

RUSSIAN FEDERATION
2014

Short-term prognosis

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Editors:

Karmo Tüür, Viacheslav Morozov

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INTRODUCTION

Karmo Tüür, Viacheslav Morozov

Dear reader, we are honoured to present this book which is an example of both stability and uniqueness. We are talking about stability because we have forecast various developments in Russia since 2000 (when *Russian Federation 2001* was published) and we are fully determined to continue commenting on this exciting topic in the years to come. However, what makes our symposiums exceptional is their subject matter itself. Russia has not been static, monolithic and uniform. Russia's economy has grown to become the six largest in the world, fuelling a corresponding rise in its ambitions. Russia's desire to build a Eurasian Union around itself is a captivating puzzle for political scientists and everyone interested in current international developments. Domestic processes in Russia are also constantly changing, whatever is our opinion of these developments. The long-time search for a "national ideology" in Russia is finally taking shape around the idea of the nation state aspiring to become a regional power with a solid internal structure, stressing conservative and traditional values.

The format of our symposium has been evolving as well. An online collection of articles written by a dozen co-authors has grown into a much bigger printed publication that becomes more respectable with each passing year. The scope of analysed issues and geographical distribution of the co-authors have broadened. Among our co-authors are not only academics, but also experts working in various areas.

The editors would like to express their gratitude to all the co-authors – to those who have been with us from the very beginning

as well as to the newcomers. Without your amazing perseverance and remarkable insight this book would have never come into being.

We thank The University of Tartu as a whole and, in particular, the Institute of Government and Politics and the Centre for EU-Russia Studies (CEURUS), a research centre that was established several years ago and has managed to bring together an excellent team of highly qualified experts. Special thanks go to Ryhori Nizhnikau, whose help with all aspects of our editorial work was absolutely indispensable.

We are aware that our symposium has become a reference book of sorts both in embassies and ministries and we hope that our combined efforts will help render policy-making not just a bit more informed, but also intellectually more enjoyable.

“May you live in interesting times”, a Chinese proverb, sounds to us more like a challenge rather than a curse. We are hopeful that we will manage to ignite this interest also in our readers!

FORECASTS FOR 2013 AND THEIR POST-FACTUM ASSESSMENT

Erik Terk

Internal developments in Russia

Regarding domestic the developments in Russia none of the forecasters expected significant changes in 2013. As for domestic politics it was presumed (author of forecast V. Morozov) that the outcomes of the autumn elections of governors and local governments would not noticeably weaken the Kremlin's control over the regions. Putin could somewhat extend the opportunities for participation in politics, but would also take good care not to lose control over the situation and would not be deterred from using targeted repressions if necessary. Morozov was not very certain about Medvedev's chances to continue as the premier throughout the year, yet considered its likelihood greater than 50 percent.

Forecasts of continuity also dominated in the spheres of social affairs closely related to domestic politics (the development of civil society, media, the role of the church, human rights). As for the civil society (forecaster Zh. Chernova) certain positive developments in the form of its increasing activity were cautiously presumed, but it was also stated that the authorities would do their utmost to prevent such processes from becoming political. Thus the corresponding policy concerning NGOs was expected to continue. I.e. the authorities would continue to regard them as a threat factor and keep using the playing card of "foreign agents".

As for the media (Olga Chepurnaya), it was also estimated that there would be vigorous efforts to maintain control over the traditional and new media. Regarding the church (A. Kilp and J. G. Pankhurst) it was pointed out that in connection with Putin's policy's emphasis on the traditional values and the special essence of the Russian civilisation, supporting the orthodox faith, the Orthodox Church and its activities (support to cultural orthodoxy) would continue. In the sphere of human rights (K. Ojulang) the toughening of criminal penalties for disclosing official secrets and for organising mass disturbance were cited as indications of preventive measures for restricting the opportunities for holding human rights actions.

As far as economic development was concerned (forecast by R. Vare), the continuation of the previous model was expected together with its characteristic drawbacks like excessive dependence on the export revenues of energy carriers and raw materials, low-quality business environment combined with the resulting lack of confidence, shortage of foreign investments, continuing capital flight. For R. Vare the indicators allowing to judge about the workability of the model were the coping with the expenses pressure on the budget and the continuation of the privatisation programme announced by Medvedyev (the privatisation programme, with some exceptions, concerned only the sale of minority shares of public enterprises and thus generally did not concern a transfer of ownership leading to the loss of the state's control over an enterprise's strategic behaviour).

In general it can be argued that the continuation during 2013 of a pattern largely predetermined by Putin's re-election as president was validated by reality. Yet there were some deviations from the forecast or some novel versions of previously seen developments. We shall next discuss these aspects.

V. Morozov's forecast rests on three quite binding basic premises. First: the Kremlin will continue with moderate political reforms, but will combine these with the use of force if necessary in order to maintain control. Secondly, the Russian society will continue moving quite rapidly towards a much better structured political and ideological

landscape. (Consequently Putin no longer can claim the role of the whole nation's president). Thirdly, an intra-elite strife will continue and become increasingly more public.

As of the end of December 2013, one could argue that the first basic premise of Morozov became a reality. The extent and especially form of realisation of the second postulate are debatable. As for the third statement, it should be pointed out that even if the processes listed by Morozov did take place, they did not become visible to the public. At least during 2013 they did not become public and had no real effect on political developments.

Although the role of elections as a traditional mechanism of political competition has been severely restricted in Russia by various means, the September 8 governor and local government elections on some regions of Russia nevertheless served as an interesting opportunity for judging the political dynamics. It could be presumed that the fraud of results would be more difficult after the 2011 scandals, at least in the major cities, while the administrative ban on the registration of new political parties was lifted as well. The opposition thus achieved some limited success at the elections: victories in Yekaterinburg and Petrozavodsk and A. Navalny's second place (27 percent of votes) at the election of the Moscow mayor after attempts to prevent his participation by means of a trial. The Kremlin had allegedly expected a weaker showing. Yet as a whole one cannot claim that the elections were a remarkable success for the opposition. Obviously, Navalny's share of votes shows that a significant portion of Moscow's middle class voters are dissatisfied with Putin and his "vertical of power", yet 27 percent versus the ruling party's 51 percent is not yet sufficiently impressive. There is rather more reason to consider the fact that the opposition and semi-opposition parties of the Duma generally performed quite weakly and actually offered no significant contest to the candidates of the ruling party. (A Just Russia [*Spravedlivaya Rossiya*] failed completely, while the others had little reason to feel proud). The elections showed that dissatisfied strata of the population exist, but they are mainly oriented at the opposition outside the system and

are seeking for new leaders. Navalny seems to have the best future potential among the new leaders, but it is not yet clear, whether he manages to create a sufficiently powerful party of his own to cover the whole of Russia. Moreover, Putin apparently possesses means for his neutralisation if he should so desire. The second star of the recent period, M. Prokhorov, can only boast the victory of Y. Roizman, a candidate he endorsed, in Yekaterinburg; that was his achievement. To sum it up: Putin apparently feels quite safe even in the environment of semi-free elections; thanks to the absence of organised opposition (NB strong political parties). It is possible that this made it easier for him to make the year-end gesture of releasing Khodorkovsky from prison.

It seemed likely that the various troubles of Russia's everyday life and/or generally bureaucratic measures of the government will force people to organise in the defence of their interests and to launch public protest actions. Yet there were few such cases in 2013 with one of the most significant being the academicians' protest against the reorganisation of the Russian Academy of Sciences. Relying on the actual or alleged traditional values of the Russian society continued. Besides the emphasis on the Russian Orthodox faith and its values, the year 2013 was also characterised by intensifying propaganda against same-sex relations and their public display. Naturally, it was considerably amplified in the international media thanks to the upcoming Winter Olympics in Sochi. There is reason to believe that this propaganda of traditionalism should not have effect among a large share of city dwellers at least. Yet since this is carried on, it apparently works considering Russia as a whole.

In economy, the largest discrepancy between the forecasts and the actual events must have concerned the growth rate of the economy, in other words the rate of the stagnation of economic growth and its causes. R. Vare reviewed in his forecast both the opinions of Russian specialists about the likely economic growth (approx. 4 percent) and those of international experts (3.1–3.6 percent) and concluded that the latter are more credible. As of now, at the end of December, Russia's 2013 economic growth figure is expected to amount to 1.4 percent.

I would like to emphasise that this is not just a matter of low growth figure. Experts have been underlining all the time that Russia's opportunities of economic growth are in a very strong dependence on the price level of energy resources in the global market (R. Vare also added this disclaimer to his forecast), but in this case we are facing an unexpectedly low economic growth in a situation where the price of petroleum exceeds \$100 per barrel; i.e. the 2013 market actually favoured Russia. Moreover, Russia's macroeconomic policy as a whole was quite conservative and would earn praise rather than criticism of the IMF. All that gives reason to claim that this is not an economic crisis, but rather a crisis of Russia's economic growth model. All in all: both domestic consumption indicators and investments have deteriorated (this refers to general investment indicators, foreign investments in Russia may have even increased in 2013 over 2012, but their share of overall investment volume has always been very low). The situation in industrial output dynamic is especially weak as Russia's economy practically lacks competitive products for the international market with the exception of fuels and some raw materials. The domestic markets are not functioning efficiently; the lack of confidence in the performance of institutions and the economic situation of the country obstructs both investing and boosting domestic consumption.

Russia's accession to the WTO was expected to result in significantly better adjustment to international economy, improved access to Western markets, significant amount of foreign investments and a general improvement of the economy's competitiveness. Briefly, a positive external shock as S. Tkachenko formulated it in his forecast. It is possible that such effect may emerge at some time, but for the time being one has to admit that either there was insufficient time for these effects or the Russian economy, which has largely developed according to its own institutional logic, turns out to be unexpectedly unsusceptible to such opportunities and influences.

The realisation of the privatisation programme, which, as mentioned above, was primarily a plan for selling minority shares, made quite slow progress in 2013. The sale of shares of the Yakutia-based mining

company ALROSA for a rather reasonable price was considered a success, while the privatisation of Aeroflot (the only major enterprise besides ALROSA, where the initial plan foresaw the sale of more than 50 percent of shares) was frozen. Russian Railways (V.Yakunin) objected to the part of the privatisation programme concerning itself already early in the year, citing the argument of RZhD as a strategic enterprise. It cannot be ruled out that the country's deteriorating economic situation could increase the motivation for privatisation so as to earn revenues, but the counterargument – selling in bad market situation earns you less – is valid as well.

How could the structure of budget spending change in a critical economic situation? R. Vare considered the pressure of increasing defence and social spending a threat to economic development regarding Russia's budgeting issues. The three year budget for planning period 2014–2016, completed in the autumn, saw an approximately five-percent cuts policy regarding practically all types of expenditure with the exception of a couple of “holy cows”: military spending and expenses on domestic security. It thus seems that Russia would not face excessive increase of social spending, at least for the time being. Military spending in 2013, which increased even slightly more than offered in the forecast by K. Kaas, evaded the cuts axe at present, but there have been signals that the rate of the military modernisation programme (until 2020) could be adjusted somewhat, i.e. some spending planned for an earlier period would be put off.

A lot will depend on the situation of Russia's economy next year. If the economic situation should deteriorate, it could naturally result in political and social tension, which in turn could change not just the budgeting policy, but the development of the entire country.

Russia's foreign policy and relations with other countries

We shall now study forecasts concerning Russia's foreign relations and their realisation, proceeding from the more global issues towards local ones and those closer to Estonia.

Russia has been playing the global game quite successfully in the latest period. It has exploited the advantages it possesses as a major power and as a former world power (G8 and G20, the UN Security Council), while making use of the geoeconomic and geopolitical changes occurring in the world (the rise of the East, the rise of the South). New arenas like BRICS summits and the Shanghai Cooperation Organisation allow Russia to speak out on the global economic and political issues somewhat independently of the Western powers and to act as a counterbalance to the USA and its allies if Russia should want to do so. Russia's project to restore its influence in the CIS space, the idea of creating the so-called Eurasian Economic Union, also contains, at least as far as rhetoric is concerned, significant ambition to seize a unique international role between Europe and the rising Asia by joining them.

Against this background Russia can at least pretend being not particularly interested in relations with the EU, which is currently undergoing economically tougher times, and being engaged in a more ambitious global game. This attitude cannot be taken entirely seriously, considering the EU member countries' high share of Russia's trade, but it can be well used to justify Russia's lack of interest in negotiations with the EU as a whole. Russia prefers to its bilateral relations with individual EU member countries of interest.

A central role in Russia's relations with the West belongs to the relations between Russia and the Western leader the USA. The author of the corresponding forecast, M. Troitskiy, was very pessimistic about the developments in 2013. He stressed the differences between Russia and the USA in the regulation of international conflicts (different attitudes towards sovereignty) and on human rights issues (the handling of the so-called Magnitsky list in the US Senate) and concluded that no positive developments can therefore be expected. Troitskiy stated that neither country has a strategic vision of the purpose of the relationship. The US has no chance anyway to bring Russia to the Euro-Atlantic community, while Russia cannot convince the US that its game/cooperation with China poses no threat to America; therefore all cooperation attempts could only be artificial.

The actual developments of 2013 showed that such oversimplified concept does not work too well in reality. Differences between the two parties regarding the organisation of international affairs and human rights are a fact as well as geopolitical rivalry. Thus there is little ground for optimism about a reset of relations, which was still hoped for during Medvedev's presidency, but neither does it mean a new cold war in the relations between the two powers. The year 2013 showed that there are some common interests of both countries, including the prevention of the outbreak or spreading of big international conflicts, and that they can reach a common position on how to achieve that. Such common activity could be observed in 2013 in regard to Syria, Iran and North Korea. It is true that the US had to make some concessions for the sake of Russia's support. Some progress could be observed in the reduction of the number of nuclear warheads.

It can be expected that the hand-twisting over the future of Ukraine's European "integration", although the USA was not formally involved, had some impact on the Russian-US relations. The actual consequences will become evident only in 2014.

A highly strategic element of not just Russia's foreign relations, but in the overall architecture of international relations is Russia's relations with China. As a number of forecast authors have emphasised, these relations contain quite intriguing aspects, starting with the issue when they would begin to harm relations with the USA, which increasingly views China as a main global rival, and ending with the question of how would Russia and China be able to coordinate their interests regarding Central Asia or the Russia-China-Japan triangle. L. Leino mainly focuses in his analysis and forecast on the economic aspects of Russian-Chinese cooperation, underlining, for example, the highly intriguing subject of Chinese interests in the use of the Arctic Ocean passage ("Arctic Golden Waterway" in Chinese media). L. Leino forecast that 2013 would become a year of closer bilateral relations and also pointed out that the development of economic cooperation with China is a time-consuming process, due to negotiating and seeking for compromises over energy and other issues. That view was generally

upheld by the developments in 2013. Political issues were discussed to a lesser extent in the forecasts of Russian-Chinese relations yet this is probably an even more interesting subject than economic questions. It was declared in relation with President Xi's Russian visit in March that they reached common positions on strategic coordination issues. It can be presumed that this formulation covers positions about the regulation of numerous crisis areas of the world. Time will show whether this statement had broader content.

A highly interesting subject, which regrettably was not discussed in greater detail in the forecast collection, concerns the prospects of forming the so-called Eurasian Economic Union. At present this is only a customs union between three countries, Russia, Belarus and Kazakhstan. The presidents of the three countries confirmed once again in Minsk on October 24, 2013, their intention to develop a form of integration significantly more extensive than a customs union, the Eurasian Economic Union. Kyrgyzstan, Tajikistan and Armenia are viewed as further potential members.

While there are no doubts about the nature of the current form of integration and the customs union actually operates, although not yet very efficiently, it is presently quite unclear, what kind of union is being created and which mechanisms would be used to harmonise the partners' interests. Therefore both the hasty signing of the document and the related advancing of ideas about e.g. Turkey and India joining the union seem quite premature and apparently were mainly caused by the situation, which had developed around Ukraine and required emphatic promotion of the Russian integration model. Although Russia succeeded for the time being in preventing Ukraine's integration into the EU, Ukraine's joining the Eurasian Economic Union is far from being decided, possibly even regardless the future form of the union. One thing, which became even more obvious in 2013, is that the European integration is not the "only game in town". Only future will show, whether the two integration endeavours will exist in the territory of the former USSR as rivals and opponents or whether some intermediary forms will emerge.

A. Lobjakas opened his forecast of Russian-EU relations by stating that the Kremlin has made (as early as in 2012) it crystal clear that it does not intend to cooperate. He therefore did not foresee any significant progress in 2013 in the solving of divisive issues, predicting that the EU would not stress the energy or human rights issues too much and exert serious pressure on Russia. This is what generally happened. It should be pointed out that the debatable issues regarding Gazprom did not turn out as acute as Lobjakas had expected, possibly due to the shifts in the gas market (shale gas).

Lobjakas quite correctly emphasised the significance of the 2013 November Vilnius Summit in the EU-Russian relations, pointing out that if the EU should succeed with its plan (primarily the free trade agreement with Ukraine), it would send a very strong signal to Russia. In reality Russia managed to neutralise this pact and the metaphor of sending/receiving a signal accordingly obtained additional levels of meaning.

V. Spolitis, who discussed in his forecast Russia's relations with the Nordic countries, placed this issue very clearly in the context of Russian-EU, and more broadly, Russian-Western relations. He emphasised that the Nordic countries traditionally have stable relations with Russia, but in a situation, where Russia and the West are not converging, but leading separate paths of development, the Nordic relations with Russia will rather remain at a low politics level and would not be able to achieve remarkable results.

The Baltic states' relations with Russia were discussed in the forecasts of K. Tüür, A. Kudors and D. Jakniukaite. K. Tüür and A. Kudors remained mainly cautiously pessimistic in their forecasts, while D. Jakniukaite presumed that the recent change of government in Lithuania (the departure of the conservatives known for their negative attitude towards Russia) should result in better prospects for Lithuanian-Russian relations. As for Estonia, K. Tüür predicted continuing political conflict (the rights of Russian-speakers in Estonia, interpretation of history), although not in extreme forms, while the economic relations could improve somewhat (tourism). He considered the signing of a

FORECASTS FOR 2013 AND THEIR POST-FACTUM ASSESSMENT

border treaty possible with the likelihood being approximately 50:50. In reality the economic relations did improve somewhat, there were no serious conflicts in the political sphere, while the border treaty went unsigned.

A. Kudors expressed fears that “Russian emissaries” could attempt torpedoing the adoption of the euro in Latvia. It cannot be stated that even if such attempts were made, they had no effect.

Lithuanian-Russian relations were somewhat marked by conflicts, but apparently due to Lithuania hosting the EU summit this year and being one of the champions of the EU “Eastern partnership initiative”.

To sum it up, one has to agree with the statement that Russia’s relations with Estonia and the other Baltic states are not a significant independent issue and they become usually topical only when it is caused by some broader, generally European, context.

INTERNAL

POLITICAL SYSTEM

Viacheslav Morozov

Russian politics and ideological landscape in 2013 have by and large developed in conformity with last year's prognosis. The Kremlin continued to gradually open up the political system, encouraging the local branches of the party of power to get used to 'healthy' competition. The opposition made some modest progress at the 8 September regional and municipal elections, although, as it had been predicted, United Russia kept its control over the positions of governors and the regional legislatures. The repression against the more radical opposition continued to be limited in scope, but severe. The amnesty declared in December was applied, for instance, only to some of the 6 May 2012 Bolotnaya Square protesters. Moreover, the Presidential Administration pushed the amnesty bill in a way which left no doubt: the prisoners' freedom was a gift from the president and does not imply any apology. Similarly, Mikhail Khodorkovsky's pardon was enacted as a gesture of a benevolent tsar.

The intra-elite strife became more apparent with the strange case of Aleksei Navalny's arrest and immediate release in August. Even though the struggle between the clan of the Moscow Mayor Sergei Sobianin and its rivals cannot explain the whole story, it has probably contributed to this unexpected development. I also correctly predicted that Dmitry Medvedev will continue as the prime minister throughout 2013, despite the rumours about his eminent removal.

Mature Putinism taking shape

Generally speaking, 2013 can probably be described as the year when the main distinctive feature of mature Putinism – the state's tendency towards ideologically motivated intrusion in all spheres of social life – became fully pronounced. It is now obvious that Vladimir Putin's choice in favour of conservative ideology and traditional values was strategic rather than tactical. Even though it was made in the context of the political crisis after the 2011 parliamentary elections of 2011, and thus driven by short-term concerns about winning the presidential race, there was no retreat from this new policy after the victory had been secured. The thesis about the need for 'spiritual bonds', presented in the presidential address to the Federal Assembly in December 2012, was substantiated in Putin's Valdai speech in September 2013, as well as in the 2013 address to the Parliament.

Restrictive legislation, whose declared purpose was to protect traditional culture and family values, continued to be adopted and implemented, although fewer such initiatives emerged in 2013 than in the preceding year. Previously, new measures were promoted by individual parliamentarians, such as Vitaly Milonov or Elena Mizulina. By the end of the year, chaotic activism was replaced by a more systemic approach, which includes, apart from legislation and law enforcement, also a much more conservative cultural policy and an effort to project 'Russian values' abroad.

The Kremlin's turn away from pragmatism and towards ideological politics deepened the split between the secular urban minority and the conservative majority. Civil society continued to mobilize against the restrictive measures, and was galvanized by Navalny's vocal and relatively successful campaign during the Moscow mayoral elections. However, this generally liberal mobilization was confounded by the anti-immigrant turn that Russian politics took towards the end of the year, after the events in Biryulevo. This might have signalled the beginning of an end of Navalny's ambition to become the sole leader of the opposition, since his xenophobic remarks alienated many liberals. The authorities tried

POLITICAL SYSTEM

to ride the nationalist wave by staging raids against the ‘illegal’ migrants and promising tougher controls. However, it seems that on the balance the anti-migrant mobilisation even further eroded the support of the regime by highlighting its inefficiency.

The new economic situation

Being perceived as inefficient is perhaps the single most important threat Putin’s regime now faces. This threat has exacerbated with a new trend that emerged in 2013, likely to become the defining factor of Russia’s social and political development in the years to come – the economic slowdown. At the end of the year, Putin and Medvedev had to abandon their earlier attempts to present economic stagnation as an effect of the processes in the world economy, and to publicly admit that it is caused first and foremost by the domestic structural factors. As such, it cannot be reversed by unfreezing the financial reserves. Since any far-reaching economic reforms would inevitably have political repercussions and thus are unacceptable for the Kremlin, some spending cuts appear unavoidable – moreover, they are already envisaged by the 2014 state budget.

The fact that the pie is getting smaller cannot but lead to further conflicts among the political elites. In fact, some battlegrounds have already been defined. The first one is about the future of various mega-projects that have been envisaged in the recent years, ranging from the massive re-armament of the military to the Sochi Olympics and the 2018 World Cup. It seems that so far the lobbyists of the mega-projects have been able to defy the attempts to keep spending in check, but if the economy continues downwards, new clashes are inevitable.

The second, and related, battleground is about Putin’s post-election decrees. While Medvedev’s cabinet has publicly declared that the social policy targets set by the decrees are unfeasible under the current conditions, at the December 2013 Popular Front conference Putin insisted on their realization. It seems that the Popular Front is becoming the meeting point for the forces that have a vested interest in populist social policy, even at the expense of financial stability. If and when the

state is unable to provide basic services to the population, the people will blame the regime, not the global markets. Thus, the 'pro-decree' platform is likely to gain prominence in the months to come.

Difficult year ahead

Russia's political development in 2014 will be defined by a multitude of entangled conflicts at three levels: the rift between the regime and the increasingly vocal civil society will be complicated by the internal contradictions within each of the two opposing camps. Civil society will be divided on a range of issues, such as family policy, freedom of expression, and the attitude to migrants. Social issues will gain increasing prominence, and might play divisive as well as consolidating role, depending on the circumstances. The economic slowdown will further intensify the in-fighting within the elites. One can confidently predict new prominent resignations; even attempts by the members of the ruling class to appeal to the masses cannot be excluded. In contrast to the previous year, the future of Dmitry Medvedev as prime minister looks much less certain.

In the meantime, the disillusionment and the growing divisions within the opposition will prevent it from presenting a consolidated challenge to the Kremlin. The regime will keep pressure on the activists by targeted repressions and by presenting them as agents of the morally insolvent West. The state will thus continue to intervene into the spheres of morality and private life by intrusive legislation. At the same time, 'constructive' members of the opposition will be allowed to take part in regional and municipal elections and to criticize the authorities. This strategy will most probably be effective as long as the economy remains afloat and the regime is able to prevent a major collapse in the social sector, infrastructure and housing.

It appears that Russia's path towards conservative authoritarianism has been firmly set by the recent ideological choices and the deteriorating economy. Changing tracks would presuppose new political thinking and is unlikely to occur without a major crisis.

ECONOMY

Raivo Vare

The last forecast of Russia's economic development turned out to be overly optimistic, but the general trends were predicted correctly.

The economy slowed down despite the fact that the prices of fossil fuels (the main source of Russia's export revenues) remained slightly higher than expected. At the same time, structural problems of Russia's economy and an expected slowdown of economic reforms had a surprisingly powerful and prompt impact. This negative influence was magnified by a falling demand for Russia's exports due to the protracted crisis in the EU, the main trade partner of Russia. Although the government initially tried to blame the latter as a factor for the problems, by the end of 2013 it was forced to officially acknowledge the decisive impact of domestic factors on the weak economic growth.

Uncertainty among business community and, especially, investors regarding the longer term assessment of the policies of President Putin and his administration also played a role in 2013 and will continue to influence developments in the foreseeable future. To put it simple, there is a greater uncertainty and fears among business community caused by the deterioration of economic climate. An immediate result of such situation is the cancellation or postponement of investments and the net outflow of capital from Russia that again rose to USD 70–75 billion. Although the total amount of foreign direct investments in 2013 exceeded USD 30 billion, the actual FDI growth after the deduction of politically backed investments in natural resources (mostly connected to Rosneft that has become a new centre of power in fossil fuels) and some other government-sponsored transactions, was rather small.

The privatisation programme also ground to a halt, because practically all minority holdings in state-owned companies scheduled for sale in 2013 still remain state property. Moreover, in summer 2013 the government announced a new amended privatisation programme that provided for keeping a controlling interest in many additional companies scheduled for privatisation. The privatisation timespan also became longer and the size of privatised holdings was reduced. It may be even argued that the understanding of what constitutes a strategic holding has been somewhat broadened and the ability of companies to formally reduce the size of such holdings has been further restricted. It indicates the continuing adherence to the logic of economic development through state capitalism in the near future.

The predicted deterioration of economic environment for small enterprises caused by a higher social tax imposed to increase budget revenues also contributed to the slowdown of the economy. At the same time, the predicted growth of public salaries and other social spending occurred duly.

The government was forced to acknowledge the deteriorating economic outlook and considerably revise downwards the initial forecast of GDP growth for 2013 that was lowered to 1.8%YoY by the end of November. Still, some experts considered even such forecast as too optimistic and expected the GDP growth rate to be as low as 1.3–1.5% (the IMF and the EBRD) or even 1%. Such slow yearly growth already means a stagnation or even recession in the month-on-month context. It would result in a growing unemployment and, more importantly, in the inability to deliver on generous promises made by the President during the last election campaign, first of all in social and defence areas. It was finally acknowledged by the government that revised the budget revenue estimate and (as predicted) the size of spending programmes for 2014 and for the next three-year period (2014–2016). Furthermore, the long-term growth forecast has been also revised and the 5–6% growth rate promised during the presidential election campaign and in subsequent government communications was reduced to 2.8% by the Ministry of Economic Development.

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International financial institutions also reduced the growth forecast for 2014 to 2.5% (the EBRD) – 2.6% (the IMF). It should be noted that even the Ministry of Economic Development followed international recommendations and cited domestic factors (related to structural problems) as more important causes of the slowdown than traditional external factors. At the same time, there is no reason to believe that the situation will change in the near future, because the removal of major structural impediments for a sustainable economic growth – real protection of property rights, eradication of corruption, privatisation and integration into the global economy based on large long-term investments in technology – is less profitable and bears more risks for the political and economic establishment than the accumulation of wealth from a direct and immediate rent extracted from the sale of natural resources and excess profits from competition-free domestic businesses (let alone revenues from corruption).

The inflation rate stayed within the predicted range (up to 6.5% in 2013). A certain slowdown of inflation (at least by 1%) may be expected in 2014, largely due to general factors influencing economic growth. Also, the government decided last autumn to suspend the increase of prices for services provided by natural monopolies to industrial consumers and introduce a strict control over price increases for private consumers. It will put an additional brake on inflation. Another factor will be a smaller-than-expected increase of budget expenditures and a planned pension reform that will increase the share of individual retirement account and decrease the growth rate of the ‘pay-as-you-go’ share of pensions.

The credit market continuously limits financing opportunities for small enterprises, allowing big companies with strong political backing (both state-controlled and belonging to certain oligarchs) to consolidate the market.

Three important events took place on the natural gas market in line with predicted trends. First, dramatic changes in the global natural gas market caused by shale gas forced Gazprom to abandon the development of the Shtokman field and launch shale gas development

projects in Eastern Siberia. Second, in export contracts with big consumers in Western Europe a share of pricing models based on short-term market prices has increased at the expense of long-term pricing models, creating revenue problems for Gazprom which is the leading contributor to the state budget. Third, powerful lobbying by Rosneft and Novatek forced Gazprom to surrender a small part of its absolute export monopoly for natural gas, allowing other companies an access to LNG export. Simultaneously, Russia energetically signed political agreements with corresponding South European states as required for the construction of the South Stream pipeline and practically ensured the feasibility of this pipeline and the market for natural gas supplied via South Stream.

Russia's protectionist stance in relation to its domestic market and producers has not changed and will not change in the next few years, regardless of Russia's accession to the WTO. The only possible development after the changes will be the use of more technically correct official justifications of regulative non-tariff barriers outside the WTO framework that are imposed by manifestly political decisions of corresponding government agencies. Russia's foreign trade operations will intensify as predicted, especially regarding the export of commodities and defence industry products to the Asia-Pacific markets. Russia will also continue strengthening its Customs Union that is considered by the Kremlin as an essential precondition for the creation of a quasi-equivalent of the USSR. Although Russia has managed to keep Armenia and Ukraine from signing an Association and Free Trade Agreement with the EU in Vilnius last autumn and secured Armenia's decision to join the Customs Union, it has not been equally successful with Ukraine. Therefore, corresponding attempts will continue in 2014, also involving Moldova and Georgia that initialled their Association Agreements with the EU in Vilnius. The success of these attempts is another question. In our opinion, Russia has the best chance with Moldova, but this is an issue for another analysis.

Modernisation of economy as an aspect of the announced prioritised programme has been as problem-ridden as the privatisation

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programme. Nevertheless, there have been certain changes as well as setbacks. For example, a former top-priority project Skolkovo has suffered several setbacks and come under a serious attack from law enforcement for the alleged abuse of government funds. However, it rather indicates a struggle between certain powerful interest groups that cannot be beneficial for the implementation of the modernisation programme as the latter requires joint efforts and strong motivation to be successful. The last thing it needs is an adverse regulatory and economic environment and insufficient funding.

In the area of transit and logistics Russia has continued to re-direct cargo traffic to its own ports, especially to Ust-Luga, and a relatively generous government funding is provided for the construction of new port facilities and access infrastructure which is habitually justified by political arguments. However, an initially announced ambitious construction programme of transport infrastructure has been downsized due to the aforesaid growth limitations. In 2014 and the next few years we should also expect big (over)spending on ambitious and prestigious sport events. This kind of spending is politically prioritised and will impose limits on investments into the development of other infrastructure from the already stretched state budget.

To sum up, the predictions made for 2013 proved correct in essentials and longer-term trends will continue to influence Russia's economy. The underlying causes of these trends are linked in many respects to political developments in Russia's system of government and national elite, as well as to the impacts of a broader international political and economic environment.

ENERGY

Andrei Belyi

As it was correctly mentioned in the last prognosis, Russia entered into the process of LNG export demonopolization, while Russian incumbent Gazprom was experiencing increasing difficulties in Europe. Recently, Russian government submitted a proposal for a LNG export demonopolization by early 2014. As a consequence, Russia plans to become a player in the LNG market with a capacity to provide up to 17% of global supplies of the fuel. Therefore, changes in Russia's external gas policies become the crucial part of the prognosis for 2014. The report also mentioned domestic market reforms in the gas sector, which indeed accelerated in 2013 in order to increase an overall efficiency.

Russia's demonopolisation of LNG export

By 2014, new LNG terminals will be considered. Rosneft plans one in Sakhalin with a capacity of 5.5 million tons per annum. Main exports destinations are Japan and South Korea. Rosneft cooperates with Exxon Mobile on the production side. Then, Novatek plans to build a terminal in Yamal. Up to now, Novatek concluded an agreement with Chinese CNCP and declared a memorandum of understanding with Spain. These commercial agreements demonstrate that Russian companies will be active in attracting investments and purchasing equipment from international companies to successfully proceed to the market development.

Gazprom vs European gas markets

As far as the European gas markets are concerned, Gazprom will still face a number of issues related to the renegotiation of the long term gas contracts, in particular regarding the take-or-pay clause. The development of the European gas hubs rather disfavors Gazprom's positions as it becomes harder to convince European partner companies to stick with the old contractual model. EU-Russia Gas Advisory Panel continues to elaborate various alternatives to avoid the supply-transport capacity mismatch in Europe.

Up to now, shale gas revolution in the US provides new opportunities for Gazprom. The collapse of gas price in the US liberated amounts of coal, which is now traded in Europe. This leads to a capitalization decrease of gas power plants. In turn, Gazprom will continue its interest in purchasing European gas power generating capacity. The strategy aims at ensuring Russia's gas demand in Europe and allows Gazprom to participate in the electricity exchanges.

A more problematic area remains with the Baltic States. As it was known already, Gazprom continues an investment arbitration against Lithuania following the latter's implementation of the full ownership unbundling in accordance to the Third Energy Package. Considering that the full ownership unbundling was one of the options of the European Directive, Gazprom claims that Lithuania's implementation of the Third Energy Package violates the investors' legitimate expectations. Noteworthy is that Latvia followed a different model of Independent System Operator, which avoids legal disputes with Gazprom. However, Estonia adopted a new Gas Law, which foresees a full ownership unbundling by 2015. A situation will then create additional difficulties for investment arbitration as Estonia does not have a Bilateral Investment Treaty with Russia. Very probably, the issue will become increasingly important during the year 2014.

Another area of difficulty remains Ukraine. A mutual avoidance between Gazprom and Ukrainian Naftagaz accelerates since Naftagaz decided not to purchase gas from Russian incumbent. Instead,

Ukraine continues to purchase gas from other market players, both from Russia and Europe (in particular RWE). In turn, Gazprom plans to start the construction of South Stream pipeline and enlarge the capacity of Nord Stream pipeline. In practice, both projects annihilate EU-sponsored southern corridor still initiated by Nabucco pipeline. Considering Gazprom's investment strategy, which does not always reflect an economic rationale, both projects will most probably take place.

Domestic markets of gas

As it has been mentioned in the last year prognosis, Russian authorities are forging a wholesale gas market. Indeed, Governmental Decision of 31 December 2010 N 1205 was amended in January 2013. The Amendment iterates an objective of a wholesale gas market by 2015. For these purposes, Federal Service for Tariffs has to design wholesale market tariff methodologies by July 2014. What is noteworthy is that the Federal Service for Tariffs will elaborate a method for access and transmission tariffs, whereas wholesale gas commodity sales will be subject to supply-demand mechanisms. Gazprom's difficulties in Europe will continue hitting its capitalization. In order to regain investment credibility, Gazprom will continue concentrating on the domestic gas price increase and on the electricity markets.

A recent report from the Institute of Energy Research of the Academy of Science demonstrated a worrying trend that price hikes do not generate necessary investments, energy efficiency nor stimulate the demand mitigation. At the same time, Russian companies face an increasing incompetitiveness compared to their international competitors. This provides an additional difficulty for the Government as it issued a new plan for price increase. A high level of market concentration of Gazprom in both sectors creates significant concerns for large (industrial) energy consumers. In turn, tensions between Gazprom and Federal Anti-Monopoly Service tend to reinforce in the years to come.

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Conclusion

We can now stipulate the political implications of the US shale gas revolution for Russia. Price drop in the US has been accompanied by a positive price dynamic in Asia. Hence, Asian markets attract most of the LNG. Hence, Russian State and companies rushed in seizing opportunities of the fast developing market. In turn, this directly accelerated LNG demonopolization and indirectly also domestic gas market reforms. Gazprom's monopoly in European direction is only marginally challenged by Novatek. Gazprom's situation in export market is rather unfavorable especially because of the European markets stagnation. This affects the dominant place of Gazprom in Russia's political economy. Hence, grounds for a wholesale gas market become stronger. In turn, the issue of energy price rise might become a significant test for Russia's political stability during the next year.

The same trend of deviating LNG supplies from US to Asia bypassing Europe creates difficulties for the diversification projects of the European States. Nevertheless, political disputes surrounding the EU's internal market implementation and changes in price mechanisms will further occur in Europe. Gazprom's positions in Europe will heavily depend on the dynamics of Asian markets and levels of LNG deviation from Europe.

ARMY

Kaarel Kaas

By and large the last year's prognosis can be considered accurate. The events in the Russian armed forces in 2013 unfolded mainly as we predicted – some elements of army reform introduced during the tenure of the previous Defense Minister Anatoliy Serdyukov were reversed and rolled back, but the core changes made since 2008 (the official starting point of current reform effort) have remained intact. One suggestion made in the short-term prognosis for 2013 proved to be wrong, though. The headquarters of the Russian Navy is still located in Saint Petersburg and has not been moved back to Moscow as we so boldly predicted.

Developments in 2013

The most important developments in 2013 can be described as “things that did not happen”. Current Defense Minister Sergei Shoigu and the Chief of the General Staff army general Valeriy Gerasimov have not revoked the key structural elements of the army reform. The Russian military is currently still on the track that leads away from Soviet-style mass army based on mobilization – and towards a force structure, which is primarily manned by enlisted personnel (contract-based soldiers and non-commissioned officers, *kontraktniki*) and thus constitutes a high-readiness standing army.

Russian armed forces still have the operational structure with brigades as key units, operational command and control is still based on four Joint Forces Strategic Commands – both are fundamental changes introduced under Serdyukov.

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But at the same time a number of Serdyukov-era decisions were indeed partly or fully annulled. Maybe the most prominent of those policy reconsiderations concerns a military procurement: on 26th of December Prime Minister Dmitry Medvedev signed a decree, which effectively prohibits the import of defence-related goods (including weapons and vehicles) and services from foreign countries. The needs of Russian armed forces and services will be exclusively catered by Russian military-industrial complex.

That is a 180-degree turn compared to Serdyukov's rhetoric – even if that rhetoric was not fully reflected by practice – “if the domestic industry cannot cope, we will simply shop abroad” and the refusal to order a number of Russian weapon systems on the grounds that they were technologically inferior compared to the Western analogues. From Russian military industry's viewpoint it is a New Year's Eve present as the amount of money involved is vast – Russian State Armament Programme for 2011-2020 (*Gosudarstvennaya programma vooruzheniya 2011–2020*, GPV) is worth approximately 20 trillion roubles (ca € 446 billion). But, for example, for the French there's little cause to celebrate as one has every reason to conclude that the contract for building Mistral-class amphibious assault ships for Russian Navy will be limited to two vessels currently under construction (due to be commissioned with Russian Navy in 2014 and 2015 respectively).

There were other, more peripheral in nature, corrections of previous year's decisions as well: the abolished institution of warrant officers (*praporshchik's* and *michman's*) was re-introduced; military higher education system partly gained its former shape; some bits and pieces of support services and maintenance (catering, repair works of vehicles), outsourced to the private sector by Serdyukov's team, are by now again the responsibility of operational military units.

And as a largely symbolic gesture Shoigu ordered the re-establishment of two eminent Ground Forces units – The 2nd Guards Motor Rifle “Tamanskaya” Division and The 4th Guards “Kantemirovskaya” Tank Division. During Serdyukov's “reign” both aforementioned divisions were disbanded – a move which was regarded as a sacrilege by the officer corps.

In another structural adjustment three air assault/airborne brigades, previously under the command of The Ground Forces, were brought under the jurisdiction of The Airborne Troops (*Vozdushno-desantnye voyska*, VDV). Thus the current VDV organizational structure includes four divisions (both airborne and air assault), four brigades (both airborne and air assault) and a special forces (*spetsnaz*) regiment.

But Shoigu's and Gerasimov's main achievements during their first year in office (both of them were appointed to their current offices in November 2012) can be described as A) re-establishing trust and normal working relationship between the Ministry of Defence and the armed forces and B) raising the training and combat preparedness levels in the armed forces by organizing unexpected combat alerts and snap exercises.

Predictions for 2014

In 2014 Russia's defence budget will continue to increase rapidly – despite the unimpressive performance of Russian economy and budgetary deficit. In a federal budget for 2014-2016 defence expenditure (as stated in the chapter “National defence” in the Russian federal budget) in 2014 will amount to 2.49 trillion roubles (€ 55.55 billion, 3.4 percent from GDP) – an increase of 18.4 percent compared to 2013. It is about to grow further to the level of 3.38 trillion roubles in 2016 (€ 75.41 billion, 3.9 percent from predicted GDP at 2016).

Some of the funds will be spent on the increasing the level of enlisted personnel *kontraktniki* in the armed forces. The aim set by President Vladimir Putin is to have 240,000 in armed forces by the end of 2014. (The corresponding figures for 2012 and December of 2013 were 186,000 and *ca* 200,000 respectively.) By 2020 the number of *kontraktniki* should reach already 499,000 or almost half of the officially declared 1 million men strength of Russian army.

Recruiting additional personnel should help to plug the caps in the table of organization – the average manning level of armed forces units stands currently at 82 percent. The first to reach fully-manned-

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and-staffed-status by the end of 2014 should be the units of Airborne Troops, naval infantry and *spetsnaz*. It is doubtful, however, that the Russian authorities can meet their initial targets.

In addition to the growing number of enlisted personnel the generous military budget will facilitate a steady flow of new weaponry into the operational units. Russian GPV is a vast undertaking and thus describing it here would be a vain attempt. It is worth to mention, however, that the combat capabilities of Russian Navy will increase significantly during 2014 – even if the arrival of new vessels and weaponry is lagging behind the schedule. The year's highlight for the navy will be the receiving of the first Mistral-class vessel, *Vladivostok* and the third Borei-class (*Project 935*) ballistic missile submarine *Vladimir Monomakh*.

The second major contributor from the influx of money will be the air force with a couple of regiments worth new airframes arriving into units.

Regionally – in the context of the Baltic Sea security environment – Russian Armed Forces will continue to increase its conventional military capabilities in the wider Baltic Sea area: in 2013 the second missile brigade re-armed with Iskander-M missile systems became operational in Kaliningrad oblast, bringing the number of Iskander-brigades in region to two (the first one, 26th Missile Brigade based in Luga, in Estonia's immediate neighbourhood achieved operational readiness by the end of 2012). Those two units in combination with long-range air defence systems (S-400's based in Kaliningrad and S-300PMU2 Favorits based in the vicinity of Kaliningrad) will seriously alter the balance of forces in the Baltics.

By the end of 2014 a Russian Air Force base in Lida, Belarus, will house at least a squadron (10-12 planes), but possibly to squadrons (20-24 planes) of modern Su-27SM3 fighter planes. Russian Air Force deployed its first planes to Lida during the last months of 2013.

Secondly, by the end of 2014 an army aviation – meaning, helicopter – base next to Latvia's border in Ostrov, Pskov, will achieve initial operational readiness with at least 10-12 newest Mi-28N

helicopter gunships. By the end of 2015 the latest it will house a full army aviation regiment (20–24 helicopter gunships).

Those deployments in combination with the strengthening of the Baltic fleet and the units of Russian Ground Forces in Baltic Sea region will contribute considerably to rising tensions between Russia and the Baltic states as well as with NATO.

ORTHODOX CHURCH

Alar Kilp, Jerry G. Pankhurst

Several developments predicted in the last prognosis have materialized. The “Pussy Riot affair” has faded slowly but consistently and resulted in the new order of “normality”, where loyalties to the state, government, nation and Orthodoxy tend to overlap. “Offences to religious feelings” and propaganda for untraditional sexual relationships are criminalized by law. Putin regularly refers to traditional values, and occasionally to the religious aspects of cultural and civilizational legacy. His present style of presidency has turned out less secular than his previous terms.

In this regard, a set of values and views has emerged where the Russian president shares the heart and mind of the patriarch of the Russian Orthodox Church (ROC). Domestically, both their visions of a good society rely strongly on socially conservative values as manifested particularly by the opposition to the public visibility of homosexuality. Internationally, both see Russia as a guarantor of a multipolar world, a global stronghold of traditional values, and an advocate of the type of conflict solution that avoids military intervention. (Putin’s article in the New York Times calling for the avoidance of air-strikes by US on Syria was paralleled by a related letter of Patriarch Kirill to Barack Obama in 11 September 2013).

More controversially, the ROC and the Russian state (Eurasian Union) are engaged in the competition with the EU (EU Eastern Partnership program) for the economic and political integration of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The fact that Ukraine is siding with Moscow and not with Brussels has been

enhanced by the improvement of relations between the ROC and Roman Catholicism (RC), the meeting of Putin and Pope Francis (in November 2013), potential working out of the solution for the issue of Ukrainian Greek Catholics (who recognize the spiritual authority of the Pope), and the ceremonial commemoration of the civilizational bond between the Russian Federation and Ukraine in the celebrations of 1025th anniversary of the baptism of Rus in Moscow and Kiev.

On an international level, however, the rising visibility of Putin and the ROC in the protection of traditional family values, peace in Syria and the fate of Christian communities in the Middle East and Northern Africa, may remain temporary because other political powers (the European Union and the U.S.) and religious leaders are also involved in ‘protecting Christian minorities’ and the promotion of peace and stability within this region.

Additionally, although both Pope Francis and the ROC share a commitment to the protection of family values, the position on homosexuality held by Pope Francis is significantly more moderate than the one advocated by the ROC.

What will the year 2014 bring?

First, the anti-gay agenda has become the core overlap of the moral agenda between Putin’s conservative nationalism and the traditional morality of the ROC. In fact, it is the only dimension of morality where the conservative family values of the ROC overlap also with the social majority bias in Russia. The ROC condemns pre- and extramarital relations and abortion as well, but these norms are not markedly supported in the Duma, protected by law or represented by social behavior.

The Sochi Winter Games have been and will be used by external critics to highlight the intense combat against the social visibility of homosexuality in Russia. Similar to the “Pussy Riot affair”, even if the gay rights question is utilized as a means for questioning the social authority of the ROC and the political authority of Putin, such

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endeavors are more likely to strengthen the existing overlap of interests, values and ideas of the Russian state and ROC than to weaken it.

At the same time we should remember that Putin started out in power as keeping the ROC at arm's length, and he only came to a warm embrace with the ROC after Medvedev's friendly years in office and when he needed allies in his somewhat fragile election in 2012. In this context, Putin and the ROC have joined in the manufacture of a moral panic about the endangered church and endangered believers, where there seems to be clear collaboration in presenting a united front demanding for security protection. Sustaining public attention to the symbolic threats of, first, the Pussy Rioters and now, sexual minorities serves the common interest of keeping the issue at a boil.

Second, the international profile of the ROC is growing, especially in its potential role in the EU and the European Court of Human Rights. Although much of the ROC activity is specifically religious, its criticism of the Western world that "absolutizes the freedom of choice at the detriment of public morality" particularly in international relations has become a constituent part of the ROC message to international audiences. Such messages of the ROC do not necessarily reflect the social or national reality within the Russian Federation. As a matter of fact, both the patriarch and president regularly describe Russia as religious, predominantly Orthodox and supportive of traditional norms, which is at best only a partial truth, when understood descriptively.

On the other hand, the specifically religious activity of the ROC (e.g. in the form of inter-religious dialogue in Iran) may add an aura of sacred legitimacy to the actions of the Russian state even in areas of non-religious foreign policy, which focuses first on the economic and geopolitical interactions of the states. In this regard, the potential influence of ROC with the Eastern Orthodox of Bulgaria, Romania, Greece, Cyprus, and the outposts of Orthodoxy in Estonia and Poland, gives it a political potential that the Russian state cannot ignore.

To sum up, in pursuit of its own religious ends, the ROC is often also pursuing goals that complement those of Russian state policy both domestically and internationally. Domestically, we predict that after the Sochi Winter Games there will be first applications of laws banning propaganda for untraditional sexual relationships and offences to religious feelings, which reinforce the trend started from the “Pussy Riot affair”, where boundaries between the religious and the political, Russian Orthodox Church and the political regime, are increasingly blurred. Internationally, the Russian Orthodox Church will strive to improve its status as a global religious authority particularly in issues related to the protection of Christian minorities in the Middle Eastern region.

LEGAL SYSTEM

Alexey Kartsov

The next year promises to be anything but calm for Russia's legal and, especially, judicial system. First of all, it will be associated with the most botched judicial reform during the entire post-Soviet history of Russia.

The preparation of the reform was hastily started and completed by the end of 2013 without any attempts to calculate the possible consequences of its implementation. The pivotal element of the reform is the liquidation of the Supreme Court of Arbitration (SCA) and the establishment of the Judicial Panel for Economic Disputes (which becomes the court of highest instance for arbitration courts) in the Supreme Court.

Russia's system of arbitration courts has firmly protected the rights of owners and creditors, satisfied claims based on violations of corporate governance norms and, in the whole, supported the development of a competitive market economy. These achievements have been an important factor bolstering a long-term business confidence, investment climate and economic growth.

We believe that in the next year all the shortcomings of this reorganisation of the judiciary will be unavoidably revealed. What is at stake is at least a partial loss of the achievements of judicial arbitration (the precise adherence to procedures and deadlines; transparency; an active development of such modern forms of conducting legal proceedings as a remote participation in legal proceedings and remote filing of lawsuits and documents; modernisation of document

management technologies.) Meanwhile, the aforesaid advantages have not only facilitated the access to courts as such, but also improved the economic environment in Russia.

In the conditions of an aggravating crisis and looming budget deficit, it should be expected that court rulings on economic disputes will become increasingly dictated by fiscal interests. In the final analysis, these were the most important reasons to liquidate the SCA and to merge (the still existing) system of arbitration courts with the Supreme Court. Indeed, in tax and other disputes between government agencies and private persons courts of general jurisdiction have usually supported the former, while arbitration courts supervised by the SCA have ruled in favour of the latter.

It should be also noted that the Supreme Court of Arbitration was the main source of court practice on which the Concept of amendments in the Civil Code was almost exclusively based.

However, proposals of the SCA (also included in its assessment of the respective bill) to obligate the Supreme Court and its department of courts to “ensure the preservation and functioning of all the information resources” of the arbitration system and to keep the validity of all the SCA’s precedents (at least until they have been amended by the Plenum or Presidium of the Supreme Court) were ignored.

In the whole, the suspension of the process of court specialisation that has barely commenced under the SCA supervision in order to ensure the informed consideration of cases in specific areas with a high degree of complexity and many specific features will adversely affect the professional development of judges.

Thus, the Supreme Court justices will not be obligated in any way to base the resolution of economic disputes on normative acts developed by the SCA. It might potentially result in the reduced standard of law enforcement in entire areas of law. For example, the application of the Tax Code is impossible without regard to the arbitration court practice.

The year of 2014 will also provide an answer to the question whether the Code of Arbitration Procedure will remain the procedural basis for

the resolution of disputes in arbitration courts. It is not impossible that the whole system of arbitration courts will be changed in 2014, eliminating them altogether.

Within the framework of the renewed Supreme Court, *the fourth type of court proceedings (administrative) will be introduced* for the resolution of disputes with public authorities. The Code of Administrative Procedure will be probably adopted in 2014 and corresponding courts will be established. It should be noted that the administrative procedure will be based on a procedural disparity with a view to prevent the use of administrative pressure, changing the adversarial principle and obligating the court to assist the plaintiff (a private person) with the collection of evidence. Courts of general jurisdiction are unaccustomed to such approach. It is possible that administrative courts of first instance will be established at a higher level than the level of federal subjects to avoid the overlapping of their jurisdiction with the administrative borders of the existing regions.

Moreover, the judiciary is entering the year of 2014 *without the Disciplinary Judicial Presence* created during the presidency of Dmitri Medvedev. Instead, the Disciplinary Panel of the Supreme Court will be created within the Supreme Court after the liquidation of the Supreme Court of Arbitration. The disciplinary panel will be elected for a three-year period by the Plenum of the Supreme Court and its chairman will be the Deputy Chairman of the Supreme Court ex officio. In other words, oversight over the judiciary will be completely controlled by head of the Supreme Court. Therefore, it is not difficult to predict which party will be favoured in disputes between qualification panels (appointed with the participation of representatives of legal profession other than judges) and court chairmen.

Meanwhile, the soon-to-be-liquidated Disciplinary Judicial Presence was appointed on a parity basis (three justices from the SCA and three justices from the Supreme Court) and was independent from the chairman of any supreme court.

Finally, another consequence of the judicial reform that will become fully apparent over the course of 2014 and the next few years will be

the complete transfer of control over the prosecutor's office to the head of state (or, more precisely, the Presidential Administration). The authority of the Prosecutor General will be heavily limited. His deputies will be selected by the head of state and confirmed by the Federation Council. Furthermore, regional prosecutors will be appointed by the President upon the proposal of the Prosecutor General subject to prior approval by the corresponding federal subjects. Firing regional prosecutors will also become the President's authority. Currently they are appointed by the Prosecutor General subject to prior approval by the corresponding federal subjects. There will be no mention in the Constitution any more that Russia's prosecutor's office constitutes a "single centralised system where lower-level prosecutors are subordinated to higher-level prosecutors and the Prosecutor General of the Russian Federation." Instead, the authority, organisation and procedural rules of the prosecutor's office will be set out in the Federal Law "Upon the Prosecutor's Office of the Russian Federation" and may be much more easily amended, if necessary. Moreover, if centrifugal tendencies in the Russian Federation become stronger, the need to obtain the approval of candidates for a prosecutor's position from federal subjects may lead to a situation when prosecutors would have lost the last shred of independence from regional elites.

We also predict that the year of 2014 will provide further evidence of the absence of a consistent criminal law enforcement policy in modern Russia: *a trend to make the criminal law* and, possibly, law enforcement practice, including business-related criminal cases, *less and less liberal* (already visible in 2013) will continue in 2014.

Surely, the reform is unlikely to result in a total collapse. There will always be some professionals in the judiciary tinkering with a square-wheel vehicle to make it suitable for routine driving.

However, my general prediction is that the changes in the judiciary that have decidedly transformed it into a part of the political regime will negatively affect the investment climate and facilitate the flight of parties to various disputes to foreign courts and international arbitration tribunals.

MEDIA AND THE PUBLIC SPHERE

Svetlana Bodrunova

The prognosis for 2013 has proved right in its overall remarks on the absence of meaningful transformations in the public sphere and media-political relations. This year, we will focus less on media industry itself and more on the role of media in the (trans)formation of the Russian public sphere.

In recent years, Russia has been a fundamentally fragmented society, with at least four economic and social milieus having different modernization speeds – from post-industrial global cities like Moscow and St. Petersburg, Soviet-patterned industrial and rural Russia to the North Caucasus and migrant population. In the political sphere, the aging of the elite and freezing of political competition provoked a feeling of the ‘second stagnation’ and dead hopes for inclusive party competition, the only ‘comeback of true politics’ being Moscow mayoral elections’ rivalry between the incumbent Sergey Sobyenin and blogger Alexey Navalny in September 2013. These cleavages are reflected in the public sphere which now resembles the late Soviet times with the division of the everyday culture into the ‘first’ (pro-official) and ‘second’ (non-censored, ‘kitchen’) one. Today, though, in many cases it is Internet media that plays the role of ‘kitchens’ of the 1980s where new discursive milieus formed.

The emasculation of meaningful political discourse in pro-government media in 2013 has continued to emerge in many forms. Consensus-oriented political talk shows were practically absent from the Russian national TV – with rare exceptions like the show dedicated

to 20-year anniversary of the 1993 conflict between President Eltsin and the State Duma or 'Open studio' on the 5th Channel. The news bulletins avoided many-sided debate and evidently created images of enemies of today's world powers, highlighted by Edward Snowden's stay in Moscow Domodedovo airport. The opening of Russian Public TV Channel in May 2013 did not change the picture, as its consumption never went over 3% and its budgeting had significant troubles. The discursive climate has provoked a new breed of political image-making based on public claims or law initiatives on necessity of restrictions, deputies like Mizulina in Moscow and Milonov in St. Petersburg becoming iconic. The anti-corruption campaign has centered on the case of Rosoboronservice thus blurring any systemic counter-corruption efforts despite wide social demand for it, e.g. despite widespread claims of billions-large corruption during the erection of Olympic objects in Sochi.

The growth of emasculated, traditionalized and personalized political discourse on federal TV has been, at least partly, a marketing response to demands (or fears) of the industrial Soviet-patterned Russia. But the elite, rather than working upon diminishing the tensions, evidently tried to saddle the growing radicalization that has manifested in Biryulevo anti-migrant pogroms in October 2013, e.g. by silently supporting Cossack raids over rock concerts or clearly nationalist Russian Marches. Another side of it was issue-oriented and human-rights-breaking lawmaking of 2012–2013 that was also perceived by intellectuals as aiming at indirect censorship. The 'crazy printer' (as the State Duma became labeled in Runet in 2010–2012) produced controversial laws like the ones against 'propaganda of homosexuality' (the 'anti-gay law') and 'on the protection of intellectual rights in the Internet' (the 'anti-piracy law'), as well as directly restrictive corrections to the Civil Code against obscene language in media based on the 2012 law on protection of children from harmful information and restrictions on ethnic naming of criminals passed by Moscow City Council. These laws further polarized the urban population.

MEDIA AND THE PUBLIC SPHERE

The end of the year brought in a major change in the landscape of state-owned media, the second biggest information agency *RIA Novosti* being transformed into a part of *Russia Today*, Russian broadcaster for abroad audiences. *RIA Novosti* possessed a reputation for balanced reporting, while *Russia Today* was far from impartiality in many experts' views; moreover, the new head of the united media asset is Dmitry Kiselev who is notorious for his anti-gay and anti-Western views.

The media sphere response to this climate continued to develop in line with the cleavage between established and new-agenda media, as it did after 2008. The alternative-agenda and alternative-approach media cluster aims at reconstruction of socially-relevant journalism, its agenda often being cultural, lifestyle, or urban but politicized in another way, more towards social criticism. In 2013, this cluster was joined by several regional websites and more Moscow-based online titles like *The Insider* and *Triboona*, but without substantial growth in overall readership. We see 2013 as the point of 'cleavage stabilization' between the TV-driven mass audience and consumers of alternative agenda who form a counter-sphere wide enough to bring Navalny 27% at mayoral elections. Today, the chance for neutral reporting seems lost: media are divided into pro-establishment, purely oppositional, and new-agenda ones. In 2013, the polarization stretched to culture, with legal case against radical actionist Pyotr Pavlensky in October and a major 'writers' gathering' in Putin's presence in November that several notable writers publicly denied to visit.

Given all this, as well as Putin's annual address to the Federal Assembly in December that turned public attention to regional reform and to controlling local initiatives in land trade and public spending, there's no space for liberalization hopes, including the media landscape. The policy tested in Moscow will spread to regions; local administrations will further build themselves into the 'vertical of power', the process into which illegitimate (as non-elected) players like United National Front (ONF) have already threatened to intervene. Media in capitals and big cities like Kaliningrad, Novosibirsk, or Vladivostok will further break into two major arenas, thus deepening the cleavage in the audiences'

attitudes; but no new big alternative-agenda media would appear. The counter-sphere will avoid direct democracy practices or open media-based confrontation with the establishment, while the elite will insist on combining neo-liberal rhetoric with 'soft restrictions' policy based on issue-oriented laws and media market interventions.

SPORT AND POLITICS

Olga Chepurnaya

Recently, representatives of the Russian government and regional authorities actively use sports mega-events as tools of development of the country, its cities and regions, submitting applications to various international sports organizations. Summer and Winter Student Games, Winter Olympics, Football and Hockey World Cups etc. are held or have been actively prepared in Kazan, Sochi, Krasnoyarsk, and other cities. Those cities and regions are using sports mega-events to get federal money for redevelopment and modernization.

Two tendencies of sport development and exploitation in Russia are evident: ideologisation and commodification of sport will increase in coming year. Those tendencies are usually criticized as a strategy to use public money for private needs. In the case of RF, the situation is complicated by higher level of corruption and lack of transparency of decision-making process. In addition, the current situation is very similar to the Soviet Union during the Cold War, when the sports victories and gleaming sports palaces created the appearance of progress, international recognition and civic cohesion.

The Case of Kazan

Summer International Students Games 2013 in Kazan became the largest and most expensive in history. Regional elites are trying to promote new brand of Kazan – ‘third capital city of Russia, sports capital’. The organization of this event caused a lot of discomfort for

city dwellers because of massive construction works, but finally they only got some new sports facilities and a beautiful guest route between airport and various stadiums. The victory of the Russian team in the medal rankings was accompanied by an affray caused by the fact that most professional Russian athletes suddenly became students and thus were allowed to compete at the Universiade. During the following years, the owners and lessees of new sports facilities will be forced to attract substantial resources (presumably public money) to maintain these more than 30 hi-tech sports buildings.

The Olympics in Sochi

Preparations for the Winter Olympics in Sochi are marred by scandals and debates of various sorts (inappropriate subtropical climate, excessive budget, general problems of service standards, problems with liberty of speech, human rights and LGBT rights in Russia and so on and so forth). For example, Sochi Olympics is known as the most expensive winter games ever (their budget has grown from 12 billion to about 38 billion USD). Still, this budget is not large enough to ensure environmental security in the region during the constructions of sports facilities and infrastructure. That leads to a reasonable question without answer – Where has all the money gone? In this situation of intense criticism and boycott appeals from Russian NGOs, international organizations and individuals, the Russian Olympic Organizing Committee, the government and the official media are trying hard to produce better representation of the Olympics via information campaigns such as the promotion of the Olympic Torch Relay, advertising the new Sochi facilities etc. The Olympic Torch during the last months got anthropomorphic traits: it travels across the expanses of Russia, it even was in the outer space and visited the bottom of Lake Baikal. All of these efforts not only produce national pride and improved image of the Russian Federation, but also criticism and mockery from the opposition. In a situation where for three months before the Games, the city of Sochi is far from ready for

this event, a show with a torch is designed to create the appearance of greatness and prosperity.

Preparations for the FIFA World Cup

After the lights of the Sochi Olympics go down, we will be able to watch the full-scale for the preparations for the FIFA World Cup in 2018. This mega-event does not give such opportunities to organize pre-show, like the Olympics, and besides, the Football World Cup requires much more extensive preparations in several cities and proper logistics to ensure the transfer of the teams and fans between cities and stadiums. I believe the preparation and conduct of the Football World Cup will be more challenging for Russia than the Student Games in Kazan and the Sochi Olympics. This is especially true because in the preparation of the mega-events in Kazan and Sochi the organizing committees could rely on the Soviet know-how of the Moscow Olympics, the Goodwill Games etc. The FIFA World Cup is held in Russia for the first time, it requires very different principles of organization and reporting to FIFA and could prove extremely expensive both economically and symbolically.

Conclusions

On the level of public policy sports will continue to be used as a component of healthy lifestyle promotion. It can be seen as populist policy, in contrast to such unpopular measures as anti-alcohol campaigns. In international relations, sports mega-events will be used to symbolically outline the boundary between 'friends' and 'enemies'. Any mega-event, which implies the presence of the heads of state, is a mirror of relationship to the organizing country. 100 days before the start of Sochi Olympics, we are witnessing refusals from the representatives of some states to attend the opening ceremony. Russia, for its part, might limit the number of journalist accreditations available for a particular country, provide some official delegations in

the Olympic village with better facilities than others, devote less of broadcast time for athletes from some countries etc.

On the level of urban planning and economics, sports will remain as a tool to obtain subsidies from the federal budget. Many regional governments seem to have only short-term plans of regional development, which can be explained by the instability of local political elites. The investment in large-scale infrastructure for sports industry (mostly from the budget of the Ministry of Public Health and Social Development) are rather unsecure and presumably ineffective, because economic, political or symbolic outcomes are unpredictable in case of such mega-events. The future prospects of those strategies of using sports for ideological and economic ends will soon become clear – success or failure of the Sochi Olympics will inspire or discourage the Russian president and government to continue with sports promotion in this way. I do not believe that an official negative assessment of the Sochi Olympics by the International Olympic Committee is possible, but increasing criticism of the Russian government both at home and abroad is quite predictable, and this criticism can be damaging enough to discourage Moscow from submitting new applications for hosting sports events.

EDUCATION

Ivan Kurilla

Existing Situation

The last year's prognosis proved true in some respect, such as the growing of the teachers and professors' consolidation in the protests to the governmental reform, but that was difficult to forecast was the depth of the crisis caused by the harsh policies of the state and the level of the self-organization of the educators.

The situation of the 2013 was determined by the start of the implementation of the so-called "road map" signed by the Prime Minister Dmitry Medvedev on the New Year's Eve that plans 40% job cuts among the university professors and less abrupt but significant decrease of the number of school teaches, start of the implementation of a new law "On Education" on September 1, and the destruction of the existing scientific institutions with the reform of the Academy of Sciences (the legislation proposed late in June was signed into the law on September 27). The latter development has another negative impact on the education because the close interdependence of the research and education in Russia. On the other side, 2013 was marked by the increase of the educators' activity in their fight against governmental bureaucrats; the process included the creation of an independent "University Solidarity" trade-union, mass protests against the reformation of the Russian Academy of Science (that many professors took part in), and also the efficient exposure of a long list of faked or plagiarized dissertations defended by the high officials, State

Duma deputies, and even some university rectors (so called Dissernet project).

Overall, the new legislation seems to bring with it a deteriorating effect on the Russian schools and universities. However, the system of law implementation has never been an efficient one in Russia, so the innovations will not be quick to make their way through the Russian system of education.

There were also two themes that attracted much attention: the leak of the content of the United State Exam (ЕГЭ) (required for school graduation and university entrance) a day before the test date (late May and early June) and the initiative of President Putin to create a “unified history textbook” for schools (February). In the first case, the test questions appeared in the Internet a day before the test that provided an opportunity for cheating on a broad scale. The results of EGE were significantly higher this year in comparison with 2012 throughout the country, but despite some proposals to abrogate the results, they were affirmed by the state. Writing a “unified history textbook” was considered by many critics as a step towards state ideology, and many activists and professional historians were working to amend and soften the idea; but the discussions on a history textbook were animated ones throughout the year. Meanwhile, in September, a close friend of President Vladimir Putin Arkady Rotenberg became the Head of the Directors’ Council of the major publisher of textbooks “Prosveschshenie”.

Forecast

On the peak of the protests some of the high-ranked bureaucrats promised to “return” to both legislations (on education and on the reform of Academy of Sciences) within a year of their implementation and to “correct” the laws if there are flaws or malfunctions. The year will elapse in September 2014, but it is obvious that the current level of the protests is insufficient to force the government to concede.

So, the year 2014 will be mostly the time when the laws will be gradually taking effect; new legislation is hardly possible. The process

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of the law implementation will cut jobs in Russian universities, as well as the number of state-funded slots for students; the bureaucratic burden on the remaining professors will continue to increase.

Such a development will create base for the opposition politicians, and they will try to gain additional supporters among the intellectual strata of Russian society. The Communist party of the Russian Federation will benefit from the increasing protests (as the criticism of the educational reform was the party's principal position) while many professors not ready to join Communist ranks will support Yabloko, Just Russia, or other opposition or quasi-opposition parties; some will participate in the activities of the "University Solidarity" and other trade-unions. However, it seems that the protest of educators could also turn another way: by pushing scholars and professors into the protest ranks, the government increases the brain resources of the opposition. The exposure of the high official's plagiarism in the Dissernet was just one of the instances of the scholars' activity. We should expect more diverse and deeply thought anti-governmental propaganda due to the participation of professors, as well as the creation of scholarly elaborated alternative projects of the political reforms.

Another development we can expect in the year 2014 is the increase of the international attention to the Russian educational reform. Russian professors participate in broad networks of academic contacts, on the one hand, and many of Russian scholars have already left the country for the jobs abroad, on the other. A new push from the government to emigrate will influence both networks and scientific diaspora, and we may witness the emergence of monitoring procedures and other international actions in support of Russian education.

The educational authorities promise to mount systems of video monitoring of the process of State Examination, using probably the same equipment that was first used during the presidential elections of 2012. The result will be probably the same: some of the cheating will be seen and even some minor wrongdoings punished, but in most cases there will be no reaction.

A first competition for the writing of the united history textbook will take place, and there will be a lot of controversy around the competition and winners.

Schools and teachers

The situation in elementary and secondary schools will be defined by the new law “On education”, and they will continue to suffer from the bureaucratic burden. The political attention to the teachers’ situation will coincide with the election rounds, for the two major reasons: first, teachers are dependent of the local authorities and have a broad access to the parents of their pupils that facilitate their use as propaganda tools; second, teachers constitute a big share of the employees of the poll stations and are the primary targets of manipulations and/or intimidation from the part of the authorities when they need to falsify the results. Hitherto, they did not protested against the situation openly and they will hardly be ready to protest in 2014.

The push of the authorities for the new “state ideology” (while it is prohibited by the constitution) will be translated into the educational sphere and badly influence the teachers (especially the teachers of history, literature, and other humanities and social sciences). They will be forced to use the “unified history textbook” and new standards of literature education, and probably comply with the increase of teaching Orthodoxy as a school subject.

Conclusion

The reforms of education and science pronounced in the 2013 will go on by cautious steps in 2014, as the authorities will try to keep the inevitable protests low. There will be some show cases of the “manual steering” with some university rector or regional head of educational administration fired, but the general policy of cutting the educational budget will be continued. The protests will not rise to a high number of protesters on the streets, but they will be more

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inventive, using investigative technic and exposing wrongdoings of the bureaucrats to the wider audience (mostly through social networks that will continue to increase their influence). School teachers will continue to be the least organized and the most dependent part of the educational community, but the emergence of some leaders (probably, independent trade union) may be expected among them.

NATIONALITIES POLICY

Konstantin Zamyatin

In his forecast for the current year, the author correctly suggested that the institutionalization of the policy will be continued on the basis of the main policy document adopted in December 2012 – Russia’s Strategy of the State Nationalities Policy Up To 2025. The Strategy defined the strengthening of the Russian political nation as the policy’s primary aim. This aim has to be achieved, inter alia, through strengthening of civic patriotism and civic identity (it remains unstated but is implied that this has to be done at the expense of ethnic and linguistic identities).

Ethnic nationalism and xenophobia

The continuing rise of Russian nationalism remains the major trend also in the current year, although nowadays it becomes more and more difficult to classify its different segments, because the political discourse as the whole has shifted in this direction. So far, with some exceptions, the Kremlin keeps the nationalists under control, but this comes at a cost. Nowadays it is not only communists and liberal-democrats who are classified as nationalists, but also United Russia itself (at least in view of some experts).

Virtually all candidates used anti-migration claims, in the campaign for Moscow mayoral elections, held in September 2013, which in effect became the central topic of the debate. The opposition candidate Alexey Navalny has not attended Russian March in November this year in trying to dissociate himself from radical nationalist rhetoric,

but expressed his support for the event. The radical nationalists can get the possibility to enter the political arena as a separate force through party politics in regional and local elections in September 2014.

According to the official data, only about a half of Russian citizens positively evaluated the state of inter-ethnic relations in the last year. Anti-migration and anti-Caucasian public attitudes continue to fuel the rise of nationalist sentiment, which mobilizing potential can be also directed against authorities. This underlying process remains largely domestic but sometimes grassroots xenophobia expresses itself through public events. One of the direct consequences of the politization of migrantophobia in the September election campaign were violent anti-immigrant riots in Moscow Biryulyovo district and in some regional centres in October 2013.

The situation in national republics is largely under the Kremlin's control, but in some parts of the North Caucasus the level of inter-ethnic tension stays high and in the recent years the reverse in their dynamics towards escalation is reported. Notably, Dagestan, a republic with complex ethnic composition, is among the places where neglected crises is charged with high conflict potential. Recent interference of the central authorities changed a fragile balance between the ethnic groups that since the Soviet times was sustained through the system of ethnic political representation.

In Tatarstan and Bashkortostan the situation remains stable, but the demand of local Russian nationalist organizations to abolish compulsory teaching of titular languages to all students finds popular appeal. The amendments were proposed to the Federal Law on Education to introduce teaching of Russian in the status of 'native language'. The idea is not only to make a concession to Russian nationalists but also to discourage learning the local languages by those non-Russians, who declare Russian as their native language.

Institutional framework

In the on-going year, in the elaboration of the 2012 Strategy, a three-year Action Plan for its implementation was approved in July 2013 and the Federal Targeted Programme ‘Strengthening of the Unity of the Russian Nation and the Ethnocultural Development of the Peoples of Russia (2014–2020)’ in August. While the Action Plan contains a complex of measures corresponding to the policy goals defined in the Strategy, many of the measures are assigned with budget funding through the Federal Programme (about one billion roubles annually).

An important place in these documents is allotted to the creation of the system of monitoring the state of inter-ethnic relations in the regions. The Federal Law was adopted in October that imposed on regional and municipal authorities and their officials obligations for the promotion of the Russian civic identity and patriotism and responsibility for the aggravation of inter-ethnic tension in the respective regions. The regions have to approve their action plans and programmes of harmonization of inter-ethnic relations and action plans on a common methodological approach.

The Presidential Council of Internationality Relations met twice this year, in February and October, and discussed the problems of the Strategy implementation. The federal agency in the field has not yet been re-established, but the debate continues and for the time being one of the deputy ministers of regional development is said to be made responsible for the state of inter-ethnic relations. However, maybe more momentous, the department for nationalities affairs was created in the Domestic Policy Directorate of the Presidential Administration of Russia in 2012.

The promotion of Russian both domestically and internationally remains a policy priority. The Council of the Russian Language at the Russian government liquidated in 2004 was re-established in November and assigned with budgetary funds as one of the further measures directed at the Strategy implementation. Among the recent notorious initiatives in the field is the proposal of the deputies from

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the Liberal Democratic Party of Russia to make the use of Russian compulsory in the work environment for migrant workers.

Conclusion

Also in the forthcoming year it can be expected that the level of inter-ethnic tension and proneness to conflict will remain high. Despite the fact that significant institutional and financial resources were invested into revision of the nationalities policy towards promotion of civic patriotism, authorities have no choice but to react to the challenge of both imperial revanchism and Russian ethnic nationalism. Because of irreconcilability of these scenarios, it is likely that in a longer term the project of 'Russian nation' might fail, becoming associated with Putin's authoritarian regime in the same way as the project of building the 'Soviet people' became associated with the Brezhnev stagnation era.

IMMIGRATION POLICY

Serghei Golunov

The prognosis that I made for the previous year proved to be matching the reality in some respects but failed in some other respects. As it was correctly noted, Russian immigration policy in 2013 has been indeed ambiguous and contradictory: sporadic rigid measures have been combined with the official rejection of the proposal to introduce visa regime for post-Soviet immigrants, and the approved quota for low-qualified foreign workforce for 2014 remained almost the same (more than 1.6 million work permits). My anticipation that introducing compulsory Russian language exams for some categories of immigrants could create a fertile ground for corruption and other malpractices also proved to be correct. However, the concern that such measure could paralyze a significant part of the Russian labour market did not prove true, not least because many immigrants just ignored this new requirement or resorted to the shadow service of those who take such exams for somebody else. Concerning the policy towards the compatriots, the outcome is still not known as the annual data is not available yet. However, the significantly lower number of compatriots who returned to Russia in the first two quarters of 2013 may suggest that my prognosis concerning the increase of this type of immigration will likely prove to be erroneous. At the same time, the main donor countries (Uzbekistan and Kazakhstan) and the main recipient Russian regions (provinces close to Moscow) were identified correctly.

The main trend of 2013, which I also failed to predict in my previous prognosis, was the intensification of anti-immigration rhetoric

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in the internal political struggle. Above all, Alexei Navalny, one of the most popular opposition leaders, made the introduction of visa regime for the citizens of Central Asian and Southern Caucasian states one of the key points of his political programme. The October unrest in Biryulyovo (a district of the city of Moscow), where ethnic minorities were targeted, further contributed to this trend. In response, the authorities, while being reluctant to change the key parameters of their immigration policy (to introduce visa regime for the immigrants from post-Soviet countries or to diminish seriously the quota for low-qualified foreign workforce), also tried not to cede the initiative to their nationalist opponents and to demonstrate toughness of their current immigration policy. Indeed, unprecedented and well-publicized campaigns involving inspections, arrests and deportations of immigrants were held in Moscow and some other Russian regions and some draft laws establishing new restrictive and repressive measures (toughening rules of employment and residence registration, introducing new penalties, introducing Russian language, law and history tests for all the categories of labour immigrants since 2015) were introduced. Concurrently, the government continues to put great emphasis on the Programme for the Support of the Resettlement of Compatriots, planning to increase its budget threefold as of 2014.

Prognosis

As it was earlier, the officially established annual quota for low-qualified workforce is evidently lower than the actual number of such immigrants coming to Russia (the estimates vary from 5 to 20 million). Thus, the majority of immigrants will be considered illegal, which will make them vulnerable to extortion and abuse. Moreover, such immigrants will likely become targets of periodical campaigns aimed at demonstrating the toughness of the official immigration policy. Such campaigns will likely include routine checks, detentions, deportations, and adoption of new legal acts introducing stricter demands for immigrants and their employers. Such campaigns and

measures will hardly be efficient in terms of reducing the number of immigrants though. More likely, they will just create even more favourable conditions for corruption and numerous shadow practices aiming to circumvent restrictions.

At the same time, it looks unlikely that the government would succumb to the pressure of nationalist opposition and introduce visa regime with several South Caucasian and Central Asian countries at once (theoretically, it can introduce visa regime with some individual country in order to punish it for something). Such a radical measure could lead to several serious shortcomings. First, it could be perceived by the public as a sign of the regime's weakness in the face of the opposition. Second, it could lead to severe labour shortage in some important sectors, such as construction, agriculture, public utilities. Third, the introduction of visa regime could induce a large part of immigrants who are already in Russia by that moment to illegal settlement instead of returning home. Forth, such measure could diminish Russian influence in the post-Soviet donor countries and, moreover, could destabilize the situation there if a huge number of unemployed people return home.

It is highly probable that immigration policy will be one of the key issues of information confrontation between the regime and the nationalist opposition: the latter will be eager to use the demand to introduce visa regime as a trump. This can be exacerbated by new conflicts where ethnic minorities are targeted as the likelihood of such conflicts is very high (taking into account that in 2013 two high profile conflicts and several less important conflict of this kind occurred). It looks unlikely, though, that the nationalists will be capable of forcing their demands on the government.

I still expect that the number of compatriots who will agree to move to Russia will increase significantly in 2014, because the threefold increase in the programme's budget will likely bring results. It will be difficult, however, for the authorities both to increase significantly the number of resettled compatriots and at the same time to ensure clear prevalence of ethnic Russians and other Slavic groups in order not

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to irritate nationalists. I do not expect, however, that this dilemma will cause serious problems for the government in the short-term perspective, as the social outcomes of the resettlement will probably be felt only at a later stage.

HUMAN RIGHTS

Dmitry Dubrovsky

In 2013 the intensity of civil protests started to ebb after peaking out in 2011–2012, largely due to countermeasures employed by the Russian government at the domestic and international level. The situation of human rights has not improved since the publication of the last forecast. Moreover, continuing a recently established tradition, steps limiting human rights and freedoms in Russia have been masked as measures to protect human rights.

First of all, the events that took place on May 6, 2013 were called “mass riots” and resulted in the apprehension of 27 persons who were charged with organising mass riots.

Countermeasures related to the Magnitsky list in the USA have been aimed at limiting Western (especially, US) influence. Thus, the adoption of Russian children by US citizens has been banned since January 2013 and the so-called Guantanamo list was enacted in April. The adoption ban for US citizens was justified as a measure to protect Russian children whose rights have been supposedly violated in the USA. These steps actually resulted in the violation of children’s rights as over 300 children were denied adoption that they were already waiting for and most of them still stay in orphanages. In 2013 we also saw the first examples of organisations declared “foreign agents” under the recently enacted law – another evidence of the same policy aimed at limiting “foreign influence”. Thus, in November 2013 a court declared the Centre of Social Policy and Gender Research, an independent research institution, a “foreign agent”, because the

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institution organised a scientific conference and publication on social policy in Russia. A trial over Anti-Discrimination Centre “Memorial” continues in Saint Petersburg. Although several organisations managed to fight off the “foreign agent” label in courts, this law creates a climate of fear of any co-operation with foreign foundations in Russia’s civil society. Considering a high degree of servility required to receive government funds, it puts civil rights organisations in a very difficult situation.

As relations between the middle class and the ruling regime have become much cooler after the protests, the government is putting the greatest emphasis on traditionalism and conservatism characteristic of the main part of Russia’s public. Following the conviction of the members of Pussy Riot band that went contrary to the law, new provisions were added to the criminal law in July 2013 stipulating punishments for “insulting religious beliefs and feelings of citizens.” At the same time, various “totalitarian” (in the opinion of official religious scholars) organisations such as scientologists, Jehovah’s Witnesses and the so-called “non-traditional” Muslims, have come under greater pressure in Russia.

An idea of “the rights of indigenous population” as well as of “local customs and traditions” that are supposed to be obeyed by newcomers has become a novelty in migration policy. Similar wording is used in the Strategy of National Policy and the Concept of Migration Policy until 2025. As a result, the focus is constantly being shifted from the systematic violation of the rights of economic migrants by police to an obligation of migrants to abide by the rights of indigenous population.

In this case as well as in anti-American laws in foreign policy the government pursues a reactionary policy. Thus, stirring anti-migrant declarations started after the murder of Yegor Scherbakov in Birulevo, a Moscow district, on October 10. After an Azerbaijani national was charged with the murder, a pogrom occurred at the local wholesale market. The notion of “collective responsibility” of all migrants for offences committed by one of them continues to play a major role in the decision-making process in the executive and legislative branches

of government and impacts the protection of the rights of migrants in Russia.

Violations of the rights of citizens are also visible in the preparations for the 2014 Olympics. Civil rights organisations point out such human rights violations as the purging of independent civil rights organisations from Krasnodar Krai and the relentless pressure on the remaining few, violations of individual property rights during the construction of the Olympic facilities, violations of the rights of migrants employed on Olympic construction sites and violations of the rights of journalists commenting on the preparations for the Olympics.

A special place in 2013 is occupied by the amendments in legislation concerning the so-called “propaganda of non-traditional sexual relationships” adopted in June. In reality, these provisions are not applied directly (as a matter of fact, only one person was convicted – Nikolai Alexeyev, a well-known activist), but rather create an atmosphere of discrimination of the LGBT community in general. Thus, the new law provides justification to those who deny LGBT groups their constitutional rights to organise peaceful marches and meetings. In combination with court trials of several LGBT organisations charged under the “foreign agent law”, these measures essentially paralysed the activities of such organisations as *Vyhod* (Coming out), LGBT-network and Saint Petersburg film festival *Bok-o-Bok* (Side-by-side), while *Bok-o-Bok*, an NGO, was forced to close.

Demonstrations of LGBT activists on Marsovo Polye in Saint Petersburg, where demonstrations with less than 100 participants that do not require approval, came under attack from aggressive nationalists and Christian fundamentalists. Attacks against performances of *Lolita* and the museum of Vladimir Nabokov in Saint Petersburg became a continuation of the fight against the “propaganda of homosexuality”. It is significant that the portrayal of LGBT activism in Russia as a Western conspiracy to destroy traditional values is perpetuated on the state TV channels as well as in statements of Russia’s Foreign Ministry upon the violations of LGBT rights.

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The end of 2013 was marked by a scandalous arrest of the crew of Arctic Sunrise, a Greenpeace vessel, who tried to disembark on an oil rig in the Barents Sea. The ecologists, including many EU nationals, were detained and transferred to Murmansk, where they were initially charged with piracy, and then with disorderly conduct. Currently all of them are released on bail in Saint Petersburg.

Serious limitations of civil rights to peaceful marches and meetings, as well as limitations on the work of NGOs are likely to ease after the Olympics. If the Olympics are carried out without protests and scandals, the government may consider its task to prevent the “discrediting” of the Olympics as completed and ease the general sanctions. At the same time, considering the statement by President Putin that no discrimination is permissible, even based on sexual orientation, the situation of LGBT rights might somewhat improve. It is possible that a government-organised NGO will appear to provide certain assistance to LGBT and, at the same time, to refute accusations of the widespread discrimination of LGBT in Russia.

Furthermore, the situation of human rights in Russia may be negatively influenced by changes in the legal framework, namely, if proposals to exclude provisions from the Constitution that recognise the supremacy of international law over national law and the opinion of Zorkin, a Constitutional Court Justice, concerning the limited applicability of rulings by the European Court of Human Rights to Russia, are acted upon. It might result in the exclusion of Russia from the European legal framework of human rights.

Therefore, we may be fairly certain that in 2014 Russia, on the one hand, will attempt to repair its image tainted by multiple reports of human rights violations using the tighter control over the Internet and civil rights organisations, especially their reports and monitoring activities. On the other hand, it will moderate its position on the LGBT community by amending the infamous law. Finally, it will tighten the migration policy up to the introduction of visas for the Central Asian states to ensure the support of the public where anti-immigrant sentiments prevail.

NORTHERN CAUCASUS

Sufian Zhemukhov

Situation in 2013 in light of the previous forecast

Since the re-election of President Putin for the third term, the Kremlin has returned to a conservative policy in the Northern Caucasus. The liberal programs of President Medvedev's era, including the development of Northern Caucasus resorts, have been abandoned. Moscow's policy in the region shows consistency in minor improvements, without any systemic resolution in sight. As last year's prognosis foresaw, Dagestan remains the main source of trouble. The previous prognosis was also right in predicting that the anti-corruption programs would be intensified, resulting in new arrests and prosecutions. Nevertheless, the Kremlin still does not have a complex approach toward its quest against corruption, which remains the main problem. The economy in the region has kept growing slowly, but only in Kabardino-Balkaria, North Ossetia, and Chechnya.

As anticipated by the previous prognosis, violence keeps decreasing in quantitative terms: statistics shows that there are fewer people being killed or wounded compared to the previous year. However, neither the state's anti-terrorist policy nor the insurgent strategies have structurally changed. Terrorist acts and anti-terrorist measures remain the main threat to the stability in the region. The terrorists claim that they target only law enforcement agencies, but meanwhile many civilians get killed; human rights NGOs point out that secret service and the police, from their side, use illegal methods of investigation and label 'the collateral damage' as insurgents.

NORTHERN CAUCASUS

The authorities continue suppressing civil society and harassing the small business. Krasnodar Krai police rounded up and evicted most work migrants in Sochi at the end of 2013, receiving criticism from Human Rights Watch. The Kremlin has not come up with any response to the demands of the Circassian community for recognizing the tsarist actions against them in 1860s as an act of genocide or permitting the repatriation of Circassian diaspora. Two more forecasts from the last year turned out correct. Krasnodar government keeps its policy of promoting “Cossack revival” that leads to discrimination against other groups in the region. Moscow continued promoting the development of the Chechen Republic as a showcase of the federal government’s success in the region.

Before and after the 2014 Olympics

The Winter Olympic Games on 7–23 February is the main event of the year with the focus on the security in Sochi. The organizers of the Games have put in place unprecedented security measures, leaving little chance to commit terrorist acts in Sochi itself. However, the terrorist attacks of 2013, including those in Volgograd and Makhachkala, show high probability of terrorist acts in against other targets in Russia during the Olympics.

Presidential decree of 19 August 2013 imposed restrictions on the movement of people by creating a ‘prohibited area’ and banned public gatherings in Sochi. Critics say that the decree violates human rights. Civil society activists, from their side, will organize protest during the Olympics. LGBT and environmental activists will be most active in Sochi. Russian law enforcement agencies employed hard measures against the protesters in 2013, even the foreign ones, for example, against the Greenpeace activists in September. It showed the determination of the Kremlin to crack down on any protests during the Games, in spite of the close attention and criticism from the international media. Many foreigners will be denied access to Sochi thanks to a new rule that everybody who attends the Games has to obtain a

Spectator's Pass, a procedure involving background check by the secret services.

The 2014 Olympics coincides with the 150th anniversary of the end of the Russian-Caucasian war. Circassian activists will protest against holding the Games in Sochi, which was the last capital of Circassia until 1864. Main international protests will be organized by the Circassian diaspora, but similar actions within Russia will be prevented or suppressed. Circassian activism will generally decrease after losing its protest goal, the Sochi Olympics. Nevertheless, the Circassians in Russia will continue to show discontent because of the Kremlin's interference with Syrian Circassians repatriating to their homeland (mainly to Adygea, Kabardino-Balkaria, and Karachaevo-Cherkessia), while Armenia and Abkhazia welcome their expatriates. Federal immigration agencies will continue their discriminative policy giving preferences to Russian repatriates from Central Asia to settle in Krasnodar and Stavropol Krai and prohibiting the repatriation of the Circassians.

The violations of the rights of labour migrants deported from Sochi will attract mass media attention during the Games. The issue would hardly be resolved in the upcoming year in spite President Putin's promise to focus on the issue during the 2014 G8 Summer Summit in Sochi.

Dynamics of the relations between the Centre and the Northern Caucasus

The vast investments into the Olympic Games (50 billion US dollars) will not lead to economic development of the region, because the investments have been limited to Sochi. Overspending on economically ineffective mega-projects and the high level of corruption will continue despite the slowing down of the Russian economy. As soon as the Russian Government starts cutting the subsidies to the regional budgets, its negative effect will be immediately felt in the Northern Caucasus, the most politically unstable and economically inefficient region. There are prognoses that after the Olympics the Kremlin will

NORTHERN CAUCASUS

replace the Governor of Krasnodar Krai, Alexander Tkachov, and the Head of Chechen Republic, Ramzan Kadyrov. Indeed, in Krasnodar Krai, the end of the big investment in Sochi could cause local wars for the redistribution of property inside political and business elites. In Chechnya, the cuts of the subsidies would immediately strain its relations with Moscow.

Until now, the Kremlin has employed a policy of dividing the local political elites (except in Chechnya). However, with the failure of the economic and security measures to provide stability, in 2013, the Kremlin tried a new approach for the re-consolidation of the elites in Dagestan and Kabardino-Balkaria, in order to avoid destructive fight between local political clans. At the same time, the Kremlin is afraid that the consolidation of the Northern Caucasus elites might lead to a surge of separatism in the region. Keeping the local elites at short hand, the Kremlin will not allow governors elections in the Northern Caucasus even after it is allowed for other Russian regions. The increase of xenophobia, nationalism, and anti-Caucasian feelings in the ethnic Russian regions also results in demands to separate the northern Caucasus from Russia. In response, the State Duma initiated new legislation that establishes up to six years jail terms for 'separatist propaganda' and up to 20 years for jeopardizing Russia's territorial integrity.

Summary

In the beginning of 2014, the Kremlin will mobilize resources in the Northern Caucasus for a single purpose of providing security for the Winter Olympics in Sochi. The Games in February will go on in spite of the criticism of human rights violations. Other than that, the unstable political situation and economic stagnation in the Northern Caucasus will continue during 2014. Unless unexpected substantial reforms or political disturbance would take place in all Russia, starting from Moscow, nothing indicates any chance of significant positive changes in the policy, economic situation, security, and human rights in the Northern Caucasus.

RUSSIA BEYOND THE URALS

Aimar Ventsel

Russia's territory beyond the Ural Mountains is divided into the Siberian and Far Eastern Federal Districts. The federal government is facing several problems that are directly or indirectly related to this region.

First of all, it is a large chunk of Russia's territory and control over this vast area is important for the continuing existence of Russia as a great power. Although a rush for natural resources in the Arctic has not yet formally begun, it has been going on for a while now in a symbolic form: in addition to Russia, the flags of Canada, the USA, Nordic states and China have been raised there. The majority of important deposits of natural resources in Russia are located in Siberia and the Russian Far East – from non-ferrous metals, natural gas and oil to coal. The exploitation of these resources is complicated and expensive due to climate conditions and the lack of infrastructure and qualified labour. In addition, Siberia and the Far East provide an important opportunity to develop economic ties with Asia (in 2012, China alone carried out 200 joint economic projects with Russian state-owned and private companies in this region.)

Demographics

There are also several separatist and opposition movements in Russia's Siberia and Far East – from the aspirations of ethnic republics to the autonomy and Pan-Asian ideologies to the movement of the

Siberians that has been recently gathering steam. Many opposition groups camouflage themselves as religious movements or nature conservation groups (it also resulted in a recent rise in the number of beatings and killings of ecological activists in Siberia and the Far East – approximately 10 known cases in 2012).

Despite a decade-long depopulation policy, the entire region is still full of settlements lacking any direct economic function. Supporting hundreds of such settlements is possible only through government subsidies and is extremely expensive. The majority of the population in such settlements are workers of former Soviet mining and industrial enterprises who lack required qualifications for the employment at modern companies processing natural resources. It has forced these companies to bring workers from the European part of Russia, Ukraine and Belarus. These workers live in makeshift camps in Siberia and the Far East and are mostly employed on the basis of rotation method (a 2–6 month shift followed by home leave). A growing Chinese demographic pressure in the form of legal and illegal migration (the amount of the Chinese permanently living in the region is estimated at 100,000–500,000) is also an important problem for the region.

Governance

Russia has traditionally treated its territory beyond the Urals as its resource colony. Russia carried out several reforms in order to tighten its control over this area: in 2001 the sovereignty of regions was abolished, in 2004 the regional government was centralised and in 2006–2008 revenues from natural resources were transferred to the federal budget. The recently created Ministry of Siberia rather resembles a board of a state-owned group of companies whose main task is to bolster the economy by the use of government funds.

To ensure the order in the region and its subordination to the federal government, certain groups have been helped to power who have received a virtually unlimited authority to do as they please in this region in exchange for loyalty and order. All these reforms have

fostered the rule of clans and corruption in Siberia and the Far East and caused dissatisfaction with the situation among local population.

Considering the gravity of the situation, to demonstrate that Siberia “is not forgotten” is the very least the central government can do. Vladimir Putin’s fishing expedition to the Tuva Republic is one example of such symbolic demonstrations. Furthermore, several big federal programmes have been initiated in recent years with a view to modernise Siberia and the Far East: a reform of universities, housing programmes to keep young specialists in these regions, the modernisation of infrastructure and the upgrade of military equipment. The development programme for the Siberian and Far Eastern Federal Districts may be generally divided into three components: investments in infrastructure, the exploitation of natural resources and sports and public health. A lot of railway construction and modernisation projects have been planned and are being implemented to connect various regions (Buryatia, Yakutia) with the Trans-Siberian railway.

It should be pointed out that life support in Siberia and the Far East is very expensive: according to the calculations of economists, the productivity in this region is several times lower compared to the European part of Russia (due to climate and the lack of infrastructure). There is even an opinion that pouring excessive funds into Siberia was one of the reasons behind the collapse of the Soviet Union.

Stability and loyalty

The main objective of the federal government is to ensure future stability and loyalty in the entire region in order to use the natural resources and territory of Siberia and the Far East as a launching platform for the rush for natural resources in the Arctic and the development of co-operation with Asian states. In addition, it has to control and check the growth of China’s influence in this region.

The problem is that the entire region is not coherent but fragmented into administrative units with different standards of living and

cultures and varying attitudes and the level of loyalty to the central government. For example, Altai Krai subsists only on government subsidies and is one of the poorest regions in Russia, whereas the diamond republic Sakha and Chukotka with its gold mines are loyal to the central government and already today exist as fiefdoms ruled by local elites. The Tuva Republic with its permanently smouldering separatism is radically different from them.

The centre must also take into account that it has not been able to take the loyalty of the local ethnic Russian population for granted for many years already. Therefore, it needs to double its efforts to ensure stability. Although the majority of corresponding federal programmes expire in 2015, they are all expected to be extended, because only hard cash can buy the loyalty of local elites and suppress the anti-colonial sentiment among the population.

We should also expect a grand spectacle during the approaching elections of the local governors. Considering a very strong showing of the Communist Party in all parts of Siberia and the Far East in the last general elections, Russia must also take into account that the public sentiment in these regions is now directly influencing the policy of the central government.

Conclusions

A stubborn problem of Siberia is millions of “useless” people in the region with expensive upkeep. The construction of railroads will have little short-term effect: most sites will be completed only by 2020 and new connections between the central locations will not bring the expected benefits to the regions, because they lack an efficient local infrastructure. The current situation of the booming centres amidst an increasingly impoverished region is more likely to continue.

Although efforts to develop co-operation with Asian states will continue, they are likely to increase dissatisfaction because the majority of workers for new projects are brought from outside. Large construction sites financed with government funds (stadiums, conference

centres etc.) will not be put to use or stay uncompleted. They will largely remain impractical prestigious objects.

The opposition and separatist sentiment will grow, but there will be no significant resistance, because the local elite is interested in the preservation of the status quo (i.e. in the management of government subsidies) and will do everything it can to eliminate such movements.

EXTERNAL

RUSSIA'S FOREIGN POLICY IN THE GLOBAL CONTEXT

Andrei Tsygankov

As the world changes by moving away from the United States-centered economic and political organization, Russia's foreign policy is becoming more complex as well. Today's Russia must work with both Western and non-Western, especially Asia-Pacific nations on improving conditions for defending its values and interests. Establishing stable working ties with the United States and the European Union (EU) is important, but not sufficient. The Kremlin proceeds from the need to defend Russia's own priorities under existing international conditions. Naturally, politics is the art of possible, and Russia can only do what it can. For example, it cannot fully control the course of civil war in Syria, attitudes of some Western leaders, and desire of some states in Eurasia to develop stronger ties with the EU.

Russia has had multiple disagreements with Western nations. Many in Europe and the United States do not believe that Moscow is interested in deepening cooperation with the West and advocate a tougher approach to Russia based on its attitude toward human rights. Western leaders voiced their disagreement with the handling of opposition by the Kremlin, the case of Russian lawyer Sergei Magnitsky, and series of new laws passed by State Duma including the one against "propaganda of non-traditional sexual relations among minors" passed in June 2013. Russia and the West also made no progress on nuclear issues and disagreed on Snowden. In addition to these differences, Western nations reacted critically to Putin's attempts to re-

assert power in Eurasia, Europe, and the Middle East. They expressed a particular concern about Ukraine being pulled in the Russia-centered Customs Union. Western leaders worked against the latter by presenting the Russia-defended arrangement as anti-European and offering Kiev an opportunity to sign an Association Agreement with the EU. Moscow too worked hard to discourage Kiev from taking the step and at the EU summit in Vilnius Ukraine declined the offer by opting to strengthen bilateral economic relations with Russia.

The absence of mutual trust and agreeable institutional framework in Russia-West relations will continue to weaken their chances to put bilateral relations on stable footing. Such state of affairs is further complicated by the described differences in the two sides' perception of each other's values, interests, and relative strength in the international system. American observers frequently blame Russia for its psychological inability to accept the diminution of its status after the end of the Cold War, yet there is also what Thomas Graham called a deep "unacknowledged psychological reason" that "drives Americans to blame Russia" for denying them the "final, morally satisfying victory in the Cold War by refusing to take the path to free-market democracy they prescribed as the endpoint of the exit from totalitarian communism." The two sides are therefore likely to experience more crises in their relations in the future. In particular, Ukraine will continue to serve as a ground for serious disagreement between Russia and Western states, in part because the Kremlin insists on Ukraine being incorporated within the Eurasian Union. In the absence of a committed leadership, progress in Russia-West will continue to be slow and incremental.

Tensions with the West will not mean that Russia will sharply reorient its foreign policy toward China and other non-Western nations. For all its talk about virtues of multipolarity and independence in international relations, Russia is keenly aware of the dangers that may be brought to life by the arrival of the new post-Western world order. In 2014, Afghanistan, Central Asia, and Middle East will be increasingly influenced by the West's competitors which may result

RUSSIA'S FOREIGN POLICY IN THE GLOBAL CONTEXT

in a greater international instability. The Kremlin understands that the undermined West's ability to influence the developments in Afghanistan, Central Asia, Middle East, and Asia Pacific may not always be such good news for Russia. Putin's insistence that "in the 21st century amid a new balance of economic, civilisational and military forces Russia must be a sovereign and influential country" betrays concerns not just about the West's "unilateralism", but also about the future roles of countries such as China, Iran, and Turkey. Russia will also continue to search for international investments, including those from the West, in its economic development projects. It will manoeuvre between cooperation and defensiveness in relations with China by gradually building an alternative world order, cooperating with China's neighbors and competitors in the Asia-Pacific and trying to make more room within it for itself. In this context, the Kremlin will seek to develop the Eurasian Union as a platform for Russia's global influence.

Overall, Russia's foreign policy will continue to combine elements of cooperation, assertiveness, and defensiveness as shaped by highly uncertain international environment. Although the Kremlin is likely to fight back when faced with the West's pressures on human rights or vital security issues, there will be no elaborate design for international assertiveness or expansionism. Being aware of the multiple tensions between Western and non-Western worlds, Russia will continue to rely on active diplomacy to narrow their gap and reduce the world's uncertainty. The Syria initiative was not an exception. More diplomatic initiatives from the Kremlin should be expected in the nearest future. Russia's foreign policy will remain global in its orientation and active on European, Asian, Middle Eastern, and Eurasian directions.

RUSSIA AND GLOBAL GOVERNANCE (G8–G20)

Andrey Makarychev

Introduction

Russia's engagement with club-based global forums remains one of the instruments of its socialization in a globalizing world. This analysis is grounded in the presumption that in 2014 the most acute international challenge Russia is to face will boil down to the legitimation of the Kremlin's policies (both domestic and in the 'near abroad') in the West. Against this backdrop, Russia's chairmanship in G8 may be used by Moscow as an important element of raising its international credentials as a respectful member of international society.

Russia's previous engagements with global club-like institutions illuminated a controversial structure of Russian foreign policy discourse. On the one hand, the year 2013 gave many examples of Russia's intentional self-alienation from the West and the proliferation of the dubious ideology of self-sufficiency. On the other hand, for Russia as the chairman of G20 in 2013 and, concomitantly, a year-long center of global governance initiatives, a role of a country detaching itself from the West was evidently self-defeating. Russia's G8 presidency in 2014 will certainly be influenced by this controversy.

From G20 to G8

Arguably, for Russia the G8 as an institution is less important – and less convenient – than the G20. First, the G8 itself in fact transferred

some of its functions to G20 as a more inclusive forum for discussing global affairs. Secondly, in the G8 Moscow always runs a risk of being politically isolated in the company of seven leading Western powers and in the absence of much more easygoing BRICS partners.

As the G8 chair and the host country of its summit to be held in June 2014 in Sochi, Russia will take into due account the experience of its first G8 presidency in 2006. Yet it seems unlikely that Moscow would come back to any of the three priorities it proffered eight years ago. One was energy, which has proven to be a problematic terrain due to its divisive nature. It is hard for Russia to find a common language with most of the G8 member states on almost each issue of energy policy, including liberalization of energy markets, shale gas exploration, energy-saving technologies, etc. Two other points in Russia's 2006 agenda – education and healthcare – are certainly not those in which Russia might demonstrate its global leadership potential, and are also unlikely to be prioritized in 2014.

Russia's G20 chairmanship agenda in 2013 does not look strategically promising either, basically because of its predominantly technical nature and a lack of clear focus. Again, the issues of investment, employment, food security, human capital development, the building of trust and transparency, fostering effectiveness in governance through multilateral trade, anti-protectionist measures, and sustainable development are not the strongest points in Russia's global standing. Besides, the resignation of Ksenia Yudaeva, the Russian sherpa at G20 who was in charge of streamlining Russia's 2013 presidency, leaves further doubts in the continuity of Russia's policy.

Scenarios for 2014

Against this background, there are three scenarios for Russia as the G8 chair country in 2014. One – and certainly the most hollow in content – would be to turn Russia's presidency in a mass-scale foreign policy PR campaign aimed at accentuating Putin's belongingness to a group of the most influential world leaders. Many previous summits

of major international organizations (APEC in Vladivostok in 2012, or G20 in St. Petersburg in 2013) hosted by Russia were mostly of symbolic nature and lacked tangible outcomes.

The second scenario would be to use the G8 chairmanship as a political forum in which Russia could come up not only with its own vision of global politics, but also represent a certain position coordinated with BRICS countries. Having in mind its forthcoming presidency in BRICS in 2015, Russia may wish to strengthen its profile in this group as a country capable of better communicating with – and even influencing – the West. Yet in this scenario Russia will face a dilemma of either structurally integrating with the G8, or pursuing an alternative policy of strengthening its commitments to BRICS, which includes such far-reaching ideas as, for example, introducing a common currency for trade operations between the five countries.

The third – and the most likely – of possible scenarios would be to use the G8 for raising substantial issues of global governance and demonstrating Russia's ability to spearhead a more coherent long-term agenda for this forum. It is this scenario that seems most effective, especially in the anticipation of Russia's accession to the Organization for Economic Cooperation and Development.

It seems likely that Russia could be interested in expanding a purely technical format of G8 to include more political issues in its agenda, moreover the G8 format allows this. Two of them seem to be the most probable candidates for Russia's presidency agenda.

First, Russia may wish to include security issues in its priority list. At the St. Petersburg G20 summit the Syrian issue, not being part of the official program, resonated quite strongly. Nowadays, against the backdrop of Russia's relative success in offering a compromise for the conflict in Syria, the Russia – NATO cooperation in Afghanistan and on larger anti-terrorist matters, as well as the progress with solving the Iranian nuclear issue, it might be a good idea to think of a G8-based / supported global security mechanisms.

It appears that those mechanisms based on mutual coordination of security policies within the G8 are more feasible beyond the area that Russia claims its sphere of influence. Other G8 members have rejected most of Russian previous proposals on cooperative security arrangements (the European Security Treaty, or a joint management of the military base in Gabala, Azerbaijan) that affect security relations in Russia's neighborhood. At the 2013 G8 summit Russia, France and the US as three co-chairmen of the Minsk group have signed a declaration on Nagorno-Karabakh, yet it contained no new approaches to this conflict. In fall 2013, with Armenia's U-turn on the association agreement with the EU to joining the Russia-dominated Customs Union and subsequent confirmation by the Russian military command of its commitment to defend Armenia militarily the situation around Nagorno-Karabakh became more complicated, and there are few chances that Russia would accept any larger role in the whole region for its G8 partners.

Second, after the controversies sharpened by the Vilnius summit of the Eastern Partnership Russia is definitely interested in internationally raising the issue of compatibility of so far competing regional integrationist projects. The problem is not limited to the uneasy relations between the EU and the Eurasian Union, but also extends to Russia's tacit reservations about those integration projects in which its interests are not taken into a due account. The G8 Declaration of 2013 legitimizes Russia's economic integration with its neighbors; in the meantime it gives a green light to Trans-Pacific and Trans-Atlantic free trade projects where Russia's voice is non-existent. Perhaps the G8 could become a proper platform for reconciling economic, financial and industrial standards in each of these areas, which is significantly facilitated by Russia's WTO membership and readiness for joining OECD.

Conclusion

It can be expected that in 2014 Russia will use its G8 presidency as a chance for strengthening its political credentials in the West. This

will most likely require the extension of the G8 agenda to the issues of security and economic integration. Yet Western countries will most likely be divided on the question of whether the existing gaps between them and Russia are bridgeable, and whether the West would be interested in keeping Russia engaged in cooperative policy making, or rather in containing Russia. Confrontation over Ukraine and very likely political boycotting of the Sochi Olympics by some important figures in the West will increase the chances for G8 to transform into a 'seven plus one' type of forum, with Russia being increasingly distanced from the other member states.

RUSSIA AND THE WTO

Stanislav Tkachenko

Our previous prognosis was mainly concentrated on the assessment of Russia's WTO accession process before August 2012, as well as its overall impact on national political and economic system. It was rather easy to foresee major difficulties, which public and private sectors of Russian economy could face right after accession due to growing competition and inflow of imported goods. In general, our prognosis was in line with processes in Russian economy in 2013.

Impact of WTO on economic system of Russia

Statistics available (for the period of January–August 2013) shows that national economy has reacted on entering the WTO with contraction of export benefits (calculated in \$US) as well as growth of import, measured by volume and in terms of money. The total volume of external trade in January–August 2013 was US\$631.9 billion, a year-on-year increase of just 0.5%. The reduction of Russia's export could be explained by global stagnation and modest decline of prices for key export items (oil, natural gas, metals). In 2013 the contraction of export earnings from the export of primary products and goods could not be compensated by the increase in the volume of goods which Russian companies exported worldwide. Attempts of Russia's Government to diversify structure of export mostly failed in the period under analysis due to the lack of economic reforms and weakness of institutions of market economy.

The growth of import into Russia (3.4% in January–August 2013) is unequivocally bound with scaling down of the duties and increasing the openness of economic system for foreign producers and companies in the services sector. It is exactly these consequences of the WTO membership that have been predicted by experts before Russia was accepted as a full member of the WTO. It is also worth noting that the increase of imports in terms of value has been based on the increase of median prices of goods and services. That is why we should conclude that in 2013 the terms of foreign trade for Russian Federation have deteriorated if we compare them with the data from August 2012. The “Terms of Trade Index” with foreign countries was in September 2013 equal to 93.9%, while it was 104.2% a year before. In 2013 the “Terms of Trade Index” of Russian Federation with CIS countries is 99.1%, while it is 93.3% with other countries outside of CIS.

The deterioration of Russia’s balance of payments in January–August 2013 clearly demonstrates that the first year of Russia’s WTO membership did not bring along immediate positive changes for its foreign trade’s structure as it was expected by Russian governmental officials. Anyway, it is problematic to blame WTO for that due to the obvious global nature of the difficulties in world economy and trade. As it was before August 2012, energy and minerals are dominating in Russia’s export while the export of products of a value-added level in the value chain is still rather symbolic. That is why Russia’s budget is still highly dependent on high energy prices. But the most negative prognosis and expectation about WTO membership did not materialize in 2013 for Russian Federation and we take that as a sign for a more positive scenario of Russia’s WTO membership in future.

In 2013 it has become obvious that the main opposition to WTO membership is generated by agrarians and local food-processing companies as well as companies in some sectors of services (insurance, transport, etc.). Russian media is rather full of negative assessments of WTO accession, at the same time Russian authorities mostly ignore these opinions. We foresee that in 2014 there will be much less negative comments on WTO in Russian media. It is due to the fact

that the protectionist nature of anti-WTO media campaign in Russia is becoming obvious for any responsible stake-holder, who has long-term economic interests in the Russian Federation.

Reaction of Russian Government on the challenge of WTO membership

In 2013 Russian Government has already made several steps, which are directly or indirectly driven by WTO membership.

Firstly, massive procurement of weapons and military equipment has been proclaimed for next 10 years (in total 23 trillion RUR, i.e. about Euro 500 billion). Russia's defense budget has reached the level of \$71.2 billion in 2013 and it took Russia into third place globally after USA and China.

Secondly, billions of US dollars will be taken from Russia's sovereign National Welfare Fund to finance large infrastructural projects: high-speed railway road from Moscow to Kazan, highway around Moscow as well as the modernization of Trans-Siberian Railway.

National industrial companies are among the key beneficiaries of the dramatic increase of budget expansion as well as non-budget spending, initiated in 2013 by Russian Government. Placing contracts for their execution on Russian companies, national authorities are playing down immediate consequences of WTO membership for national producers at the domestic market (rising competition and utilization of old equipment). Despite of some negative trends, foreign trade balance of Russian Federation is still rather positive, after 9 months of 2013 positive trade balance was an impressive US\$133 billion.

Our prognosis is that in 2014 governmental procurement programs and the stimulation of demand domestically due to the utilization of federal budget resources will become key tools of an interventionist economic policy. It may give Russian Government a hope that difficult years of current slow-down of global economy and the initial period of WTO membership for Russian Federation will be less destructive for national economy as it has been predicted by business community in Russia.

Trade conflicts

As it has been foreseen, Russian Federation was not able to avoid major conflicts with prominent members of the WTO. It is especially true in the case of Russia's key trade partner – the European Union. In autumn 2013 Brussels has called the WTO for the Panel of Arbiters to examine the utilization by Russia the recycling tax for imported cars, mostly produced in the EU member-states. Simultaneously, Russian Federation announced counter-retaliation measures towards the EU for its antidumping duties for Russian fertilizers and steel. For Kremlin, these EU actions are based on Brussel's wrong estimation of Russia's domestic energy price. The conflicts are accelerated due to the tangled situation in the world economy, when even small benefits for national producers may positively influence macroeconomic situation and budget in almost any country in the world, including Russia.

According to the data of Russia's Ministry of Economic Development, today 78 restrictive measures in 17 foreign countries are in acting towards Russian products. In addition, there are 4 antidumping probes, beside 13 antidumping measures which are active from previous years. A maximum number of restrictive measures towards Russian companies is in action in the European Union, Ukraine, USA and Belarus.

Another challenge for Russia's 2014 agenda originates from the difficulties of Kazakhstan and Belarus on their way to WTO membership. These two countries are participating in Russia's most important foreign policy initiative: the establishment of the Custom Union. Being outside of the WTO, Kazakhstan and Belarus are facing difficulties with regulation of their trade with Russian Federation due to Russia's WTO commitments. In 2014 Russian Federation will intensify its attempts to speed up negotiation process to solve the problem of allies' WTO membership and it may lead to conflicts with other WTO member-states.

RUSSIA AND THE WTO

Prognosis for 2014

Russian Federation will stay for a while in trade conflicts with its most important foreign partners: EU and some of its member states, as well as with Belarus and Ukraine. Simultaneously, the number of conflicts with other member-states of WTO will slightly decrease due to the progressive liberalization of Russian economy. Decreasing prices for imported technologies due to WTO membership will influence positively the modernization of national industry. A slow growth of foreign trade will continue and very likely its volume will exceed the annual level of \$900 billion. China and the EU will continue to be Russia's key trade partners. At the same time, WTO membership will assist Russian companies to open new markets especially for the import of food, industrial goods as well as financial and tourist services.

RUSSIA AND NATO

Toomas Riim

In 2013 Russia and NATO continued an energetic discussion on the ballistic missile defence system that the USA and NATO are building in Europe. As was predicted in the previous forecast, there were no changes in 2013 regarding this issue: NATO has not agreed to build the missile defence system under the shared command with Russia and has not given any binding guarantees that it will not be directed against Russia's strategic nuclear arsenal. In the previous forecast we also predicted a possible deterioration of relations due to the events in Syria. However, it did not happen because the USA decided not to attack Syria after the latter showed readiness to destroy its chemical weapons under international supervision. At the same time, co-operation on Afghanistan and in several other military and technical areas (joint training exercises, anti-piracy operations etc.) continued as predicted. Below we provide a more detailed overview of issues that shaped Russia-NATO relations in 2013.

Ballistic Missile Defence System

It seems that both parties showed much greater restraint in their declarations in 2013 compared to 2012, as they must have simply agreed to disagree on this issue. In addition to NATO's refusal to provide any binding guarantees that the missile defence system will not target Russia's strategic nuclear arsenal, NATO Secretary General Anders Rasmussen believes that such defence system under the shared

command of NATO and Russia would be just ineffective. In 2013 Russia did not repeat for a single time a threat to deploy the theatre ballistic missile system Iskander in the Kaliningrad Oblast, let alone proceeding with actual deployment. At the same time, the USA made at least some concessions to Russia as it scrapped the construction of the 4th stage of the missile defence system in Poland in March. However, according to the USA, the reason for this change was not Russia's resistance, but the restructuring programme of SM-3 Block IIB missile interceptors due to defence budget cuts that made it necessary to deploy these missiles in the USA to provide defence against North Korea.

Co-operation on Afghanistan

According to Alexander Grushko, Russia's ambassador to NATO, the most important Russia-NATO co-operation project in 2013 was the joint training of personnel in Russia for anti-drug operations in Afghanistan, Pakistan and Central Asia. Another important issue was the second stage of the financing and development of a maintenance fund to support Russian Mi-17 helicopters in Afghanistan, agreed within the framework of the NATO-Russia Council. This fund mostly finances the training of maintenance technicians in Russia and the purchase of spare parts for the helicopters. For the first time over more than two years, a meeting of the NATO-Russia Council at the level of foreign ministers took place in Brussels on October 22. The participants stated that they made a significant progress on the fight against terrorism and providing support to Afghanistan's military. NATO member-states proposed to create a training centre for Afghan bomb technicians in Russia, and Russia supported this proposal.

However, military and technical co-operation between Russia and NATO concerning the further development of transit to Afghanistan (that was predicted in the previous forecast) started to lose its significance in the first part of 2013 when NATO's Deputy Secretary General Alexander Vershbow said that NATO would not probably

be using a transit hub in Ulyanovsk, because transit through Pakistan would be cheaper. According to Grushko, however, transit through Ulyanovsk would be safer and altogether simpler and the use of Ulyanovsk in conjunction with port terminals in Ust-Luga would provide a very fast transit solution. Anyway, in September Robert Pzschel, head of NATO Information Office in Moscow, announced that the members of the NATO-Russia Council agreed to the use of the so-called northern route, i.e. a transit corridor through Ulyanovsk.

Large scale military exercises

At the rhetorical level, Russia-NATO relations in 2013 were mostly influenced by large scale military exercises conducted by both parties – the joint Russia-Belarus military exercise Zapad-2013 in September and NATO's rapid response exercise Steadfast Jazz in November. The media and government officials both in Russia and NATO member-states exchanged accusations that the military exercise conducted by the opponent was aggressive in nature and represented a big threat (something like “our military exercise does not threaten anyone, but the scenario of your military exercise threatens us”). Russia even called Steadfast Jazz “a whiff of Cold War”. Nevertheless, both parties mutually acknowledged at the high level the transparency of the military exercises and sent observers. Moreover, during the Russia-Belarus military exercise Zapad-2013 in September, Russia and NATO were simultaneously conducting an exercise against airline terrorism (Vigilant Skies 2013). According to Robert Pzschel, head of NATO Information Office in Moscow, NATO navy might take part in a Russian military exercise in 2014. As though to confirm this statement, NATO minesweepers, including Estonia's minesweeper Admiral Cowan, visited Saint Petersburg in mid-October.

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Syria's chemical arsenal

The use of chemical weapons in Syria on August 21 caused some tensions in Russia-NATO relations. Although some NATO member-states led by the USA were ready for an immediate military strike against Syria's regime, NATO as a whole distanced itself from a possible military intervention to punish Syria's regime. However, since Russia's diplomatic efforts resulted in an agreement of Syria's regime to destroy chemical weapons under international supervision, the US retaliatory operation never took place. According to Grushko, Russia's ambassador to NATO, the partners in the NATO-Russia Council are rather inclined to place their hopes for the resolution of the Syrian conflict in an international conference (the so called Geneva II conference) that is scheduled to take place on 22 January 2014 with the UN backing. The partners also support the UN Security Council Resolution No. 2118 concerning the elimination of Syrian chemical weapons and they are ready to make financial contributions.

Iran's nuclear programme

In November there were some positive developments concerning Iran's nuclear programme. As a result of five-day negotiations between the foreign ministers of the permanent members of the UN Security Council and Iran, an agreement was reached on November 24, according to which Iran would suspend the construction of the reactor in Arak and would not enrich uranium over 5% within the next 6 months. US President Barack Obama confirmed that no new sanctions would be introduced for Iran within the next 6 months and the existing sanctions would be eased, subject to the adherence to the agreement. Russia's Foreign Minister Lavrov rushed to announce that the success of this agreement would eliminate the need for the missile defence system in Europe, and was countered by an anonymous NATO source who said that the ballistic missile technology is being developed at least by 30 states and, therefore, the threat of an attack remains.

Conclusions and forecast

The current state of negotiations upon the missile defence system makes any breakthroughs in 2014 unlikely. Although the USA abandoned plans to deploy one type of an interceptor missile in Poland, the construction of the missile defence system is continuing in Romania. Russia's military leadership cites the lack of trust in Russia-NATO relations in this regard, because "irrespectively of supposedly friendly relations", there is a different understanding of military security risks and the continuing expansion of NATO. Nevertheless, it appears that the discussion of the missile defence system will be overshadowed by the successes of international community (including Russia) in Iran and Syria. An escalation of tensions concerning Iran is unlikely within the next six months because of the agreement to suspend Iran's nuclear programme.

A bigger uncertainty is the result of the peace conference on Syria scheduled to begin on January 22. It is probable that at least part of Syria's opposition will boycott the conference and continue its military struggle against Syria's regime, disregarding possible agreements. The Free Syrian Army, an opposition group, already announced that it would not participate in the Geneva II conference and would continue fighting against al-Assad. Russia at least managed to make the USA see other options to resolve the Syrian problem in addition to the military solution and it seems that the process of elimination of Syria's chemical weapons has begun smoothly.

Russia and NATO will certainly continue co-operation on Afghanistan-related issues. This conclusion is strongly supported by the activities in the framework of the NATO-Russia Council in 2013. However, some setbacks have already become apparent: the US Defence Ministry cancelled a plan to buy additional 15 Russian helicopters for Afghanistan's military. Anyway, according to Grushko, Russia's ambassador to NATO, the withdrawal of NATO troops from Afghanistan opens up a new area of co-operation between Russia and NATO with a solid legal foundation provided by UN resolutions.

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NATO transit through the Ulyanovsk transit hub will hopefully achieve its full capacity in 2014, although NATO's attitude to this development has been somewhat lukewarm. In 2014, military and technical co-operation between Russia and NATO will also retain its earlier scope (joint exercises, exchange of military logistics specialists, training of personnel for anti-drug operations, disposal of obsolete munitions in the Kaliningrad Oblast etc.) Joint anti-piracy operations (for which Russia will be able to use its newly-created navy task force in the Mediterranean Sea) will also continue.

RUSSIA AND THE EU

Ahto Lobjakas

In retrospect, 2013 may well have marked the end of an era. The era of the European Union as a bloc with global – or even regional – “geostrategic” ambitions. The era of an “EU foreign policy.” Or, at least, the era of the EU serving as a locus for foreign policy ambitions pursued by leading European and/or world powers. The EU no longer matters as a strategic actor. It has almost no degree of influence or control outside of its borders. At best, its past positions and declarations offer waning guidance to its member states as these reclaim (in most instances are forced to reclaim) increasing levels of autonomy in foreign policy matters.

It would be an overstatement to say the EU is staring into an abyss. EU foreign policy was never more than the sum of its parts, with an accumulating history and a common certain direction as added value. However, by the standards it did set itself, it has now failed and has been forced, to all practical purposes and intents, to withdraw into itself. This, by definition, leaves it without any discernible external policy role.

There have been two instruments of the EU’s demise: chaos and Russia. The former, manifesting itself first as the “Arab Spring” and later as a cascading destabilisation of regimes across North Africa and the Middle East, has robbed the EU of all significant influence over events and developments in its Southern neighbourhood. The latter has achieved the same by merely consolidating its efforts, finding focus, starting to meaningfully resist the spread of EU leverage near

its borders. Jointly, hand in hand, these two factors have combined to thwart the EU's commitment, first formulated in 2003, to create a "ring of friends" around itself. The EU's neighbourhood policy is now officially defunct.

Ukraine, in 2013, was the last domino to fall – even should it remain standing, however falteringly. The EU's neighbourhood policy has found its limits – and these can be summed up, paraphrasing the journalist Edward Lucas's celebrated early tweet about the Yanukovych-Putin meeting in Sochi, as amounting to a \$15bn loan, gas at \$268 per cubic metre and the mere (yet to materialise) threat of forcing Ukraine into a customs union with Russia. This is what the EU, after 10 years of trying, was unable to match. To quote Frank-Walter Steinmeier, about to start his second stint as foreign minister of Germany, delivering his first keynote speech: the EU underestimated Ukraine's divisions and weakness, misjudged Russia's "historical-emotional" determination to not let go of it, and offered Kyiv a financial package which fell far short of what would have been needed to avert bankruptcy and bind the country to Europe. In other words, the EU, in its tug-of-war with Russia (to quote my own prediction for EU-Russia relations in 2013) has failed comprehensively where it mattered the most.

All this is to suggest, among other things, that a look back at the purported accuracy (or not) of last year's predictions serves very little purpose. They utterly failed to foresee the collapse of the EU as a strategic actor, a "player" in the world, to borrow a word from Steinmeier in his maiden speech.

There were moments in last year's text which, with the benefit of hindsight, could be construed as foresight, to a degree. When I said that Belarus, Ukraine, Armenia and Azerbaijan were slipping away from Europe due to "developments [which were] increasingly driven by domestic factors," I appeared to have hit upon something – namely, that the EU was forming less and less a backdrop for domestic considerations in all these capitals. But I failed to see the degree to and the speed at which Russia filled that void. The prediction failed to foresee how much the whole thing was a zero-sum game.

The 2013 text predicted divisions among EU member states over how to deal with Russia, Ukraine and the rest of the eastern neighbourhood. Again, it got something right – but completely missed what really matters: firstly, that the EU’s own, autonomous contribution would amount to so little, and secondly, that its member states would greet its demise in foreign policy matters with so little concern and involvement. Ukraine’s been left to Germany (and Poland and Sweden) – while France, Spain, Italy have simply seized to opportunity to focus almost all of their attention to places that matter most to them, above all North and Central Africa. Within little more than a year, all effective foreign policy, emanating from the EU, now conducted exclusively by member states, has fragmented and regionalised.

The prediction that the EU might get somewhere by pursuing Gazprom’s alleged infringements of EU market rules also turned to be wide off the mark – not in its immediate substance, but in its wider significance. Russia has already moved to flank the EU and cut potential losses by diversifying its gas exports. Gazprom may eventually be abandoned as collateral damage, leaving the bulk of Russia’s insidious interests in the EU intact.

Nothing came of the prediction that the EU might take a tougher line over Russian rights abuses. Certainly, in late 2012 there was a feeling in the air that Russian civil society might make a fist of it in the streets of Moscow. Had it done so, the EU may well have been forced to react. But it didn’t.

Finally, the 2013 paper suggested that “Germany’s position will be key in determining developments.” In this, it did not err. But it assumed a dichotomic choice between the CDU and SPD and failed to foresee the current grand coalition. Which leads us to the only prediction we can meaningfully make in this context for the EU-Russia relationship in 2014: Merkel and Steinmeier will make it up as they go along. Looking ahead in mid-December 2013, Steinmeier said he would first go to Poland to glean insight on Ukraine. Not to Moscow – that’s a good sign. But also not to Brussels – and that is a very bad sign.

RUSSIA AND GERMANY

Kalvi Noormägi

The forecast for 2013 turned out correct. Russia-Germany relations remained tense during the last year. The first cause of tensions was the election campaign in Germany with the resulting “rigidity” of the German approach and the second factor was Russia’s controversial behaviour concerning, in particular, the Eastern Partnership. The bilateral relations have been stalled and the prospects of future developments are overshadowed by a surprising decision of the German President Joachim Gauck to boycott the Sochi Olympics.

Economic ties have remained the foundation of Germany-Russia relations. The following well-known figures are worth repeating: 6,500 German companies operate in Russia and the latter satisfies over 30% of Germany’s energy needs. Tensions in political relations were followed by a change in public attitude towards Russia that has become more critical. Nevertheless, in a poll conducted by the German Council on Foreign Relations 64% of respondents answered that co-operation with Russia should continue and 29% said they would prefer a greater distance. Academic circles and the media also offered various opinions on the subject. A well-known fact is a strong lobbying by the German business community that turns a blind eye to Russia’s tightening control of the society and demands the continuing involvement of Russia in the hope that closer business ties will also change the Russian society.

The coalition agreement of the new government of Angela Merkel who was elected chancellor for the third time includes a chapter on

Russia, citing an open dialogue and broader co-operation as the key issues in this area of policy. The Foreign Ministry headed once again by Frank-Walter Steinmeier, the architect of Gerhard Schröder's policy towards Russia, is known for its optimistic opinion on Russia. The coalition agreement promises to expand the modernisation partnership with Moscow that was initiated by the Russian and German governments in 2008, to the social, economic and even political level. It promises to continue a dialogue with the representatives of civil society and demand from Russia the adherence to the standards of democracy and the rule of law. This agreement also promises to support the process of the simplification of visa requirements, mentioning simplified visa application rules for businessmen, scholars, students and representatives of civil society. It also hopes to make the EU's policy towards Russia more coherent. The German government aspires to sign a new EU-Russia partnership agreement, broaden co-operation in the Baltic Sea region and ensure closer consultations on foreign and security policy issues. Contrary to the previous coalition agreement, all these developments are expected to take place through the deepening trilateral dialogue between Russia, Germany and Poland. However, the German Foreign Minister Frank-Walter Steinmeier was unusually critical of Russia in his inauguration speech, using such words as impermissible and alarming to describe Moscow's policy.

The low profile of Germany in the European Commission's proceedings against Gazprom should be mentioned from the last year developments. In calculations between interests and values, Berlin's hands are tied as long as Germany's energy transition (*Energiewende*) has not been completed. The goal is to achieve independence from Russia's natural gas and stop using nuclear power. Presently, however, the need for energy and the influence of business interests prevent Germany from openly criticising Russia and, moreover, Germany's experience has shown the inefficiency of criticism as a method to change Russia. Therefore, we predict that the negative phase in Russia-Germany relations will not continue, relations with the new German government will be normalised and some member of the German

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government will surely attend the Olympics – all the more so as it would be primarily a show of support to German athletes. Since the internal European context has been gaining importance in Germany's energy policy, it is becoming more difficult for Germany to defend its position of mediator in EU-Russia relations.

To sum up, there will be fewer tensions in Germany-Russia relations in 2014. Disagreements notwithstanding, co-operation will be restored on the basis of the pragmatic approach of the grand coalition. Germany realises that to isolate itself from consultations with Russia would be unwise and bets on its soft power. No significant changes in the bilateral relations should be expected. In a longer-term perspective, Germany will achieve an energy independence from Russia thanks to the increased use of renewable fuels.

RUSSIA AND FRANCE

Igor Chernov

France occupies a special place in Russia's foreign policy, because its foreign policy may be called "Russia-friendly". An active co-operation in a number of areas was especially evident during the presidency of Nicolas Sarkozy when the bilateral trade volume grew to a record \$28.1 billion and a warm informal relationship was established at the highest level. However, the 2012 elections in France have opened a new stage in Russia-France relations. The socialists who came to power after the elections are traditionally more wary of Russia and have a more hard-line approach to Russia's problematic human rights record. Therefore, we may note a certain regress in the bilateral relations.

Economic co-operation. Despite a considerable size of French investments in Russia in excess of €9 billion (co-operation in the construction of the South Stream and the Nord Stream gas pipelines, nuclear energy, automotive industry, pharmaceuticals, civil aviation etc.), the total volume of trade was falling both in 2012 (over 13%) and 2013. Certainly, these negative developments have been largely caused by global economic problems and the crisis in the eurozone. However, a certain decline in political efforts dedicated to the development of economic relations is also visible.

Political co-operation between the two states is also somewhat stagnating. It is partly due to the fact that François Hollande and Vladimir Putin experience difficulties in establishing personal relations. Furthermore, the deteriorating economic conditions in France and the record low popularity ratings of the president and the government are diverting the attention of the French leadership from

co-operation with Russia. Another obvious factor is the pressure on the French president from the left wing of his political party and civil rights organisations who want him to stress human rights issues in relations with the Russian president.

International co-operation between Russia and France also ran into a number of serious problems in 2013. Notwithstanding the “strategic nature” of this co-operation continually emphasized by both parties, their disagreements on the settlement of several international conflicts have grown wider. First of all, it is the conflict in Syria and the development of Iran’s nuclear programme. Moreover, Russia’s reaction to revolutions in several Arab states (the so called Arab Spring) has been rather negative, while France has actively supported these revolutions.

As a matter of fact, the whole year of 2013 in Russia-France relations was overshadowed by the Syrian conflict. The French diplomacy attempted to soften Moscow’s pro-Syrian position at all levels; Russia, in its turn, attempted to influence France and other Western countries to prevent their direct or indirect involvement in the Syrian conflict on the side of the opposition. At the moment it may be argued that intensive Russian-French consultations have helped to avoid the widening of the conflict.

Iran’s nuclear programme was also an ever-present item on the agenda of Russian-French talks in 2013. It should be noted that the positions of France and Russia have become closer during that year. Already both countries categorically oppose the use of military force against Iran. Nevertheless, France keeps emphasising the threat posed by Iran and continues to support the common European position regarding the deployment of the ballistic missile defence system.

Other international issues caused considerably fewer tensions in Russia-France relations in 2013, indicating the closeness of their positions on the settlement of the Israeli-Palestinian conflict and the resolution of crises in Africa (in particular, Mali) and Afghanistan.

Forecast. I believe that the aforesaid major trends in Russia-France relations will continue in 2014 and 2015 (subject to the absence of serious political changes in both countries).

Economic co-operation. No significant breakthroughs should be expected in the development of economic co-operation in the next few years. As long as the French economy is stagnating, any new large French investments in the Russian economy are unlikely. The current modest level of Russian investments in France (approximately \$180 million) will also remain unchanged. In the most optimistic scenario, the volume of trade between Russia and France in 2014 will approach the level of 2011. This scenario, however, is very doubtful. The 2011 trade level is more likely to be restored in 2015. However, the two countries will continue carrying out ambitious joint projects in the areas of space exploration and aviation.

Political co-operation between Russia and France will also continue on a routine basis. Regular co-operation mechanisms established by Russia and France in earlier years (annual ministerial meetings and standing committees) will continue to function, but the signing of any major documents is unlikely. Nevertheless, an ongoing practical co-operation will continue in various areas such as fight against terrorism and organised crime. The Russian-French Interagency Working Group to Counteract New Challenges and Threats (established in 2013) will continue its work. At the same time, European integration and a strengthening political and military co-operation with the USA will render the “strategic partnership” between Russia and France a mere talking point in politicians’ speeches. France will remain a strategic ally of the USA with an occasional “tactical” overlapping of positions with Russia. It makes a real strategic alliance between Russia and France impossible.

Therefore, difficulties should be expected in **international co-operation between Russia and France** in 2014. The issue of the ballistic missile defence, the Syrian conflict and the problem of Iran are likely to aggravate in 2014, thus increasing tensions between Russia and France. Obviously, France will not sacrifice its relations with its European and transatlantic partners in the context of Russia-EU and Russia-NATO relations in order to defend Russia’s interests. Nevertheless, France will be more constructive during negotiations

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with Russia than many other European countries (on such issues as the development of EU-Russia relations, the NATO-Russia Council, the introduction of a visa-free travel between Russia and the EU).

To sum up, no breakthroughs are to be expected in 2014. France-Russia relations will continue to be characterized by a political and economic stagnation. France will probably continue to be relatively supportive of Russia's interests in EU-Russia and NATO-Russia relations; however, new diplomatic standoffs are likely on such issues as Syria and Iran.

RUSSIA AND THE UK

Eoin Micheál McNamara

Many of the predictions made in the prognosis for 2013 proved accurate in broad terms. On the negative side, these predictions were that the diplomacy aiming to settle Syria's civil war would bring clashes between Moscow and London and that critical British media coverage of Russian domestic politics would impede rapprochement. Positively, the prediction that trade between Russia and Britain would increase in 2013 also came to be. As this prognosis will depict, the political dimension of diplomacy causes most of the tension in UK-Russia relations, tension unlikely to abate in 2014. Albeit modest, a rare aspect that might improve relations will come via the probable enhancement of trade ties in 2014.

Owing to both the uncertainty clouding Britain's future links to the EU's common market and the Eurozone debt crisis, there has been an increased British business and policy emphasis on the 'emerging markets', one of which being Russia. Although not always a top preference, Russia's economy has gained greater prominence as a consequence. The energy sector is once again at the forefront for British companies. In 2013, the Russian owned Rosneft completed the \$55bn acquisition of BP-TNK. According to Bloomberg, this left Rosneft as the world's largest publically traded oil producer. BP signalled the deal as one that would create further opportunities for them within this extremely lucrative sector of the Russian economy. Rosneft and BP have also spoken with assuredness about forging a partnership aiming to further explore the Arctic's offshore oil fields.

A further development of profitable joint ventures between these conglomerates is likely to continue into 2014.

Financial services have been the primary focus of Russian interest regarding the UK. This trend will intensify into 2014 and beyond due to the increased equity being created through the gradual expansion of Russia's middle-class. In September 2013, a survey commissioned by the Russo-British Chamber of Commerce stated negative coverage in each other's media as obstructing the bi-lateral investment activity. The remedy offered came in the form of a recommendation that better bi-lateral governmental initiatives would improve matters. With Russia being re-emphasised by British business as an investment location of some yet unexplored potential, 2014 may see David Cameron's government face pressure from the business lobby to tone down criticism of Russian foreign policy in order to help foster better UK-Russia trade links.

While economic affairs may create some impetus for both states to cooperate, problems concerning politics remain at the core of UK-Russia relations. 2013 saw the British media continue its sharp criticism of Russia's domestic governance. The power consolidation techniques used by Vladimir Putin and his associates have long been portrayed as crudely cynical. Outlets such as the BBC have now taken this further, scripting Putin as the head of increasingly brutish regime. The passing of anti-LGBT laws by the State Duma this year was met with frequent and severely critical coverage in the British media. The same can be said of the graphic coverage concerning the violent police crackdowns on LGBT protestors, the reporting of the imprisonment and treatment of 'Pussy Riot' dissident, Nadezhda Tolokonnikova, and the arrest of Greenpeace activists during 2013. With this negative coverage of Russia's government framing the backdrop, it will be very difficult from the British end to improve relations in 2014. Rather, media pressure will be on Cameron and the Foreign Secretary, William Hague, to routinely raise human rights standards with their Russian counter-parts. From the Russian side, this will be denounced as meddling in its internal affairs and hence very likely to cause further discord.

Moving to matters of high-level diplomacy, in the important area of Russia-EU relations, the Kremlin is likely to further downgrade the UK's importance. Russia has traditionally favoured Berlin, Paris and Brussels ahead of London when choosing its main contact points with the EU. Moreover, 2013's announcement that Britain will hold an in/out referendum on EU membership in 2017, should Cameron's government be re-elected, will likely deter those prospectively interested in influencing the EU through London. Hence, less engagement between Russia and the UK in the area of EU affairs can be expected in 2014.

British Euro-scepticism aside, through a view motivated more by a wider belief in upholding freedom of choice, Downing Street will take a dim view of Russia for its involvement in Ukraine's decision to not sign an association agreement with the EU in November 2013. It will be perceived as a decision forced upon Kiev through Russian coercion and economic bullying and thus out-of-sync with the British view of how a democratic European order should operate. In 2014, the UK is likely to support the idea of Ukraine's re-engagement with Brussels, a position likely to further irritate Moscow.

The Syrian crisis provoked considerable unease in UK-Russia relations in 2013. Invited to Downing Street in June 2013, Putin remained sharply scornful of proposals from the UK, among others, to support the rebels battling Bashar al-Assad's rule. In September, with Cameron humiliated through not receiving parliamentary backing for intervention, the Putin camp appeared to add insult to his injury with official spokesman, Dmitry Peskov, apparently describing the UK as "just a small island ... no one pays any attention to them" at the G20 Summit in St. Petersburg. Chauvinistic displays of this nature will create a very tense atmosphere for wider UK-Russia relations. Beyond Syria, with Russia and the UK permanent UNSC members, such tension could cause further problems should any major crisis matters come before the Council in 2014.

In sum, there is little room for optimism in UK-Russia relations for 2014. Economic affairs hold modest potential; Russia stands to

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gain a greater degree of UK investment due to its inclusion within Britain's wider 'emerging markets' portfolio. This gives some small leverage to assume a minor thaw in relations in order to foster gains in underexplored trade sectors. However, political issues in mutual relations encompassing the British media's unyielding criticism of Russia's human rights standards, heavy handed Russian diplomacy towards Ukraine, the Kremlin's penchant for addressing thinly veiled insults towards London and the UK's declining role in the EU will insure that political relations between London and Moscow will remain difficult in 2014.

RUSSIA AND ITALY

Stefano Braghiroli

The 2013 prognosis correctly predicted the general state of developments of the relations between Italy and Russia in the current year, both in terms of continuity and de-personalization of the bilateral ties. What, however, was absent in the report was the unpredictable turn taken by the domestic political developments following the 2013 parliamentary elections in Italy. Given the absence of a clear electoral majority and the impossibility to form ideologically coherent governing coalitions, this state of things determined a willy-nilly continuation of the grand coalition experience, inaugurated during the technocratic government of Mario Monti.

The recent governmental changes that led to the appointment of Enrico Letta as prime minister in April 2013 have not affected the intensity and the strategic nature of the bilateral relations between Rome and Moscow. Although the process of de-personalization of the relations has strengthened given the progressive political marginalisation of Berlusconi; under the auspices of the new grand coalition government the intensity of the relations seems to have further increased.

This trend is reflected by the vitality of diplomatic exchanges at the highest ministerial and governmental level. Following an intense bilateral meeting within the framework of the G8 Summit in Sochi, in June, Putin officially invited Letta to Moscow. The visit will take place in the beginning of 2014. The Russian president visited Italy in November, after seven years. On that occasion both leaders stressed

the strategic relevance of fruitful and intense relations between Italy and Russia and the desire to increasingly strengthen them in all fields of cooperation. Within the framework of the summit, involving also bilateral ministerial meetings, Putin met also the Italian president, Giorgio Napolitano, and had a private dinner with Berlusconi.

The strategic nature of the Italian-Russian relations is reflected by the achievements of the bilateral summit, including twenty-eight trade agreements and seven intergovernmental agreements. Among others, what is worth mentioning is the plan to develop an investment fund jointly financed by the Italian and Russian state investment banks, with an initial capital of one billion euros and with the declared intent to finance companies investing in the two countries.

These measures are very likely to strengthen the intensity of the bilateral trade relations and of the economic ties between the two countries in 2014. Despite the persistent negative trade balance for Italy, the level of bilateral trade has increased from 2012 (+24% between January and September). Italy represents the fourth trade partner for Moscow and the second largest partner in the EU after Germany; while Russia is the sixth larger exporter for Rome. In the last four years Russian investments have become four times bigger and have grown to 366 million euro; while Italian investments have grown to 730 million euro. The positive trend is likely to be favoured in 2014 by the “Green Custom Agreement” aiming to the minimization of the custom procedures, based on data-sharing between the respective custom agencies. The agreement has been signed during the November summit and represents the first of this sort involving an EU member state.

When it comes to energy, worth mentioning is the strengthened cooperation between Italian ENI and ENEL and Russian Rosneft aimed to increase the compatibility between the respective commercial and logistical infrastructures, whose results will be fully observable only in the next years. ENI has also signed two agreements respectively with the Skolkovo Foundation, to conduct joint R&D activities on environmental protection, and with Novatek, to develop joint offshore projects in the Mediterranean region. The level of cooperation and

integration is likely to increase in 2014 also in the light of the evident failure of the EU-sponsored Nabucco pipeline project.

In foreign affairs, Italy strongly promoted NATO-Russia cooperation and actively supported Putin's appeasement initiative over Syria's chemical arsenal. In turn, Russia has favoured Italy's permanent observer status in the Arctic Council. The only potential source of bilateral tension in 2013 – the arrest of an Italian activist as part of the Green Peace "Arctic30" protest – was rapidly defused via underground diplomatic work that led to his release. Italian diplomacy has also proven interestingly silent when it comes to Russia's pressures on Ukraine that determined Kiev's refusal to sign the Association Agreement with Brussels. Both Italy and Russia have a clear mutual interest in maintaining a high level of diplomatic cooperation and understanding also in 2014; while Rome is likely to increasingly promote enhanced bilateral cooperation between EU and Russia and to favour Euro-Atlantic dialogue with Moscow.

Also in terms of heavy and defence industry, the trend of cooperation is likely to grow in 2014, also in the light of the very active lobbying activity of private and state industries for which Russia represents the key partner in the Eurasian region. Defence industry cooperation will grow significantly in 2014 and 2015 as the Italian company Iveco has signed a contract with the Russian government for the delivery of more than 1700 units of Lince and Centauro wheeled tank destroyers, worth 800 million euro.

A final aspect to mention is the intense bilateral cooperation in terms of education, culture, and tourism that Italy has promoted and will promote also in 2014 both bilaterally and within the EU *fora*. Rome has a strategic interest in supporting the introduction of a visa-free regime for Russian citizens within the Schengen area, particularly in the light of the increased presence of Russian tourists in Italy (+45% in 2013). This trend is reflected by the number of bilateral cultural initiatives such as the Italian-Russian Year of Tourism and the "Russian Spring" Festival in Palermo.

Once again the biggest question mark concerning the future of bilateral relations between Moscow and Rome in 2014 is represented – like in 2013 – by the developments in Italian domestic politics. Although this will not alter the very nature and the intensity of the bilateral relations (based on mutual and well-consolidated interests), the style of the diplomatic and inter-governmental relations is likely to be affected. Following the appointment of a new leadership of the Democratic Party (PD) the level of conflict among the grand coalition partners is likely to grow, and with it the government inefficacy also in terms of foreign relations. The new leadership of the PD is more likely to be critical towards Russia on issues related to human and political rights as already proven in a few occasions concerning the case of the anti-gay legislation introduced in Russia. In the case of a PD's victory in early parliamentary elections in 2014, a centre-left government is likely to be more vocal in this respect.

In conclusion, the intense trend of bilateral cooperation between Rome and Moscow will continue in all the aforementioned areas and will possibly increase in terms of vitality economically, diplomatically, and politically. In this respect, the dynamics determined by the economic crisis that Italy is currently facing indirectly increase the strategic nature of Rome's economic and commercial relations with Moscow.

RUSSIA AND SPAIN

Hendrik Lõbu

Estimation of the last year's prognosis

In general, the last year's prognosis turned out to be correct. It was not hard to predict that economic cooperation and mutual trade would suffer under the circumstances of unsecure situation in global economy. However, it was surprising that bilateral political activity in 2013 turned out to be so stagnant as it actually was. In my opinion, there are two main issues that caused a decrease in the political and economic activity of the Russo-Spanish relations in 2013: a) Russian foreign policy priorities in 2013; b) Spain's economic weakness.

Current situation and processes

In 2013, the few significant events in Russo-Spanish relations were: long-term gas deal between Spanish oil company Fenosa and Russian Yamal LNG about gas supplies from the Yamal Peninsula; Russian and Spanish national railway companies' cooperation contract and the beginning of the negotiations over military cooperation. It is worth mentioning a continuous increase in the number of Russian tourists visiting Spain and Spanish political lobby in the EU for granting Russian citizens the long-awaited visa freedom in the EU countries. 2013 has been characterized by the passiveness of Spanish foreign policy, especially in Latin America. There were no substantial foreign policy initiatives or solo projects by Spain, as it used to be the case in the times of Prime Minister José Zapatero, who had good relations

with such left-wing populists as Evo Morales and Hugo Chávez. Today's Spanish government, led by a conservative Mariano Rajoy, is more restricted in its foreign policy and in all the major political issues aligned with traditional partners – France, Germany, the US and the UK. This is, of course one extra reason why Russia prefers to talk directly to the bigger powers and does not show so much interest in Spain as it might have done in the recent past. The decline of the Russian interest in Spain is reflected in the absence of high level visits or meetings between the ministers or country leaders in 2013. The only exception was the beginning of negotiations on the agreement on military cooperation in August. But this event should be understood in the context of other similar agreements that Russia has signed with different countries in 2013 and should not be overestimated. At least three more reasons could be found why Spain was uninteresting for Russia in 2013:

First of all, by 2013, Russia had achieved almost all foreign policy goals towards Spain and in short term, there are no significant “high policy” issues between the two countries. For instance, Spain does not recognize Kosovo, Spain is for complete visa-free regime between Russia and the EU and traditionally, Spain is not so keen on the EU or NATO policy in the former Soviet Republics. There are some cases where Spanish and Russian interests collide, as in the case of the Syrian civil war, but it does not change the whole picture much. The envisaged Russian-Spanish military cooperation agreement allegedly includes a section on future information exchange between Russia and Spain and is a kind of consolation prize for Russia in return for Spain's cooperation with the US on the question of anti-ballistic missile defence.

Secondly, the abovementioned Spanish economic problems have lessened Spain's foreign political influence and attractiveness as an economic partner for Russia. The investment potential, technological/innovative capability and overall competitiveness of Spanish companies has decreased. Still, Russian state companies went on to conclude some deals with their Spanish counterparts in the fields of infrastructure

and gas and oil export. This year's Yamal LNG deal with Gas Natural Fenosa will increase the Russian share of Spanish gas import to 10%.

Thirdly, Spain did not have any role to play in Russia's global priorities in 2013. For example, in the case of Kosovo's independence or NATO's 2008 Bucharest Summit about giving membership roadmaps to Ukraine and Georgia, Spain was seen as one of the weakest links among the NATO member states and Russia used it in its favor. In 2013, Russia was preoccupied with the Syrian civil war and the debate over Iran's nuclear program. In these issues, Spanish role is marginal and therefore, Russia lacks interest in Spain.

What will shape the bilateral relations in 2014?

There will not be any significant change in the Russo-Spanish relationship because the basic conditions will remain presumably unchanged. Russian priorities in its relations with the EU or NATO and Spain's economic situation will primarily influence the bilateral relations. It is hard to foresee any change in the Spanish positive attitude towards Russia, because there is no substantial conflict of vital interests between them.

Nevertheless, it would be interesting to see if the envisaged Russian-Spanish military cooperation agreement will have any real consequences. Is this agreement somehow related to Russia's policy on Syria and to the expanded presence of the Russian navy in the Mediterranean? If this is the case, then how can Spain maintain the relationship with its main allies in the EU and NATO?

The other issue is the EU-Russian relations over Ukraine and other Eastern Partnership countries. For example, if the EU and Ukraine will somehow reach to the signing of association agreement then it should be ratified by all 28 EU member states. Then will Spain be once again a "weak link in the chain" and thus gain some importance in Russian foreign policy.

Last but not least one should not underestimate the importance of Human Rights issues in Russo-Spanish relations in the context of

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Olympic Games in Sochi. The opposition and public opinion in Spain may put the pressure on government in order to restrain its ambitions on economic cooperation with Russia.

Prognosis for 2014

1. In economy, if the oil price enables, Russian state companies will try to buy up some indebted Spanish companies, particularly in financial sector and energy production.
2. Russia will propose to organize joint military exercises with Spanish Navy and Coast Guard in the Mediterranean.
3. The number of Russian tourists and the share of Russian investment in Spain's real estate will continue to grow. In this connection, Spain will remain one of Russia's spokesmen in the EU on the matter of visas.
4. Spain's ambition to amplify the cooperation with Russia will cool down, because of the international and domestic criticism of Human Rights conditions in Sochi Olympics. The buying up of Spanish companies will be delayed and joint military exercises will not be held.

RUSSIA AND ESTONIA

Karmo Tüür

The forecast for the last year proved essentially correct: two of the three major predictions were completely correct and one was partially correct. Economic ties between Estonia and Russia have become even closer: Russia has risen to the third position on the list of Estonia's trade partners, tourism continued to grow rapidly and cross-border projects started entering the implementation stage. A low-intensity squabble continued at the diplomatic level: Russia still accuses Estonia of violating the rights of national minorities (the issue of education with the Russian language of instruction) and the glorification of Nazism (the so-called problem of SS veterans). The prediction concerning the border treaty was only partially correct, because the treaty has not been signed after all. Although I expected it to be signed last year, I did it with serious reservations, considering the uncertainty of this issue.

Border treaty

Since the border treaty saga is currently the most visible aspect of the bilateral relations, let us start with it. Alas, all I can do is to repeat what was said the last year. Everything is ready to complete the process and it is Russia's turn to make a move, but the process is stalled due to unfathomable reasons. I can only guess whether Russia has diverted all its foreign policy resources last year to the defence of Syria or attempts to reign in Ukraine or maybe there were some other reasons, but one way or another, the last nod from the top has not been given yet.

Russia's policy-making in general and in the area of foreign policy specifically is strictly hierarchical. Therefore, I have to reiterate that the border treaty will be signed and ratified as soon as there will be a clearly expressed political willingness to do so. Putting my professional reputation on the line, I would risk a prediction that the problem will be resolved in 2014 and the border treaty will be finally concluded. At the same time, it is not possible to provide any institutional or other logical explanation to support this prediction and, on top of that, it takes some time to organise a meeting of foreign ministers (to sign the treaty prior to ratification). I just reiterate that the general direction has been set and it will only take a direct order to complete the process.

Economic relations

Russian-Estonian economic relations provide an excellent example of the general development progressing irrespectively of political impediments. Since the two states have not granted each other the most favoured nation status, the bilateral trade is partly channelled through third countries. The trade volume has been growing despite an unofficial and politically motivated limitation (16 pairs of trains per day) imposed by Russia. Restrictions on cross-border trade (import of petrol, alcohol and cigarettes from Russia to Estonia) imposed by Estonia on the basis of an official policy have removed an excessive workload from border crossings and facilitated an explosive growth of tourism.

We may be fairly certain that economic relations will continue to develop in 2014. It seems that transit through Estonia will decrease somewhat because Russia has been re-directing cargo traffic to its own ports. However, these losses will be compensated by other joint activities, including the development of industrial parks in Ida-Viru County with the participation of Russian capital.

International co-operation

I am glad to take note that several cross-border co-operation projects (such as the joint promotion of Ivangorod and Narva fortresses or the ecology and water tourism on Lake Peipus) are entering the implementation stage. These programmes have been a national priority for both countries. However, the main engine of their development is not the goodwill of the border regions or capital cities, but financing provided by the EU. Unfortunately, the further development of this co-operation is problematic, because the cash flow from Brussels is getting thinner regardless of the growing interest of the border regions and respective organisations (Ida-Viru County alone boasts more than 50 organisations competing for the EU funds).

Since there are no changes in the major positions of Estonia and Russia in relation to each other, their mutual complaints also remain the same. Russia cannot obviously stop accusing Estonia of a wrong interpretation of history (an unbridgeable gap concerning WWII and its aftermath). Moscow's accusations concerning the so-called national minority problem are not going away either, because this argument is part of Russia's greater diplomatic game in Europe. Estonia, in its turn, will continue pointing fingers at Russia's selective and questionable law enforcement practices (the cases of Hodorkovski, Pussy Riot etc.). These complaints are aired in international forums, including the European Parliament.

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In 2014 the two-sided development of Russian-Estonian relations will continue. There is no reason to expect any warmth at the political level, but a pragmatic and mutually beneficial co-operation will continue. If the prediction about the signing of the border treaty turns out correct, it may be possible to talk about a momentary diplomatic rapprochement. Despite the falling share of transit in the bilateral trade, the total trade volume will grow, including the continuing increase of Russian investments in Estonia.

RUSSIA AND LATVIA

Andis Kudors

The prognosis expressed last year that history will be the issue which is constantly hampering the integration of Latvia's society, has fulfilled. However, the mentioned topic has lost its previous intensity compared with 2012. The issue of the influence of Russia's policy toward compatriots can be commented similarly. Although there has been some criticism, expressed by the Russian side's representatives for the decrease in the importance of the Russian language in Latvia, nevertheless the overall tone is much more moderate. The prediction regarding the Russian citizens' interest in the possibility to obtain residence permits by purchasing real estate and investing in Latvian banking sector, has fulfilled. 1225 temporary residence permits were issued in the year 2012, and – 1113 – till September 2013. As it was previously forecast, in 2013, the predominant topics in Latvian foreign policy are related to the European Union, and they are becoming still more urgent with the approach to 2015 when Latvia will undertake the presidency of the Council of the European Union. Although it was expected that *Harmony Centre* would try to prevent Latvia's accession to Euro zone, it did not take place. But the prediction has fulfilled regarding the continuation of the "economization" of Latvian foreign policy, initiated several years ago and allowing the increase in the annual mutual trade volume, disregarding disagreements on the issues of values and on history matters.

Policy toward Compatriots

Konstantin Kosachov, the head of an Russian agency *Rossotrud-nichestvo*, has announced that Russia's soft power will be based on the ideological concept *Russian World* including both Russia and its diasporas abroad. Kosachov has indicated also that it is necessary to improve one of the components of soft power – Russia's state branding in the foreign countries. It can be predicted that the numerous Russian non-governmental organizations in Latvia will be involved in creating a positive image of Russia by granting sponsorship to various projects related to culture and history. Along with the aforementioned, the Russian side will probably continue making timely the theme of protection the compatriots' rights. Although granting the official status to the Russian language was already denied by the referendum of 2012, the calls to protect the Russian language in Latvia will be expressed also in the future.

Latvia as the Supporter of Eastern Partnership

2013 can be characterized as the year when issues regarding the EU Eastern Partnership have become topical. Lithuania's presidency of the Council of the European Union raised the issue of intensifying the Eastern Partnership as one of the foreign policy priorities with the culmination in the EaP summit in Vilnius of this November. Latvian politicians and diplomats were observing Russia's pressure to the EaP member states and the problems in its trade with Lithuania as the possible course of events in 2015 when Latvia will be the presiding state in the Council of the European Union. Unlike the Estonian President, Latvian higher officials chose a moderate position while commenting on Russia's statement on Lithuanian milk products' unsatisfactory quality, inappropriate for Russian market. However, that will hardly be sufficient for Russia not to pose economic pressure and decrease criticism towards Latvia for violating the minorities' rights. In Latvia's foreign policy, 2014 will be the year of active preparation for

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the presidency in the Council of EU. Since Latvia, similar to Lithuania, has chosen Eastern Partnership as one of the foreign policy priorities, the overall tension between EU and Russia on the issue of the post-Soviet countries' future will be transferred also to the bilateral Latvia – Russia relationship.

Residence Permits

Since 2010, there exists the possibility in Latvia to obtain residence permits by means of purchasing real estate, or investing in the banking sector or private companies. Most of the residence permit purchasers come from Russia. This year Saeima passed a law, proposed by *National Alliance*, fixing quotas for the number of permits to be sold. The new law stipulates an annual quota of 700 temporary residence permits for the investments of over EUR 150,000, and 100 more permits for the investments of over EUR 0.5 million. However, State President A. Berzins has returned the law to Saeima for repeated consideration. With the approach to the election of the European Parliament and Latvian Parliament, the issue of residence permits will be made timely again. *National Alliance* indicates that the already distorted state demographic situation is still worsened. Besides, the real estate prices are raised disproportionally. The influence of Russian mass media and Russia's policy toward the compatriots in Latvia will also become topical with the approach of the elections. The Harmony Centre will be positioning itself as political force that can resolve problems of Latvian non-citizens. Their activities will be backed up by the Russian media that will actualize so called Russian speakers' rights issues. Along with the aforementioned, liberalization of the gas market in Latvia will also impact the Latvia – Russia relationship.

Liberalization of Gas Market

2014 is the year of the implementation of the EU third energy package in Latvia. The full introduction of the EU third energy package is

hampered by the agreement between *Latvijas Gaze (LG)* and Latvian Government, envisaging the monopoly rights for *Latvijas Gaze* till 2017. *LG's* 34% share is owned by *Gazprom*, thereby *LG* and *Itera Latvia* are actively opposing the liberalizing of the market in Latvia. Latvian Ministry of Economics is developing a law to create a basis for the accession of the other natural gas suppliers to Latvian market, but *Gazprom* is getting ready for a juridical and political fight in order to achieve the postponement of this decision.

Conclusion

The elections to European and Latvian Parliaments, as well as *Gazprom's* opposition to the liberalization of Latvian natural gas market will be the main factors impacting the Latvia – Russian relationship in 2014. With the approach to Latvia's presidency of the Council of the European Union in 2015, the relations' atmosphere will be impacted also by Latvia's wish to maintain active implementation of the EU Eastern Partnership in Ukraine, Moldova and Georgia. Russia will try to persuade the Latvian foreign policy makers through diplomatic channels to be not "overactive" in the setting plans for the implementation of EU Eastern Partnership. However Russia will not achieve any serious results with centre-right Latvian govern coalition in charge.

RUSSIA AND LITHUANIA

Dovilė Jakniūnaitė

The last several years of Lithuanian – Russian relations have been under the constant silent pressure: few open clashes, but plenty of silent collisions and indirect tension. The last year's prognosis about the bilateral relations was as usual skeptical, even pessimistic: no major changes towards the improvement could be foreseen. And that proved to be correct. Energy projects, gas prices and the negotiations with Gazprom have been on the agenda for the whole year. The new Lithuanian government promised to renegotiate the conditions of gas import, but has not managed to produce any favorable results. The politics of history reemerged from time to time with growing passions (at least from the Lithuanian side). The most prominent event was the prohibition of the PBK TV channel in Lithuania after it showed the documentary about the January 13, 1991 events which was considered propagandistic misrepresentation of the recent history.

In the last year's forecast it was expected that some clashes with Russia might occur because of Lithuania's presidency at the EU Council, which had Eastern Partnership as a key priority. Lithuania set the goal to sign the Association Agreement with Ukraine. Though tourism from Russia continued to grow, the expectations about positive economic relations towards the second part of the year proved to be incorrect: in September Lithuania and Russia became involved in border conflict and "milk war". It was the most visible and open clash between Russia and Lithuania in 2013, when, first, Russia intensified the custom check-ups thus increasing the lines at the borders, and later banned dairy imports from Lithuania.

The majority of commentators in Lithuania considered the problems at the Russian border to be of political nature and a sign that Russia is pressuring Lithuania because of the EU Eastern Partnership summit which was to take place in the end of November. This pressure was more symbolic than a real effort to change the position of Lithuania and already by mid-October the tensions at the border were resolved, though the dairy ban was not revoked. Curiously, the intensified custom check-ups were strongly criticized not only in Lithuania or the EU, the big wave of critique came also from inside, from Kaliningrad oblast. Some experts even estimated that the region suffered most as they could not timely receive many export goods and their production facilities suffered huge losses.

When just before the summit Ukraine refused to sign the agreement, the skepticism towards Russia peaked. Russia was considered one of the main culprits behind Ukraine's changing its mind. And at the end of the year it became almost impossible to find a favorable view towards Russia's foreign policy in the Lithuanian public discussions.

It must be admitted that hardly any changes should be expected in 2014. The year will start in a similar mood – that of an apprehensive attitude towards Russia and its influence in the region. As this is already customary, none of the Lithuanian political forces is prepared to invest in improving relations with Russia. The country will have Presidential elections in late May, so the electoral campaign will be the focus of its political life. It should be expected that the Russian factor will be important during this time, e.g. in the discussion about Lithuanian foreign policy, or debating Russia's influence on important domestic projects like the new nuclear power plant or the LNG terminal. This, however, can hardly change the official Lithuanian-Russian relations and they will keep functioning in a cool mode.

The implementation of the EU's Third EU energy package will accelerate in 2014 and that means more intense pressure on Gazprom to separate its supply and transit business in Lithuania, as elsewhere. Naturally, this will develop in the context of the EU-Russian relations, but will have direct consequences for bilateral relations as well by increasing tensions.

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Quarrels about interpretations of the events of 1940s or January 1991 are already a constant feature of the Lithuanian – Russian relations. The particular events are of course unpredictable, but one can say for sure that one or two cases (e.g. a TV show, some political comment) that will enervate one of the sides will inevitably occur. These events will just underline the incompatible and contradictory views on history that both sides hold.

Finally, Lithuania will closely follow Russia's foreign policy in the so called post-Soviet region and pay attention to its possible efforts to increase its influence there through the envisaged Eurasian Economic Union or similar projects. As such behavior is considered worrisome this will also strengthen the already quite critical stance towards Russia by the majority of Lithuanian political elite.

Thus, the projection about the Lithuanian – Russian relations for year 2014 stays pessimistic as no clear and visible improvements can be foreseen, neither in the energy politics, nor in politics of history – the two spheres which are creating the biggest hindrances for the more cooperative bilateral relations between Russia and Lithuania.

RUSSIA AND THE ARCTIC REGION

Dmitry Lanko

Russian policy in the Arctic Region did not advance much in 2013. Early in 2013 Russian Ministry of Regional Development proposed a draft bill “On the Arctic zone of the Russian Federation”. The bill suggested new territory of the Arctic zone of the Russian Federation compared to the territory of the Soviet Far North (for example, the town of Petrozavodsk is part of the latter, but not of the former), confirmed the right of Russian enterprises to undertake economic activity in Svalbard in accordance with Russian legislation, underlined the importance to introduce different environmental standards in the Arctic zone compared to the rest of Russia, as well as suggested special rules for transactions among the federal budget, the budgets of Russian Arctic regions and the budgets of Russian municipalities located in the Arctic zone compared to the rules applicable to inter-budget transactions in the rest of Russia.

The bill was expected to pass by the end of the year. Instead, nothing had been done during the summer. The events that took place in the Arctic in the autumn attracted attention of Russian lawmakers and ministers to the region. The most famous among the events was the arrest of the crew of Greenpeace’s icebreaker “Arctic Sunrise”, who remained on bail in Russia through the end of 2013. After the arrest, though not necessarily because of it, Russian Federation Council’s Committee on Federal Affairs organized special hearings that concluded that a draft bill “On the Arctic zone of the Russian Federation” was expected to be worked out and adopted as soon as

possible. Simultaneously, the Russian Defense Minister Sergey Shoygu declared that the Russian President Vladimir Putin had ordered him to increase Russian military presence in the Arctic Region as soon as possible. However, Putin himself in his address to the Federal Assembly in mid-December 2013 spoke of Russian “pivot to the Pacific Region” and did not mention the Arctic Region even a single time. One may predict that despite more plans concerning the Russian policy in the Arctic will be declared early in 2014 few of them will be fulfilled by the end of 2014.

Draft bill “On the Arctic zone of the Russian Federation” will not pass in 2014. There are two reasons to that. First, there are disagreements between the Ministry of Regional Development and Russian regions on which regions or which municipalities will be declared parts of the Arctic zone in the bill and which will be not. Second, unlike Russian regions who favor the adoption of special rules for transactions between the federal budget and budgets of the regions to be declared parts of the Arctic zone, big Russian businesses working in the Arctic zone do not. In 2014 their lobbyists will remain active in their efforts aimed at postponing passing of the bill as long as possible. Big Russian businesses are satisfied with the existing tax exemptions and do not expect to benefit from special tax exemptions for the Arctic zone suggested in the bill. At the same time, they do not favor special environmental rules for the Arctic zone that the bill envisages.

In 2014 Russia will submit another application to the UN Commission on the Limits of the Continental Shelf, which will be aimed at recognition of the Lomonosov Ridge part of Russian continental shelf. The previous application was not accepted. Russia is concerned that the new application will not be accepted either; however, Russia is also concerned about the applications recently submitted by Canada and Denmark, and thus, it will keep on trying. By the end of 2013 the application was almost ready; all the necessary fact-finding expeditions to the Arctic Region had been conducted beforehand. Consequently, Russia will organize more sound expeditions into the Arctic Region

only in case the new application is not accepted, which is not expected to take place until early 2015. Likewise in the case of previously conducted expeditions, countries of the European part of the Arctic, first of all, Norway, will remain Russia's most preferred partner, when organizing new expeditions.

In accordance with the above-mentioned declaration of the Russian Defense Minister Shoygu, in 2014 Russia will start reorganizing the structure of its military group in the Arctic Region. Today the military group consists of the Northern Fleet of the Russian Navy, to which corresponding army, air force, marine, airborne, artillery, intelligence, engineer and communication units are subordinated. As a result of reorganization, a special headquarters of the Russian military group in the Arctic will be created, to which the Northern Fleet of the Russian Navy, as well as army, air force, marine, airborne, artillery, intelligence, engineer and communication units stationed in the Arctic will be subordinated. It is expected that the number of Russian military units of different kinds stationed in the Arctic Region will be increased. Elements of military infrastructure in the Arctic Region will be improved, with special focus to military airports and naval harbors built in the Soviet times and abandoned after the breakup of the Soviet Union. However, actual work will hardly start before early 2015 due to lack of funding.

In 2014 Russia will see significant growth of demand to transportation via the Northern Sea Route. However, Russia lacks funds to invest in the development of the infrastructure of the Northern Sea Route. The U.S. and Canada are more interested in the development of the infrastructure of the Northwestern Passage, which offers an alternative to the Northern Sea Route; thus, they may not be considered potential investors in elements of maritime transportation infrastructure in the Russian part of the Arctic Region. The Chinese People's Republic will only invest in case it is allowed to rent elements of infrastructure, which become targets of the investments, with surrounding territories for a lengthy period of time, to which Russia will not agree in 2014. Thus, a significant improvement of the

infrastructure of the Russian part of the Arctic Region must not be expected in 2014, except for military infrastructure.

Finally, in 2014 Russia will continue talks with Finland and Sweden aimed at the establishment of special regime in the Barents Euro-Arctic Region for travelling across borders in border areas without visas, similar to the Russian-Norwegian visa-free travelling regime in border areas established in 2011. A declared aim of Putin's present term as the President is establishment of a Common Space of Freedom between Russia and the European Union, which will envisage visa-free travelling between the Russian Federation and the European Union. Establishment of visa-free travelling regime in border areas in the Barents Euro-Arctic Region will be regarded as a step forward towards the Common Space of Freedom. So far the negotiations with Finland have been successful, the establishment of visa-free travelling regime in border areas between Russia and Finland can be expected already in 2014.

To conclude, in 2014 Russian policy in the Arctic Region will be focused on the following five areas: the improvement of legislation, delimitation of continental shelf, increase in military presence, increase of the importance of the Northern Sea Route, and the establishment of visa-free travelling regime in border areas with Barents Euro-Arctic nations. However, in 2014 Russia will not be very active in the Arctic Region in general. As a result, except for the visa-free travelling in the Barents Euro-Arctic Region, little is expected to be achieved in 2014.

EURASIAN INTEGRATION

Aliaksei Kazharski

The prognosis for 2013 predicted increasing Russian pressure on those countries that are progressing towards association with the European Union in defiance of Moscow's plan to include them into the Eurasian geopolitical enterprise. Aggressive trade measures against Ukraine and Moldova confirmed this prediction. The prognosis also suggested that Russia's strategy of institutionalizing its "sphere of influence" will not be implemented. This was also correct as in 2013 the institutional architecture of the future Eurasian Economic Union still remained a project.

2014 will be an important year for the processes that have come to be called *Eurasian integration*. The deadline for the creation of the Eurasian Economic Union is set for 1 January 2015, thus leaving the participants one year to prepare, sign, and ratify the founding treaty for the next stage of Eurasian integration. Bearing in mind that the Eurasian regionalist project is not only about economics, but also very much about personal prestige of the Russian rulers, they will assign it high priority. However, serious internal tensions between participating countries as well as Russia's geopolitical rivalry with the EU will make the actual process less predictable and linear than the formal deadlines suggest.

There are a number of factors that will ensure that Eurasian integration remains high on the agenda and the Eurasian Economic Union is signed into being in one form or another. Neither of the other two "core" participants, currently forming the Customs Union

with Russia, has a full-scale alternative to playing the Russian game of regionalism. President Nazarbayev of Kazakhstan has exercised care with respect to the potentially intrusive nature of Eurasian supranational institutions and opposes political unification on top of economic integration. Unlike countries of Eastern Europe and the Caucasus, Kazakhstan does not enjoy the alternative of being included in Eastern Partnership. This is why Kazakh participation in Eurasian integration will remain to some extent geoeconomically predetermined. This does not mean, however, that Kazakhstan will not voice its grievances.

As regards the third “core” participant, President Lukashenka of Belarus has been politically isolated by the EU since 2010. As the Belarusian economy continues to face grave challenges of competitiveness he will be in dire need of economic support coming from outside. In the absence of structural reform, it can only come from Russia as a reward for deeper participation in Eurasian integration. A key issue will be the regime for re-exporting oil products made from imported Russian crude, which forms a cornerstone source of revenue for the Belarusian economy. Minsk will be active in linking this with the future of Eurasian integration. In the coming months the two sides will have to strike a bargain on the terms under which Belarus would enter the Eurasian Economic Union.

The key question for 2014 is not whether the Treaty on the Eurasian Economic Union will be signed, but exactly what kind of organizational architecture it will put in place. The current vision involves a set of bodies modelled on the EU and endowed with supranational powers. If there is no departure from this plan, the Union will have a supranational court, a supranational Eurasian Economic Commission and an intergovernmental economic body consisting of heads of states or governments. Neither of Russia’s junior Eurasian partners are enthusiastic about a hypothetical “Eurasian Parliament” so the most one can hope for is some sort of an inter parliamentary Eurasian assembly. The Treaty should also codify the multiple existing regulations that were created in the process of Eurasian integration in

order to create what Moscow envisions as an-EU like single market where the “four freedoms” are realized.

Given the mutual mistrust and contradictions between the participants, we can expect the treaty to be strongly contested. Failure to meet the 2015 deadline would be a sensitive loss for Moscow more than for anyone else. Governments of the other two “core” countries should take advantage and press for more favorable terms in exchange for consent. A war of nerves is coming where certain decisions will be put off till the last moment, until a deal on the sensitive issues has been struck. Even if the founding treaty is signed in May 2014, it still needs to be ratified by national parliaments. This formal procedure can be used as a pretext for procrastinating the actual launching of the Union.

The dynamics of Eurasian integration will also depend on what is going on in potential “candidate” countries. Ukraine is Moscow’s key prize as far as Eurasian integration is concerned and its participation or non-participation in the project would affect both the institutional set up and the balance of influence within the Eurasian grouping, as well as to determine the relative importance of other players, especially those that are pawns in the EU-Russia “zero-sum game”. Without Ukraine, Moscow will put a higher premium on Belarusian participation. There is no serious short-term prospect of Ukraine rushing to join the Eurasian Economic Union. That is due to the fact that it would both be politically inexpedient and because, in the end, it does not seem to resonate entirely with the Ukrainian ruling class’s particular preferences. At most, there will be a round of bargaining with Moscow over possible terms of joining the EaEU in a more distant future.

Armenia, whose security hinges on Russian support, will be more likely to play an active part in Eurasian integration. Its membership, however, would be much less of a geopolitical prize for Moscow in comparison to Ukraine, because of both its relatively smaller size and weak economy and the fact that it does not share a border with the Customs Union. Finally, there is Kyrgyzstan, who has been negotiating membership since 2012.

EURASIAN INTEGRATION

No “enlargement” of the Eurasian core grouping is likely to take place before 2015. Instead, Moscow will try to consolidate the “core” by launching the Eurasian Economic Union first. The Kremlin will be eager to push through its regionalist project in order to reap political benefits, but will face opposition from its junior partners, resulting in complex bargaining over the substance of the founding treaty. These internal conflicts will not stop the Eurasian Economic Union from materializing but may significantly reshape and dilute its regulatory content.

RUSSIA AND BELARUS

Ryhor Nizhnikau

As it was correctly stated in the last prognosis, the Belarus-Russian relations in 2013 were overall characterised by close political, economic and military cooperation. Parties continued negotiations over the merger and/or sale of several Belarusian enterprises with Russian counterparts, while Belarus received another loan from Russia. In the meantime, also another round of economic conflicts over tariffs and trade took place. A major emphasis was put on the development of Moscow-led regional economic projects.

It is important to take into perspective that the relations in 2013 were developed in a situation of unfavourable tendencies in Belarusian economy and Russia's conflict with Ukraine over the Customs Union and the pending signing the EU's Association Agreement (AA), in which Belarus openly supported Ukraine. In 2013, economic situation in Belarus continued to worsen. The budget is expected to be short of up to \$1.5 billion of revenues, while trade deficit continued to grow and reached \$3.2 billion (4.5 in trade with Russia) during the first 7 months of the year. Industrial production fell in comparison to the previous year by 4.8%, and the profitability of enterprises fell by 37.2%. All this indicates once again at serious systemic problems with Belarusian economy, but also unfavourable bilateral trade relations with Russia, in particular as regards the oil tariffs and the collapse of the potash market.

Russia predictably put economic pressure on Belarus, which reached its peak in the trade row over the collapse of the Belarus

Potash Company (BPC), a potash-trading cartel, which consisted of two partners: Belaruskali, a Belarusian state-owned potash producer, and Uralkali, a Russian privately owned potash company. The disintegration of BPC, which was one of the most successful Belarus-Russia economic projects, was a significant financial blow to Minsk. The prices plunged down, which left the Belaruskali without markets, leading to significant financial losses. Belarus accused its Russian counterpart in the collapse of the cartel which controlled 40% of world market, and in the perpetration of BPC management which resulted in favourable to Uralkali cartel's policies. Belarus arrested Uralkali CEO keeping him as a hostage, while demanding full compensation of its losses. Moscow negatively reacted to Belarus's new type of bilateral economic warfare scaling back its oil exports to Minsk by 25% in September and increasing scrutiny of Belarusian dairy imports. It was a clear message as oil subsidies equal almost 16% of Belarusian GDP while dairy export represents 38% of all agricultural export having brought more than \$1 billion in revenues only in January-June 2013.

Economic difficulties coupled with pressure from Moscow predictably led to a series of anti-Russian moves, including a media campaign. It culminated in a statement by President Lukashenka, in which he accused Russia of the worsening situation and issued a warning that Belarus would not stay in the Russia-led Customs Union if Russia, contrary to its earlier promises, keeps export duties on its petroleum products, which undermine the profitability of Belarusian oil re-export. Moreover, Belarus also not only refused to support Russia in its conflict with Ukraine, but openly challenged Moscow having intensified economic cooperation with Ukraine in the second half of the year and endorsing its European aspirations.

Belarus's dissatisfaction over the Customs Union and trade with Russia, partly shared by Kazakhstan, resulted in Putin's promise in late October to review the existing tariffs and trade regime. Lukashenka also forced Russia to change the owner of Uralkali, which opened the road to the re-establishment of potash-trading alliance.

In 2014, we may expect the continuation of the above-mentioned tendencies. Belarusian economy will continue to face difficulties and the government will be looking for additional sources of revenue. It has already introduced a few very controversial domestic initiatives, including tax on 'parasitism' (to be annually paid by unemployed working age citizens), but the main effort will be targeted at Russia. In this regard, we may expect the continuation of the discussions over the Customs Union tariffs, necessity and role of supranational institutions in the future Eurasian Economic Union, and privatisation of leading Belarusian enterprises (MZKT, Integral, Peleng, Hrodna-Azot) including a long-overdue merger of MAZ and KAMAZ. Belarus will try to get Russia to provide loans, increase oil deliveries and remove oil export duties as the launch of the Eurasian Economic Union will be approaching and thus Belarusian bargaining powers rising. Belarus will try to cooperate with Kazakhstan on the issues of regional integration and tariffs and indirectly threaten Russia with the deepening of the cooperation with China.

Moscow will once again try to exploit the financial difficulties of the Belarusian regime. While negotiating new loans, oil duties and deliveries it will push for economic concessions and further military rapprochement, including the creation of a Russian air force base near Lida. So far, the draft of the agreement on the latter has been announced a few times by the Russian Minister of Defence Shoygu and rebuked by Lukashenka, who presented it as Russia merely supplying Belarus air force with new aircrafts. For Minsk, it is a sensitive issue as this agreement undermines its 'not-for-sale' sovereignty, which will likely be used as an excuse for delaying the signing and eventual implementation of the agreement in order to extract bigger economic concessions from Russia.

To sum up, rollercoaster tendencies continue to prevail in 2014: at some point, the relations will worsen again but then normalise and get

RUSSIA AND BELARUS

better as in general the current state of affairs satisfies both parties. It can be expected that Belarus and Russia will get into a heated debate over the Customs Union and in particular the issue of oil export duties and oil deliveries, when Belarus will question the necessity of giving away part of its sovereignty without benefitting from it while Russia will be pushing its economic and political agenda. Trade wars, hostile media campaigns will eventually end with another accommodating agreement as Russia will make concessions in order to successfully launch its Eurasian Economic Union in 2015 and Belarusian regime will receive necessary resources to keep its economy afloat and start preparing ground for another 'elegant' re-election of Mr Lukashenka in 2015.

RUSSIA AND UKRAINE

Evgeny Treshchenkov

2013 was marked by Russia's opposition to the Association Agreement between Ukraine and the European Union. The Ukrainian President Viktor Yanukovich managed to shift the Kremlin's focus from the matter of Ukraine joining the Customs Union to the plans of its European integration. The CU member states and Ukraine are linked by the CIS Free Trade Area Agreement. In this light, the free trade area between Ukraine and the EU envisaged by the Association Agreement can lead to adverse trade-related consequences for the CU member states – and, as a result, threaten the future of the entire Eurasian integration project.

Several of the previous forecasts have come true. For instance, this concerns the inevitability of trade wars. The trade and economic pressure to which Russia subjected Ukraine in 2013 has proven to be even more varied, inventive, and broadly covered by the media than in the previous years. This was a kind of “muscles-flexing” to demonstrate the complications and difficulties to be faced by Ukraine if it went through with the EU-Ukraine Association.

The losses faced by the Ukrainian exporters to Russia in 2013, coupled with budget difficulties and the traditional heating season problems around imported Russian gas, have all left Ukrainian government with very little ground to manoeuvre. In turn, the EU, rather predictably, showed itself incapable in the short term of compensating for Ukraine's losses caused by a potential change of its trade regime with Russia. Neither did it show any particular intention to persuade

international financial institutions to provide loans to Ukraine. The conditions proposed by the International Monetary Fund to Ukraine were unacceptable, given the upcoming 2015 presidential elections. The EU's rather strong stance on the Timoshenko case was also an influencing factor. As a result, the government of Ukraine made a tactical decision to postpone the signing of the Ukraine-EU Association Agreement.

Trends expected in Russia-Ukraine relations in 2014

There is a chance that the trade and economic component (customs regime etc.) of the bilateral relations might stabilise. The pause taken by Ukraine in the European integration process may be converted into certain concessions from the Russian side. Some of such concessions were announced on 17 December 2013: gas price reduction (to \$268.5 per thousand cubic metres) and loans. Yet the size and the stability of the concessions will depend on the duration of the pause. The Kremlin's decision to buy Ukraine's euro-bonds using the financial resources accumulated in the National Wealth Fund indicates that President Putin is ready to play risky games. His internal and external policies are closely interrelated.

2014 will see the continuation of the Ukraine-Russia bargaining. Ukrainian leadership will seek to achieve the best possible realisation of its trade interests within the CIS Free Trade Area, while withstanding internal pressure from the political opposition and external from the West. Russia, keen on consolidating its Eurasian project, will be forced to balance between the goals of preventing Ukraine from signing the Association Agreement and keeping it away from full access to the CIS Free Trade Area.

The establishment of a consortium to manage Ukraine's Gas transportation system may be a part of Russia-Ukraine negotiations next year but any visible results are unlikely to be achieved.

In all other aspects the Russia-Ukraine relations will retain the same dynamics (or the absence thereof) as in the past year. That is:

suspended political cooperation and rather slow developments in humanitarian dimension and cross-border cooperation.

As for the factors that will influence the Russia-Ukraine relations in 2014, we would highlight:

- the Ukrainian presidential elections in early 2015. By refusing to sign the Ukraine-EU Association Agreement the current president Yanukovich has lost trust of a large part of the Ukrainian voters. This has also somewhat worsened the situation for the Russian government, which is now seen by the Ukrainians as the primary antagonist and obstacle on the Ukraine's "European path". Up until November 2013 Yanukovich managed to avoid provoking the opposition regarding his Russia policies, but the refusal to sign the Association Agreement caused wide disappointment. The opposition leaders did not wait long to seize this trump card and play it against the current government. The effect of their action cannot be underestimated and might even lead to a rearrangement both of the Verkhovna Rada fractions and of the Cabinet of Ministers;
- in 2014 Russia will continue its efforts, in one form or another, to draw Ukraine closer to the Customs Union while, however, taking care to keep other member states interested in this Union. This has to do with the plans to form the Eurasian Economic Union by 2015. For the same reasons any concessions or preferences extended to Ukraine will be conditioned by the need to keep the Customs Union and the Single Economic Space more attractive for Kazakhstan, Belarus and other potential members than the CIS Free Trade Area;
- the EU will hardly be able to offer Ukraine any substantial financial compensation for signing the Association Agreement, although some effort to motivate the Ukrainians will be made. In Europe some consider it better to postpone the issue until 2015. Nevertheless, the pressure on the government from the public, as well Russia's moves will remain the key factors.

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How and to what degree these factors will combine is going to affect whether the signing of the Association Agreement will indeed be postponed until 2015. Russia is evidently not interested in having the Ukrainian opposition back in power. Yet it also does not have any objective reasons to offer one concession too many, or too big, to the Ukrainian government.

Despite the temporary pause in the processes of the country's European integration, the Ukrainian elites will continue to distance themselves from any union with Russia so that would go beyond the scope of free trade agreements. In upholding this general line the Ukrainian leadership since the country's independence has demonstrated a unity as surprising as the Moscow's persistence in ignoring it.

The only route for the effective involvement of Ukraine in Russia's integration projects will be a qualitative change of Russia itself. So far, all of Russia's actions merely lead to a short-term and rather relative "wins", while in the long term only alienating its neighbour more and more.

RUSSIA AND MOLDOVA

Andrey Devyatkov

The forecast made for 2013 turned out to be adequate in the description of the Russian-Moldovan relations as constantly deteriorating. Symbolically, the tension between the two countries became visible when at the meeting of the Valdai Club in September 2013 Russian President Vladimir Putin argued, in response to the question about Moldova's intention to sign the Association Agreement with the EU, that Moldova is fully dependent on the Russian market and will not be able to sell its wine at the EU market because of EU protectionism. At the same time in Moldova European integration is being considered by the government as an indisputable national priority despite all the social and economic challenges it could bring about.

It was also correctly predicted that Moldova's rapprochement with the EU through the Association Agreement, the creation of a Deep and Comprehensive Free Trade Area (DCFTA), as well as visa liberalization and energy cooperation, would fully dominate the agenda of the Russian-Moldovan relations. Through various means Moscow tried to "persuade" Moldova not to follow the European path, taking into consideration all the losses this small country could suffer from its geopolitical choice. Since September the embargo against Moldovan wine is again in force. Moscow also signaled that hundreds of thousands of Moldovan migrants staying in Russia at the moment could be prevented from entering the country by the next attempt of admission because of alleged violation of the Russian migration law.

Harsh rhetoric came traditionally from Dmitry Rogozin, the head of the Russian delegation to the bilateral trade commission and Special Representative of the Russian President for Transnistria. For example, at a press-conference during his visit to Chisinau in September Rogozin announced: “Energy supplies are important in the run-up to winter. I hope you won’t freeze”. Besides, the Russian envoy many times suggested that European integration of Moldova will lead to the full disintegration of the country because it does not at all consider the Transnistrian factor.

Nevertheless, Russia abstained from fulfilling all the agenda of sanctions and radical political acts toward Chisinau, first of all because at the Vilnius summit only initialing, and not signing of the Association Agreement, was at stake. Moscow’s efforts were invested predominantly into discouraging Ukraine from the idea to sign the Association Agreement. Ukraine is perceived in Moscow as an important factor for the future of the Eastern Partnership in general and Moldova / Transnistria in particular. Also it can be argued that Moscow fears a direct confrontation with Moldova because the EU has heavily politicized its approach to Eastern neighbors and is ready to deliver today a more substantial support particularly to Moldova as a frontrunner of the Eastern partnership.

As in Ukraine, in Moldova Moscow sees a very good opportunity to obstruct the rapprochement with the EU through manipulating internal politics. In autumn 2014, parliamentary elections will take place. Taking into consideration how the political crisis in 2013 damaged the popularity of the governing Alliance for European Integration, the oppositional Party of Communists with its explicitly anti-EU rhetoric can return to power. Russian TV-channels have already begun to present Moldovan Communists in a positive way. Besides, Russia has shown clearly whose side it is taking: during his visit to Chisinau and Tiraspol on 9 May for participation in events in honor of the victory in the Second World War, Dmitry Rogozin met only with the Communist leader Vladimir Voronin. The Russian envoy participated in a concert with Russian music stars

where Voronin was praised as a politician who loves ordinary Moldovan people.

Consequently, it can be expected that in 2014 Moscow will openly support the Party of Communists during its electoral campaign. Russian participation in Moldova's elections will cause an additional geopolitical competition with the EU which has already signaled that it would sign the Association Agreement with Moldova as soon as possible, preferably before the parliamentary elections. This is a clear support for the today's Moldovan government.

Besides, participation in Moldovan elections seems to be now a more efficient instrument for influencing the EU-Moldova relations than the Transnistrian factor: Chisinau evidently attaches highest priority to the country's European integration, leaving aside the issue of its reintegration. In this situation, despite a protocol signed between Dmitry Rogozin and the Transnistrian leader Evgeny Shevchouk in October, Russia will hardly be willing to widen its support of Transnistria and will continue conducting its policy of simply keeping Tiraspol afloat.

As foreseen in the previous forecast, no energy war happened this year. Despite the fact that the problem of Moldovan gas debt, the absence of a Moldovan-Russian gas treaty and the issue with the implementation of the EU's Third Energy Package in Moldova, are still there, Russia will hardly be interested in a true energy conflict with Moldova also in 2014. Moldova together with Romania has already envisaged the realization of two bilateral energy projects (Iași-Ungheni gas interconnector and the back-to-back station on the Vulcanesti-Isaccea grid) which could help Moldova to diversify its energy supply both in gas and electricity. The first project has already got financial assistance from the European Commission (7 mio. euros); the second one also enjoys technical and diplomatic support from the EU. Possible energy conflict with Russia could stimulate Brussels, Chisinau and Bucharest to go ahead on these projects, which at the moment are commercially not so viable, as an inevitable geopolitical priority. It will fully destroy the monopoly of Gazprom, which has

already increased the gas price for Moldova above the average price for the EU buyers and thus no longer has manipulation with the gas prices as an instrument at its disposal.

EU-Moldovan visa liberalization will also cause further disagreements between Moscow and Chisinau. In case of successful implementation of the Association Agreement Moldova could get a liberalized visa regime with the EU after 2015, as it was proposed by the European Commission. As Russia is facing a problem in the negotiations with the EU on visa liberalization, it will perceive possible Moldovan success as damage for its international prestige and will try to politicize this issue in relations with the EU.

Consequently, in 2014 Russia will try to influence the Moldovan internal politics hoping to bring Chisinau away from the European path. At the same time, facing the fact that the EU's presence in the region is more visible now, Russia will hardly be willing to start a direct confrontation with Moldova by imposing further trade sanctions or initiating energy war. Direct confrontation will most likely remain at the rhetorical level without becoming a political practice.

RUSSIA AND ARMENIA

SERGEI MINASYAN

As predicted in the previous forecast, the multilateral dimension has become more visible and important in Russia-Armenia relations during the last year. Moreover, it can be argued that the context of multilateral processes in the post-Soviet space as a whole has become a decisive factor in the relations between Yerevan and Moscow in 2013. First of all, it became apparent against the background of two competing integration processes in the post-Soviet space – initialling/signing association agreements with the EU and accession to the Customs Union. In many respects, Armenia-Russia relations have become a function of Russia's relations with other potential candidates for the signing or initialling an association agreement with the EU at the EU's Vilnius summit (or, on the contrary, a telling cautionary example for other post-Soviet states as Yerevan was forced to abandon the association agreement under Moscow's pressure).

On the other hand, the bilateral relations in traditional areas of co-operation – military and political, economic and humanitarian – have remained largely unchanged. Security and economic relations have continued to be the main areas of co-operation. The involvement of Russia as a co-chairman of the OSCE Minsk Group in the negotiations concerning the peaceful resolution of the Nagorno-Karabakh conflict was also an important aspect of policy for both states.

Analysis of Armenia-Russia interactions in 2013

The total amount of Russian investments exceeded \$3 billion in 2013, with the lion's share of the investments going into energy and transportation sectors. The specifics of the military and strategic relationship between Russia and Armenia enables the latter to buy natural gas from Russia at a discount (only Belarus enjoys lower prices in the whole post-Soviet Eurasia). However, the price of natural gas supplied by Russia to Armenia rose a little in the middle of 2013. Nevertheless, during the state visit of President Putin to Armenia on December 2 the natural gas price was fixed at \$189 per thousand cubic metres until 2018, raising hopes for a certain reduction of social tensions in Armenia.

It should be noted that the year of 2013 was a complex and, simultaneously, an almost momentous year for Russia-Armenia relations. On the one hand, there were no obvious negative changes in the relations between the two states during the last year. On the contrary, after the Armenian President Serzh Sargsyan declared on September 3 that Armenia was ready to join the Customs Union promoted by Russia (that also meant Yerevan's refusal to initial an association agreement with the EU at the EU's Vilnius summit which was negotiated by Armenia for the period of almost four years), it became possible to argue that Armenia has drifted deeper into the political and economic orbit of Russia.

On the other hand, it was the Kremlin's direct and indirect pressure on Armenia forcing the latter to abandon an association agreement with the EU that resulted in an unprecedented rise of the anti-Russian sentiment in the Armenian public and political elite in 2013. Media comments and a protest action during Putin's visit to Yerevan made this development apparent. Thus, a shift in the perception of Russia in Armenia became a process of an unprecedented scale in Russia-Armenia relations during the whole post-Soviet history or an even longer period.

Besides Russia's pressure on Armenia to strong-arm it into joining the Customs Union, a growing anti-Russian sentiment in the Armenian public and elite was reinforced by the announcement of big weapon sales from Russia to Azerbaijan. These processes became even more visible in the middle of 2013, although the direction of the military and technical co-operation between Russia and Azerbaijan has been also discernible in the preceding years. In 2013 Moscow delivered to Azerbaijan Smerch heavy multiple rocket launchers and T-90S tanks as well as other weaponry that not only technically outclass weapons supplied by Russia to Armenia (Russia's ally in the CSTO) but is currently used by Russian military units in Caucasus. Although Moscow tried to balance its multi-million weapons sales to Azerbaijan with free (or almost free) weapons transfers to Armenia in 2013, Armenia treated this augmentation of Russia-Azerbaijan military ties with suspicion. It further fuelled an anti-Russian sentiment in the Armenian public who perceived these Moscow actions as an example of cynical business interests.

Since the geopolitical struggle between Moscow and Brussels has turned into a zero-sum game from a certain moment, in August Russia noticeably increased its pressure on Armenia, largely because of the Kremlin's frustration with Ukraine's reluctance to join the Customs Union and simultaneous tensions with Belarus. As a result, at the meeting of the Armenian President Serzh Sargsyan with the Russian President Vladimir Putin that took place in Moscow on September 3, Sargsyan was forced to repudiate his plans to initiate an association agreement with the EU. He made a political declaration instead, announcing Armenia's readiness to join the Customs Union.

Obviously, the main goal of Moscow's pressure on the Armenian leadership was not so much the desire to push Armenia into the Customs Union (with questionable economic benefits of such membership for both Armenia and Russia) as the need to prevent the initialising of the association agreement by Armenia in Vilnius. Moscow used security issues related to the Nagorno-Karabakh conflict and supplies of energy resources as its main instruments of pressure/

persuasion. Consequently, in autumn 2013 (after Yerevan had made a political decision to join the Customs Union) there were indications that Russia was adjusting its position on the regional security issues and the Nagorno-Karabakh conflict, and stepping up military and technical co-operation and discounted supplies of Russian arms to Armenia. Russia also started reinforcing its 102nd military base in Armenia.

This trend has become more pronounced during Vladimir Putin's visit to Armenia at a rather symbolic moment – in the first days of December 2013, immediately after the EU's Eastern Partnership summit in Vilnius with its intriguing significance for the post-Soviet space.

Prospects for 2014

In 2014 Russia-Armenia relations are likely to remain overshadowed by the processes of forging the Kremlin's sponsored Customs Union. Nevertheless, a lot of uncertainty surrounds the prospects of Armenia's membership in the Customs Union, the fate of this organisation as a whole and relations of Russia with the other two co-founders – Belarus and Kazakhstan. At the moment Minsk and Astana are reacting very cautiously to Russia's initiative to include Armenia in the Customs Union. It may influence future negotiations with Moscow upon the terms of Armenia's eventual accession to this organisation.

Other goals of Armenia's foreign policy in 2014 will be the preservation of political balance, the minimisation of political costs incurred by the refusal to sign the association agreement, the preservation of the interim format of relations with the EU and the extraction of new security guarantees from Russia in exchange for the consent to join the Customs Union. In other words, even if Armenia becomes a full member of the Customs Union (which is far from certain), it will have more advanced relations with the EU and NATO as a member of the CSTO compared to other members of these organisations, also enjoying simplified visa requirements with

the EU. On the other hand, Armenia will attempt to preserve security guarantees granted by Russia and the CSTO in order to keep a fragile peace in the Nagorno-Karabakh conflict and preserve a military balance in the Azerbaijan-initiated arms race in foreseeable future.

Besides, there is no guarantee that Armenia will manage to assuage the Kremlin's concerns of a possible impact that the new format of Armenia's relations with the EU may have on the military and strategic format of Armenia-Russia relations. However, it will depend to a great degree on the continuous readiness of Russia to bear the burden of its political presence in the South Caucasus and the post-Soviet space as whole.

RUSSIA AND AZERBAIJAN

Anar Valiyev

As it was forecast in the previous analysis, the Russian establishment maximally used the year 2013 for getting an edge in negotiating with Azerbaijan. As it was predicted the Russian establishment first created some kind of organization entitled “Club of billionaires” consisting of the rich Russian oligarchs of Azerbaijani ethnicity with the purpose to put additional pressure on Baku. At a certain moment that organization began to ally with local opposition groups that irritated the Azerbaijani establishment. Baku feared that Russia may use the finances of the billionaires with local opposition groups to affect the politics in the country and even change the government. Second, there were allegations that Moscow was behind some of the protests in Azerbaijan. These protests were very serious signals to the Azerbaijani establishment that the situation could go out of control. But that was not the intention of the Kremlin. Moscow masterfully used this situation and at the last moment Putin’s visit to Baku solved all issues. It is still unknown what Moscow got from not-interfering to the presidential elections, but the immediate silencing of the billionaires’ club proved one more time that this was Moscow’s game to get an advantage in negotiating with Baku. It is argued that the Kremlin got assurance from Baku that Azerbaijani gas will not flow to Eastern Europe and would be limited in the Southern Europe. Thus, Russia kept its monopoly while Azerbaijan chose to export its gas through Greece to Italy.

Customs Union or European Union: Which way to go?

The year 2014 will be difficult for Azerbaijan. With Armenia joining the Custom Union (CU), and Georgia signing the Association Agreement with the European Union (EU), Azerbaijan tries to keep its neutrality as long as possible. However, with further intensification of the struggle between the EU and CU in the former Soviet space, it would be difficult for Baku to keep the balance and the country would need to make a choice. Having two neighbors (Turkey and Georgia) striving for the EU, and two (Armenia, Russia and Kazakhstan) going for the CU, Baku is in an uneasy situation. Each of the choices brings its benefits and problems. None of the options offer Baku and its establishment a win-win situation.

CU seems the most preferable choice for Azerbaijan. Officially Baku has already had the experience of being a member of a Russian led union such as the Commonwealth of Independent States. Although, the parameters of these organizations cannot be compatible, nevertheless, the presence of Azerbaijan did not bring any negative effects to Azerbaijan but instead allowed the country to ease relations with Russia which deteriorated during 1992–1993. However, the cost of the joining is much bigger than its benefits. The EU is the largest partner of Azerbaijan. In 2011–2012 between 48–52% of Azerbaijani exports went to the EU countries, while between 32–26% of Azerbaijan's imports came from that destination. The Azerbaijani political establishment and economic elite (very often the same people) are against CU. The Azerbaijani President Ilham Aliyev stated back in December 2012 that his country did not see the economic benefit in joining the CU nor the Common Economic Space. As one of the arguments he brought out the fact that the economy of the country would not benefit from such integration. Nevertheless, he stressed that once the country sees the benefits it can join any association without any hesitation. The Azerbaijani elite perfectly understands that even despite the high oil dependency of the country, its burgeoning non-oil sector, especially agriculture would be harmed very much by cheap Russian and Belarusian products.

Cooperation with the European Union is one of the foreign policy's priorities of Baku. Both sides are interested in such cooperation due to several factors. The strategic location of Azerbaijan as well as European dependency on gas and oil make Azerbaijan a valuable partner. At the same time Azerbaijan looks at the EU as the market for its resources as well as with hope that the EU could become a force that can counterbalance Russia in the resolution of Karabakh conflict. There are many benefits in cooperating with the EU and signing the Associative agreement. The EU market could be vital for Azerbaijani products and services. Meanwhile, the EU investments into the non-oil sector are critical for Azerbaijan's attempts to diversify its economy and prepare for the days when oil and gas reserves deplete. However, there is one big problem with close association with the EU that makes the Azerbaijani elite uncomfortable: the constant criticism of the EU of Azerbaijan's violation of human rights, corruption, and absence of reforms and progress. The Azerbaijani establishment understands that the continuation of its rapprochement policy with the EU would force the Azerbaijani government and elite to go for significant reforms in public administration, opening the local market and prompting respect for human rights. It immediately leads to further democratization of the country that could in the long run undermine the current government. Thus, the Azerbaijani elite is ambivalent in its approach toward the EU-led projects. The Azerbaijani elite wants to be a part of EU projects but without significantly changing its system of governance.

2014: Another difficult year ahead

The Azerbaijani elites and general public understand that the future of the country is connected with Europe and its values. Sooner or later the country will go for deeper cooperation and integration with Europe while the Russian governance model is not attractive anymore.

Nevertheless, Russia today is strong as never before for the last 20 years. Baku cannot ignore Moscow's interest or act against the Kremlin's

will. In 2014 Baku will do everything possible not to irritate Russia and keep balance between Euro-Atlantic integration and Russian interests. Baku hopes that the best strategy is to win the time until the Custom Union discredits itself due to the contradictions between its leaders. In the worst-case scenario Baku may go for signing some kind of political declaration keeping its markets close to the Russian goods and services. Meanwhile, Baku will intensify different projects for delivering Azerbaijani gas to Europe through TANAP and TAP.

Baku hopes to become a vital partner for the European Union and a major partner for energy security by 2016–2017. Afterwards, Baku would be able to receive necessary political, economic and most important military guarantees for the country and elites, and have no doubts joining EU led agreements and projects. Until that time, Azerbaijan is forced to balance on a thin line while the mighty Northern neighbor is attentively watching its every step.

RUSSIA AND GEORGIA

Donnacha Ó Beacháin

As expected there was no breakthrough in Georgian-Russian relations in 2013, which have been tense for many years. The two states continue to have no ambassadorial presence in each other's capitals where diplomatic contacts are still carried out through the respective Swiss embassies. Georgians still require visas to visit Russia, which are frequently difficult to procure. Georgia retained its visa-free policy towards its larger neighbour and, consequently, benefited from an influx of Russian tourists during 2013. Trade between the two countries increased by 38%, far more than what most commentators anticipated though levels still lag some way behind Georgia's economic relations with Turkey, Azerbaijan and Ukraine. As predicted, there was no meeting of minds regarding the status or future of Abkhazia and South Ossetia.

There has been a general desire in Georgia, reflected in numerous surveys of opinion, for resetting relations with Russia, though not at the expense of fundamental national interests. The departure from the presidency of President Mikheil Saakashvili, a particular *bête noire* for the Kremlin, has provided some grounds for optimism. While Russian policy towards Georgia has been in many respects neo-imperial in character there was a widespread sentiment that Saakashvili, representing the much smaller nation, mismanaged relations with Russia and had been needlessly provocative on occasion. However, the defeat of Saakashvili's United National Movement (UNM) in sequential parliamentary and presidential elections, and the resultant elevation of multi-billionaire Bidzina Ivanishvili and his

Georgian Dream (GD) coalition, demonstrated that the fundamental problems in Georgian-Russian relations are not rooted in a particular personality or party. The major problem continues to be the Kremlin's unwillingness to accept Georgia's geopolitical orientation, which for many years had been focussed on the West, in particular with joining NATO and the EU.

Despite UNM charges that Ivanishvili, who made his billions in Russia, was a pawn of the Kremlin, nothing resembling evidence of a treasonous connection was produced before or after his election. As 2013 drew to a close Ivanishvili, a political neophyte, clearly uncomfortable with the mantle of power, and prone to gaffes, left the administration of Georgia in the hands of the Irakli Garibashvili as Prime Minister and Giorgi Margvelashvili as President, both of whom were virtually unknown, even in Georgia, before the victory of the GD coalition.

Ivanishvili's surprise withdrawal from formal politics and his relinquishing of power to his hand-picked successors has inaugurated a period of uncertainty. It is not clear whether Ivanishvili, who has now dedicated himself to the rejuvenation of Georgian civil society, will avoid the temptation of meddling in the affairs of the government or that his appointees will similarly forgo the need to look to him for direction or approval. The inexperience of the new incumbents might permit greater pluralism and democracy but it might also lead to a weak government unable to implement long-term strategies or confront lurches towards insularity, ultra-nationalism and/or anti-minority discrimination. The failure in May 2013 to protect a small group of anti-homophobia demonstrators from a large mob of ill-disciplined and illegally assembled counter-protesters, and the unwillingness to prosecute the ringleaders, many of whom were members of the Georgian Orthodox Church, gave some insight into the risks involved.

2014 will be a vital year for Georgia's political system. The stepping aside of Saakashvili and Ivanishvili coincides with a shift to a parliamentary system. This is a major experiment and a first in the Caucasus region. The results of this transition from hyper-

presidentialism to parliamentarianism are unpredictable but the first signs of major trends should be evident during 2014. The president, while retaining some important functions, will operate with much reduced powers. Without the unifying figures of Ivanishvili as founder-leader and Saakashvili as bogeyman the internal cohesion of GD is likely to weaken and there is even the possibility that the coalition might break up altogether. There is also a strong possibility that there will be further haemorrhaging of support from the erstwhile ruling party, the UNM, which is now bereft of administrative resources. A weak and fragmented political regime would be vulnerable to Russian pressure and invite both external meddling and manipulation by domestic special interests. It might also jeopardise progress towards closer relations with the EU and NATO. It is difficult, however, to conceive of a major change in Georgia's geopolitical orientation. During the 2013 presidential election, the only candidate to campaign on a decidedly pro-Russian platform, Nino Burjandze, received a mere 10% of the vote. Unlike Ukraine and Armenia, the Georgian government did not blink in the run-up to the critical Vilnius summit in November 2013 and has not succumbed to Russian pressure to join the putative Eurasian Economic Union.

In theory the new government and presidency provides fresh opportunities for détente in Georgian-Russian relations. There has been evidence of modest progress such as the meetings throughout 2013 between Georgian special emissary, Zurab Abashidze, and Russian deputy foreign minister, Grigory Karasin, which have reopened a direct line of communication between the governments. Also symbolically important was the renaming in November 2013 of the Georgian Ministry for Reintegration [of the national territory] to the less controversial Ministry for Reconciliation.

However, the underlying sources of tension and conflict between Russia and Georgia will remain unchanged in 2014. These will continue to be their divergent policies on the status and future of Abkhazia and South Ossetia and on Georgia's aspirations to join Euro-Atlantic organisations. Given the diametrically opposed objectives

of the conflicting sides it is difficult to measure progress, which is invariably viewed in terms of zero-sum. The impatience and need for decisive initiatives that characterised the UNM government is less in evidence with their GD successors and any movement during 2014 will be technical, incremental and slow.

Russia is unlikely to depoliticise its economic relationship with Georgia and can be expected to continue to use trade as leverage to exact political concessions. However, trade will most likely continue to increase as Georgian products, particularly wine and mineral water, re-establish their place in the Russian market after an embargo imposed in 2006, ostensibly on health grounds but in reality a political decision designed to punish Georgia. The possibility of a re-imposition of an embargo, should relations deteriorate, cannot be excluded.

After Saakashvili had firmly ruled out Georgian participation in the Winter Olympics organised by Russia in Sochi, the GD government has blown hot and cold on the issue. The level of Georgian participation in or hostility towards the Olympics will provide an early barometer of the temperature of relations with Russia and may set the tone for the interactions during the remainder of 2014.

In summary, 2014 will be a vital transitional year for Georgia. Whereas Vladimir Putin's long-time presidency in Russia is secure for the foreseeable future, Georgia's prime minister and president are new, inexperienced and perhaps beholden to their patron, Bidzina Ivanishvili. The experiment of a parliamentary system might nudge Georgia further along the road to democracy and pluralism but could also lead to indecision, ineffectiveness and a lack of clear vision. The departure of Saakashvili and Ivanishvili from formal political life could accelerate the disintegration of the ruling Georgian Dream coalition, which contains everything from liberal cosmopolitans to xenophobic chauvinists. All these transitional features will probably make Georgia, at least in the short term, more open to engagement with Russia but may also expose the country to greater external pressure. The Georgian and Russian governments will remain deeply divided on the destiny of Abkhazia and South Ossetia.

RUSSIA AND THE CASPIAN REGION

Alexey Vlasov, I. Barinov

The last prognosis of the developments in the Caspian Sea region turned out generally correct:

- the election of Hassan Rouhani as a new president of Iran defused the situation in the region to a certain extent, although it has not eliminated tensions completely. Rouhani does not enjoy an universal support in Iran and the USA is still interested in establishing military bases in the region (in particular, in Kazakhstan's city Aktau);
- shifts in positions and relations of states participating in the Caspian dialogue played their role in the failure to sign the Convention on the legal status of the Caspian Sea;
- the issues of oil and natural gas transit have brought Baku and Ashgabat closer to each other, but have caused some tensions in their relations with Moscow.

A regional meeting of the World Economic Forum took place in Baku in April 2013. The meeting with quite an impressive list of participants was dedicated exclusively to the Caspian Sea issues. In particular, the discussion concerned the prospects of building new gas pipelines to connect Azerbaijan and Turkmenistan with European countries. Moscow and Tehran believe that any pipeline operations should be approved by all states participating in the negotiations on the legal status of the Caspian Sea, while Brussels and Washington consider a potential possibility to build new pipelines in addition to Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum, including a branch to Turkmenistan.

In the whole, Azerbaijan does not oppose such a project. Indeed, Azerbaijan's Minister of Industry and Energy Natic Aliyev already estimated that the construction costs of this 300-km long pipeline to gas field in Turkmenistan would be USD 1–2 billion. Since under the current conditions Brussels is likely to gradually scale down expensive projects of hydrocarbons transportation, an idea to connect Central Asia with the South Caucasus by a Trans-Caspian gas pipeline might have a certain appeal there. However, such actions are bound to cause a negative reaction of Moscow.

Moreover, both the EU and (to a certain extent) the USA are interested in closer ties between Baku and Ashgabat. On the one hand, a joint project would smooth out conflict issues arising from the mutual exploitation of the continental shelf. On the other hand, new options would allow Brussels to diversify the delivery routes of hydrocarbons. Against this background, closer ties with Europe would mean not only economic, but also political benefits for Turkmenistan and Azerbaijan.

It should be also pointed out that, according to some policy-makers in Tehran (which supports the resolution of such issues by all participants of the process), disagreements between Iran and Azerbaijan concerning the continental shelf are not sufficiently sharp to require the use of force. Negotiations between Tehran and Baku upon the construction of the Qazvin – Astara railroad provide an additional argument to support this view. However, it is obvious that focusing on any single participant of the Caspian Dialogue is against the interests of Iran. Turkish analysts pointed out that Iran might support Turkmenistan, its neighbouring state, in order to weaken the positions of Azerbaijan in the Caspian Sea dispute and the US and EU positions in the Caspian Sea region as a whole.

Analysing the Caspian Sea problem, we should also pay attention to a more global dimension. Hassan Rouhani, a liberally-minded president of Iran elected last August, already announced that the preparation for “opening up” Iran and its nuclear programme to the rest of the world in order to ease sanctions imposed on Iran and

achieve a general détente in the Middle East will be a pivotal aspect of his term as president. It is clear that the problem of the Caspian Sea will become a side issue for Iran, at least in the short-term perspective. The election of Rouhani has also stirred hopes in Baku, especially for the stabilisation of the bilateral relations.

It prompted President Putin to raise the Caspian Sea issue during a meeting with Azerbaijan's President Aliyev last August, apparently as a backup plan. Although the Caspian Sea issue has not been clearly articulated, it was obvious that Russia attempted to push this problem (in particular, the issue of border delimitation and security in the Caspian Sea region) higher on the agenda. An increased attention of the USA on Azerbaijan as a possible logistics node also causes wariness in Moscow. Thus, Foreign Minister Lavrov pointed out last November that the military presence of foreign actors in the Caspian Sea region is not permissible.

In the context of energy sector there are opinions that the US and EU interest to energy projects will be diminishing due to the mastering of new sources of fuel (especially, shale gas), and pipelines will become a mere instrument of political influence. According to experts, it will strengthen the geopolitical/military component of the policy in the Caspian Sea region in particular and in the South Caucasus and the adjacent part of Central Asia in general.

As regards Russia's relations with external players in the region, they will again run into the fact that the Caspian Sea problem is stalled: the fourth summit of the Caspian Sea states was supposed to take place already in 2011, but has been postponed several times and, finally, re-scheduled for the second part of 2014 (to be hosted by Russia). However, it is far from certain that the legal status of the Caspian Sea will be decided next year.

In the whole, it is possible to predict the following developments in the Caspian Sea problem:

- the chances for the Convention on the legal status of the Caspian Sea to be signed next year are 50:50;

- disagreements in oil and natural gas sector will become less important next year, opening the scene for the implementation of more general geopolitical schemes such as the realigning of positions of the Caspian Sea states and external players and a possible rivalry between them;
- in the whole, the Caspian Sea issue will become a part of bigger projects and large scale processes.

RUSSIA AND CENTRAL ASIA

Mart Nutt

The forecast for 2013 turned out correct. There were no major upheavals in Central Asia. Russia, as well as China and Turkey, continued to conduct an active policy in this region. The presidential elections in Iran became an unexpected factor, but they have not significantly influenced relations between Russia and the Central Asian states. In a longer-term perspective, if it results in a diminishing geopolitical importance of the Central Asian region, it might narrow down options for the Central Asian states.

Background

For the purposes of this prognosis, Central Asia means five former republics of the USSR – Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan. These countries share the common Soviet past, Sunni Islam and Russian as a language of instruction in educational institutions and *lingua franca*. Turkic languages are spoken in four of these states and in Tajikistan a dialect of the Persian language is spoken. All the states have authoritarian governments and face a serious corruption problem. They are rich in natural resources, especially Turkmenistan (oil and natural gas), but have a low standard of living (except Kazakhstan) even compared to the rest of the former USSR. High unemployment, rapid population growth and low salaries have forced millions of people from Central Asia to look for jobs in Russia, Kazakhstan and other countries. There were several international

developments in Central Asia during 2013, but they barely attracted the attention of international media.

Relations with Russia

Russia has a two-pronged approach to Central Asia. It still considers Central Asia as its (neo-) colony, i.e. as a source of labour and natural resources that must remain in the satellite status politically. On the other hand, Russia is wary of an uncontrolled migration and the spread of Islamic extremism from Central Asia.

Russia has avoided criticising the authoritarian leaders of the Central Asian states and has not publicly raised concerns about the limitations imposed on the rights of ethnic Russians regardless of the fact that several million Russians have left Central Asia over the last twenty years. At the same time, Russia has forcefully interfered with internal affairs of the Central Asian states in the case of developments unfavourable to Russia. These states depend on Russia economically to a very large extent. Russia, in its turn, is very interested in keeping control over the border with Afghanistan and has assisted Tajikistan's border-guard, among other things.

The Central Asian leaders avoid a public confrontation with Russia. However, Russia's relations with these states are not problem-free. Russia dislikes the gradual drifting of the Central Asian states from the Russian sphere of influence, but it does not possess effective means to stop this process. This separation will continue within the Customs Union too, especially if a part of Central Asia does not join the Eurasian Union.

Uzbekistan's decision to leave the Collective Security Treaty Organisation (CSTO), a military alliance of CIS states with a certain resemblance to the Warsaw Pact (although only six CIS member-states belong to the organisation), was an important development. Although the governing principle of this organisation is "to prevent interference with internal affairs by other states", it actually provides Russia with an opportunity to interfere, because Russia is the only real "guarantor

of security". Therefore, Russia is interested in the inclusion of CIS states into this organisation. Uzbekistan passed a law that forbids the construction of foreign military bases on its territory.

Russia's second interest is to include CIS states in the Customs Union in order to control their trade. It is another step towards the creation of a common economic area and the Eurasian Union. Kazakhstan is a member of the Customs Union. Uzbekistan and Turkmenistan have not joined the Customs Union and show no desire to do so in future. On the contrary, Kyrgyzstan declared its readiness to join the Customs Union as early as 28.12.2012, and Tajikistan is preparing to join too. It is obviously a result of Russia's economic pressure.

Russia's third interest is to maintain military presence in Central Asia. On 28.12.2012 Russia and Kazakhstan entered into an agreement to establish a Russian military base. The agreement will come into force in 2017 and its period is 15 years.

The agreement upon the Russian military base in Tajikistan expires in 2014. Russia wants a new agreement for a 49-year period, but Tajikistan offered only a 10-year period.

Migrant workers from Central Asia have become the greatest source of tensions with Russia. According to different statistics, the approximate number of such workers is 3–5 million. Most of them come from Uzbekistan, but the situation in Tajikistan is the hardest. About one million Tajiks have left to work in Russia (and Kazakhstan). Most of them work there illegally. Although they do not require visa to enter Russia, they do need a work permit which is, however, impossible to obtain and so they work illegally. Illegal workers enjoy no protection, receive no help against abuse and, in most cases, cannot turn for medical assistance. Russia is very racist in its approach to people from Central Asia, but it does need cheap labour and intentionally denies these workers any rights. The leaders of the Central Asian states have kept silent about the problem of migrant workers in earlier years to avoid tensions with Russia, but in recent years this problem has been repeatedly raised at the international level.

Other international relations

The end of ISAF in 2014 and the withdrawal of allied troops from Afghanistan will impact Central Asia. After that, the importance of Central Asia as a security strongpoint and a transit channel for drugs and Islamic terrorism will increase considerably. Moreover, Central Asia is an internationally significant region because of its natural resources and geopolitical location as well as a possible market. The Central Asian states will also continue their own foreign policies. Kazakhstan has been especially active internationally, trying to secure a central role in the Eurasian integration process and build up a reputation as a middle power. It resulted in the competition and rivalry between Kazakhstan and Uzbekistan.

China has successfully strengthened its positions in Central Asia, gradually pushing Russia out of the region, especially from the eastern part of Central Asia. China has mostly attempted to expand its economic presence. Natural resources in Central Asia are of special interest to China. It is also the biggest creditor of the Central Asian states. China's share of Tajikistan's foreign debt may rise as high as 70% in the coming year. China sponsors studies in Chinese universities for students from Central Asia.

Turkey's policies in Central Asia have caused problems in its relations with Russia, but these relations are also influenced by the clash of their interests in the Middle East, especially in Syria. The Pan-Turkism policy has become especially prominent during the government of Recep Tayyip Erdoğan. Turkey not only provides large-scale economic assistance and investments, but also focuses on education. For example, Turkey supports schools with the Uzbek language of instruction in Tajikistan, but denies such support to schools with the Tajik language of instruction.

The conflict potential in the relations of Uzbekistan as a local middle power with all its neighbours is becoming more apparent in the light of both ethnic tensions (there are Uzbek minorities in all the neighbouring states) and the ambitions of economic dominance.

The Central Asian Spring will continue in 2014. It is unlikely to bring about rapid changes, but it indicates the escalation of problems in relations with Russia. The keywords will remain the same – an increasing influence of China, Iran and Turkey, attempts by the leadership of the Central Asian states to limit Russia's influence, and the problem of migrant workers which is increasingly gaining international attention. Russia's re-elected president Vladimir Putin has diverted more attention to the Eurasian idea and Foreign Minister Sergei Lavrov clearly expressed dissatisfaction with Uzbekistan's withdrawal from the CSTO. He stressed, however, that it was Uzbekistan's free choice as a sovereign country. At the same time, in 2014 the Central Asian states will still remain in the so-called geopolitical trap that makes them hostages of Russia and China. They cannot use southern trade channels. If Russia succeeds in establishing control over the Caspian Sea, oil exports of Turkmenistan and Uzbekistan will become almost totally dependent on Russia who will undoubtedly use it to its full advantage.

Conclusions

Serious international conflicts in Central Asia in 2014 are unlikely. The situation in Afghanistan will not probably exert a significant influence on Central Asia. Defusing tensions with Iran will diminish the strategic importance of Central Asia in this regard.

Domestic pressures will certainly continue to build up, but there are no indications of larger conflicts.

Russia will increase pressure on the Central Asian states. Kyrgyzstan and Tajikistan are likely to give up to Russia, but Uzbekistan and Turkmenistan will maintain an independent policy.

The influence of China and Turkey will be steadily growing.

RUSSIA AND THE US

Mikhail Troitskiy

In 2013 differences in Russia-US relations over the civil war in Syria and the state of civil society in Russia were steadily rising over the first half of the year to be almost fully cancelled out in the second half by the joint pursuit of Syria's chemical disarmament and an agreement with Iran on its nuclear program. In line with our 2013 forecast, Russia remained lukewarm to further bilateral negotiations with the United States on nuclear arms control. Moscow cited concerns with US missile defense and high-precision conventional weapons programs. On its part, Washington was not losing hope for further, more ambitious, nuclear cuts, as Barack Obama indicated in a speech in Berlin on June 19, 2013. In the meantime, the Obama administration regarded as a major achievement the nuclear site inspections carried out in accordance with the New START Treaty of 2010. In order to keep the arms control agenda alive and protect the behind-the-scenes negotiations between the United States and Iran in the autumn of 2013, the White House refrained from major rhetorical spats with Russia on civil society. Possibly in order to placate the Kremlin, Washington reportedly decided prematurely to end the tenure of Michael McFaul as US ambassador to Russia early in 2014 (this decision could have equally been made on McFaul's own request).

Controversy between Washington and Moscow over the civil war in Syria culminated in the aftermath of the August 21, 2013 chemical attack on a Damascus suburb, but soon abated as both sides resolved to work cooperatively on Syria's chemical disarmament.

RUSSIA AND THE US

As we predicted, in 2013 the Congress continued to constrain the Obama administration's freedom of maneuver in relations with Russia. For example, in a closed hearing held in November 2012 with repercussions extending well into 2013, the Senate Foreign Relations Committee demanded explanations from administration officials about Russia's alleged failure to comply with the Soviet-American Intermediate-Range Nuclear Forces (INF) Treaty of 1987. Publicly available reports on the hearings indicate that Committee members pledged to thwart any further US arms control agreements with Russia unless the INF compliance issue is fully clarified and resolved by Moscow.

In 2014 US-Russia relations will be shaped by the P5+1 (five permanent members of the UN Security Council plus Germany) negotiations with Iran, the conflict in and around Syria, the tug-of-war over EU association agreements with Ukraine, Moldova and Georgia, and the perception in the US of Russia's human rights record.

Since Hassan Rouhani was elected Iranian president in August 2012 and reached out to the United States for a potential nuclear deal, engagement with Iran has been the key item on the US-Russia agenda. Finalizing a deal with Iran will be the top policy priority for Barack Obama whose domestic agenda is being increasingly challenged. According to some observers, Washington decided against using force against Syria after the August 2013 chemical attack because this would have ruined the prospects for US-Iran talks that were about to begin at the time.

Russia will play an important role in both facilitating the deal with Iran and making it sustainable. Therefore Washington will be careful not to antagonize Moscow while P5+1 will be working on a final agreement with Tehran (the plan is to reach it before June 2014). In its turn, Moscow realizes how important a sustainable compromise with Iran is for the United States and will not try to obstruct the negotiations. Moscow already reportedly turned down a request by Israeli Prime Minister Benjamin Netanyahu to scuttle the interim agreement with Iran a few days before it was signed in Geneva in November 2013.

The wild card for the Russia-US relationship in this case will be the impact of a successful deal with Iran on US missile defense plans. If and when an agreement with Iran is reached, Moscow will get the grounds to demand that Washington scale down or fully scrap its missile defense deployments in Europe if they were motivated by the risk of a nuclear attack by Iran. If the US accepts the reduced need for European missile defense, Russia might become more amenable to a new round of negotiations on nuclear cuts. Even the start of such negotiations would signify another major breakthrough in the US-Russia relationship.

Overshadowed by Iran, Syria will not raise major contradictions between Washington in Moscow in 2014. The Obama administration will seek to play down the possible non-critical breaches by Damascus of the agreement on Syria's chemical disarmament should that be necessary to avoid a collapse of negotiations with Tehran. Russia and the United States will have a chance to contribute to peacemaking in Syria in concert by convincing Iran and Saudi Arabia, respectively, to cut off their Syrian proxies (the Assad government and Sunni rebels) from material support and political backing. If this is not done, the chances of reaching a compromise on the composition of a new Syrian government at a Geneva II conference will remain close to zero.

In 2014 Moscow will receive a growing amount of criticism from the Obama administration and the US Congress for what Washington sees as Russian pressure on Ukraine and other neighboring countries that aspire to negotiate and sign free trade and association agreements with the European Union. In the absence of certainty about Kiev's intentions and the very high bill for Ukraine's association with the EU, Washington will focus on helping Brussels to advance its partnership with Georgia and Moldova. The controversy over foreign and trade policy orientations of the Eastern Partnership countries will have the potential to visibly affect the US-Russia relationship. American support for association agreements between Russian neighbors and the EU could also be used by the Kremlin to foster the "besieged fortress" mentality among the Russians. The reversal of Ukraine's

RUSSIA AND THE US

decision not to sign an association agreement with the EU will be the main wild card here that could provoke a crisis in US-Russia relations.

For the similar reasons of competition for influence on Central Asian governments, Washington and Moscow will not be able to join forces in managing the regional consequences of downsized US military presence in Afghanistan.

Human rights and rule of law issues will be relegated to the backstage of the US-Russian agenda in 2014 as the “foreign agent” campaign is being quietly wound down by the Russian authorities. The Kremlin will want the anticipated “Sochi Olympics effect” to last and will therefore be careful to take the most controversial civil society issues off its domestic political agenda.

A systemic source of contradictions between Washington and Moscow is the difference in their foreign policymaking cultures. While the Russian side usually assumes that the mere existence of a mutually recognized problem is sufficient for cooperation in addressing it, the US side usually thinks policy: cooperation with the US bureaucracy cannot be pulled off until an agreement is reached on a concrete plan of action. The emergence of a common challenge by itself is not enough to alleviate existing bilateral tensions; common concerns do not always translate into common policies. This often overlooked fact that may adversely affect the US-Russia relationship in 2014 by generating vain hopes of cooperation on Iran, Syria or Afghanistan.

RUSSIA AND SOUTH AMERICA

Elena Pavlova

In 2013 Russia was again preoccupied with the search for allies in Latin America. The death of Hugo Chávez, late President of Venezuela, has clearly dealt a blow to Russia's positions in Venezuela and increased uncertainty about the future of Russia-Venezuela relations. As was predicted in the previous forecast, Nicolás Maduro, the new President of Venezuela, has not severed ties with Moscow, but the position of Maduro himself is far from stable. A worsening economic outlook and rising popularity of the opposition are likely to unseat the incumbent president. In such a case Venezuela's purchases of Russian weaponry will decrease significantly or, which is more likely, will stop altogether. Venezuela will not be able to wind down joint projects with Russia quickly, but it is likely to attempt such a course, re-orienting towards co-operation with the USA. Thus, Russia is in danger of losing one of its major allies in Latin America.

It is clear that the Kremlin keeps these possibilities in mind while developing new strategies for this region. The key players in such a strategy are Brazil, Argentina, Cuba, Ecuador and, so far, Venezuela. It should be noted that Brazil is simultaneously the most promising and problematic partner for Russia. For Brazil, a recognised leader in Latin America, relations with Russia are important, but not overly so. Russia was also more or less content with the way things were. However, following the changes in Venezuela, Moscow has decided to strengthen its position in the region. Hearings on "Prioritised directions of development of Russia's relations with Latin American

and Caribbean states”, conducted in the State Duma in May 2013, provide evidence of this new line. The previous similar hearings took place ten years ago. This time, the failure of Russia’s strategy to wind down its presence in several regions of the world was cited as a major reason to develop a new plan for Latin America. Thus, Russia’s foreign policy concept for Latin America has been stated clearly and at the highest level. Russia cannot focus on co-operation with individual countries and needs a more overarching approach to the region where the level of integration initiatives is very high. We should expect the growing number of various joint programmes and visits at different levels as well as the adoption of numerous documents defining a new framework of relations with Latin American states. The question, however, is whether all these efforts will bring about actual changes in relations. And the answer to this question is not very optimistic.

A significant breakthrough would be unlikely. The main reason for such prognosis is the Kremlin’s unwillingness or inability to change its conventional diplomacy. First of all, there is a need to replace bilateral contacts with a multilateral framework. As it happens, maturing integration projects in Latin America bring about a situation when a bilateral approach becomes less effective. For example, signing new treaties with Argentina requires a special attention to Mercosur, whereas repairing ties with Cuba and the development of relations with Bolivia leads to the general reconsideration of relations with the member-states of ALBA (Bolivarian Alliance for the Americas). It does not render bilateral relations impossible, but any serious strategy must take into account these major components of the regional politics.

Co-operation between Russia and Brazil within the BRICS framework is certain to continue, but here we look at a contrary situation. For Brazil, participation in BRICS is an opportunity to signal its political power in Latin America and among emerging economies. The Russian political elite, intending to use participation in BRICS as an evidence of Russia’s growing global political capability, sometimes neglected the bilateral relations with Brazil. The key element of Russia’s strategy was the total capability of the bloc, of which Russia is

a member. Presently this situation has changed and in 2013 a number of new agreements were signed, indicating the reconsideration of this direction of Russia's foreign policy. It is obvious that the Kremlin is focusing its attention on Brazil that will result in the intensification of both political and economic ties by Moscow.

Economic relations of Russia with Latin American states also need major improvements. Despite the availability of the widest range of possible areas of co-operation – from fisheries to GLONASS projects – to strengthen its positions, Russia needs to broaden conventional export-import schemes and focus on joint projects allowing for the inclusion of third countries outside the region. Such projects already exist, although in a very limited number. Examples include co-operation with Venezuela in oil industry and a joint bus manufacturing project between Brazil's Marcopolo and Russia's Kamaz. However, it is clear that for Marcopolo such project is just one (and not the most important) direction of international co-operation and the scope of co-operation with Venezuela might be reduced at any moment. Meaningful changes in the structure of economic relations are hard to expect at the moment because of Russia's evident unpreparedness to abandon a traditional approach to the development of economic ties. For example, experts talked about the need for Russia to join the Inter-American Development Bank to facilitate the system for the development of multi-level co-operation already in the last decade. However, it has not yet happened and in 2013 few would believe in such a possibility.

In 2013 Dmitri Medvedev pointed out in several interviews that Russia aspires to take the co-operation to the next level, i.e. high tech. For example, Brazil is extremely interested in co-operation on military technologies, rather than in simple purchases of Russian weaponry. Such co-operation would mean the sale of Russian technologies to Brazil. Brazil is also interested in co-operation on space projects. However, Russia has been very wary of all such initiatives. In the words of Dmitri Medvedev, "this process should be mutually beneficial... there is no point in transferring technologies and losing money."

RUSSIA AND SOUTH AMERICA

Russia and Latin American states co-operate in a broad range of areas – fuel and commodities, energy production and so on. Furthermore, there are good opportunities in other areas: energy production, automotive industry, chemical industry and many others. However, at the moment Russia is seriously lagging behind its competitors, the USA and China, due to the lack of flexibility in its approach to negotiations. Therefore, all efforts to win allies and markets in the next year will most likely fall apart, undermined by the conservatism of the Russian diplomacy and foreign economic policy, and co-operation will again boil down to the sale of Russian weaponry and minerals in exchange for agricultural products from Latin America.

RUSSIA AND THE PACIFIC REGION

Fyodor Lukyanov

In 2013 Russia's leadership intensified contacts with their counterparts in Asia – presidents, prime ministers, ministers. Last autumn alone the Russian president met with the Indian prime minister in Moscow, the Russian prime minister visited China with a large delegation, the foreign and defence ministers met with their Japanese counterparts in the “2+2” format for the first time in history and the Russian president visited Hanoi and Seoul with successful results. Many started talking of Moscow's strategic U-turn. But did it really happen?

In the past (at least, during the last four centuries) the Western-centric policy was the norm. Major political events took place on the European direction from Russia's borders; Europe was the main source of stimuli for development as well as of military threats. The 20th century transformed Europe into a war zone – the two world wars followed by the Cold War – so it naturally remained the centre of attention. Today, however, it has become obvious that major events will be taking place in the Pacific rather than in the Atlantic region. The transfer of economic weight into the former has raised the importance of a political component. It is not by accident that Washington is announcing a “strategic turn” towards Asia, scaling down its presence in Europe, and old territorial conflicts that remained dormant are now all starting to escalate.

For Russia, an unusual situation is emerging. For the first time in many centuries Russia's historical and cultural orientation (which has been and will remain European until Russia is populated by ethnic

Russians and other nationalities that have lived here for centuries) does not overlap with the prioritised direction of its political and economic development (Eastern). One of the consequences of this process is the fact that, although three quarters of Russia's territory is in Asia, the same share of Russia's population lives in the European part of the state. Consequently, the problem of reclaiming and more intense use of Siberia and the Russian Far East (which is essential for Russia if it ever wants to play a significant role in Asia) is extremely urgent. It is not by accident that Vladimir Putin called it a priority for the 21st century.

The mobilisation approach has become useless and Russia needs an integrated programme encompassing both economic stimuli and promotional measures to attract human capital into the Eastern part of the state and transform its perception from a dull periphery into the land of opportunity.

Russia has no time to lose. A new Asia is emerging now and if Russia fails to realise how to win a position here, in a few years it may become too late. Asia is in a state of uncertainty, even a certain disorder. It has simply forgotten (during five hundred years) how to play a leading role in world politics. There are ambitious states here with a huge potential, but they have not yet fully mastered the skill of using this potential, especially in political and military areas. Relations between major countries are full of tensions, but economic interdependency prevents conflicts from escalating. China has grown so influential that its every move arouses suspicions among all the other states, even if the giant is acting without an ulterior motive.

What does it all mean for Moscow?

First, it really needs a dedicated and elaborate strategy for Asia. Considering the scale of interrelated risks and opportunities in the vicinity of Russia's borders, the absence of an action plan and a precise system of priorities is simply fatal. Let alone the fact that the status of a great power now depends on its positions in the Pacific as 300 hundred years ago it was determined by its positions in the Baltic or Black Sea regions.

Second, Russia must use the dynamism characteristic of Greater Asia to accelerate the development of its Asian part. We are not talking only about attracting investments or initiatives from the neighbouring states – it goes without saying. Siberia and the Russian Far East may become a territory with emerging opportunities for economic cooperation with Europe and the USA. Presently, the USA is practically non-existent for Russia from an economic standpoint (and the other way round) and large-scale initiatives with the EU discussed in the middle of the last decade have lost momentum due to different political and economic reasons.

Third, the project of the Eurasian Union – the Kremlin's favourite creation – should be adapted for achieving objectives on the Eastern direction. As a matter of fact, Vladimir Putin's keynote article that laid the foundation of the Eurasian integration idea mentioned this point – the project was supposed to become merely the first step towards the creation of a vast economic area connecting European and Far Eastern markets. In reality, however, the Customs/Eurasian Union is (somewhat correctly) perceived as a means to build an economic area around Russia as a counterbalance to the European Union. But it is a shaky foundation because the endless struggle for interim countries (Ukraine and others) becomes an end in itself that exhausts resources rather than promotes development. Meanwhile, East Asian states, starting from South Korea, remind us that they are also part of Eurasia and a real Eurasian integration should include these states. Obviously, it would be a different project in which Russia would not be able to maintain an absolute dominance. However, if we agree that Asia is currently more important than Europe, then fitting into the emerging Asian architecture should be a higher priority than competing with the EU for countries with no significant role in the global play.

Finally, Moscow may use its political weight (which is not overpowering in Asia but sufficient to participate in a complex system of mutual counterbalancing between various states) to carve out for itself if not a major position, but, at least, an important niche in the region. The situation there is so fragile and uncertain that now practically

everybody needs Russia. China foresees the escalation of disagreements with the USA and is eager to receive Russia's assurances that the Sino-Russian relations will not become a source of unpleasant surprises and, on the contrary, will add to the strength of Beijing's positions. Japan, on the other hand, is wary of China's continuing rise and looking for new foundations in its relations with Russia – the issue of the islands is not going away, but the situation in the region demands a more flexible approach to the hierarchy of priorities. South Korea needs Russia to overcome its current status of an "island" (isolation from the rest of the continent due to the unresolved North Korea problem) and provide support to South Korea in its relations with China and Japan. India is also wary of the growing influence and military might of China and it does not want Russia to help the rise of China. And so on.

Asia is starting to take a new shape concerning security issues, the place of this region in the world and whether it will become a cohesive phenomenon with its own philosophy of development. The natural resources and economic needs of Russia as well as the demand for its political potential provide Russia with an opportunity to take its own place. However, the time for action is now, otherwise the new Asia will emerge without Russia's participation.

RUSSIA AND JAPAN

Akio KAWATO

About last year's prognosis

What I predicted at the end of the last year (upward trends both in political relations and economic relations) turned out to be mostly right. One thing which I did not fully count was the resounding victory of the conservative Liberal Democratic Party, estranged from power for three years. It has won the majority both in the Lower House (in 2012 election) and the Upper House (in 2013 election). For the past six years the ruling parties did not have the majority in the Upper House, and this caused a frequent change of the government. Now the stalemate between both of the Houses is finally gone, and Prime Minister Abe has secured a solid power basis for the coming three to four years, which presents a good opportunity to make a deal with Russia on the territorial question.

Current Status of the Russo-Japanese Relations

Prime Minister Abe paid an official visit to Moscow in late April with an eye to establish cordial relations with President Putin. Since then he has met Putin already three times and built a relationship of mutual trust; among the major leaders in the world Mr. Abe seems to be a person with whom it is easy for Putin to talk to. Mr. Abe does want to promote the negotiation on the Northern Territory issue, but he, at the same time, is very forthcoming in promoting economic and cultural ties, and he is powerful enough to realize his words.

The political rapprochement between Japan and Russia had started with the reconnaissance trip of Nikolai Patrushev, Secretary of the State Security Council and Putin's right-hand man, to Japan, South Korea and Vietnam in late 2012. And now his trip has born an interim fruit: the launching of the new "2+2" format in November. "2+2" means a joint meeting of the ministers of foreign affairs and defense from both sides; this format is rarely used among non-allies, and therefore it generates certain political, if not concrete effects on the neighbors.

The economic relations will develop further. Although the bilateral trade volume remains at the similar level as last year's 34 billion US dollars, the general trend in trade and investment is on the rise. Renault-Nissan has decided to purchase a majority share in AvtoVAZ, Russian titanic auto-maker, by mid 2014, direct investments are being made not only in automobile assembly but also in the production of automobile parts. Japanese companies are taking active part in major infrastructure building such as construction of new power plants.

Factors which may affect the Russo-Japanese relations

As China's influence further surges, the power game in East Asia becomes even more complex, in which the Russo-Japanese relations play a substantial, if not vital, role. The Japan-U.S. alliance remains to be the mainstay for the balance in Asia, but if the U.S. refrains from intervening in feuds between Japan and its neighbors, Japan will be tempted to further explore the relations with Russia.

China is making foray in many directions; in July it sent warships to the Okhotsk Sea, the strategic sanctuary of Russia, in October it challenged Putin's pet idea to establish a Eurasian Union by announcing an all-embracing initiative "New Silk Roads", which would swallow Putin's Eurasian Union, and in November one-sidedly extended its air defense zone over the islands owned by Japan and South Korea. These acts will push the surrounding countries, including Russia, toward closer ties with Japan.

Another factor which may affect the Russo-Japanese relations is EU's economy. As long as it remains feeble, Russia will continue its "rebalancing toward the East" policy. But when EU economy regains its steam, Russia will again rebalance toward the West.

And as regards Japan's import of Russian oil and gas, Japan's interest will further grow, but Russia does not enjoy a monopolistic position, because Japan will increase its import of the American shale oil and shale gas.

Prognosis for 2014

The Russo-Japanese relations will further improve. But the basic picture will not change; for Japan the U.S. is the most important partner and for Russia China is a country which Russia would not want to antagonize no matter for which country's sake. Therefore, the improvement of the relations will strengthen each other's security to a certain degree, but not fundamentally.

As regards the Northern Territories issue, it may see a substantial step forward toward a solution, if Putin takes it up as the last unresolved boundary issue for Russia, regards Japan's help vital for the Russian Far East, and if he properly grasps the opportunity when Japan has a strong leader, Mr. Abe, for as long as three years. It is noteworthy that Russia ceases to be a contemporary threat for the Japanese, and the historical animosity toward the Soviet Union is dissipating especially among Japan's younger generations. This will remove nationalistic hysteria from the negotiation process.

RUSSIA AND THE TWO KOREAS

Irina Lantsova

In accordance with what I predicted a year ago, 2013 appeared to be a very fruitful year for the relations between Russia and South Korea. The Presidents of the two countries met twice: during G20 meeting in St. Petersburg in September and during Russian President Putin's visit to Seoul in November. An important result of the meetings was the establishment of a visa-free travelling regime between the two countries, which will come in force on January 1, 2014. Another important result was that South Korea decided to invest in Russian-North Korean railway project. If fulfilled, the project will become a vital element of trans-Korean railroad, which, in turn, is expected to be an important practical step toward the reunification of the Korean Peninsula. The decision made by South Korea in 2013 is among the rare decisions to invest in a project in North Korea, and, which is even more rare, to invest through a third party, this time Russia. At the same time, the project will be fulfilled only in the case of stability on the Korean Peninsula. Thus, any forecast of Russian policy toward the Korean Peninsula in 2014 must take into account the tendency toward calmer peninsula, which is expected to last through the end of the year.

Early in 2013 escalation of the conflict between the two Korean states resulted in the closing of the Kaesong Industrial Zone, which is considered a symbol of reunification in both North and South Korea. Later, however, tensions between the two Korean states calmed down, and the Kaesong Industrial Zone was reopened. One may predict that

the relations between the two Korean states will remain calm also in 2014. There are three reasons to that. First, those are growing tensions among the Northeast Asian nations, caused by territorial disputes and conflicts over air defense identification zones, which in the case of China and South Korea overlap exactly in the same places where the territories disputed by the two nations are located. Second, those are domestic policy changes in North Korea, at which execution of Jang Song Thaek points: though some experts have predicted that more provocative North Korea's policy will follow, it looks more probable that the execution is an indicator of future change of the regime in North Korea toward a very limited liberalization in the economic sphere. Third, those are domestic policy changes in South Korea: President Park Geun Hye has already proved her ability to be tough when necessary, so in the future she does not need to be tough when unnecessary, for domestic policy purposes alone.

While 2013 was a pivotal year in the relations between Russia and South Korea, 2014 will be devoted to the fulfillment of promises made during the previous year; it is expected to be characterized by small steps, rather than huge leaps. At the moment, Russia has three giant projects implemented together with South Korea. First, it is the above-mentioned railway project. Second, it is the project aimed at building of a trans-Korea natural gas pipeline, which is in line with Russia's overall foreign policy priorities and which, at the same time, is expected to be another important practical step toward the reunification of the Korean Peninsula. Third, it is the "Green Silk Way" project aimed at the modernization of agricultural and forestry sectors of the Russian Far East with the help of South Korean environmental technologies.

It is expected that in 2014 the fourth giant project between Russia and South Korea will be launched; that project will be devoted to the cooperation in exploration of the outer space. In 2013 South Korea launched the first South Korean satellite from Korean soil, but in close cooperation with Russian companies developing outer space technologies. South Korea declared that its people would go to the Moon in 2020; close cooperation with Russia is expected to

contribute significantly to the fulfillment of that project. However, giant projects will work only in the case they are accompanied with small and medium-size projects. The establishment of the Ministry for the Development of the Far East in Russia combined with the “pivot to the Pacific Region” promised in Putin’s address to the Federation Assembly allow predicting that in 2014 Russia will launch projects aimed at supporting the cooperation between SMEs of the Russian Far East with SMEs of South Korea.

Russian-North Korean relations that worsened in 2013 are not expected to quickly improve in 2014. In 2013 Russia joined other members of the UN Security Council in approving tougher sanctions against North Korea. Neither Russia plans to take any steps towards the improvement of the relations with North Korea in 2014. Instead, Russia plans to wait till the end of the domestic policy changes in North Korea, including changes in the personalities on top of the country’s leadership. If current changes bring pragmatic politicians to the top of North Korea’s government, Russia expects, they will initiate some steps toward the improvement of relations with Russia. In that case, Russia will respond reciprocally. If, however, North Korea continues with its official rhetoric, a part of which is the condemnation of Russia, an “American puppet”, which supports “imperialist sanctions” against North Korea, Russia will not initiate the improvement of the relations with North Korea.

To conclude, Russian policy toward the Korean Peninsula is reactive and highly dependent on the situation in the Korean Peninsula, which is expected to be calmer in 2014 than in 2013. That will provide ground for more active cooperation between Russia and South Korea. Visa freedom between the two countries will come in force in 2014. Three giant economic projects between the two countries, of which two involve North Korea, will continue to be implemented. Breakthrough in the field of cooperation in exploration of the outer

space is expected to take place in 2014. The launch of a special Russian project aimed at the support of SMEs from the Russian Far East, who wish to cooperate with South Korean SMEs is highly probable. Concerning Russian relations with North Korea, the situation is not bright at all, however. Moreover, Russia believes that the “ball is on the North Korean side” and does not plan to initiate any improvement of the relations between the two countries.

RUSSIA AND CHINA

Leslie Leino

The year of 2013 in China-Russia relationship was very remarkable by one very crucial step forward – the energy deal. The agreement reached on 18 October was a long awaited breakthrough. In last year's prognosis I stated that the dominating issue in the energy sector in 2013 would still be the gas price dispute and the fact that that China was not willing to pay the same gas price at which Russia is selling to Europe. There are very certain reasons why China and Russia were able to reach the deal, contrary to the expectations. Due to the shale gas revolution in the USA, world gas market is rapidly changing and it affects Russian gas export also, especially to the Western markets. Russia had to find new markets and China is the fastest growing major economy in the world. China, for its part, is gradually switching from coal to gas in order to reduce pollution. The new government announced this policy after it took office in March.

In last year's short-term prognosis it was mentioned that the new leader of China, Xi Jinping, supports military oriented relationship with Russia. Xi Jinping made in March his first foreign visit to Russia, where he not only met the Russian president Vladimir Putin, but also visited the Ministry of Defense. Xi Jinping indeed said in Moscow, as it was predicted last year, that military cooperation has special position in the two countries' comprehensive strategic relationship. Moscow meeting was followed by largest-ever joint naval exercise "Joint Sea2013/Naval Interaction 2013" in July, held in the Sea of Japan. The media reported that it was the first time Chinese navy is participating naval drills outside its national territory.

China and Russia share one common military issue – the islands dispute with Japan. Although China is aware that Russia would not openly support China's stance in the Senkaku/Diaoyudao islands dispute, Beijing still hopes that Moscow at least shows some sympathy or solidarity towards Beijing. After China declared its Air Defense Identification Zone (ADIZ) in East China Sea in November 2013, which covers the disputed islands, the situation has become more intense. In 2014 China will show in the media its deep military cooperation with Russia. But Moscow definitely tries to avoid any escalation and keeps some distance from the issue.

In last year's prediction it was seen correctly that China's bid to obtain a permanent observer status in the Arctic Council (AC) is "highly probable". In May 2013 the AC meeting held in Kiruna indeed granted the permanent observer status to China. Although it is just an observer status without any notable rights to take part of the AC decision and voting process, but China's foreign policy ambitions are much larger than a mere observer status and in 2014 we definitely will see China's active discussion on Arctic issues.

15% of Russia's GDP is related to the Arctic and China's presence here means much more comprehensive cooperation than just providing nuclear powered icebreakers. In 2013 there was the first Chinese commercial container ship in history to depart from the Northern China's port city Dalian to Rotterdam via Northern Sea Route. In 2014 China will have their second icebreaker and since maritime activity has been growing manyfold during the last couple of years in the Arctic Ocean, and will continue growing in 2014, China's physical presence in the Russian Arctic is more and more felt in Moscow.

Although Russia is holding a stay-aware attitude towards China's entrance into the Arctic zone, Russia still realizes that the Chinese are willing to invest capital into the infrastructure in need of improvement. The harbor in Arkhangelsk is one such project, where the Chinese have shown interest to invest.

In cultural ties, China and Russia had a great year in 2013 due to the "Chinese Tourism Year in Russia" that was held in Russia and

which comprised 400 different events. The Chinese vice Premier Wang Yang who attended the closing ceremony in St. Petersburg on 22nd of November said in his speech that through closer cultural ties and tourism in general, people of two countries have a chance to broaden their mutual understanding and deepen their friendship. In 2014 the number of tourists travelling between the two countries will continue to increase, mostly thanks to the new visa policy issued by Moscow that allows tourists travelling by one of the Russian airlines to remain in a Russian city visa-free for 72 hours if the purpose of stay is transit. Since Moscow is a transit city, which in Europe has most flight connections with China (operated by such Russian airlines as Aeroflot and Transaero), the new visa policy definitely will conduce to the growth of tourism.

One particularly interesting front in the Russia-China relations is Central Asia and Shanghai Cooperation Organization (SCO). Last year it was stressed in this short-term prognosis publication that the year of 2013 is crucial in the question of fate of the USA airbase at Manas. The process went exactly how it was predicted – Kyrgyzstan would not extend the lease of the base and the USA is planning to move its base partly to Romania and partly probably to Mazar-e-Sharif in Northern Afghanistan.

At the same time, in 2013 Russia has started negotiations with the Tajik president Emomali Rahmon to expand Russian military presence at Ayni base in Tajikistan, in order to secure 1,400 km of Afghan-Tajik border. For China, the secure Tajik-Afghan border along Amudarya River is utterly vital, because it directly affects the security in unstable Xinjiang Uyghur Autonomous Region in the western part of China. Xinjiang's security is the issue where China is definitely very keen to broaden military cooperation within SCO framework with Kyrgyzstan, Tajikistan and Russia. Larger presence of Russian military in Tajikistan and the already existing base of Russian military at Kant in Kyrgyzstan are in China's interest and Beijing definitely seeks deeper cooperation here, because China cannot secure its western border alone, especially the part which borders directly with Central Asia.

In the year 2014, we will not only see how China calls for a deeper military cooperation within SCO, especially in the question of Afghanistan where the coalition forces are reducing their presence and will entirely pull out in the end of 2014, but we also will hear how China is mastering a plan together with Russia on how to avoid the spread of Afghanistan instability into, for example Gorno-Badakhshan Autonomous Province in Tajikistan, and how to mutually cooperate. The importance of two SCO observer states, Afghanistan and Pakistan, will also rise.

One area where China and Russia are actively cooperating is the improvement and modernization of Russian infrastructure, especially the railroad system. China is very keen to export its skills in the development of high-speed railway network and Russia is one very promising market. Kazan high-speed rail is one such project where Chinese companies are willing to take part. In 2014 Russia will announce its Russian Railways investment program and confirm who has gained the right to build the line, which is estimated to cost \$33 billion. I argue that Chinese companies have good chances to win this tender, because they have applied together with such strong European partners as Systra, Thales, Italferr and Acciona.

In 2013 the media wrote that Russia is cooperating with China in developing the 1,155 km long Belkomur rail project, which stretches from Perm to Arkhangelsk and is meant to transport South-Urals natural resources to the White Sea port. Russia allows the state-owned Chinese Civil Engineering Construction Company to participate in this project.

In the Asian part of Russia, there are also railway projects with China going on. One is a new rail line from Russia to China via Mongolia. The second project is a railway bridge across the Amur River, connecting Russia's Jewish Autonomous Region and China's Heilongjiang Province. The latter is expected to start the construction in February 2014. The aim of both of these projects is mainly to supply the Chinese market with natural resources.

RUSSIA AND CHINA

One is Russia's support or its lack of support to China in the question of the disputed Senkaku/Diaoyudao islands. China expects more support or at least some solidarity, but Russia tries to keep low profile on this issue.

The second is the Arctic zone, where Chinese origin ships are navigating more actively. 2014 China will have its second icebreaker, which means Beijing has one icebreaker to send back to Antarctica and another to use in the Arctic Ocean if necessary.

The third area is the question of Afghanistan's stability, Tajik-Afghan border and Russia's military presence in Tajikistan and Kyrgyzstan. In 2014 China pushes for closer cooperation on this issue, not only within the SCO, but also directly with Russia and its two footholds at the bases of Ayni and Kant. China and Russia need a new strategy and an explicit plan how to deal with Afghanistan, especially since the coalition forces are pulling out in the end of 2014.

RUSSIA AND INDIA

Oleg Barabanov, Ksenia Ibragimova

Last year we predicted that the development of Russia-India relations in 2013 would depend on a strategy chosen by Russia in relation to China: whether Russia would conduct a pro-Chinese policy in Asia or follow an independent course of action.

The outcomes of 2013 show that Russia is inclined to take the second option which became evident in Vladimir Putin's visits to South Korea and Vietnam and in the strengthening of Russian-Japanese ties. Thus, Russia has begun to position itself more clearly as a counterbalance to China in Asian affairs. It has had a serious impact on Russia-India relations.

In October 2013 a meeting between Russia's President Vladimir Putin and India's Prime Minister Manmohan Singh took place in Moscow. In December, a replacement of India's ambassador to Moscow was announced. Ajai Malhotra has been replaced with P.S. Raghavan, a former deputy foreign minister. Posting to Moscow the second-in-command in India's diplomatic hierarchy indicates Delhi's serious intentions to develop relations with Russia.

In the course of 2013 India's positions on key international issues were often realigned with Russia's positions. It was especially evident in the case of Syria. India supported the organisation of the Geneva II international conference on Syria and stressed Russia's role in the development of a diplomatic solution.

2013 was also the year of Indian culture in Russia. A festival of Indian culture was organised in 11 Russian cities. 2014 will be the year

of Russian culture in India. India and Russia put cultural co-operation on the agenda of the Asia-Europe Meeting (ASEM) that took place in New Delhi in 2013. At this forum Sergei Lavrov proposed to organise an ASEM's international conference on intercultural and interfaith co-operation to be held in Saint Petersburg in July 2014. This proposal was supported by India.

Russia also attempted to improve the relations in the Russia-India-China triangle and work out a common agenda for all the three countries. Examples of these efforts include a meeting of the foreign ministers of the three states that took place in 2013. This policy was also clearly visible last year in the framework of the G20 and the BRICS. Moreover, Russia reiterated its support of India's accession to APEC. Russia and India started negotiations upon the possible format of India's interactions with the Customs Union (in the context of Russia-India negotiations on a free trade area). Russia also welcomed India's aspiration to become a full member of the Nuclear Suppliers Group (NSG).

In this regard it should be noted that India received the permanent observer status in the Arctic Council in May 2013. It emphasises the importance of the Arctic dimension in India's sea and trade policy. Considering the strong traditional ties between the Russian and Indian navies, co-operation between Russia and India in the Arctic may become very important. It also explains a growing interest of Indian companies to the co-operation with Rosneft in hydrocarbon exploration in the Arctic.

In 2013 the first bloc of the Kudankulam Nuclear Power Plant, constructed by India with Russia's assistance, was commissioned. The second bloc of the power station is entering the final stage of construction. In the framework of India-Russia Working Group on Modernization and Industrial Cooperation the parties discussed possibilities to modernise the existing power stations and build new power stations in India.

On 29 June 2013 Triakand, a new frigate built in a Russian shipyard, was delivered to India. In November the Indian Navy received the

heavy aircraft cruiser Vikramaditya (completely retrofitted cruiser “Admiral Gorshkov”). An Akula class nuclear-powered submarine (Chakra) is being constructed for the Indian Navy. The first submarine of this class was delivered to India in 2012.

Joint projects to manufacture Sukhoi Su-30 MKI fighters and T-90S tanks in India are being successfully implemented. Russia and India also co-operate in the development of a fifth generation fighter, multi-purpose transport aircraft and the supersonic cruise missile BrahMos. In October 2013 the two countries carried out the joint military exercise Indra. Moreover, in 2013 India launched its own unmanned spaceship to Mars, having achieved a breakthrough in space exploration – an area in which it also closely co-operates with Russia.

Thus, Russia-India relations are expected to become closer in new areas of co-operation – space exploration and the Arctic. The year of Russian culture in India will further facilitate the improvement of the bilateral relations.

However, Russia-India co-operation will depend to a large extent on the results of the 2014 general election in India. If the nationalist Bharatiya Janata Party (BJP) under the leadership of Narendra Modi wins the election, India may distance itself from Western countries and Russia, re-orienting its diplomacy towards China, Singapore and Japan. If the Indian National Congress under the leadership of Rahul Gandhi stays in power, the co-operation will continue to develop.

RUSSIA AND TURKEY

Alexander Sotnichenko

Rather sharp disagreements between Russia and Turkey concerning the Middle East policy failed to produce a crisis in the bilateral relations in 2013, in line with the prediction made last year. At the same time, there were no noticeable breakthroughs. Currently, Russia-Turkey relations are still defined by close economic ties between the two states.

The bilateral trade volume slightly fell in 2013. Although the forecast for 2012 predicted the increase of the trade volume between Russia and Turkey to USD 40 billion, by now it has become certain that the corresponding figure for 2013 would barely exceed USD 34 billion, meaning a small decrease year-on-year. In November 2013 the Turkish Prime Minister Recep Tayyip Erdoğan again emphasized the unprecedented volume of the bilateral trade and reiterated the goal to reach the level of USD 100 billion by 2020. However, the current figures indicate that this goal will be very hard to achieve.

Our negative forecast of the trade growth between Russia and Turkey in 2014 is based on two trends. First, the prices of hydrocarbons that amount to over 70% in the structure of Russia's exports to Turkey have barely changed. The development of relations in energy sector outperforms other sectors. Moreover, political disagreements between the two states have been steadily intensifying in 2013 with a gradual adverse impact on their economic relations.

Political disputes between Moscow and Ankara caused by the Arab Spring have not been resolved. The main source of discord has been

Syria. Positions of Russia and Turkey on Syria did not significantly change during 2013: Turkey is still supporting the Syrian opposition represented by the Syrian National Council based in Istanbul and Russia is one of the staunchest allies of Bashar al-Assad's regime. A similar situation has developed in Egypt where Turkey is firmly supporting the overturned government of Mohamed Morsi and Moscow favours the secular military regime.

However, there have been certain indications of positive shifts in the bilateral relations recently. Therefore, it is possible that the grounding of a civil aircraft on route to Syria that took place in Ankara in October 2012 will remain the most serious incident overshadowing Russia-Turkey relations. This trend is caused by a number of factors weakening Ankara's positions in the Middle East. Despite the strong pressure from its allies, the Syrian opposition has failed to unite and continues to lose battles to the government forces on many fronts. Relations with Saudi Arabia have suffered an irreparable blow caused by numerous disagreements in the assessment of the military coup in Egypt, financing of Syrian refugees in the Syrian territory and subordination of fighters supplied from Riyadh to the unified opposition command in Istanbul. Moreover, the involvement of Turkey's ally Qatar in the regional politics has noticeably diminished after the change of power in June 2013. In September 2013 Turkey was shaken by the strongest political crisis since the time when the Justice and Development Party came to power in 2002 that negatively affected the government's standing. Therefore, Ankara is likely to be less assertive in the international politics in 2014 and more co-operative on the whole number of political issues.

Certain positive shifts in this direction are already noticeable. At the Russia-Turkey summit in Saint Petersburg in November 2013 the Syrian issue was discussed most seriously, leading to concessions from Turkey: it openly supported the Geneva II conference scheduled for January 2014 and forced the Syrian National Council to pledge participation in the conference as the representative of the united opposition – something it refused to do before.

RUSSIA AND TURKEY

In summer 2014 general elections will take place in Turkey. Recep Tayyip Erdoğan who has ruled the country since 2002 is a main contender for the president's office – an honourable position but with little real power. He has been often criticised within his party recently. If Erdoğan is elected the president of Turkey, the internal opposition in the AK Party will be able to adjust Turkey's foreign policy in favour of improved relations with Russia, Iran, Iraq and, possibly, Syria, if the internal struggle in Syria loses its intensity. The most serious contender for the prime-minister's office is the incumbent president Abdullah Gül who is known for his moderate political views and a tendency to put economics ahead of politics.

The prospect of Turkey's membership in international organisations creates a certain intrigue in Russia-Turkey relations. In 2013 the Turkish government asked Russia for a membership in the Shanghai Cooperation Organisation and the president of Kazakhstan proposed to include Turkey in the Customs Union. However, it appears that these issues are still far from settled and corresponding negotiations will be used as a means to bring Moscow and Ankara closer to each other.

In 2014 Russia-Turkey relations will be gradually developing without remarkable breakthroughs. Economic relations may become closer due to the commencement of the construction of the South Stream gas pipeline and the implementation of several other large industrial projects. Politically, there is an apparent trend to reconcile positions on the Syrian crisis. The adjustment of Turkey's policy towards Russia is possible after the 2014 presidential elections in Turkey. As a result of these elections, Recep Tayyip Erdoğan may move to a ceremonial position of Turkey's president, while real power will be transferred to more pragmatic and moderate politicians.

RUSSIA AND THE MIDDLE EAST

Holger Mölder

Russia's Minister of Defence Sergey Shoigu in 2013 named the three main threats for Russia in the near future: 1) international terrorism; 2) the end of Afghanistan's operation in 2014 and its consequences; 3) the NATO enlargement. Two first threats are more or less related to the Middle-Eastern area, and have a certain potential to improve cooperation with the West, as interests in holding the spread of Islamic fundamentalism down may stimulate common efforts in solving the Syrian conflict and Iran's nuclear dilemma. In Afghanistan, Russia will advocate a secular state and if the Taliban movement reinstalls its power after 2014 Russia's concerns are similar to the West, also considering the potential influence of Afghanistan Islamists to similar movements in Central Asian countries, traditionally allied with Russia.

The Middle East remains to be an important region for Russia, which has historically close ties with secular authoritarian and semi-authoritarian regimes influenced by leftist nationalist ideologies with Baath'ist and Nasserist background once dominated in the vast areas of the larger Middle-East (e.g. Egypt, Syria, Algeria, Yemen, Palestine). The spread of social revolutions called the "Arab Spring" has weakened the positions of secular regimes in the region, and the political Islamism has used a social discontent for strengthening its positions in the political landscape of many Arab societies. Russia's regional ambitions focus on Shia-dominated and secular states, where Russia is playing an active role in mediating their tensions and conflicts with the West. Russia's influence is weaker in Sunni-dominated Islamist states, because since

the Afghanistan invasion of 1979 and Chechen Wars, Russia's relations with such countries as Saudi Arabia, Qatar, the United Arab Emirates and other members of the Gulf Cooperation Council have been restrained, though trade between Russia and the Gulf monarchies is progressing. The Syrian conflict and the involvement of Sunni Islamist regimes on behalf of Syrian opposition has also a certain negative impact to Russia's influence on these countries. In summer 2013, the chief of Saudi Arabia's military intelligence Prince Bandar visited Moscow and offered a deal on Syria, which would rise the opposition to power, but the deal did not make through.

Russia did not take very strong positions towards social revolutions in the region. Its main concern was to avoid outside interference to the internal matters of the Arab countries and military intervention to the Middle-Eastern conflict. However, in Libya Russia supported a mainstream Western policy towards Gaddafi's regime. Russia attempts to compete with the United States and counterbalance what is called the American unilateralist policy in the Middle East, which may open unused channels for Russia to become a regional peacemaker in the Middle East and to increase its role in the international politics. However, differently from the policy of the Soviet Union during the Cold War, Russia does not make strong alliances in the region, except in Syria, which gives to Moscow more economic benefits from Israel to the Gulf monarchies.

Some analysts have noted that Russia is back to influence power games in the Middle East. Russia actively participates in the crisis management processes in Syria and Iran. **Syria** is the closest and probably the only political ally for Russia in the region, which makes it understandable that Russia has strong interest in maintaining Assad's regime in power. In Syria, Russia has political, economic, but also military interests as Russia's last military base outside of the CIS territory, a navy supply point, is located in Tartus. Russia's international success in disarming chemical weapons of Syria solidifies its position as a trusted peacemaker in the region, who is able to negotiate between the West and Assad's regime. Successfully acting a role of a

“devil’s advocate” of the Assad’s regime, Russia has gradually increased its influence to the Middle Eastern peace process. At the same time, Russia has kept a low profile in interfering into **Israel-Palestine** peace negotiations, a cornerstone of the regional peace and prefers to maintain normal relationship with both parties, considering also a large Russian-speaking community in Israel.

Russia and **Iran** have similar interests in Syria, who remains to be an important ally for both countries in the region. Russia has always maintained some cautiousness towards Iran, not delivering advanced air defence missile systems and being on the same line with the West in international sanctions. Russia and Iran are not allies like Russia and Syria, but relevant business partners. Russia’s policy towards Iran’s nuclear potential can be described as two-dimensional. First, Russia is worried about Iran’s ambitions to enhance its nuclear capabilities. Together with the United States, China, France, United Kingdom and Germany, Russia participates in multilateral negotiations concerning Iran’s nuclear dilemma. At the same time, Russia is willing to use Iran’s limited international cooperation on its behalf, including doing business with Iran’s nuclear industry among other areas. The next year will probably give a response to the question, will improved relations between Iran and the West impact on Russia’s role as a “devil’s advocate” for Iran, in which Russia balanced between its recognition that Iran has a sovereignty to make national decisions for its nuclear program development and the worries that they are going too far.

The arm deals with Iraq and Egypt would also describe the activation of Russia’s political involvement in the region. **Iraqi** Prime Minister Nouri al-Maliki has made two visits to Moscow and returned with the arms deal, including fighter jets and helicopters. After the Islamist government has been overthrown in **Egypt**, relationship between Russia and Egypt has been significantly improved with multiple contacts and visits. As US administration decreased arm’s export to Egypt after military coup, Russia has demonstrated willingness to preoccupy seats abandoned by Americans and to conclude a 2 billion USD arms deal with the new military authorities of Egypt. **Algeria**

had good relations with the Soviet Union during the Cold War and this trend has been transferred to Algeria and Russia. Algeria is one of Russia's key arms customers and the fifth largest importer of Russian goods in the Middle East. Two countries also cooperate on natural gas export, where Gazprom develops partnership with the Algerian gas company Sonatrach. Russia also has close ties with strategically important **Yemen**, governed by a secular government.

Besides the attempts to increase its international influence in the political landscape, Russia will be continually active in promoting its economic interests in the area. The Russian company Gazprom has been active in the Middle-Eastern market, including Israel, where they won a key deal concerning liquefied natural gas, by which Russia's economic interests in Israel would balance its traditional interests in allying with secular Arab countries. Russia has been always active in the Middle-Eastern arms selling market, which feeds numerous conflicts in the region. Russia's most important partners in the region would be Syria, Egypt, Iran, and Algeria, but Russia also sells arms to Saudi Arabia and the United Arab Emirates among others.

In the next year, Russia tries to be diplomatically active in the Middle Eastern peace market and use the US weaknesses on its behalf. Its peacemaking potential is more flexible than the United States' ones, which is too closely tied with Israel, and Russia's diplomatic capabilities can be used in negotiating for regional peace. Bilaterally, Russia's economic relations with Middle-Eastern countries are continually progressing, including arms trade, and Russia will be more active in developing relations with Egypt and Iraq.

RUSSIA AND ISRAEL

Yakov Rabkin

The last year's prognosis has mostly been proven right considering the events in 2013. Security cooperation between Israel and Russia has intensified, and the volume of trade increased by 29% in the first eight months of the year. A Russian rocket launched an Israeli communication satellite in September 2013, and collaboration continued in other areas of aerospace and, more generally, of defence-related industries. Prime Minister Netanyahu invited Gazprom to participate in the development of offshore gas resources, while within Russia itself the cooperation has extended to the sensitive areas of the Caucasus. After the conclusion of dairy technology agreements between an Israeli company and Chechnya authorities, the region's leader Ramzan Kadyrov praised this cooperation as a step that should help make Chechnya's agriculture more efficient. Efforts have been made to establish an umbrella organization for the cooperation in agricultural technology between Russia and Israel.

The influence of Russian-speakers on Israel's policy-making has continued unabated. The old/new Foreign Minister Avigdor Liberman (he temporarily resigned while being investigated for corruption) has openly argued for reducing his country's dependence on the United States and developing a "multi-directional" foreign policy. On a visit to Russia Prime Minister Netanyahu has come to use words normally reserved for Israel's relations with Washington. He emphasized shared values, common interests and his personal "friendship" with President Putin, characterizing relations with Russia as "closer, warmer, more intimate and productive".

RUSSIA AND ISRAEL

As Russia is moving to reposition herself as a major power in the Middle East, relations with Israel may actually improve. For example, Israel praised Russia's diplomatic coup de force in finding a peaceful solution to Syria's chemical weapons crisis. The visit of a Russian battleship to Alexandria, the first such visit in decades, has not elicited negative comments in Israel. Russia's efforts to sell arms to Egypt are also unlikely to worry Israel, which has long cultivated close cooperation with both the Egyptian military, which has assumed control of the country, and Russia's military-industrial complex. Moreover, the sales, if they actually take place (American and other Western arms dealers are working hard to prevent them), can only be paid by the Saudis, currently Israel's most important tacit ally in the region. In view of growing tensions between Tel Aviv and Washington, Israel may actually encourage Russia to strengthen its position in the Middle East. Israel's strategic links with Russia must be seen in the context of growing multilateral relations among four non-Western nuclear powers: China, India, Israel and Russia.

Russia and Israel are likely to continue cooperation in a broad gamut of areas, particularly in the fields of economy and technology, while apparently disagreeing on a number of high-profile issues, including Syria and Iran. More generally, Russia has consistently argued for the strengthening of international law while Israel has tended to act unilaterally in disregard for international conventions (for example, bombing targets in Syria, Lebanon and Egypt, and settling civilian population in occupied territories). Russia has consistently condemned Israel's incursions into its neighbouring countries and the continuing spread of Israeli settlements. Israel's sense of exceptionalism is closer to the American model, and it is not appreciated in Russia's media and policy-making circles. Israel has expressed an interest in a free-trade agreement with the Customs Union, which has been formed by Russia and a few other post-Soviet republics. According to Russia's Vice Premier Arkadiy Dvorkovich, a joint commission is currently exploring avenues for such an agreement.

A pronounced imbalance of cultural exchanges between the two countries is likely to continue. Dozens of Russian theatre and music companies are expected to continue performing in Israel on a regular basis while considerably fewer Israeli performers are due to appear in Russia. This has to do with the different sizes of the countries but, above all, with the presence of a million native Russian-speakers in Israel while native Hebrew speakers are far less numerous in Russia.

In spite of close cultural ties and visa-free travel, there is a growing asymmetry when it comes to public attitudes. While Israeli diplomats actively promote relations with Russia as a counterweight to their country's dependence on the United States, according to a Pew research, Israelis rank the highest (77%) among the populations of 38 countries in having negative opinion of Russia. This percentage is higher than the 75% of Israelis who hold negative opinions of Iran. Conversely, only 32% of Russians hold negative opinions of Israel. This disparity (and the ensuing democratic deficit of Israel's foreign policy discourse) reflects the siege mentality common among Israelis, including over one million of former Soviet citizens, who view other countries, including Israel's main ally the United States, with distrust. Another kind of asymmetry can be seen between Russia and Israel in the public interest in the other country. While for most Russians, largely uninterested in foreign policy, Israel will continue to be seen as a major tourist destination, Russia is viewed in Israel primarily in political and strategic terms. This asymmetry is unlikely to disappear in the near future.

The Israel-Russia relations are gathering momentum in a broad range of political, economic and cultural spheres. They benefit from the presence of a million Russian speakers in Israel. Particularly influential are dozens of exceptionally wealthy Russian businessmen who have settled in Israel in recent years. They have cemented contacts between the elites in the two countries. Bright electoral prospects of

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the party Our Home Israel, the visible tip of a complex web of links between these elites, are likely to strengthen these links. In the context of American repositioning in Western Asia, Russia's links with Israel acquire multifaceted strategic importance.

RUSSIA'S POLICY TOWARDS COMPATRIOTS

Tatjana Kiilo

Evaluation of the last forecast:

The general direction of Russia's policy towards compatriots remained unchanged – coordinated effort to consolidate the diaspora community and to streamline the policy-making, i.e. achieve synergy in foreign policy priorities, repatriation policy, cultural and educational policy in the domain of popularization of the Russian language and culture abroad. The main principle in policy-making remained the same: compatriots are seen as a significant resource for Russia's internal development and expansion of its influence– expression and instrument of “soft power”. In general, gradually (in line with the increase of available resources) Russia's policy is getting to be more and more effective (especially regarding the consolidation of diaspora), although the outcomes still vulnerable because of tensions in the bi- (and multi)lateral relations.

In policy implementation some important steps have been made to consolidate the activities under the control of Rossotrudnichestvo. Rossotrudnichestvo is responsible for the implementation of the humanitarian cooperation activities under the Russian Foreign Strategy for the years 2014–2020. There is a question on the future role of Ruskiy Mir Foundation in the realization of the policy towards compatriots. Probably, the Foundation will be used to distribute grants to the compatriots' organizations and to carry out practical measures in popularization of Russian language and culture, and Russian-medium education.

RUSSIA'S POLICY TOWARDS COMPATRIOTS

In the forecast for 2013, a possibility of opening several centres for the protection of rights of compatriots was foreseen. As of 2013, two centres supported by the Foundation for the Protection of Rights of Compatriots were opened in Lithuania, several centres operate in Latvia and Estonia (including on-line facility <http://pravfond.eu/>).

In line with the previous forecasts the number of persons using the repatriation programme continued to grow. On 1 October 2013 more than 20, 000 repatriates (majority from Central Asia, Moldova and Armenia) immigrated to Russia (57.1% more than in 2012). Half of the repatriates are under age of 30.

Forecast for 2014

Pursuant to the foreign policy priorities (“humanitarian cooperation” in terms of Russian Foreign Policy Strategy) an emphasis will be put in general terms on two main fields: the protection of rights and legitimate interests of compatriots and the promotion of the Russian language and culture, including in the domain of education and youth.

The repatriation programme will continue to grow.

In addition to the “classical” humanitarian cooperation (cultural days, Russian language days, Russian language courses, exhibitions etc.) special measures for young people with compatriots’ background will be designed and probably launched (inspired by the diaspora youth work applied by other countries, i.e. Israel or Poland), including events in Russia and outside Russia.

The question of the network of Russian schools (schools with Russian as the language of instruction or/and operating according to the Russian curriculum) will preserve its high position on the agenda of the Ministry of Foreign Affairs and the Ministry of Education and Science. Ideologically, Russian-medium (for persons, who consider Russian being their mother tongue) education is considered as a part of fundamental human rights or at least as a legitimate interest of compatriots and their children, and a constitutional right of Russian citizens. Russia will make all possible efforts to promote this ideology

internationally (although the domestic use is questionable). The model of a network of Russian schools developed in 2012 and discussed in more details in 2013. According to the draft of the Russian schools network conception, there will be different types of schools and Russia will support them accordingly. The concept will be approved in 2014. Education is a prerogative of domestic policy-making in the target communities, therefore the MFA and Rossotrudnichestvo will be major players in the implementation of the conception (requires negotiations between Russia and respective states, some will start already in 2014).

CONCLUSIONS

Viacheslav Morozov, Karmo Tüür

As the most devoted of our readers have probably noticed, the majority of this year's prognoses share a much less optimistic tone compared to a year ago. This is especially visible in the chapters dealing with the domestic situation. As year 2013 has demonstrated, we were right when we wrote in the previous volume that 'Putin's Russia has arguably reached a stage where the government "success" means an obvious loss for the nation, even in the short term'. It seems that on the whole, the state is more confident than ever about what kind of Russia it wants to build, and has been relatively successful in achieving its goals. However, in experts' assessment – and this applies to a far wider circle than the authors of this book – the country is muddling through towards an uncertain future. The public sphere is shrinking as shameless propaganda is replacing what is left of the professional media, and the freedom of expression is increasingly restricted both in the 'real' world and in the virtual space. The political regime is becoming increasingly authoritarian and traditionalist, the economy is languishing. To avoid stagnation, Russia would need to make education and science a key priority, but the reckless reforms in this sphere only produce bureaucratization and increase brain drain. Russia also badly needs a stable judicial system to guarantee the rule of law, but it seems that the abolition of the Supreme Court of Arbitration is likely to create the opposite effect.

Against this background, massive public investment in sports mega-projects does not look promising as a means to promote development,

as the money is being soaked up by corrupt bureaucracy colluding with big business. In the end, it seems that the state's success in implementing its newly found conservative ideology is limited to constructing a 'patriotic' façade of the officially endorsed culture and supported by the Orthodox Church. Barely hidden behind it, lies the real world of clan struggle, dwindling institutions and unfettered private interest.

Even the façade, however, is rather shaky. Along with other authors of the previous volume, we emphasized the regime's attempts to ensure national consolidation by promoting patriotic education and strengthening the role of the church. This policy, however, has backfired: this year's authors are unanimous in emphasising growing xenophobia as a major challenge in the face of which the government looks entirely helpless. In a multi-ethnic state, constituted as a complex multidimensional federation, such an outcome probably was inevitable, especially given that the policy of consolidation was implemented in a formal and inflexible way. The incident in Biryulevo was only one among many, and in a situation where both Great Russian chauvinists and the minorities perceive the state as oppressive, there is no easy way out. The growing Muslim communities in Moscow and other cities behave in an increasingly self-confident manner, the radicals on all sides are getting more aggressive, and the conflicts proliferate. These phenomena are not unique for Russia: similar developments are under way in the rest of Europe, and nowhere the state has proven to be very efficient in responding to these challenges.

Thus far, it seems that the consolidating authoritarian regime has been able to deliver on its promise of relative stability, which many Russians are keen on. However, this comes at the cost of alienating the most active part of the population, further undermining the existing institutions and thus completely discarding any hopes for modernization under the current leadership. The key question which many authors ask in this context, in one form or another is how long can this stability last before the county plunges into a systemic crisis. In the foreign policy, at first glance, things look much more promising.

CONCLUSIONS

Russia has achieved substantial progress in its main priority – the Eurasian integration project – and scored important diplomatic victories over the West on Syria and Ukraine (as well as in the less surprising case of Armenia). Relations with key partners remain stable. Even if one could foresee potential tensions with some of them over Russia's human rights record and its policy towards the Eastern Partnership countries, there is also an obvious trend in many West European countries towards greater pragmatism in relations with Putin's government.

The EU as a whole seems to be at foreign policy crossroads. Its internal cleavages certainly help Moscow to carry out its favourite 'divide and rule' tactics, securing strong support on the part of such some EU governments, such as the ones in Lisbon and Rome. The EU probably will not be able to stop Russia's diplomatic and economic offensive in the post-Soviet space, although Brussels certainly sees the Ukrainian case as a major challenge and will do its best to come up with a consolidated response. At the same time, Moscow's attempts to copy European institutions in its own 'near abroad' are as formalistic and ostentatious as its attempts to promote internal consolidation. It is hardly possible to believe that the true aims of these projects are, as declared, the well-being of the post-Soviet nations. It is obvious that the elites both in Russia and in the Eurasian 'target states' perceive this as a zero-sum game, rather than as a win-win situation.

As noted by one of our authors, the Kremlin's attempts to construct an Eurasian Economic Union as a counterweight to the EU lead to a dead end. Instead, it would make sense as a response to the serious challenges Russia faces in Asia. It is unable to catch up with China's geopolitical advances in Central Asia, while at the same time it faces the prospect of the US withdrawal from Afghanistan and the need to balance immigration control with security-related and geopolitical priorities. However, Russia and China closely cooperate on a broad range of issues, and the potential problems in this relationship are balanced with the steady improvements in relations with India, South Korea, and even Japan. Similarly, recent tensions with Turkey have

given way to a new cautious rapprochement, while Israel remains a key partner in the Middle East. Further afield, relations with Latin America also develop successfully, although they might need some diversification both in terms of the partner countries and the range of projects.

All in all, none of the authors expect any major foreign policy breakthroughs for Russia in the coming year. At the same time, some of the contributions to this volume question last year's achievements in terms of their sustainability and costs for the increasingly fragile Russian economy. In view of the recent agreements between Moscow and Kiev, one starts to wonder whether this short-term geopolitical victory would not turn into a defeat in the longer run.

A year ago, trying to evaluate whether our authors as a group presented positive or negative short-term outlook for the Kremlin, we concluded that optimistic assessments prevailed, in both domestic politics and foreign policy. This time, negative assessments of the internal developments clearly predominate (7 out of 14, with only 2 clearly positive). On the international arena, most forecasts are neutral, with only 13 clear 'minuses' and 9 clear 'plusses' (out of 33). If our generalization is correct, in the nearest future Russia is likely to face serious challenges internally, while the government ability to compensate for that by foreign policy achievements is going to be increasingly limited.

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