases for Europe and China. Among the immediate repercussions of the conflict, the EU revived its efforts for implementation of the Nabucco project, the Azeri-Greek deal for annual deliveries of one bn c/m starting in April 2009 was resurrected, and the Chinese-Turkmen agreement to expand the gas pipeline annual transition capacity from 30 up to 40 bn c/m was revived. Despite the fears generated by the war, Kazakhstan pushed ahead with the diversification of its export routes and in November started to pump oil via the Baku-Tbilisi-Ceyhan pipeline.

Russia's decision to use force confirmed Georgia's drift away from Russia and its determination to seek greater involvement of the EU, the US and NATO. As a consequence, the EU decided to deploy an autonomous civilian monitoring mission and to organize an international donors' conference for Georgia, winning pledges of \$4.5 billion: of which the European Commission adopted a €500 mn stabilization and growth package; the US offered \$1 bn for reconstruction and substantial humanitarian aid; the IMF agreed a \$750 mn financial package, the Asian Development Bank (China is present in the bank's board of directors) unanimously approved a \$40 mn loan with the most preferential conditions to the Municipal Development Fund of Georgia; and NATO intensified its institutional dialogue, creating the NATO-Georgia Commission and pledging to help rebuild Georgia's air defense and restore the defense infrastructure.

The Russian-Georgian war also had repercussions on Moscow's relationship with the West, which reached an all-time low since Soviet Union's dissolution. The impact was felt immediately as NATO decided (on August 19th) to suspend its relations within the framework of the NATO-Russia Council (Moscow responded on August 26th with a military-to-military freeze), and a number of member states cancelled their participation in military exercises with Russia. Finland and Sweden re-opened the debate on their possible membership in NATO; the US expressed pessimism over Russia's WTO and OECD membership prospects and froze the ratification procedure of the nuclear civilian deal with Russia; the EU postponed negotiations on the new treaty with Russia until its forces withdrew from Georgia proper; and Australia froze the ratification of its uranium trade pact with Moscow.

Moscow considered these short term measures less painful than it expected. Despite the previous declarations of the Western leaders, Russia is convinced that business as usual in relations with the West is possible and would soon emerge. There is no doubt that the EU and

⁴⁷ Michael A. Weinstein, "Armenia: The Dream of Complementarity and the Reality of Dependency", *PINR Report*, 27 September 2004 (available at http://www.pinr.com/report.php?ac=view_report&report_id=212).

NATO will try to reengage and maintain cooperation in fields of mutual concern and interest. The resumption of the negotiations with Moscow on the new EU-Russia treaty despite the fact that some provisions of Medvedev-Sarkozy plan have not been fully implemented, confirms this. NATO's willingness to cautiously re-engage Russia through an informal dialogue within the NATO-Russia Council framework demonstrates a similar attitude.

Interpreted in Moscow as a sign of the West's weakness,⁴⁸ there is nonetheless an on going re-evaluation of the relationship with Russia,⁴⁹ with long term consequences for the country's modernization process and its position in the international system. Russia is viewed as a necessary partner, but one that is less reliable than ever. Influential voices across the Atlantic concluded that Russia has to be treated "as a first-class strategic challenge",⁵⁰ while Moscow's closest European partner – Germany - criticized Moscow for sending "the wrong signal at the wrong time".⁵¹

Overall, Russia's war in the South Caucasus has hardly contributed to the creation of a positive international environment for the country's modernization and to the development of good neighbourly relations. Instead, Russia set in motion undesirable regional trends and exposed the weakness of its position in the multipolar world. "The Kremlin was more efficient in attaining results that were opposite to its intentions".⁵² Its drive to project its great power status in the South Caucasus followed the historical pattern whereby Russia's action to deal with one problem generates a new set of other problems and exacerbates the already present vulnerabilities of the country.⁵³

5. Conclusions

The analysis of Russia's behaviour during and after the war in the South Caucasus leads to four main conclusions. First, while the performance of the Russian army was seen to have relatively improved, it remains badly equipped and structurally unreformed for an encounter with a much more solid adversary. Second, the hostilities in Georgia exposed the vulnerability of a resource based economic model and the fragility of Russia's power capabilities base. Third, the

⁴⁸ Many experts compare Russia's most recent declinist view on the West with the perception largely shared by the Soviet Union leaders since mid-1970s that the West and its main pillar – the US – was losing in the global competition. For more, see Aleksandr Yanov, "Opasnyi Manifest", *Nezavisimaya Gazeta*, 13 May 2008 (available at http://www.ng.ru/ideas/2008-05-13/14_manifest.html). For a retrospective account of the Soviet elites' perception of the West in the mid 1970s, see Andrei Grachev, *Gorbachev's Gamble. Soviet Foreign Policy and the End of the Cold War*, Polity Press, Cambridge, 2008, pp. 15-16.

⁴⁹ See, for example, Benita Ferrero-Waldner, "EU/Russia: A Challenging Partnership, But One of the Most Important of Our Times", speech at European Parliament plenary debate on EU/Russia, 21 October 2008 (available at <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/545&format=HTML&aged=0&language=EN&guiLanguage=en>).

⁵⁰ Strobe Talbott quoted in Ben Smith, "Russia Poses Challenge to Obama", *Politico*, 26 November 2008 (available at <http://www.politico.com/news/stories/1108/15674.html>).

⁵¹ Germany's Foreign Minister Frank-Walter Steinmeier quoted in Nicholas Kulish, "As Russia Rises, a Test for Berlin", *International Herald Tribune*, 2 December 2008 (available at <http://www.ihf.com/articles/2008/12/02/europe/02germany.php>).

⁵² Lilia Shevtsova, "Konets Epohi: Loghika Osazhdennoi Kreposti", *Vedomosti*, 24 September 2008 (available at <http://www.vedomosti.ru/newspaper/article.shtml?2008/09/24/162295>).

⁵³ For a detailed description, see Alfred J. Rieber, "How Persistent Are Persistent Factors?", in Robert Legvold (ed.), *Russian Foreign Policy in the 21st Century and the Shadow of the Past*, Columbia University Press, New York, 2007, pp. 205-278.

Kremlin's hasty recognition of Abkhazia and South Ossetia is likely to have a negative impact in the long run on federal centre-periphery relations inside Russia, while in the short term the situation in the Northern Caucasus is set to deteriorate. And finally, Russia has failed to convince global public opinion of the legitimacy of its actions in Georgia and risks a gradual marginalization on the international stage. In this light, the tactical alliance with Turkey in the Black Sea and the strategic partnership with China are going to be strained for years to come. At the same time, the Kremlin's persistent use of 'declinist' rhetoric to characterize the West may foster a concerted Western policy to push Russia from a self-imagined centre further towards the periphery of the international system.

In this situation a new Western strategy is needed, based on a new transatlantic consensus, which should embrace not only Russia but also the whole of the EU's eastern neighbourhood. Furthermore, due to its importance for energy politics and security in the South Caucasus, such a strategy will have to involve Turkey, and aim to draw Istanbul closer to the EU. The allies on the both shores of the Atlantic have to re-affirm the centrality of a transformed NATO and the EU as the main pillars of the European order. Building on this assumption, NATO and EU have to institutionalize their relationship as the precondition for intensified dialogue and better coordination on the matters that features common agenda. The new transatlantic consensus will receive a substantial boost from France's re-integration into NATO's military structures, the reaffirmation of the article V of the North Atlantic Treaty in order to address the security concerns of the Baltic states (contingency plans), EU support for the US-Russia Strategic Arms Reduction Talks (START I due to expire in December 2009), US support for development of ESDP, and extension of the missile shield to cover Bulgaria, Greece, Romania and Turkey (indivisibility of security).

To improve unity within the EU, member states should agree on a solidarity clause that would guarantee a predictable and more coherent approach towards Russia and Europe's eastern neighbourhood. In the short term, NATO has to offer all necessary instruments for security sector reform in Georgia and Ukraine without labeling this process "MAP". Instead of demanding more, aspirants would better focus on internal reforms to improve the plausibility of their candidacy in the long-term. The EU has to increase its profile in the Eastern neighbourhood, which the Czech and Swedish EU presidencies in 2009 can work upon.

In order to co-opt Turkey, the EU has to involve it in the development of a common approach to the EU's external energy policy. The EU can support Turkey's efforts to resolve the Nagorno-Karabakh conflict between Azerbaijan and Armenia, to develop the "Caucasus Stability and Cooperation Platform", and channel the Black Sea Synergy funds for cross-border projects in the South Caucasus. The Nabucco project deserves priority in the field of energy diversification. The EU also needs to pay more attention to the problem of gas transmission systems interconnection among member states. Hungary's energy company initiative to build interconnection gas pipelines with Romania and Croatia serve as a good example for other member states to follow.

In relations with Moscow, the West has on the one hand to deflect Russia's attempts to divide Europe, and on the other hand to positively engage Russia in various institutional frameworks in order to ensure in the long term closer economic and security interaction. The US and EU have to make a coordinated effort to demand respect of the Treaty on Conventional Armed Forces in Europe and insist on the withdrawal of recognition of Abkhazia and South Ossetia. At the same time, the West should react positively to President Medvedev's proposal on new pan-European treaty dubbed as "Helsinki-2". However, any move in this direction has to happen within the OSCE, avoiding the creation of new institutions; and the treaty must refer to fundamental human rights and democracy as a key pillar of European security. Russia is the biggest economy in the world remaining outside the WTO, and its integration into the WTO will bring benefits to

the international trading system as well as to Russian citizens. The West has therefore to encourage Russia to continue moving in this direction and to meet obligations assumed during previous rounds of the bilateral and multilateral talks. Having resumed negotiations on a new EU-Russia agreement, this needs to be a legally binding and detailed definition of the main directions of cooperation between EU and Russia with deadlines in implementation of its provisions. The last thing the EU and Russia need is another declaratory document that remains unimplemented.

Building on these premises the EU and US together could advance a new strategy on Russia and the Eastern neighbourhood, in order to ensure a comprehensive European order based on positive interdependence, the principles of transparency, the rule of law and sustainable development.

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