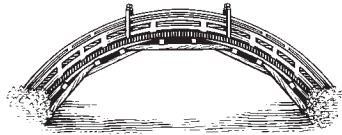


BOOK REVIEW ROUNDTABLE

Anders Åslund & Andrew Kuchins
The Russia Balance Sheet

Washington, D.C.: Peterson Institute for International Economics and
the Center for Strategic and International Studies, 2009

ISBN: 978-0-88132-424-2 (paper)



Jeffrey Mankoff

Donald N. Jensen

Peter Rutland

Stephen Blank

Steven E. Halliwell

Steven Rosefielde

Anders Åslund & Andrew Kuchins

Better Off Than You Might Think: Russia Is Not a Basket Case

Jeffrey Mankoff

With a range of collaborators, Anders Åslund and Andrew Kuchins have written a very fair-minded and penetrating analysis of the Russian political economy. Published by the Peterson Institute for International Economics, *The Russia Balance Sheet* is a follow up to the very successful 2006 book *China: The Balance Sheet*.¹ As its predecessor did for China, *The Russia Balance Sheet* seeks to identify the underlying strengths and weaknesses of the unique political-economic model that has emerged in Russia over the past decade-plus and then offers a strategy to U.S. policymakers now seeking to re-conceptualize Washington's relationship with Moscow. The book's timing is particularly fortunate, being published in the early spring of 2009 when Russia was suffering through the worst part of the global economic crisis. The book's focus on Russia's strengths is especially welcome, because popular portrayals of the country too often emphasize the negative: social decay, corruption, repressive politics, and an aggressive foreign policy. *The Russia Balance Sheet* makes the case that, with the exception of corruption, many of these stereotypes ought to be tempered by a longer perspective and a broader comparative lens.

As Åslund and Kuchins emphasize, Russia in many ways is better off than most middle income countries, including its putative partners among the BRIC economies (Brazil, India, and China), all of whose citizens have a much lower median income level and less access to education than their Russian counterparts. Moreover, Russia lacks the desperate poverty of the Brazilian *favelas* (shanty towns) or the slums of Mumbai. Russia is also more economically open than it is often given credit for being (p. 77).² At least until the onset of the current crisis, Russian economic policy was generally conservative, with the oil wealth sequestered in a sovereign wealth fund designed both to insure against a downturn and to prevent the influx of money from setting off inflation.

JEFFREY MANKOFF is Associate Director of International Security Studies (ISS) at Yale University and Adjunct Fellow for Russia Studies at the Council on Foreign Relations. He can be reached at <jeffrey.mankoff@yale.edu>.

¹ C. Fred Bergsten, Bates Gill, Nicholas R. Lardy, and Derek J. Mitchell, *China: The Balance Sheet* (New York: PublicAffairs, 2006).

² Per capita foreign investment in Russia was seven times higher than in China as of 2007.

Despite these strengths, Russia has for the most part experienced a bad crisis, and this book's analysis of the Russian economy's unique structure helps us understand why. The problem has much to do with politics, particularly the way in which wide swaths of the economy have become a cash-cow for the governing elite. To some extent, the fusion of business and politics is part of the Soviet legacy, but Åslund and Kuchins make clear that it also rests on specific policy choices, particularly those of the past five or six years.

The Russia Balance Sheet begins with an attempt to trace the historical evolution of Russia's state capitalist system, emphasizing the uneven trajectory of economic reform in Russia since the mid-1980s when Mikhail Gorbachev launched *perestroika*. The failure of Gorbachev's economic reforms set the stage for the struggles over economic policy that have been central to Russian politics since the end of the Soviet Union. Under Boris Yeltsin some sectors, notably oil, were effectively privatized, setting the stage for a decade or more of impressive growth. Yet Russia never broke completely with the Soviet-era model of large industrial conglomerates subject to state management. Gazprom, Russia's largest and most powerful corporation, is merely a partially privatized successor of the old Soviet Ministry of Oil and Gas. Likewise, three state-dominated companies—Sberbank, VTB, and Gazprombank—control half the Russian banking sector.

Russia has gone through periods of further reform since the heyday of liberalization in the early 1990s. As Åslund and Kuchins point out, Putin himself started off as a serious reformer. Only with the assault on Mikhail Khodorkovsky and Yukos in 2003 did Russia begin retreating from the goal of developing a fully modern, open economy. Since 2005, privatization has largely gone into reverse, with state companies using government funds to buy up private corporations, notably in the oil industry. Under Putin, power was increasingly used to confer wealth (the reverse was true under Yeltsin), and Russia increasingly became a rentier state beset with worsening corruption. The elite's addiction to rent-seeking has consequently become one of the most significant obstacles to structural reform since the start of the crisis.

As long as oil prices continued to rise, the state's growing hold on the economy did not matter much from the standpoint of national wealth. Money continued to flow into Russia, and the vast sums reinforced the bureaucracy's appetite for a cut of the profits. Even during the first stages of the current crisis, the state's "primary ambition seemed to be to promote renationalization" (p. 54), taking advantage of firms' inability to pay their debts to seize control at the expense of structural reform.

The crisis has exposed the need for Russia to move away from a centralized, resource-dependent model of growth, as current president Dmitri Medvedev has often emphasized.³ Yet the growth of state control over the past five years or so has led to a structure very resistant to change even in difficult economic times. As a result, the Kremlin has pursued seemingly incompatible approaches to the crisis, calling for a reduction in state control and the gradual unwinding of state corporations, but meanwhile channeling vast sums to favored oligarchs and state banks. The lack of structural reform has been a major reason the Russian crisis appears more intractable than that of other major economies.

The concentration of economic resources in the state's hands has been accompanied, and facilitated, by political centralization and a sometimes prickly foreign policy. Åslund and Kuchins make the case that these phenomena are interconnected. The consolidation of state control over the economy places greater power in the hands of officials who profit from their positions on corporate boards. Their ability to continue enjoying this wealth requires that they also dominate the political space. Meanwhile, since the goal of much economic activity in Russia is not wealth creation but rent-seeking, officials have an incentive to resist further opening to the outside world.⁴

The hydrocarbon boom that allowed Russia to put off economic reform also underwrote an increasingly assertive, rejectionist approach to foreign policy. Believing that the era of U.S. dominance was over and that the institutions of the past did not reflect current realities, Russia under Putin looked to other large emerging powers as the country's natural partners. In the process Moscow turned away from multilateral engagement in favor of a narrow, interest-based *realpolitik*. Unfortunately, imperial nostalgia also colored Russian foreign policy. Between its disregard for international public goods and belief that the post-Soviet space remains a "sphere of privileged interests," as Medvedev described it after the war with Georgia, Russia found itself increasingly isolated before the onset of the economic crisis.

³ See, for example, Office of the President, "Stenograficheskie otchët o vstreche s predstavitel'nyimi predprinimatel'skogo soobshchestva" [Transcript of a Meeting with Representatives of the Entrepreneurial Community], May 26, 2009 ~ <http://news.kremlin.ru/transcripts/4203>. The importance of transitioning to a more liberalized economy based on innovation was also central to the so-called Russia 2020 plan that was released in 2007. See "Kontseptsiya dologosrochnoi sotsial'no-ekonomicheskogo razvitiya Rossiiskoi Federatsii do 2020 goda" [Concept for the Long-Term Socio-economic Development of the Russian Federation to 2020], Ministry of Economic Development and Trade, September 2007 ~ <http://www.economy.gov.ru/wps/wcm/myconnect/economylib/mert/welcome/pressservice/eventschronicle/doc1217949648141>.

⁴ For instance, joining the WTO would boost GDP significantly, but the accompanying foreign competition would decimate uncompetitive, mostly state-run sectors of the Russian economy such as metallurgy and machine-building.

Many of the analytic chapters were written with or by various collaborators, but the recommendations section is credited to just Åslund and Kuchins and thus deserves particular attention as a statement of their views. Moving forward, Åslund and Kuchins express hope that the United States and Russia can achieve “full-fledged engagement based on converging values,” but rightly recognize that a more limited partnership based on “realistic engagement” (pp. 147–48) is more likely in the short-run. They suggest six areas where such engagement is desirable: Iran/missile defense, regional security (including Afghanistan), arms control, commercial relations, energy policy, and human rights. Most of their suggestions are useful; many are already being tried by the Obama administration. Others, such as opening negotiations on Russia’s proposal to overhaul Europe’s security architecture, even if doing so leads to a stronger role for the Organisation for Security Co-operation in Europe (OSCE) at the expense of NATO, or considering renegotiation of the Conventional Forces in Europe (CFE) Treaty, provide a useful challenge to the conventional wisdom.

The authors’ commitment to missile defense is perhaps too strong, based on the questionable contention that Iran’s missile program is the United States’ “greatest security concern” (p. 149). With the decision to cancel the deployment of missile defense facilities in Poland and the Czech Republic, the Obama administration has acknowledged that Tehran’s ability to strike the United States with ballistic missiles is, at best, a distant threat. Writing before the decision to cancel the eastern European deployment, Åslund and Kuchins argue for the importance of Washington standing by the U.S. commitment to the Czechs and Poles, who agreed, however reluctantly, to host the missile defense facilities. The authors do not address other means of reassurance that would both be more palatable in Moscow and less contentious in Warsaw and Prague.

Åslund and Kuchins are also probably too sanguine about the prospects of an institutionalized energy dialogue comprising Russia, the United States, and the European Union. Because the United States buys very little Russian energy, Moscow has been hesitant to give Washington a platform to discuss either Russia’s internal energy policy or Russian-EU energy relations. Moscow is even less likely to agree to a format that allows Washington and Brussels to gang up on Russia. These are minor quibbles, however; *The Russian Balance Sheet* provides a convincing and readable account of why Russia continues to struggle to fix its economic malaise even though the solutions seem commonsensical.

Åslund and Kuchins are at their best when debunking some of the myths that have grown up in the West about Russia and Russian politics. Not only

is Russia, as mentioned above, a wealthier (on a per capita basis), more open, and more cosmopolitan society than any of its BRIC partners; Russia's allegedly aggressive foreign policy is less the result of an imperial will to power than a desire to maintain some degree of international influence despite the upheavals that have shaken the country over the past two decades. Russian foreign policy, as Åslund and Kuchins argue, has often been "contradictory" (p. 118–19), aspiring to secure the respect Russian leaders feel they are owed, but acting in ways that too often alienate both the country's neighbors and the international community writ large. These failings are real, but the Cold War lens through which many in the West continue to view Russia also contributes to frequent misunderstandings of what Russia is and where it is headed.

Russia's Imbalanced Sheet

Donald N. Jensen

In *The Russia Balance Sheet*, Anders Åslund and Andrew Kuchins, two of Washington's best known Russia watchers, provide an informative political, economic, and social portrait of that country over the past decade. The authors argue that the growth of Russian energy exports in 2001–09, though masking the fundamentally poor condition of the Russian economy, provided the wealth necessary to raise incomes and military spending and enabled Russia to pursue a more assertive foreign policy. The Russian public largely supported these policies in exchange for Putin's centralization of power and suppression of civil liberties.¹

The heart of the book is a synthesis of the major factors shaping today's Russia: history, political development, economy, energy policy, social and demographic challenges, popular attitudes, and policies toward the country's neighbors and the United States, among others. For the most part these chapters are clear, insightful, and splendidly serve the reader. The discussion

DONALD N. JENSEN is a research fellow with the Center for Transatlantic Relations at the School of Advanced International Studies, Johns Hopkins University. He can be reached at <donald.jensen8@gmail.com>.

¹ Robert Legvold, "Eastern Europe and Former Soviet Republics," *Foreign Affairs* 88, no. 5 (September/October 2009): 159.

of Russia's economic performance over the past decade highlights Russia's impressive growth (at least until the 2008–09 financial crisis), the country's success in introducing the trappings of a free market, structural changes in the economy, and the key role played by rising oil prices in fueling the economic expansion. At the same time, the authors correctly emphasize Russia's need for further reforms, the need to rebuild the country's crumbling infrastructure, and the government's mistakes in economic policy. Although Russia is today very integrated into the global economy, Åslund and Kuchins point out that alarming protectionist pressures have been increasing in the past few years. Lingering above any discussion of Russia's future is the demographic challenge the country faces: "acute natural depopulation" resulting from a polluted environment, and self-destructive behaviors such as smoking, alcoholism, poor diet, and lack of exercise.

The book falters somewhat in its discussion of Russia's politics since the end of the Soviet Union. Åslund and Kuchins seem trapped by the same set of dubious assumptions about the dynamics of Russian politics that crippled U.S. policy in the 1990s and threatens to do so again today.

First, the authors assert that a "nascent institutionalized democracy in the 1990s" was reversed under Putin into a "precommunist Russian model" (p. 25) and that a "democratic breakthrough" took place in August 1991. By all means, a hallmark of the Putin era has been the revitalization of traditional Russian political behavior, but the failure of the Soviet Union in August 1991 was the victory of one part of the *nomenklatura* (ruling elite) over another, not a democratic breakthrough. Russia was hardly a democracy under Yeltsin, even though the country was, gratefully, more pluralistic than both the Soviet behemoth it succeeded and the autocracy under Putin that followed. Boris Yeltsin did not "choose democracy" in the December 1993 referendum on the draft constitution that vastly increased his power (p. 28) but instead used the referendum process to confirm his unchallenged dominance of the political stage. Yeltsin's one victorious presidential campaign against genuine alternative candidates, in 1996, may well have been rigged, and it is unclear that Yeltsin would have turned over power to a rival if he had not won that race.

Second, while the authors clearly identify the recentralization of power under Putin—especially the reining in of regional governors, the imposition of strictures on the media, and the attack on the oligarchs—the authors underestimate the strong continuities in political development between the Yeltsin and Putin presidencies. In 1999–2000, Yeltsin's entourage orchestrated a handover of the Russian presidency to one of its own, Vladimir Putin—with the help of the money and power of the Kremlin and the politically convenient

flare-up of the conflict in Chechnya. The steady drop in civil and political rights, as the authors' chart demonstrates (p. 34), began not under Putin but in 1997 during the Yeltsin presidency, when the powerful and uncontrolled political, bureaucratic, and economic forces stirred by the end of the USSR began to mature.

Finally, the book's discussion of Russia's political system underestimates the patrimonial character of that country's politics—the interpenetration of power and property, the systemic role that corruption (far too briefly mentioned) plays in governance. It shapes policy priorities and colors decisions made by the leadership. Russia's patrimonial character undermines the property rights that are central to the implementation of the generally sound policy recommendations Åslund and Kuchins recommend. It has also frequently led to the privatization of Russia's national interest – Russia's gas disputes with Ukraine, for example, are driven to an important extent by the desire of Russian (and Ukrainian) elites to enrich themselves. The key point, in other words, is not that the oligarchs dominated Yeltsin (even if that were true) or that Putin reversed the flow of power and routed them during his time as president. The point is that the system has no way of effectively separating and regulating power and money and that this fact has profoundly distorted Russia's politics. In practice, the distinctions between politician and businessman, bureaucrat and chekist, are blurred. Without a firmer rule of law, it is possible that “big business” could be on the march again in the future.

The book is on firmer ground in its discussion of Russian foreign policy, though there are also some slips. The review of selected major issues in Russian foreign policy informatively discusses Moscow's hostile view of NATO enlargement, the weakness of the Commonwealth of Independent States, the August 2008 war with Georgia, Russia's strained relations with the United States, and flourishing Russo-Sino relations. The authors conclude that Russia's foreign policy depends on how the country develops domestically and on its economic strength, with the international price of oil being the most important determinant of Russia's foreign policy behavior: “A high oil price has closely correlated with more assertive and aggressive Soviet and Russian policy for the last 40 years...If the current low oil prices endure and history is a guide, there should be a change in the substance and tone of Russian foreign policy toward greater accommodation to the West” (pp. 137–38).

After the steep drop in oil prices, and a year into a financial crisis that has hit Russia severely, there is little concrete evidence to suggest that Russia is pursuing such accommodation to the West. Beneath more soothing rhetoric, Moscow has called for an overhaul of the global financial system, done little

to help the West slow the Iranian nuclear program, continued to build up Russia's military-industrial complex, and broadened its nuclear doctrine to include the possibility of preemption in regional and local wars as well as full-scale nuclear attack.

Puzzlingly, Åslund and Kuchins describe Russia today as a "post-imperial" rather than "neoimperial" power, claiming that Russia "continues to transition from its historical empire toward becoming a nation state" (p. 119). Putting aside the notion that the balance between continuity and change in any nation can be accurately described as a transition—the concept presupposes a certain historical endpoint, whereas many nations endure zigs and zags in their development and even make 180-degree midcourse turns—the Russia of today is undeniably an imperial power, if one far less malign or powerful than the Soviet Union. President Dmitri Medvedev has asserted that Russia has a sphere of privileged interest in the former Soviet space, and Moscow has continued to build up political and military presence in South Ossetia and Abkhazia since the 2008 war with Georgia. A distressingly large segment of the country's elite remains unwilling to accept a politically flawed but democratic Ukraine on Russia's borders that might prefer security integration into NATO.

The authors conclude with a lucid discussion of U.S.-Russian relations, identifying six areas of desired cooperation: Iran and missile defense; European and regional security, including Afghanistan; arms control; commercial relations; energy policy; and democracy and human rights. They quite properly call on the Obama administration to help create a new atmosphere with the Kremlin.² More dubiously, however, Åslund and Kuchins claim that Moscow "harbors powerful motivations to improve ties with the United States and the West to both enhance its security and facilitate its economic development" (p. 162).

Perhaps those ought to be Moscow's motivations, at least from the perspective of Western experts, but Russia, at least thus far, does not seem to see its role in the world in quite the same way. The Kremlin greeted the decision to cancel deployment of an anti-ballistic missile system not as an act of prudent statecraft that might be matched with concessions but as the correction of a mistake by the Bush administration that demanded no reciprocity. During a two-day visit to Moscow in September, Secretary of State Hillary Clinton found that the impulse to "reset" bilateral relations between the two countries came largely

² The volume was published before the White House announced its decision to cancel deployment of an anti-ballistic missile system in Poland and the Czech Republic.

from the U.S. side. In the absence of a compelling national idea, the Kremlin appears to need an external adversary to justify its harsh rule at home. Russia's UN veto and energy riches are more useful as means to throw the country's international weight around than as paths to "integration with the West" as the "best chance to develop and reach its ambitious target of becoming the fifth largest economy in the world by 2020" (p.162). In compiling this generally admirable study, Åslund and Kuchins give short shrift to the possibility that Moscow may not want to take "yes" for an answer.

Don't Shortchange the Politics

Peter Rutland

In the 1990s, Russia was undergoing such dramatic and unexpected changes that anything seemed possible—from a liberal capitalist miracle to the restoration of Soviet power.¹ The uncertainty reached its peak in the wake of the August 1998 financial crash. In 1999, Russia's political future seemed up for grabs, and no one knew what the future would hold.²

How quickly things changed. The uncertainty of the 1990s contrasts sharply with the stability of the 2000s. Since Vladimir Putin's accession to power in 2000, the range of options for Russia's future trajectory has narrowed. Still, Western observers have continued to offer sharply differing interpretations of Russia's current reality. For some, Russia is still the new frontier, with amazing opportunities for the generation of wealth. For others, the country has reverted to its historic type: the basket case of Europe, leaking violence and instability.

PETER RUTLAND is Colin and Nancy Campbell Professor in Global Issues and Democratic Thought at Wesleyan University. He is currently completing a book on post-Soviet politics for Cambridge University Press. He can be reached at <prutland@wesleyan.edu>.

¹ For a prime example, see Daniel Yergin and Thane Gustafson, *Russia 2010: And What It Means for the World* (New York: Vintage, 1995).

² In 1999, a group of Russian businessmen formed the Club 2015 to draw up a report on scenarios for Russia over the next fifteen years. See "2015 – Scenarios for Russia," Club 2015 ~ <http://www.club2015.ru/>.

Throughout the Putin era, both Russia's boosters and detractors continued to find evidence to support their rosy or gloomy scenario. But most of the news coming out of Russia looked like more of the same; even the political assassinations and terrorist outrages became almost routine. Russia was settling into a combination of domestic authoritarianism and foreign policy ambition reminiscent of the "stagnation" of the Brezhnev era: unpleasant, but fairly predictable, with occasional foreign policy adventures.

In *The Russia Balance Sheet* Andrew Kuchins and Anders Åslund aim to break out of these ideological readings of Russia's fate. Their goal—as suggested by the title—is to offer an even-handed assessment of the pros and cons of Russia's evolutionary trajectory. They published their assessment just as the new administration of President Barack Obama was weighing the possibilities for a "reset" of U.S. relations with Russia. The book is written as a primer for policymakers, with a neutral and descriptive tone, summarizing the core facts that politicians would need to know in crafting policy toward Russia. This approach may blunt the kind of thought-provoking and critical analysis that is usually found in the writings of these authors.

The book begins with a historical chapter that stresses the geopolitical continuities of Russian state power. The next chapter traces Russia's political evolution through Yeltsin and Putin. It portrays Putin's regime as resting on rather shallow foundations, unable to develop an ideology and with nationalism remaining "quite moderate." (p. 37) According to Kuchins and Åslund, Putin's legitimacy was sustained primarily by Russia's strong economic performance prior to 2008. On the contrary, however, one can argue that, from the Chechen war to the Georgian war, nationalism was very much the glue holding the Putin system together and driving its decisions.

While narrating the democratic disappointments of the transition years, the authors somewhat evade direct discussion of the place of democracy in Russia's future. They neither sketch out scenarios for the realization of democracy in Russia nor ponder the damage that its absence might do to the country's development. Instead, the authors seem to be putting all their eggs in the basket of capitalism. They see Russians as having embraced capitalist values while being disdainful of democracy (chap. 7). Hence, the argument seems to be that there is a good chance that the market economy will flourish, and what is good for capitalism will be good for Russia.

Subsequent chapters present the state of play in the oil and gas sector and Russian foreign trade. Åslund and Kuchins are concerned by Russia's dependence on oil and argue that further market reforms could unleash more balanced economic development. It is not clear, however, if they expect such

reforms any time soon—or how sustainable the current model would be in the absence of such reforms. The authors imply that a lower oil price will force reform on the Russian leadership, thereby suggesting that the price of \$35 per barrel that was prevailing as of February 2009 was “historically high” (p. 59). Although that may be true when looking back at the previous 30 years, given that global supplies of oil will run out sooner rather than later, and given the rise of demand from China, there is no reason to suppose that the future price will resemble that of the past. (As of October 2009, the price of oil is \$69 a barrel, and five-year futures are around \$80.) Furthermore, the book arguably downplays the way that oil and gas are deeply enmeshed with the authoritarian politics of Putinism. For example, the campaign against foreign investors is portrayed here as a risk-management error (p. 63) rather than the product of a nationalist mind-set. Likewise, the authors do not explain why Russia has reintroduced some protectionist measures (p. 81). In sum, the oil curse may be a much more serious obstacle to Russia’s progress than the authors imply, because both the economy and the polity will likely remain heavily dependent on hydrocarbons for the foreseeable future.

Chapter 6 provides an accurate and concise summary of the health and demographic issues facing Russian society. The general picture is quite familiar and has been evident for many years. As with the economic chapters, these challenges are presented in a factual manner, as if they were naturally occurring phenomena. As a political scientist, I find myself asking the question: why have Russian leaders not been able to tackle these problems? It is not as if they are unaware of the situation. Only an analysis of the mechanisms of political decisionmaking and the peculiarities of the bureaucratic machinery can begin to address these questions.

As for foreign policy, addressed in chapter 8, the authors see Russia as a post-imperial rather than a neo-imperial power. This means that the United States should engage with Moscow and seek to calm its anxieties rather than act to contain its aggressive impulses. This seems like a reasonable position, though the neo-imperialist school will be unconvinced. Once again, the authors suggest that a decline in oil prices will occur, dampening Russia’s appetite for foreign policy adventures (p. 138). They do not see Russia’s authoritarianism as a barrier to the country’s integration into the global community—any more than it has been for China (p. 159).

The balance sheet approach has certain advantages. It involves putting down on paper the undisputed facts of the case, which can then be used as a basis for subsequent policy debate. It implies setting aside opinion and emotion in favor of recording measurable performance indicators. Yet this approach

also carries certain risks. Can one be sure that the data one is gathering reflects the most important variables in the minds of key decisionmakers? Without an explicit discussion of the assumptions about what is driving social outcomes, there is a risk of leaving out some important variables. In contrast to the balance sheet approach, scenario planning is more likely to force one to think outside the box—to pay attention to issues that may not be captured by conventional measures but which may turn out to be crucial drivers of future developments.

The book's relative silence on the question of Russia's political evolution is the most obvious lacuna in this particular balance sheet. This silence is all the more surprising given that political factors seem to be driving the various pathologies in economic development, public health, and international cooperation. This reviewer would have liked to have seen more discussion of the social and political challenges the regime faces, the balance between competing elite factions, the tension between the regions and the federal center, and the weakness of intermediary institutions.

Misreading Russia: The Washington Consensus Strikes Out Again

Stephen Blank

If one were looking for a book that represents the broad consensus inside the Beltway about Russia, this would be it. The virtues of *The Russia Balance Sheet* are considerable. But a more searching analysis of Russia is needed if the reader and the policy community for whom this book was most likely written are to understand Russia fully. In this respect, the book falls short.

This shortcoming does not imply that the authors have failed to provide a considerable level of data and assessment; for example, they present an insightful analysis of the problems connected with Russia's key industry, the energy sector. Likewise, Åslund and Kuchins provide an excellent account of why the issues connected to the World Trade Organization (WTO) are important for Russia and the country's economic and foreign relations. Similarly, the book provides a very fine account of Russia's demographic and health challenges and the potential impact of these issues on the economy.

STEPHEN BLANK is Research Professor of National Security Affairs with the Strategic Studies Institute at the U.S. Army War College. He can be reached at <stephen.blank@us.army.mil>.

Many of the recommendations on policy—for example, transforming Russia from a principal agent to one of the parties involved in efforts to resolve the Iranian nuclear issue—are also sound.

Despite the excellence of individual sections, however, the book has weaknesses that reduce its value as an overall analysis of Russia's course and trajectory. The major fault of *The Russia Balance Sheet* is that it too readily accepts the Beltway consensus and Russia's presentation of itself in the world and thus does not sufficiently analyze the driving forces of Russia's overall policies. This weakness is particularly acute with respect to Russian policy in areas beyond the Commonwealth of Independent States (CIS) and relations with Europe and the United States.

In particular, policy experts have failed to account for Russian foreign policy beyond areas of immediate interest to the U.S. policy community. This failure limits that community's ability to see Russian policy in all its totality: foreign policy, domestic policy, and the integration of the two. Whereas every Russian leader since Lenin has underlined the unity of domestic and foreign policy, most writing on Russia in the United States analyzes Russian foreign policy in a vacuum, failing to link domestic to foreign policy. *The Russian Balance Sheet* falls into this trap. Admittedly, foreign policy toward the United States has been the primary focus of Russian attention and is naturally of interest to the United States. Yet no Russian statesman makes the mistake of disregarding Russia's relationships with China and the rest of Asia or the growing commercial and political ties to the Middle East, Latin America, and even Africa. In addition, the book does not contain sustained analysis of Russian defense policies. This all too common omission, which the authors share with the vast majority of U.S. pundits, gravely compromises readers' ability to understand both Russian domestic and foreign policy.

This last flaw is also traceable to the book's refusal to accept that in fact Russia is not a market economy—numerous political declarations to the contrary notwithstanding. Those declarations, like the consensus behind them, owe much to *a priori* political considerations abroad and the political desire of Russian leaders to have other states recognize Russia as a market economy so that Moscow can thereby gain significant economic and political benefits from that recognition. But though political preferences may govern policy choices, they should not govern objective analysis. This is not to say there are no markets in Russia or that the country is not partially integrated into the global economy. These points are incontrovertible. The mere presence of markets, however, does not make a country a market economy, especially when those markets are administered or corrupted in numerous ways. For a

market economy to exist, certain fundamental preconditions must be present that are absent in Russia, including the sanctity of property rights, the equal sanctity of contracts, and the rule of law throughout the system. Without these phenomena, all private economic activity is ultimately conditional on the pleasure of the sovereign. No sign of any of these preconditions exists in Russia. Rather state behavior in energy, the defense industry, and numerous other areas suggests that existing rights and contracts are conditional.¹ There are, for example, no practical property rights in law. Although much legal activity takes place supposedly toward establishing such rights, in actual fact those rights are conditional. Even President Medvedev, the supposed reformer, speaks of dragging Russia into the innovation economy by an iron hand—and we know from Russian history what that means. The Khodorkovsky case demonstrates that even the most powerful magnate had, and still has, no rights before the state. Other “businessmen” have quickly learned the lesson and submitted.

Similarly, despite an excellent discussion of the energy economy, the book overlooks the implications of the fact that in energy and in other key sectors, such as defense and metals—and increasingly in high tech and future sectors such as nanotechnology—the state is the owner and driver. This inevitably entails not only a suboptimal economic outcome and backwardness but also political autocracy and a strong fight by this elite class to hold onto what it has. Furthermore, the fusion of power and property at the top of the political chain and with regard to these so-called strategic sectors evokes both the old Soviet *nomenklatura* (the ruling elite) and feudalism, which was built on the same principle of this fusion. Given the absence of property rights, rule of law, and accountability of the executive branch, Russia’s economy cannot be portrayed as a market economy but rather as the continuation of tsarism and patrimonialism. To overlook this type of analysis, one must look at Russia exclusively through the lens of contemporary U.S. political and economic discourse—in other words, one must ignore history and culture, a besetting vice of U.S. political culture. Historians and others who seriously examine Russian history before Gorbachev have not found it difficult to appreciate that contemporary Russia has deep tsarist roots.² In fact, some Russian analysts

¹ An English translation of Oleg Shvartsman’s interview with *Kommersant* on November 30, 2007, is available at Robert Amsterdam, “Russia’s Velvet Re-Privatization” \approx http://www.robertamsterdam.com/2007/11/russias_velvet_reprivatization.htm?Russia.

² See, for example, Richard Hellie, “The Structure of Russian Imperial History,” *History and Theory*, no. 44 (2005): 88–112; Peter Baker and Susan Glasser, *Kremlin Rising: Vladimir Putin’s Russia and the End of Revolution* (New York: Scribner, 2005), 417; and Steven Rosefielde, *Russia in the 21st Century: The Prodigal Superpower* (Cambridge: Cambridge University Press), 2004.

have even told this author that Putin was a tsar and that Russia under him was in a situation comparable to that of 1913. Indeed, Richard Hellie found that Putin, as well as Yeltsin before him, had revived a new version of the old “Russian service” state, a state where property rights, at least for the elite, are conditional upon state service and are not a right granted in law. This is an argument for which there is much evidence.³

Certainly an approach that overlooks history and culture loses sight of the linkages between the domestic economic and political system, on the one hand, and Russia’s neo-colonial policies in the CIS, on the other, as flowing from the logic of this patrimonialism. Thus, if Russia could not obtain Central Asian gas at depressed prices in 1999–2008 and use such gas to subsidize domestic consumption while arbitraging the price differential between what Russia paid for gas and what it sold abroad, no recovery of the scope of the growth then would have been imaginable. Without a neo-colonial energy policy that preserves the backwardness and autocracy of Central Asia, reform in Russia’s energy system would be an inescapable necessity. Hence, a neo-imperial approach to that region also entails a resolute defense of the status quo against all challenges. Such linkages, however, are not to be found in *The Russia Balance Sheet*.

The authors are also too inclined to take Russia’s arguments about foreign policy issues at face value. Is it really true that officials in Washington and the West view contemporary Russian issues through the blinders of the Cold War? That certainly is not this reviewer’s experience. Though the authors say insightful things about the shortcomings of U.S. policy toward Russia after 1991, is Washington alone responsible for everything that went wrong in bilateral relations? One need not defend the Bush administration to note that the book here contradicts itself by saying that the administration lacked a coherent Russian policy and then criticizing the administration for its alleged policy. Neither is it accurate to cast Russia as an object rather than an actor in its own right with regard to foreign policy in this period. Surely Russia made fateful choices that have profound consequences abroad, perhaps none more fateful than to relapse into autocracy and neo-imperial policies. Nor is any analysis of that Russian foreign policy complete without an analysis of the failure to bring the armed forces and intelligence services under democratic control and the resulting extremely negative consequences. It is precisely the failure to make such reforms that has allowed these agencies not only to take control of power after 2000 but also to take control of Russian political

³ See, for example, the works cited in footnote 2.

and national security discourse through their unrelentingly negative threat assessments of the West at a time when in fact Russia has never enjoyed so benign a threat situation on its western and eastern borders.

These primary failures both to illustrate the connection between Russian domestic and foreign policies and to go beyond the surface issues that receive priority attention in Washington also mar the analysis of key issues such as the discussion of energy policy. Though the authors display an excellent grasp of the domestic economic issues of the energy economy, the book neglects to analyze the importance of this economy for Central Asia and to show how energy and the revenues derived from it are applied throughout Eastern Europe. Like many other analysts, the authors simply fail to point to the abundant number of reports indicating that energy and energy revenues are systematically used throughout Eastern Europe and the CIS by the Russian state, intelligence services, energy firms, and organized crime, all of whom collaborate together on behalf of Russian interests. As the record shows, these organizations seek to gain access to legitimate business firms, control key sectors of the economy and the media, subvert political parties, and buy political influence and politicians throughout the region.⁴ Thus, there is much more to Russian foreign policy, and in an area of heightened interest to Moscow, than is reported here.

Unfortunately, and despite the many fine instances of analysis here, the authors represent accurately the Beltway milieu in which they work—a narrow environment that ignores much of Russian history and culture while focusing excessively on the here-and-now of policy rather than on policy's fundamental mainsprings and trajectories. Were this a book solely for the policymakers in this milieu, it would be an excellent example of the genre, even though (or maybe because) it reinforces many of the predispositions that hinder sound policy. Though having many virtues, *The Russia Balance Sheet* could have been a much more searching, profound, and thus truly usable study from which we would gain long-term benefit rather than the valuable yet incomplete assessment before us.

⁴ See, for example, Janusz Bugajski, *Cold Peace: Russia's New Imperialism* (Washington, D.C.: Praeger Publishers, 2005); Richard J. Krickus, "The Presidential Crisis in Lithuania: Its Roots and the Russian Factor" (remarks at the Woodrow Wilson Center, Washington, D.C., January 28, 2004); and Richard Krickus, *Iron Troikas* (Carlisle: Strategic Studies Institute, U.S. Army War College, 2006).

Russia in Asia: Beyond Eurocentric Realpolitik

Steven E. Halliwell

The Russia Balance Sheet is an ambitious effort to assess Russia in 2009. Many chapters provide excellent summaries of political, economic, social, and demographic issues facing Russia. This review essay focuses on what this reviewer sees as two flaws in the volume: (1) pervasive Eurocentrism and (2) a Panglossian view of a deeply troubled economy and a concomitant minimization of the risks of destabilization.

The first flaw—focusing on Russia in relation to Europe and the West—is a serious act of omission. Russia is integrating with Asia on energy supply, commercial relations, and finance, a significant development for understanding Russian motives and options. Anders Åslund and Andrew Kuchins, the book's authors, give recent events of historic importance and important trends little more than cursory attention:

- In February 2009, Russia and Japan dedicated the Sakhalin-2 liquefied natural gas (LNG) plant, which produces 5% of global LNG for Japan, Korea, and the United States. Although this issue is raised in chapter four, the chapter on oil and gas policy to which Edward Chow contributed,¹ it is not addressed in other parts of the book.
- In the same month, Russia signed a \$25 billion construction loan for a twenty-year supply of 10% of China's oil. The authors claim that Russia seeks China's financial aid "during troughs in Russia's relations with the West." (p. 132) In fact, this loan recognizes Russia's financial dependence on China and acceptance of a dedicated supplier relationship, despite a decade of fighting it.
- At Davos in March 2009, Putin called for a new global reserve currency. China's leaders immediately supported this idea, and momentum for it is building. Putin's announcement had been foreshadowed for many months, as resentment about the role of the U.S. dollar grew throughout the global crisis.
- At a recent summit in Beijing, Putin discussed the use of the ruble and yuan as clearing currencies for wholesale trade in consumer

STEVEN E. HALLIWELL is co-founder of River Capital Management, a New York-based investment management firm specializing in Russia and the former Soviet Union. He can be reached at <shalliwell@rivercapital.com>.

¹ Chapter four provides an excellent overview of Russia's backward oil and gas policy, citing Sakhalin in the context of Russia's policy of ejecting foreign investors from large projects and centralizing control under state-controlled companies.

goods, which employs 60,000 Chinese merchants in the Moscow region alone.²

The second flaw is more an act of commission than one of omission. The authors acknowledge that there are serious risks to Russia's internal stability and regime continuity but gloss over those issues with an optimistic forecast for the country's future.

One of the cautionary themes woven into the analysis relates to the lack of economic and social reforms:

...Russia has made no economic or social reform worth mentioning for the past six years, as the government has focused on the distribution of oil rents rather than on improvement of policy (p. 47).

Russia's public administration has proven itself too incompetent and corrupt to undertake major projects. Unless that changes, none of the many large planned infrastructure projects will progress (p. 51).

...Russia's manufacturing has largely failed to develop because of the adverse business climate (widespread corruption and onerous state intervention) and a lack of comparative advantage outside of the commodity sector (p. 146).

Chapter four graphically describes what the government's focus for the last six years on "distribution of oil rents" means for regime legitimacy:

The bonanza in oil income allowed them [Russia's leaders] to parcel out wealth, pay social benefits, reward friends, punish enemies, buy electoral victories, and maintain power, all without seeking political legitimacy of the sort required by broad taxation of the public in a diversified economy (p. 61).

Finally, the risks to political legitimacy from shrinking economic growth and consequent popular dissatisfaction are described ominously:

The current regime may therefore [if there is no economic growth] face an existential question of survival or have to develop another source of legitimacy. . . . If popular dissatisfaction grows, the ruling elites' natural reflex will be toward more repressive measures. . . . *The Russian government will need mediating structures to reach a compromise with dissatisfied groups, but at present such structures are missing* [emphasis added] (p. 37).

² Although this event is too recent for the authors to have reported, wholesale trade has been building for years. As the authors point out, 28% of Russia's imports are consumer goods, reflecting the backward state of domestic manufacturing. See Shai Oster, "Beijing, Moscow Sign Trade Pacts," *Wall Street Journal*, October 14, 2009.

The above passages should shape the policy recommendations—an “existential question of [regime] survival” is serious stuff. But there is too much good news to let these dire predictions get in the way. Russia, according to the authors, has experienced “stellar economic growth” (p. 114), its “booming” economy is “open” and “dynamic” (p. 70),³ and the opportunities for U.S. investment are potentially “spectacular” (p. 80). Russia is one of the big, rising economies (p. 40) of the world.⁴ The main challenge for U.S. policymakers, the book surmises, is to manage Russia’s rise through integration into the global community, much as the United States has allegedly done with China (p. 148). Russia, in turn, will seek integration with the West, and pursue economic liberalization, the authors opine. Why? Because “the growth motive is pervasive in the current Russian establishment” (p. 147). In order to facilitate that change, “U.S. policy should be designed primarily for that option” (p. 147). Voila! With adroit statecraft from Washington, Russia will become a partner on a range of issues.

In reality, Russia faces internal pressures that may undermine Moscow’s ability to be a consistent partner in policy matters, and the country’s economic interests may not lie with the United States. It would be useful to provide the business and policy communities with a sense for the potential downside if the authors’ policy recommendations of “realistic engagement” (p. 147) or “constructive realpolitik” (p. 149) turn out to be untenable due to serious fractures within Russia. And if Russia continues commercial and economic integration with Asia, what are the implications for U.S. businesses and policymakers?

A book entitled *The Russia Balance Sheet* suggests an analysis of assets and liabilities, but the terminology is not employed. Russia has two major assets. One of them is oil and gas. But as is pointed out in chapter four on oil and gas policy, the government has made major errors in energy policy: shifting commodity price risk from the private sector to the government, thus closing off investment flows; dismissing foreign partners when prices are high and inviting them in when prices are low; and limiting foreign involvement in capital-intensive exploration projects. If the state sector cannot manage energy

³ The authors state that “the Russian economy is quite open, twice as open as the US economy.” The context is a discussion of a six-fold increase in merchandise exports from 1999 to 2008. On the next page, however, the authors acknowledge that 61% of merchandise exports is distilled petroleum products.

⁴ The book promulgates the “BRIC” thesis that Brazil, Russia, India, and China are all emerging economic powers. Russia, however, with decaying industrial infrastructure and heavy reliance on resource exports, should not be grouped with three of the most dynamic economies in the world.

affairs, if Soviet-style inefficiency remains the rule of the day,⁵ and if there are no counter forces that can eliminate or even reduce the corrupt diversion of oil and gas revenues, even this “asset” is of questionable value. Though oil and gas export revenues have enabled Russia’s economic recovery from the shattered remains of the Soviet state, they have deformed that recovery as well.

Bungled energy politics makes it unlikely that Russia will cooperate on a European energy security policy when the Kremlin has hungry government ministers to feed and debt-ridden oligarchs to rescue. Instead, the Nord Stream and South Stream pipelines may be used to extract huge premiums from European markets. By cutting out the pipeline transit nations (Ukraine and Poland), Russia may seek to control those nations’ economies and policies, thereby provoking conflict with the United States. Even the rival Nabucco pipeline, which would transport gas from Central Asia to Western Europe via Turkey, which the authors support, has little chance of reducing Russian control over the flow of Central Asian energy if world prices and efficient markets are not established in that part of the world.⁶

Russia’s other major asset is Vladimir Putin. Putin had the good fortune to ride the commodity boom throughout his presidency and funneled enough of the proceeds into the population centers to raise both living standards and his popularity ratings.

Assets are not necessarily good things to have, however. Putin may turn out to be as “toxic” for Russia as the infamous subprime mortgages were in the United States. The reinstatement of authoritarian controls that accompanied Putin’s rise bodes ill for Russia’s development of market institutions and sustained economic growth. Russia’s leaders are trapped in a system that knows only how to control, not how to liberate, and how to capture rents but not how to add value. This system is Russia’s defining “liability”: there is no instrumentality for effecting change in Russia, no “mediating structures”—even if some members of ruling elite want such change.

In chapter seven, on Russian attitudes toward the West, the dilemma facing Russia’s population is well spelled out. A significant plurality (60%) believe that the West is not a model for Russia (p. 105), and an overwhelming majority favor a good economy over good democracy (81% to 14%) (p. 108). The authors view this choice as a “constraint” on liberal reform, which is important now that “Russia has probably picked most of the low hanging

⁵ According to the authors, “Gazprom is run much like the old Soviet gas ministry” (p. 62).

⁶ For an excellent essay on this, see Martha Brill Olcott, “A New Direction for U.S. Policy in the Caspian Region,” Carnegie Endowment, Policy Brief, February 2009.

fruit of its economic growth” (p. 112). When asked which society is more fair and just, twice as many Russians choose the West over Russia (47% to 23%) (p. 106). Russians, it appears, will consciously sacrifice social justice for economic security. But oil and gas revenues are not “low hanging fruit,” and if it becomes clear to the Russian people that their economic security is illusory, they may demand liberal reform.

Åslund and Kuchins have made a genuine contribution to understanding Russia today by gathering in one volume analysis on all the major aspects of Russian society. However, this reviewer hopes that future products of the Balance Sheet project will reflect more directly both Russia’s growing engagement with Asia and the internal stresses that may define U.S. policy options.

Amicus Curiae: Dodging Fundamentals

Steven Rosefielde

The *Russia Balance Sheet* is a friend-of-the-court brief (*amicus curiae*) that tells the Obama administration what it wants to hear. The book provides a cover story for a reset policy that allows Washington to redo President Clinton’s (and Bush’s) Russia partnership strategy without committing to anything more binding than peaceful coexistence (*mirnoe sosushchestvovanie*). There are those who would press the United States to unilaterally disarm or indulge every Kremlin transgression, but this volume advocates a moderate approach combining revived arms control initiatives, club membership (WTO), and foreign assistance with tutorials on the virtues of democracy, free enterprise, and civic empowerment everywhere, including Georgia and the Ukraine.

The reset option is on the table not because Condoleezza Rice opposed Åslund’s and Kuchin’s policy goals, but because the last administration’s partnership strategy was strained by the politics of Russia’s great power revival. During the first phase of post-Communism, when Russia succumbed to hyper-depression, the Kremlin acquiesced to its loss of empire and made

STEVEN ROSEFIELDE is Professor of Economics at University of North Carolina at Chapel Hill. He can be reached at <stevenr@email.unc.edu>.

dubious concessions to the West. Once the hyper-depression passed and the petro bubble filled the treasury's coffers, Putin reverted to the Muscovite policy of strategic opportunism by probing the possibilities of restoring the *status quo ante*. He not only launched the Chechen War, bullied various former Soviet-republics and satellites, played hardball with the European Union, and announced an ambitious rearmament program,¹ Putin also renationalized a substantial portion of the economy's commanding heights, adopting policies reminiscent of command economy. He likewise stifled democracy and curtailed civil liberties.²

The Bush administration responded to Moscow's rediscovered transgressiveness by ratcheting up its rhetoric and obtaining permission to install anti-ballistic missile (ABM) systems in Poland and the Czech Republic (purportedly for defense against Iran); these actions produced no positive results because, like Kim Jong-il, Putin knew that the West was more apt to appease than to steadfastly confront.

The Russia Balance Sheet sidesteps the dilemma of Kremlin assertiveness by pretending that the deterioration in U.S.-Russian relations since Bush peered into Putin's eyes and discovered the virtue of his soul is all a misunderstanding resulting from Rice's insensitivity to Kremlin fears and complexes.³ Kuchins and Åslund refurbish the fable that everything that seems wrong with Russia is just growing pains; that if Moscow's sensibilities are understood and magnanimously accommodated, democracy, free enterprise, and civil empowerment will reign for Russia's and the world's greater good.⁴

Russia, we are told, is governed by its national interest. The country's size, wealth, and history justify the maintenance of a powerful military, while the Kremlin's energies are primarily devoted to domestic prosperity and international harmony. From time to time, Russia may become too pugnacious in the pursuit of national security and may extend its imperial reach beyond reason, but its leaders can be enlightened with compassionate tutoring and material incentives. In other words, Moscow is willing to play the role in the new world order envisioned in *The Russia Balance Sheet*.

¹ Steven Rosefielde, *Russia in the 21st Century: The Prodigal Superpower* (Cambridge University Press: Cambridge, 2005).

² Steven Rosefielde and Stefan Hedlund, *Russia Since 1980: Wrestling with Westernization* (Cambridge University Press: Cambridge, 2009).

³ Robert V. Daniels, *The Rise and Fall of Communism in Russia* (Yale University Press: New Haven, 2007).

⁴ "I looked the man in the eye.... I was able to get a sense of his soul." George W. Bush, quoted in Caroline Wyatt, "Bush and Putin: Best of Friends," *BBC News*, June 16, 2001 ~ <http://news.bbc.co.uk/2/hi/1392791.stm>.

The book adopts this stance despite the fact that Russia is still an authoritarian martial police state,⁵ in part because the authors are convinced that neither the past nor the present determines the future. Although Putin failed to fulfill Åslund's prior predictions about adopting democratic free enterprise, the authors believe that some Russian leader eventually will do so because it is in the national interest. Even if sweet reason fails, the material costs of illiberality sooner or later will compel the Kremlin to Westernize, just as it tried to do in 1987.

This is wishful thinking, suitable for a new administration that has not sorted out its strategic agenda. This view is virtuous to the extent that it commits the United States to almost nothing, allowing the administration to tolerate any Russian transgression short of a first strike against the U.S. homeland in the unshakeable hope that eventually Moscow will take the right road.

Both Kuchins and Åslund surely would draw a line in the sand well before an attack on the homeland, should their hopes go unfulfilled, but *The Russia Balance Sheet* provides no clues where that line might be. Should we stand firm against the re-criminalization of private property, business, and entrepreneurship, or is this an internal matter? Should we try to impede Russian rearmament?⁶ Should we threaten intervention if Moscow attempts to restore its sovereignty over the former Soviet space? Should we guarantee the territorial and political integrity of the USSR's former satellites? Should we continue turning a blind eye toward authoritarianism and civic repression? These are the deep issues; not the elusive virtues of peaceful coexistence and partnership.⁷

Finally, for the record, it should be noted that Åslund's buoyant characterization in *The Russian Balance Sheet* of Russian economic performance and potential is profoundly misleading. This is an arcane issue that cannot be adequately addressed within the present confines.⁸ Briefly, however, Angus Maddison's authoritative Organisation for Economic Co-operation and Development (OECD) real per capita income data for the

⁵ The Russian people are not democratically sovereign, the power services dominate the government, and civil liberties are circumscribed.

⁶ For a discussion of the complexity of Putin's military and political agenda, see Steven Rosefield, "Moment of Truth, Russian Arms Procurement and Great Power Aspirations," in *The Impact of the Economic Crisis on the International Strategic Configuration*, ed. Niklas Swanstrom (Stockholm: Institute for Strategic and Policy Development, forthcoming 2009).

⁷ As argued in Steven Rosefield and D. Quinn Mills, *Masters of Illusion: American Leadership in the Media Age*, (Cambridge: Cambridge University Press, 2007); and Steven Rosefield and Daniel Quinn Mills, *Rising Nations* (Seattle: Amazon CreateSpace, 2009).

⁸ This topic is treated in depth in Steven Rosefield, *The Russian Economy from Lenin to Putin* (Wiley: New York, 2007).

past 500 years has exposed the reality of Russia's economic underachievement. Russian living standards did improve after the Soviet Union collapsed because resources were diverted from military use, but per capita GDP in 1989–2006 was unchanged.⁹ There was no post-Communist Russian economic miracle, nor should one have been expected, and no one can say whether there will be one until the legacy of the 2008–10 global crisis can be assessed.¹⁰

⁹ Angus Maddison, *The World Economy: Historical Statistics* (Paris: Organisation for Economic Co-operation and Development, 2003), and subsequent electronic updates.

¹⁰ Daniel Quinn Mills, *The World Financial Crisis of 2008–2010* (Seattle: Amazon CreateSpace, 2009).

Authors' Response: Russia in the Balance

Anders Åslund & Andrew Kuchins

Given the dilemma facing contemporary analysis of Russia that is laid out in the introduction of *The Russia Balance Sheet*—that depending on your perspective, Russia can be characterized as “a tale of two cities” and that much of what passes for analysis reflects deeply held historical, cultural, and political biases—it is not surprising that the six reviews diverge so greatly. We agree with comments of several reviewers that important topics, such as defense reform and corruption, did not receive adequate attention. It is impossible to cover the waterfront on a complex country like Russia in a book of less than 200 pages. Some of these topics we are taking up now in the second phase of the project, and we are currently just formulating our approach to the third and final phase. We thus value the reviewers' suggestions about neglected

ANDERS ÅSLUND is a senior fellow at the Peterson Institute for International Economics in Washington, D.C. He is a leading specialist on post-Communist economic transformation, with more than 30 years of experience in the field. He is the author of nine books, most recently, *How Ukraine Became a Market Economy and Democracy* (2009), *Russia's Capitalist Revolution* (2007), and *How Capitalism Was Built* (2007), and he has edited fourteen books. Dr. Åslund has also worked as an economic advisor to the Russian, Ukrainian, and Kyrgyz governments. He can be reached at <aaslund@piie.com>.

ANDREW KUCHINS is a Senior Fellow and Director of the Russia and Eurasia Program at the Center for Strategic and International Studies (CSIS). He served as Director of the Russian and Eurasian Program at the Carnegie Endowment for International Peace in Washington, D.C., from 2000 to 2003 and again in 2006, and as Director of the Carnegie Moscow Center in Russia from 2003 to 2005. Dr. Kuchins conducts research and writes widely on Russian foreign and security policy. His recent publications include “Economic Whiplash in Russia: An Opportunity to Bolster U.S.-Russia Commercial Ties?” (2009). He can be reached at <kuchins@csis.org>.

yet important themes. In this response to the reviews, we shall touch upon five themes: the purpose of our book, domestic politics, economic and social issues, foreign policy, and U.S. policy advice.

The reviewers seem to have understood our purpose, whether they agree with it or not. Peter Rutland has expressed this purpose most clearly, namely, that our first goal is “to break out of...ideological readings of Russia’s fate...to offer an even-handed assessment of the pros and cons of Russia’s evolutionary trajectory... The book is written as a primer for policymakers, with a neutral and descriptive tone.” That was exactly what we intended to do. Our second goal, also well-noticed, was to provide the incoming Obama administration with a straight set of policy recommendations. Disdainfully, Stephen Blank complains that our book “too readily accepts the Beltway consensus.” Given that our intention was to clarify the bases and implications of this consensus, we take this criticism as a compliment.

As is usually the case, Russian domestic politics and history arouse the greatest controversy. Well aware of this fact, we minimized history and domestic politics for this volume—we have discussed them amply elsewhere—trying to state the obvious facts in as neutral and descriptive terms as possible. These topics are so sensitive, however, that any mentioning arouses dissatisfaction. Yet it is incorrect to suggest, as a couple of the reviewers do, that we “overlook” history. The first chapter of the book, for example, frames Russia’s current struggles to break from traditions of centralized authoritarian political power and imperial or expansionist foreign policies through an analysis of the country’s historical roots.

Jeffrey Mankoff may share our perspective, and Peter Rutland is not far from it, though he prefers more “thought-provoking and critical analysis.” The other four reviewers simply think that we have been impermissibly soft on Russian authoritarianism. Don Jensen has all along thought that Yeltsin was almost as bad as Putin. We can accept criticism for caution, but this was (as Mankoff and Rutland understand) not the point we wanted to make in this book. Authors write books for different purposes without changing their views. Mankoff summarizes Russia as a rentier state, which makes a lot of sense. Steven Rosefielde calls Russia “an authoritarian martial police state.” We take the dispersed criticism as an indication that we succeeded in fulfilling our intent, but such criticism also shows how difficult it is to write about the last two decades of Russian domestic politics, even when trying to avoid disturbing anybody.

Moving to the economic and social affairs, disagreement falls by the wayside. Nobody can dispute the tremendous impact of energy on the Russian economy.

This is Mankoff's forte. Most agree that the oil price is of vital importance for the country's economic and political development. Mankoff, Jensen, and Rutland say so explicitly. Nobody can quarrel with our devastating demographic chapter drafted by Judyth Twigg; one can only wonder "why... Russian leaders [have] not been able to tackle these problems," as Rutland does. Our chapter on trade policy seems too obvious that nobody questions it, and Blank concurs. Strangely, though, Stephen Blank questions whether Russia is in fact a market economy without making a strong case. Steven Halliwell claims that we have "a Panglossian view of a deeply troubled economy," which was a surprise to both of us. How sharp does he really want us to be?

Somewhat surprisingly, the reviewers are not all that critical of our point that Russia is post-imperial rather than neo-imperial, although a few quibble a bit. Halliwell claims, in line with the current U.S. embrace of East Asia, that our presentation of Russia is "Eurocentric." But we cannot disregard the facts. The politically most sensitive Russian export is gas, and virtually all the gas exports go to Europe through pipelines. Europe attracts more than half of Russia's foreign trade, and the vast majority of Russians live in Europe. Needless to say, the dominant religion, the orthodox creed, is European as well. Russia is European in every relevant regard, even if Putin has said a few positive words about China, and Russia is considering the possibility of building a pipeline or two to China in the next decade. So far, Russia belongs to Europe, and if we want to be realistic about the country, we had better realize that fact.

An obvious purpose of this book, which was published as the new Obama administration was being formed, was to offer concrete and realistic policy advice. When offering such advice, one either accepts the main line of argument of the incoming administration (which we did) or one opposes this argument altogether. Clearly, people in the second category will not approve of the suggestions of people in the first category. Knowing what policy line the Obama administration was about to adopt, we have tried to push it further on various points. The two points where we might have lost the battle are European security and European energy—in other words, on European issues, where neither the U.S. administration nor the Kremlin have been as interested as we would like. However, we are happy to see that the Obama administration has been successful in moving forward. At the time of writing in December 2009, the United States and Russia unquestionably have better bilateral relations than when the Obama administration took office. To expect a near-term transformation is unrealistic, as we argue in *The Russia Balance Sheet*, and the

Obama administration certainly does not premise the success or failure of the “reset” on such an expectation.

As to our contention about the correlation between the price of oil and a more or less accommodating Russian foreign policy, we can only say now that the price of oil did not stay low long enough to reliably test the hypothesis that a more forthcoming Russian foreign policy is to be expected during a protracted economic downturn. As Sergei Guriev and Aleh Tsyvinski argue in the second book from the Russia Balance Sheet Project, *Russia after the Global Economic Crisis* (forthcoming in June 2010), the current oil price of \$70–\$80 per barrel predicted by Igor Sechin at the June 2009 St. Petersburg Economic Forum is a recipe for stagnation akin to Brezhnev’s Soviet Union in the 1970s and 1980s.

Finally, Rutland, with his keen intellect, challenges us by suggesting that a scenario exercise would have been more exciting than a balance sheet. That is a good point, but we would argue that both approaches are useful. One of us last did a scenario exercise in late 2007.¹ A scenario ending with the murder of then president Putin on Christmas night in the Christ Savior Cathedral in Moscow was wrongly presented as a “prediction” on the front page of one of Russia’s leading “liberal” newspapers. This caused a tremendous stir and resulted in excessive publicity of the kind one would not like to arouse in Russia.

In the end we are left with three over-grasping issues. First, Russia has made tremendous progress in the last two decades, and those who do not recognize that are left behind. Second, at present Russia is in a serious dilemma, which Russians tend to describe as a dead end. The question is whether this suboptimal equilibrium will last. Finally, will the economic situation become so bad that Russia will be forced to reform once again or will a high oil price save the Russian elite from inconvenient truths? ◆

¹ Andrew C. Kuchins, *Alternative Futures of Russia to 2017* (Washington, D.C.: Center for Strategic and International Studies, 2007).