

## Russia of the 2010s: **How to Live with It and How to Outlive It**

*Vladislav L. Inozemtsev*

Several factors call for the West to rethink the course the “new Russia” is taking. These include Moscow’s annexation of Crimea and its intense involvement in destabilizing the post-Soviet states; Russia’s increasingly tough position toward both the European Union and the United States and its increasingly strong ties to China; and the Russian leadership’s obvious preoccupation with political rather than economic issues. The paper suggests that the Russia of Vladimir Putin’s new term in power, as a system, differs profoundly from the country the West was dealing with in the previous decade. Russia’s transition from a promising Westernized nation into an aggressive authoritarian regional power is nearing completion. Western powers should therefore concentrate on two things: elaborating appropriate – and realistic – political attitudes toward today’s Russia and creating an agenda for dealing with a post-Putin Russia that may arise in the distant future.

Russia once again reminds Europe that it is still “a riddle wrapped in a mystery inside an enigma,” to use Winston Churchill’s phrase. Its evolution from a “normal country” into the main threat to the continent’s tranquility started at the end of the last decade, and the process is far from complete. I believe it will take quite some time to realize just how profound the consequences of such a change will be for all Europeans. This paper asks a number of questions: What happened in Russia in these years? How do the current trends relate to the self-awareness of the Russian people? What kind of goals is Moscow pursuing? And what shape should the strategies of both the EU and Germany toward their eastern neighbor take?

### **The New Russia: Some Striking Features**

Beginning in 2000, Russia’s economic downturn gave way to a recovery. This was the result of a serious devaluation of the ruble in 1998 and was subsequently supported by the rising prices of oil and other major Russian exports. Oil was particularly important, since it was the main factor that permitted the new Russian political elite to stay

in power. The country had in the 1980s and 1990s been steadily moving toward democracy, but once elected to the presidency, the former KGB officer Vladimir Putin surrounded himself not with competent people but with personally loyal ones. His clique would not have been able to run the country if the main goal had been creation of wealth rather than its redistribution.

Between 1999 and 2013, with each new period of Putin in power, oil revenues grew continually. It is worth recalling that Russia’s oil output in 1999 was 304.8 million tons, while the average price of oil stood at \$19.97 per barrel. One can deduce the actual size of Russia’s “windfall oil earnings” by subtracting the total value of oil pumped in 1999 from oil revenues of each consecutive year. For the first period (2000–03), for example, it totaled \$133.7 billion, or \$33.5 billion a year; for the second period (2005–08) it was \$894.4 billion, or \$223.6 billion a year, while for the first part of Putin’s next term in the Kremlin (2011–13) it reached \$1.3 trillion, or \$394 billion per year.<sup>1</sup>

Such huge revenues allowed Putin's power elite to commit practically any administrative error, tolerate unprofessional decision making, and engage in all kinds of acts of favoritism, as oil revenues pushed the country forward despite ever-growing corruption. Starting in the critical period of 2003–04, public office became regarded as a special kind of "business" that would bring the biggest amount of cash with a minimum of risk and responsibility. And Russia's president, whose close friends had already turned into oligarchs, made it repeatedly clear – using increasing bellicose terms – that he would not tolerate any attempt to change the country's course.

Meanwhile, as the first decade of the 2000s came to an end, there was a sense within the expert community in Russia that the ruling clique was in the process of choosing between two political systems: the "Mexican/Chinese" model on one hand (which allows for a change of leaders while essentially presupposing single-party rule) and pure authoritarianism on the other (when the head of state, once brought on, is elected for life). The choice was most likely made between 2010 and 2011, when it became clear that Dmitry Medvedev (the "acting President," as Putin used to call him) was predisposed toward compromise and ready to take a "softer" stance against the West. Certainly the "Arab Spring" revolutions in the authoritarian regimes of the Middle East had a significant impact on how the Russian elite drafted further policy. So did Western efforts to overthrow the Gaddafi government in Libya, which disturbed them deeply. Meanwhile the rapid easing of the economic crisis and oil price recovery persuaded Moscow that the regime faced no danger from a financial point of view. Putin's return to the presidency in 2012 indicated two things: that he would never give up the position voluntarily and that he had totally lost his hopes for any positive engagement with the West. These two facts determine the reality that I call "Russia of the 2010s."

Russia of the 2010s is actually an authoritarian petro-state, controlled by people who consider public service to be a kind of business and the state their own private property. Elites are recruited on the basis of loyalty to the supreme leader and his appointees, so they focus on maintaining stability rather than on promoting development and change. The main element of the whole system is the exchange of loyalty for money; the leadership is keen to close its eyes to the "orderly" corruption and the misuse of any official position for personal gain if it allows the political system to stay under firm control. This of course causes a steep decline in the efficiency of public spending but still allows the country to develop along the lines intended by the leadership. Fully aware of the actual

extent of the corruption, the Kremlin prefers to underinvest in many projects and to channel money into reserve funds. The regime's most important feature is therefore the priority it gives to its current goals at the expense of any prospective ones. This in short offers a quite narrow horizon of planning and an inability (and unwillingness) to change the existing order of things.

All of this indicates that the system Putin created cannot be redesigned via mere reforms. It can only be dismantled by external – or internal – shocks. Vyacheslav Volodin, a stubborn deputy chief of staff in the Kremlin administration who famously coined the formula "No Putin, no Russia" at the annual Valdai Club session in Sochi last year, was in many aspects surprisingly correct.<sup>2</sup> Today's Russia will not outlive Vladimir Putin.

The general public remains largely indifferent to what is going on and demonstrates a high degree of passive loyalty to the authorities. This may be explained by three main factors. First, the vast majority of citizens are satisfied with the sharp increase in the quality of life they experienced during the 2000s. Russians today live better than ever before, and because of this, their support for the current regime will remain stable for quite a long time. Second, Putin has masterfully exploited longstanding Russian phobias, presenting his policy as one that opposes the West and blaming the outside world for most of Russia's problems. This has successfully rallied the nation to his own agenda. Third, those who attempt dissent are either leaving the country in growing numbers or experiencing pressure and intimidation. With these strong factors consolidating Putin's popularity, there seem to be few attractive alternatives to Putin's course. Of course, the population's passive loyalty should not be mistaken for active endorsement – after all, the "pro-government" street rallies organized by the authorities often involve participants who have either been bussed in from provincial towns or simply paid money to shout favorable slogans – but the country's leadership seems to be satisfied with the picture it sees.

One should recognize that a unique political system has been created inside today's Russia. In it, authoritarian rulers, virtually unbounded in their powers, are using those powers in a fairly moderate way, allowing most of the citizens to enjoy broad personal freedoms (freedom to do business, freedom to access information, freedom to leave the country and return, and so forth).<sup>3</sup> This political regime may resist participating in information wars, does not require external support, and looks quite self-sufficient in economic matters.

The Russian authorities are well aware of the fact that they possess effective means of tackling the current

crises. For one thing, they believe that the decline in prices for all major export commodities cannot last long and that their calculations appear to be solid; for another, they can devalue the ruble any time they wish, thereby increasing the federal budget's revenues, since approximately half of them are collected from custom duties denominated in dollars. One should also point out that the Russian shadow economy amounts to up to 30 percent of the official economy, so that this sector may well smooth over the issue of unemployment (even if it does not remove it altogether from the current agenda). Moreover, most ordinary Russians are accustomed to distinguishing between problems caused by the personal actions of bureaucrats and problems caused by "irreversible" economic circumstances, so no one should therefore expect falling oil prices to cause any serious troubles for Putin and his inner circle. All of this means that it will be some time indeed before the worsening economic conditions inspire a reaction on the part of society as a whole. The country is far more likely to "die slowly" than experience any kind of revolutionary upheaval.

All of the above means that Europe will have to coexist with Putin's Russia for at least another ten years – until the mid 2020s. What is needed now is an understanding of how to manage coexistence and a sense of what European politicians – realistically – should strive for in the next decade.

### Shedding the Old Illusions

The most important first step is to rethink old attitudes about Russia's path of development – in other words, to abandon numerous illusions about the EU's eastern neighbor. Certainly, the moves taken by the Russian authorities should not be regarded as a kind of deviation from a certain "norm" the European Union embodies. On the contrary, they should be treated as completely rational steps taken in pursuit of a single goal: preserving the existing political regime. It is futile to evaluate (or, even more, try to predict) any actions undertaken by Putin and his team according to traditional concepts of economic benefits and international legal order. The Russian president's objective is not to develop his country or improve it but rather to perpetuate his personal rule. One may therefore expect almost any move that can help secure a high level of support for him inside the country. This applies as much to his attitudes to the opposition as it does to his economic policies or to his behavior on the international scene. For these reasons, contemporary Russia should by no means be considered a power that will abide by international rules. As proven by the events in Crimea

and in eastern Ukraine, Russia's readiness or unwillingness to comply with international treaties and agreements depends solely on the current political rationale.

Moreover, it must be assumed that, in contemporary Russia (in contrast to the first decade of the 2000s), political objectives enjoy clear priority over economic ones. The decrees issued by Putin in May 2012 were unrealizable and economically harmful from the very beginning – but they were intended to implement a series of populist measures aimed at improving his personal approval ratings. Nor can the annexation of Crimea and the ongoing war in the Donbas be justified from an economic point of view, but Putin never doubted the wisdom of his actions. The "counter-sanctions" against imports of EU food only add to this series of bold but ill-thought-out decisions. The increasingly restrictive policy toward the business community further emphasizes the absolute predominance of politics over economics, which is the signature point of Russia of the 2010s. This means that Europe and the West in general have lost their essential tool for dialogue with Russia: their emphasis on economic cooperation, on trade and development, on investment projects, and so forth. Nothing like a "partnership for modernization" (that is, for economic growth, prosperity, financial openness – one may choose whatever goal one likes) is possible at this stage. Putin wants to increase Russia's geopolitical weight as he sees it, not engage in bargaining for economic concessions. Under such conditions, on the European side, it is the political, not the business elite, that should be drafting and executing the new agenda for dealing with Russia.

Finally, one needs to be aware of the fact that genuine civil society is inexistent in Russia. Indeed, there is not even a significant group of open-minded liberals in the country today. (The majority of intellectuals today are as attached to their liberal myths as their opponents are to conservative ones and will therefore never receive any significant support among the enlightened part of the public.) Among youth who share European values, there is only one dominant desire: to leave the country – that is, to take advantage of life in Europe while applying all their talents and capabilities to becoming "global citizens." In 2014 alone, some 300,000 people officially emigrated from Russia. This number is more than two times higher than emigration during all four years of Medvedev's presidency.<sup>4</sup> (I should add with a deep regret that "promoting dialogue" with what is sometimes considered civil society in Russia means engaging in self-deception and sending misleading signals to the Russian public.)

Summarizing the above, Russia of the 2010s is on a course toward a "second cold war" with the West. Under

these circumstances, it wants to stay firm defending its “sphere of interests” from the political claims of both the EU and NATO; to assert its ideological doctrine, distinct from the Western doctrine of human rights; to perceive the economic ties and relations as useful but not decisive; and to label any opposition within the country as instigated by “foreign agents” and financed and supported by hostile governments. Russia will continue its military provocations, will build up alliances with the opponents of West in any part of the globe, and will take further efforts to undermine the unity of both the EU and NATO.

Facing these developments, Europe and the West should not decline Russia’s dare. It needs to take the emerging showdown seriously. The West should mobilize the necessary resources to win the second cold war – it will require much less effort than it took to win the first one.<sup>5</sup> Today Russia tries to address Europe from the position of strength – while actually possessing no strengths it can rely on. Europe, in my opinion, should approach Russia with the very same attitude – primarily because it has much more leverage over Russia than Russia has over Europe.

### Consolidating a New Approach

The most appropriate strategy for Europe to use vis-à-vis Russia in this second cold war should encompass at least five points.

1) First of all, bilateral trade relations need fundamental revision. Today, Russia’s importance for Europe and Europe’s importance for Russia look massively disproportionate. In 2013 (based on the latest data available), the Russian Federation accounted for 12.3 percent of EU-28 imports and 6.9 percent of its exports.<sup>6</sup> For its part, Russia has shipped to the EU and Switzerland 52.8 percent of its exports, while receiving 42.6 percent of its imports from these countries.<sup>7</sup> More than 67 percent of imports from Europe to Russia comprise cars, trucks, machinery, and equipment of critical importance to both Russian processing industries and the production of energy resources. In turn, Russia’s largest state-owned company, Gazprom, delivered 63.4 percent of its total gas exports to the EU, gaining from this 45 percent of all its operational revenues in 2014.<sup>8</sup>

Any substantial reduction in trade with the EU would have catastrophic results for Russia’s economy, while for the most of Europe the effect would be relatively modest. One should take into consideration that during the first quarter of 2015, exports from Russia decreased by 29.6 percent compared to the first quarter of 2014, while Germany’s overall exports actually rose by 1.7 percent.<sup>9</sup>

Europe should drastically reduce its energy dependence on Russia and its export ties with Russia in general. As the first step I would propose reframing the cooperation with Gazprom. The company must be demoted from its current position of predominant supplier of natural gas to just one of many commercial companies delivering energy resources to the EU. Taking into account the fall in oil prices, it is worth noting that, as of April 2015, the liquefied natural gas (LNG) supplied either from the Middle East or from Trinidad costs about as much as pipeline gas from Russia was valued in February 2014. If European consumers agree not to economize on falling oil prices but instead to use this downward turn to replace Russian gas with LNG, such a move could do much to strengthen Europe’s energy security and bring some Moscow policy makers to their senses.

I would say that the EU possesses all the technical capabilities for such a turn. In 2014 it purchased 121.3 billion cubic meters of natural gas from Gazprom<sup>10</sup> and at the beginning of that year had 182 billion cubic meters of excess capacity in regasification terminals in nine EU countries.<sup>11</sup> The EU could deliver another blow to Gazprom’s monopoly if a gas pipeline connecting the shores of the Baltic and Adriatic seas is laid through Central European countries (countries currently dependent on supplies of Russian gas by 90 percent or more).<sup>12</sup>

There is no need to cancel all gas supplies from Russia, moreover. Rather, the task consists of creating an infrastructure capable of intimidating the Russians with such a move – and in this situation Moscow would become much more compliant. (For example, after the completion and commissioning on December 3, 2014 of an LNG terminal in Klaipeda, Lithuania operated by Klaipėdos Nafta, Gazprom immediately offered Lithuanian customers a 20+ percent discount on its gas and abandoned its take-or-pay principle.) It should be assumed that Russia may take some “asymmetric” measures in response to these restrictions in the gas trade, such as banning imports of several more kinds of European goods. But this would be a natural and tolerable price to pay for Europe’s energy security. The main objective of such a restrictive policy should be to accentuate the EU’s role as Russia’s major trading partner, even while some people in Moscow entertain the illusion that Russia can “re-orient toward the East,” substituting Europe with China, etc. The Europeans can afford such a bold policy change right now, whereas Russia certainly would not be able to redeploy even half of its energy deliveries to China before 2020–25.

2) The Europeans should reconsider their investment and financial policies toward Russia. Certainly they must go further and deeper than they did in 2014. According to

figures for accumulated foreign direct investment (FDI), corporations from all EU-28 member states had channeled more than €290 billion in FDI into Russia as of early 2015, while European banks provided their Russian counterparts with more than €300 billion via direct loans or bond purchases. In Russia itself, a unique financial situation has developed in recent years; the largest banks and companies preferred to get loans from abroad because of a stable ruble exchange rate and high interest rates in the domestic market. As a result, by early 2014, Russian companies owed domestic lenders less money than they owed to foreign ones: RUR 18.8 trillion vs. \$678 billion.<sup>13</sup>

Financial sanctions imposed on Russia by the US and Europe have already put many Russian companies into a difficult position, and the problem will definitely worsen. Another \$83.4 billion in loans, plus interest, are to be repaid by the end of 2015.<sup>14</sup> It should be noted that Russian companies can these days get additional funding only from the state (from its reserve funds, to be more precise), while hopes of relying on China (hopes that actively circulated in Moscow immediately after Western sanctions were imposed) have not been realized. As a result, European banks now hold around 25 percent of the overall debt of Russian companies and banks, while European countries or corporations owe virtually nothing to Russia and Russian financial institutions.

The same applies to FDI. Despite the fact that statistics show a lot of FDI into Russia comes from offshore jurisdictions, the EU-28 accounts for 70.3 percent of accumulated foreign investments, while China contributes a mere 0.7 percent.<sup>15</sup> Today many EU companies are considering terminating new investments in Russia and even the closure of already active projects. Given that they control 61 percent of passenger vehicle production, up to 50 percent of all refrigerators and washing machines assembled in Russia, as well as 35 percent of food and beer output, the punch can be quite significant. If such an “investment showdown” begins, Russia will have no adequate response. Its investments in EU countries are insignificant. (As of January 1, 2012 they stood at €53 billion, or 1.3 percent of all FDI accumulated inside the EU-28.)<sup>16</sup> Mutual disinvestment both from the EU and Russia would therefore inflict serious damage on the Russian economy, while its impact on Europe would most likely hardly even be noticed. In my opinion, European countries may therefore take a tougher stance toward Russia without fearing substantial response.

The EU could, moreover, deal a much more serious blow to Russia's financial sector if the latter continues its aggressive policies. In the same way that EU politicians banned European banks from providing loans to Russian

companies, they may order the European stock exchanges to exclude Russian corporations from their trading lists and prohibit any EU financial institutions from holding Russian equity in their portfolios – even acting on behalf of their clients. To realize how powerful this blow could be, one should take into account that at the Moscow Stock Exchange today, up to 65 percent of equity dealings involve at least one foreign or foreign-controlled company, whereas around 50 percent of free-floating shares of Russian publicly traded companies are held by Western financial institutions.<sup>17</sup> A ban on deals involving Russian equities could cause a catastrophic drop in prices and a sell-off of proportions unseen even in 1998, to say nothing of 2008. One can imagine how significant the decrease of Russian oligarchs' fortunes would be in such a scenario. One need only recall here that the Russian side has no comparable means of retaliation at its disposal.

3) The third point is that the EU can even react to Moscow's actions in a political way, accelerating the integration of some former Soviet republics into the EU. The simplest case could be that of the Republic of Moldova, whose admission to the EU would have a largely symbolic value but could become a very important step, since Moldova would become the first case of the EU's expansion into the territory of the Commonwealth of Independent States as it was created in 1991 after the collapse of the Soviet Union. Such a move would probably change the situation in the disputed territory of Transnistria, which may decide to reintegrate into Moldova shortly before that country's accession to the EU. If this were to happen, the EU would once again prove its attractiveness to the post-Soviet states and at the same time demonstrate its ability to resolve longstanding political conflicts involving unrecognized state-like entities, the emergence of which have been largely caused by Russia's policies.

Of course, more proactive policy could be carried out toward Georgia, which could even acquire EU candidate status. (As the Turkish case shows, a state may enjoy such status for decades.) A similar policy could be applied toward Ukraine, which now appears to be a key point of intersection of both EU and Russian interests. I am convinced that granting EU candidate status to Ukraine is the best possible solution to the problem; for one thing, it would allow the EU to influence Ukrainian political reforms, and, for another, it would make Ukraine much more attractive to private foreign investment – without which any program of providing financial aid or credit restructuring will not contribute to sustainable economic revival.

Finally, Europe might make a number of significant advances vis-à-vis Belarus, which formally is a part of

the EAEU and almost forms a “union state” with Russia but for a long time has implemented a strategy of balancing between Russia and its Western neighbors – a strategy that has become much more relevant since the Russian advances in Ukraine. Although the scenario of Belarus joining the EU is hardly realistic, heightened prospects of EU membership could nevertheless undermine the country’s ties with Russia quite significantly. And here again I should reiterate that in any of these cases Russia would have no opportunity to counter the EU’s actions.

4) If Russia continues to be as unfriendly in the future as it has been in recent months, another, fourth, response to Russia’s actions could be a series of restrictions imposed on EU-based assets held by Russian companies and citizens. The most radical option to consider is a ban on Russian citizens controlling commercial companies and owning real estate or any other assets in the EU worth over €200,000, as well as having accounts in European banks with a turnover exceeding, say, €75,000 per year. This would not affect students, visiting researchers, or the majority of Russians legally working in Europe – nor would it affect middle class Russians with vacation properties from Cyprus to Spain – but it would be a huge step for Europe to rid itself of Russian “dirty money.” In this case I would not suggest arresting the persons in question, or confiscating their property, but rather trying to “squeeze” Russian property out of the EU, both real estate and corporate holdings and bank accounts. (My colleagues and I have already proposed some of these methods before.<sup>18</sup>)

Simultaneously a major search for offshore companies and trusts controlled by Russian beneficiaries should be conducted all over Europe. This could become the most powerful response to Russia’s aggressiveness and unpredictability, since wealthy Russians – who like so much to decorate their Mercedes and Bentley cars with the Ribbon of St. George as a sign of supporting President Putin – would receive a clear signal that no one is allowed to mock European values and violate European norms while taking full advantage of the European legal system and enjoying the European way of life. Such a defiant campaign against Russia’s wealthy would be the best thing the EU could do today to influence the Kremlin’s policies. Today, the majority of Russian citizens – including those who are financially solid and open-minded – do not see any negative personal consequences arising their country’s transformation into an aggressive authoritarian state. Europe could do quite a lot more to change their attitudes.

If the EU took actions that clearly showed Putin’s Russia is not a part of Europe (or “not-Europe,” as Moscow claims), it would cool some hot heads, and Russian society

would be pushed to rethink where the current leadership is taking the country. Such a step would send a clear signal: the concessions have ended. Europe is definitely “not-Russia.” As long as Russia does not change, the EU will not consider Russia a friendly country and will not continue to pursue business as usual. Again, as in the other cases, Russian officials will have no means to respond – and not only because the Europeans have not put their money into Russian real estate and do not hold their savings in Russian banks, but predominantly because all these actions would comply perfectly with Putin’s constant talk about the acute need to return “runaway” Russian capital to the country.

5) Finally, EU officials should pay much more attention to the presence within the EU of *Putin-Versteher* (Putin’s apologists).<sup>19</sup> I refer here primarily to the fact that in recent years Moscow has actively recruited ideological allies in Europe and is creating interest groups, in one form or another, that advocate the need to “respect” Russia’s policies, to soften sanctions against Russia, and to support contemporary Russia’s ideological foundations. What is the best way to respond to this? Without calling for a return to McCarthyism, I do consider it absolutely necessary to run thorough checks on the financial interests of such groups and their business ties to Russia.

In July 2012 the Russian parliament adopted a law on “foreign agents” according to which any non-profit organization can be considered a foreign agent if it receives any funding from foreign entities. (This even includes honors and prizes with a financial element.) Formally such status does not impose special restrictions on a particular NGO, but in fact it practically deprives it of the opportunity to apply for funding within the country and puts its activities under scrutiny. Not to mention the fact that political parties and associations, as well as individual politicians running for office, have no right to draw on financing either from foreign individuals and legal entities or from their Russian subsidiaries. I suggest that the EU respond to this with similar measures: first, by introducing at the pan-European level the same kind of ban on financing political parties and political campaigns by legal entities and private persons originating from countries that are classified by Human Rights Watch as “unfree” or “partially free”; and second by introducing the label “aggressor’s agent” for application to any organization that receives financing or support from the Russian state or Russian citizens.

Much as the law on “foreign agents” is used in Russia, “aggressor’s agent” status in the EU would cause no formal prohibitions and restrictions within Europe, but it would contribute to a specific public image of such entities. I be-

lieve that if Europe realizes that Moscow has once again become a cold-war adversary, then it should stop pretending that it is dealing with a normal democratic country.

We should recall that the EU has never acted aggressively against either Russia or its neighboring states. It has always respected Russia's sovereign right to create any kind of order, to adopt any laws within its own jurisdiction, and to subject its own nationals to those laws. It was Russian aggression against Ukraine, its occupation of Crimea, and Moscow's active participation in an undeclared war in the Donbas that changed the situation. Violating the established order in Europe (so far, some states have broken up, but never before has one state appropriated part of another), Russia deprived Europe of any alternative to imposing economic sanctions. In response to these sanctions, Russia has launched a second cold war with the West. It seeks to undermine Europe's unity and openly rejects and disregards European values. At this stage, any acquiescence on the part of the Europeans involves waiving Europe's hard-won values and denying the lessons of history, as well as betraying those who are committed to these values in the countries neighboring the EU. In the long run, such a policy would lead to surrender – even if the opponent is obviously weaker. I believe that taking a “pacifying” course would be a terrible mistake – especially at a time when the enemy profoundly overestimates its strength.

### The Crucial Issue of Timing

Europe, confronting the challenge posed by Russia in this second cold war, should remain well aware of two key facts.

The first fact to keep in mind is an obstacle: Russia of the 2010s is a stable structure, both economically and politically. After annexing Crimea and supporting a war in eastern Ukraine, the regime was able to convert Russia's economic problems into political capital, just as it had previously converted its economic achievements into political capital. Europe's strategy for fighting the second cold war should therefore not focus on “undermining” the regime (to say nothing of “crushing” it) – for this goal seems totally unrealistic, even in the long run. Rather, European politicians must exclude Russia from their current agenda to the greatest extent possible. This means freezing bilateral economic relations, freezing political dialogue, and even freezing cooperation among NGOs. This will oblige Moscow to solve the problems it has created entirely on its own.

Europe should come to terms with the fact that Russia is not going to make its European choice – and instead

refocus its attentions on those countries that are willing to make such a choice. The second cold war, unlike the first one, does not presuppose an immutable boundary between the two spheres of influence. On the contrary, its essence lies in constant attempts to move that boundary in one direction or another, and the winner will be the one who succeeds in pushing the opponent further. For the next ten or even 15 years, European foreign policy should deprive Russia of the preferred status that it enjoyed for over two decades – and instead bestow that favored position on the nations located between Russia and the EU.

The second fact for Europe to keep in mind is not an obstacle but an advantage: Russia cannot stay opposed to the Western world for an indefinitely long time. Russia of the 2010s, while shifting its focus from economic factors and goals to political ones, will be forced again and again to sacrifice economic opportunities to political expediency. Furthermore, the logic of “politicizing” the everyday agenda will oblige authorities to continually accentuate the situation both in foreign and domestic policy. This will ultimately undermine the regime, which will eventually collapse as its stability decreases – not from revolution or coup d'état but simply because it stopped delivering adequate economic results. An unprofitable company cannot expand to new markets. In the same way, the state whose maintenance requires greater cost than the benefits it can deliver is doomed.

I predict that the end of Putin's Russia will resemble the end of the Soviet Union. The incentive to take responsibility for governing a bankrupt nation will diminish, leading to a kind of implosion, as frustration grows over meaningless efforts and numerous mistakes.<sup>20</sup> The most important effect of this on Russia's foreign policy will be the realization that Russia has no alternative to Europe. Neither China nor the Central Asian nations can give the country impetus equivalent to its cooperation with the West. But by this time, Europe should be prepared to deal with a new Russia.

### Toward an Agenda for Tomorrow

Russia seems to become dangerous in those periods of its history when it tries to confront the West. One may acknowledge that such periods were plentiful and rather long. But this means that Europe is trained in building relationships with the East under challenging conditions. When Moscow begins to seek a rapprochement with Europe, however, it will turn out that the latter is not ready to accept Russia as an equal partner (which it would not become under any circumstances), but as one

of many European nations, equally deserving participation in the process of pan-European integration. So, as we talk of “Russia of the 2010s,” we must understand that the course now chosen by the Kremlin’s leaders will inevitably culminate in “Russia of the 2020s” – that is, in a weak and frustrated country possessing no alternative to trying once again to find its place in a more successful Europe.

After the Soviet Union’s defeat in the first Cold War, both the US and the EU pursued the wrong policy toward Russia, regarding it as a “normal country” (one of many located outside their immediate zone of influence). Thus they repeated the very mistake they had committed with regard to Germany in the 1920s. As a result of that miscalculation, Germany, stung by defeat in World War I, was left to its own devices and evolved into a revenge-seeking Nazi power that soon unleashed World War II. Similarly, contemporary Russia has been abandoned by the Western world for two decades. It is now launching the second cold war despite – or perhaps, more suitably, because of – its defeat in the first one. My conclusion is obvious: even while it should currently pursue a strict and effective policy of alienating and neglecting Putin’s Russia, Europe should prepare to immediately exchange this for a policy of engagement as soon as Russia expresses its desire for reconciliation.

I see the biggest challenge facing the contemporary EU as the challenge of drafting this agenda for reconciliation and integration once the second cold war has been won. The task will in fact be much harder than resisting Putin’s Russia during the unpleasant times ahead. The story of Russia “getting up from its knees” – now manifesting itself in a denial of certain international norms and the occupation of part of another sovereign state – proves that Europe cannot feel safe as long as Russia is not an integral part of Europe itself. This recalls the situation that existed in Europe between 1870 and 1945, when none of the European powers could sleep well because of a Germany that also “arose from the rubble.” It was because of Germany’s “rise” that outstanding theorists first invented the doctrine of a united Europe and outstanding practitioners later implemented it. These days, with regard to Russia, the same kind of strategy looks like the most promising one.<sup>21</sup>

In terms of its history and culture, Russia has always been a European country, although significantly lagging behind the western part of the continent in its development. Europeans today have no more important task than to convert the goal of effecting “a great reconnection” between Russia and the EU into a new “national idea” for a post-Putin Russia. I see no serious obstructions to implementing such a project. These days (as well as in the future) Russia is indispensable for continuing the EU’s

economic development. It has a huge and well-trained pool of labor that, if the current Russian economic trends continue, will never find a decent occupation for itself inside the country; it has a tremendous stock of natural resources that could make Europe energy- and commodity-independent for decades; and, last but not least, it is a great and prospective market, which will grow even bigger if Russia becomes a part of European integrationist efforts. The country’s history also shows that an emphasis on *russkost*’ (Russianness) is generally inadvisable for Russia; every time the nation focuses on its own uniqueness, it arrests its development and ends in some kind of turmoil. In contrast, during the times it shows openness to universalist ideas, Russia is able to reach peaks of power.

All of this suggests that a common pan-European project – the act of joining the capabilities of the EU to those of Russia – could not only become the basis for a lasting peace in Europe but also result in the revival of “wider Europe” as the unrivaled economic and political center of the 21st century.

Many scholars and policy makers today assume that Russia cannot be accepted into the EU because of its large population and enormous landmass. However, these are false and exaggerated concerns. It is strange to hear the argument that, were this to happen, Europe would acquire porous borders with China and the countries of Central Asia. Even if the residents of these countries were able to enter Russia freely, the border between the Russian Federation and those of other EU countries could be kept well guarded. If economic issues are taken into account, Russia is now not bigger in terms of its GDP than France or Italy, so no Russian dominance should be expected. On the contrary, I cannot imagine any more economically stimulating step for the rise of both Europe and Russia than Russia’s acceptance into the eurozone. The country has a minor public debt, contrary to Greece or Spain; its positive trade balance is slightly smaller than that of Germany, so the adoption of a stable currency with extra low interest rates could result in an economic boom that would be second only to China’s – while benefiting the whole of Europe. The imposition of the EU *acquis communautaire* on Russia – even on the condition that the country itself would not be able to participate in its development for ten to 15 years – could easily transform Russia into a state with a strict legal order. One need only look at the Baltic countries to see that the ethnic Russians living there are as decent and law-abiding as the vast majority of other Europeans.

The crucial challenge for contemporary Russia is its inability to adhere to the laws and rules it adopts. In

Russia, personal authority has always been placed above any right – and today this is more pronounced than ever before. No one should hope to change this – as the West once hoped to in the 1990s – through advice and counsel. Russia will become a “normal” country only when its laws will be installed from the outside and when there will be no chance to change them because of the will of some new lieutenant-colonel suddenly propelled to power in the Kremlin. After the collapse of the Soviet Union, Europe had a unique chance to bring Russia into the fold of “normalcy,” but it missed its opportunity. A new oppor-

tunity should not be botched. Indeed, in the midst of the current showdown, Europeans should devote their major efforts to drafting an appropriate new strategy: a strategy for engaging with Russia in the post-Putin era.

**Dr. Vladislav Inozemtsev** is currently Berthold Beitz Fellow at the DGAP's Robert Bosch Center for Central and Eastern Europe, Russia, and Central Asia. He is a professor in the department of political science at the Moscow-based High School of Economics and director of the Centre for Post-Industrial Studies. **Contact:** [inozemtsev@dgap.org](mailto:inozemtsev@dgap.org)

## Notes

- Figures calculated by the author. See Vladislav Inozemtsev “How the Oil has Transformed Russia,” [in Russian], *Vedomosti*, December 16, 2014, pp. 6–7.
- “No Putin, No Russia, Says Kremlin Deputy Chief of Staff,” *The Moscow Times*, October 23, 2014 <[www.themoscowtimes.com/news/article/no-putin-no-russia-says-kremlin-deputy-chief-of-staff/509981.html](http://www.themoscowtimes.com/news/article/no-putin-no-russia-says-kremlin-deputy-chief-of-staff/509981.html)> (accessed May 20, 2015).
- See my article “La liberté, à dose administrée,” *Le Monde diplomatique: Manière de voir* 138 (special issue: Russie, le retour) (December 2014–January 2015), pp. 72–75.
- Emigration from Russia during the Medvedev years ranged from 32,000 and 39,000 people per year <[http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/population/demography/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/demography/#)> (accessed May 20, 2015). In contrast, more than 203,000 people left the country between January and August 2014. *Gazeta.ru*, November 1, 2014 <<http://www.gazeta.ru/business/2014/10/30/6282685.shtml>> (accessed May 20, 2015). Complete figures for 2014 have not yet been published.
- See my article “How to Win Cold War II,” *eurozine*, March 28, 2014 <[www.eurozine.com/articles/2014-03-28-inozemtsev-en.html](http://www.eurozine.com/articles/2014-03-28-inozemtsev-en.html)> (accessed May 20, 2015).
- For imports, see Eurostat, “Main Trading Partners for Imports, EU-28, 2013” <[http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Main\\_trading\\_partners\\_for\\_imports,\\_EU-28,\\_2013\\_\(%25\\_share\\_of\\_extra\\_EU-28\\_imports\)\\_YB15.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Main_trading_partners_for_imports,_EU-28,_2013_(%25_share_of_extra_EU-28_imports)_YB15.png)> (accessed May 20, 2015). For exports, see Eurostat, “Main Trading Partners for Exports, EU-28, 2013” <[http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Main\\_trading\\_partners\\_for\\_exports,\\_EU-28,\\_2013\\_\(%25\\_share\\_of\\_extra\\_EU-28\\_exports\)\\_YB15.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Main_trading_partners_for_exports,_EU-28,_2013_(%25_share_of_extra_EU-28_exports)_YB15.png)> (accessed May 20, 2015).
- See the excel table “Foreign Trade of the Russian Federation in 2013” [In Russian] posted on the official site of the Customs Committee of the Russian Federation: <[www.customs.ru/index2.php?option=com\\_content&view=article&id=20494:2014-&catid=125:2011-02-04-16-01-54&Itemid=1976](http://www.customs.ru/index2.php?option=com_content&view=article&id=20494:2014-&catid=125:2011-02-04-16-01-54&Itemid=1976)> (accessed May 20, 2015).
- Calculations based on data provided in “Gazprom Reports: Natural Gas Exports Fell by 12 Percent in 2014” [in Russian], *newsru.com*, February 13, 2015 <<http://www.newsru.com/finance/13feb2015/regazexport2014.html>> (accessed May 20, 2015).
- For Russia, see Russian Central Bank data quoted in “Russian Exports Decline by One-third in First Quarter of 2015” [in Russian], *polit.ru*, April 9, 2015 <[http://polit.ru/news/2015/04/09/russia\\_trade/](http://polit.ru/news/2015/04/09/russia_trade/)> (accessed May 20, 2015). For Germany, see data available from the German Federal Statistical Office at [https://www.destatis.de/EN/FactsFigures/Indicators/ShortTermIndicators/ForeignTrade/ah1210.html;jsessionid=C31B18684162CC78ABF18154500B3636.cae4?cms\\_gtp=146794\\_list%253D2&https=1](https://www.destatis.de/EN/FactsFigures/Indicators/ShortTermIndicators/ForeignTrade/ah1210.html;jsessionid=C31B18684162CC78ABF18154500B3636.cae4?cms_gtp=146794_list%253D2&https=1) (accessed May 20, 2015).
- See “Gazprom loses Europe” [in Russian], *news.mail.ru*, February 16, 2015 <<https://news.mail.ru/economics/2107460/>> (accessed May 20, 2015).
- “European Energy Security: Conscious Uncoupling,” *The Economist*, April 5, 2014, p. 18.
- For more detail, see my article “Can Europe Survive without Russia's Natural Gas?” GMFUS Europe Program Policy Brief, vol. 2, no. 2. (March 2015).
- See my article “The Presentiment of Default: What May be Done with the Corporate Debts” [in Russian], *PBK (RBC)* (December 1, 2014), p. 5.
- As calculated by Syrlybai Aibussinov in “Checking the Talk: Eleven Faults in Putin's Answers” [in Russian], *Slon*, April 17, 2015 <[www.slon.ru/posts/50598](http://www.slon.ru/posts/50598)> (accessed May 20, 2015).
- Calculations based on the Russian Central Bank's data. See [www.cbr.ru/statistics/print.aspx?file=credit\\_statistics/dir-inv\\_in\\_country.htm&pid=svs&sid=ITM\\_58761](http://www.cbr.ru/statistics/print.aspx?file=credit_statistics/dir-inv_in_country.htm&pid=svs&sid=ITM_58761) (accessed May 20, 2015).
- EU External Action Service, “Delegation of the European Union to Russia: Investments” <[www.eeas.europa.eu/delegations/russia/eu\\_russia/trade\\_relations/investments/index\\_en.htm](http://www.eeas.europa.eu/delegations/russia/eu_russia/trade_relations/investments/index_en.htm)> (accessed May 20, 2015).
- According to research conducted by the Russian bank Sberbank. Quoted in “What kind of Equities Western Investment Funds Can Buy in Russia” [in Russian], *finanz.ru*, January 16, 2014 <<http://www.finanz.ru/novosti/editorial/kakie-akcii-pokupayut-zapadnye-investfondy-v-rossii-831722>> (accessed May 20, 2015).
- See Alexander Lebedev and Vladislav Inozemtsev, “Western Financiers Welcomed Dirty Money but Now It Must be Stopped,” *The Independent*, May 27, 2014 <<http://www.independent.co.uk/news/business/comment/alexander-lebedev-and-vladislav-inozemtsev-western-financiers-welcomed-dirty-money-but-now-it-must-be-stopped-9442469.html>> (accessed May 20, 2015).
- See my articles “Los peones del Kremlin,” *La Razón* (Madrid), April 9, 2015, p. 21 and “Syriza et Front National verraden EU door Poetin,” *NRC Weekend* (Amsterdam), April 11–12, 2015, p. O&D7.
- For more details see my article “How Russia's Regime Might Fall: A Probable Scenario” [in Russian], *Slon*, January 5, 2015 <[www.slon.ru/insights/1202339](http://www.slon.ru/insights/1202339)> (accessed May 20, 2015).
- For the Germany-Russia comparison see Ilya Ponomarev, “In Exile, but Ready to Save Russia,” *The New York Times*, April 15, 2015.

DGAPkompakt / Nr. 7 / June 2015



Dieses Werk ist lizenziert unter einer [Creative Commons Namensnennung – Nicht kommerziell – Keine Bearbeitungen 4.0 International](https://creativecommons.org/licenses/by-nc-nd/4.0/) Lizenz. This work is licensed under a [Creative Commons Attribution – NonCommercial – NoDerivatives 4.0 International](https://creativecommons.org/licenses/by-nc-nd/4.0/) License.



Deutsche Gesellschaft  
für Auswärtige Politik  
German Council on  
Foreign Relations

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the German Council on Foreign Relations (DGAP).

Rauchstraße 17/18 · 10787 Berlin  
Tel. +49 (0)30 25 42 31 -0 / Fax -16  
[info@dgap.org](mailto:info@dgap.org) · [www.dgap.org](http://www.dgap.org)

**Publisher**

Prof. Dr. Eberhard Sandschneider, *Otto Wolff*  
Director of the Research Institute, DGAP e.V.

ISSN 1611-7034

**Editing** Miranda Robbins

**Layout** Andreas Alvarez

**Design Concept** Carolyn Steinbeck · Gestaltung

© DGAP 2015