

RUSSIAN FEDERATION
2013

Short-term prognosis

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Editors:

Karmo Tüür, Viacheslav Morozov

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EVALUATION OF THE PROGNOSIS FOR 2012

Erik Terk

2012 in Russia – inertial development prevails

The year 2011 in Russia provided both negative and positive political input for predicting future developments. On the one hand, there was the disappointment in the liberalisation expectations concerning D. Medvedev as his decision not to stand for re-election and to declare the “castling” with Putin instead seriously cooled down these hopes. On the other hand, the mass demonstrations dominated by the middle class, who was infuriated by the fraud of the Duma election results, raised hopes that (real) politics has returned to Russia after a long period of depoliticised stability, to quote one forecaster, Viacheslav Morozov. This situation, opening new opportunities, but difficult to interpret, was the starting point for making forecasts for 2012.

Above all, two interrelated questions were the most topical. Firstly, will the rather heterogeneous pro-democracy movement be able to carry on with the same intensity the next year while consolidating sufficiently to participate in actual politics? Secondly, will it be possible to force Putin to accept the second round of presidential elections? Preventing Putin from becoming president would have been too much to hope for. Control of the mass media, availability of the so-called administrative resources and the

opportunity for emphasising Putin's contribution as the leader who brought Russia out of the instability of the 1990s (a large share of the electorate views this as an unquestionable truth) were too effective arguments to trump. On the other hand, demanding a second round of presidential elections seemed for many analysts not very likely, yet possible, as Morozov put it, and would have meant an important psychological triumph for the opposition.

However, the opposition to Putin was unable to realise even these modest expectations in 2012. While the protest against election fraud as the primary motive joining a highly heterogeneous company (from democrats to nationalists) was losing its topicality, keeping the opposition together proved a very difficult task. They failed to agree on a single leader or common programme points. The more moderate opposition politicians were beginning to distance themselves from street politics, while others attempted to raise the political temperature and called for civil disobedience, which led to the radicalisation of the movement as well as curbed its support. The authorities could easily present the street demonstrations held in connection with the presidential elections as vandalism and disperse them. The action of the punk rock band "Pussy Riot" in Moscow's Cathedral of Christ the Saviour with its aftermath could be classified as a circus show, which, despite causing heated debates in Russia and being widely reported by the international media, probably harmed rather than benefited the opposition to Putin. Firstly, it diverted attention from serious political issues, including police brutality against demonstrators. Secondly, this action, carried out in the context of feminist and punk culture while politicising the sacral space, seriously tested the pro-Western sensibilities of many Russians, including those critical of Putin, by contradicting Russian culture and traditional behaviour patterns too jarringly.

To sum it up, Putin, who had no serious competitors, managed to win the first round of the presidential elections with a comfortable margin and then displayed his attitude towards the opposition as something entirely marginal and not worth wasting words on. A

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situation which would have been hard to predict after the massive demonstrations of the late 2011. It is true, as many commentators underlined, that the victor failed to display his earlier vigour and the public's hopes regarding his person were no longer as high as during the period of his past triumphs. Yet, as the local elections in October showed with the "United Russia" taking all five regional governor's posts, the establishment can be certain of the solidity of its positions, at least for the time being. V. Morozov predicted, although carefully remarking that it need not come true in 2012, that Putin would find himself in an impasse where he would have to choose whether to move towards gradual democratisation or to suppress the opposition by brute force and definitely turn towards hard authoritarianism, which in turn would risk an "orange revolution" or even a civil war. This view may be adequate in the long run, but it is impossible to claim that the moment of choice arrived in 2012. For the time being, the re-elected Putin is not facing unavoidable choices. The basic motives of his politics are probably predictable, but which moves he will make, in which order and how resolutely, remains quite unclear as the year 2012 ends. Starting with the 2012 spring presidential elections, at least, he has quite free hands as to the manner and pace of realising his agenda. The economic and foreign political situation, domestic or international pressures are not presently forcing him to undertake any moves. Of course, the situation may significantly change in the longer perspective.

Two sets of problems which have not yet been solved are, firstly, the drive to further consolidate strategic businesses and to subordinate them to even greater state control, and, secondly, a potential left turn in social policy. Regarding the former, the TNK-BP acquisition by Rosneft serves as an example of policy realisation. Observers are convinced that Putin might move even further along that path, but time will show whether he will actually decide to do so. Of course, this issue brings along another question mark, namely whether the privatisation programme promised by Medvedev can continue in any shape.

Raivo Vare emphasised in his forecast that V. Putin promised a number of moves increasing social expenditure during his pre-election period and that their realisation could result in significant weakening of the country's financial state in the longer perspective. This sphere includes, for instance, the pension reform which ruled out the rising of retirement age and which Putin passed into law after becoming president. Economists are more or less unanimous regarding the pension reform in its present state, arguing that it would not be able to solve the problems faced by the state in the long run, while also being financially unsustainable. Will there be any further reforms increasing social spending, will the income tax scale be turned progressive, will it be considered possible to use the stabilisation fund sums for relieving social problems – all these questions presently remain unanswered.

Regarding economic policy, as well as several other spheres, there have been debates on whether Medvedev's and Putin's emphases are actually different and, therefore, whether there is any sense in worrying about whose positions will prevail after the "castling", or whether it will merely be a matter of how frequently and in which dressing the term "modernisation" will be used. Analysts find, however, that Medvedev's idea of economic modernisation involved certain elements (e.g. the attempt to turn Russia into an international financial centre and privatisation) which do not belong to Putin's favourite subjects. On the other hand, Putin's hobby-horse is very clearly the Euro-Asian integration process, which can contribute to the growth of Russia's economy, but hardly to elevating it to a qualitatively higher level. Both consider it necessary to escape from the status of a raw material source, but it seems that Putin's approach is narrower and more technocratic than that of Medvedev. As for the opportunities for the development of high-tech economy in Russia, both domestic and foreign experts are becoming more sceptical about it with every passing year. Apparently, a clear majority of lobbies and social strata in Russia are too much interested in the continuation of the system based on the redistribution of income

from fuel and other raw materials to start dismantling it. Moreover, the scientific and technological potential of Russia is also weakening over time due to the emigration of the science elite.

Russia's economic progress in 2012 was not particularly impressive as the growth rate is likely to be 3.6-3.7 %, lower than the last year's 4.3%, and also below Raivo Vare's forecast; the inflation rate would be 6-7%, yet it can be considered satisfactory compared to the current international background. However, it is obvious that the continuing "oil and gas addiction" would at some moment replace the current welfare with a steep downfall. Presumably, the later it will happen, the harder it will be.

One of the favourite subjects among political observers in 2012 was the various replacements of leading figures in the Russian political hierarchy. The problems speculated about concerned the capabilities of the recipients of the positions as well as the hidden agenda: is Putin restricting Prime Minister Medvedev's freedom of independent action by placing his loyalists on key government posts, and is he aiming to subordinate some aspects directly to the president's administration instead of the government? It is obvious that the definitive answer will be provided in the coming years, but the observers tended to judge that both the premier's and the president's teams lack strong and colourful personalities comparable to the onetime architects of economic and financial policy, G. Gref and A. Kudrin, and that some personnel policy decisions (e.g. making I. Shuvalov the first deputy premier, keeping the energy enterprises under the control of the *silovik* I. Sechin, Putin's long-time colleague) enable Putin to retain definite control over Medvedev's actions in spheres important to the president. The replacement of defence minister Serdyukov caused a lot of speculations, yet here, as the well-informed analysts point out, the real issue is not Serdyukov and his faults, but whether there is anyone in today's Russia who could bring rationality into the world of Russia's military and defence industry.

There was a general attitude that Putin's return to the Kremlin could boost the **Eurasian Union** project. The year 2012 marks the

symbolic act of renaming the Customs Union Commission the Eurasian (Economic) Commission and the declaration that the forming of the Eurasian Union by 2015 has been indeed set as goal. By the way, the president of Belarus remained somewhat lukewarm on that issue. Some efforts for the formation of the Eurasian Union were undeniably made in 2012, but these were primarily related to the realisation of the customs union's opportunities. The year 2012 provided no clear picture of how efficient or extensive the Eurasian Union could become. The issues discussed concerned the improvement of political cooperation between the members and the opportunities for the accession of new members (Kyrgyzstan, Tajikistan). No significant progress was made in Ukraine regarding accession. It seems that the strengthening political and military cooperation between the union members, especially regarding Central Asia, is actually acceptable for the West, which sees it as a barrier to the spread of radical Islam.

Putin's strategic idea is to present the emerging Eurasian Union (and obviously Russia as its core nation) as an important connecting factor for the future world between the developing Asian-Pacific region and the European Union. A vital forum for presenting that idea was the **APEC** summit in Vladivostok, which Russia hosted. A massive construction programme was carried out in Vladivostok in advance to the summit (its timely completion was questionable up until the last moment) and preparations were made for the ceremonial signing of several agreements with firms from Asian member countries. Yet the international media remained relatively sceptical of Russia. Observers pointed out that Russia could propose such a grandiose role, but questioned its ability to realise it (corrupt business, weakness of technical infrastructure in Siberia and the Far East).

Although Putin tends to contrast in his rhetoric the rising East with the troubled West (especially the EU with its current problems) and hints at turning his cooperation ties eastward unless the West treats him well, the rest of the world does not take it very seriously.

Commentators have asked: what is **China's** view of Russia, which could in such combination hardly rely on the role of an equal partner, but rather on a less than thankful status of a weaker younger brother? Russia cannot count on China remaining largely dependent on its energy resources, as China has lately significantly diversified the geography of its energy supplies.

The ambitious goals of turning Russia's economy eastward as advanced by Putin can rather be considered a way of intimidating the West, yet some moves towards closer economic cooperation with China will be unavoidable for Russia in the coming years. For example, Russian economists have pointed out that if Russia wants to retain anything of its troubled automobile industry under the WTO, the almost sole option would be the transfer of most of the car production technological operations to China.

There is relatively little to say on the development of **Russian-US relations** in 2012, thanks to the US presidential elections. Since the presidential candidate Romney used significantly more militant rhetoric regarding Russia than President Obama, the latter's re-election was predominantly good news for Russia. At the same time Russian-US and **Russian-NATO** disagreements (regarding Syria, missile defence systems, etc.) remained and will move on into the coming year of 2013. However, common interests (primarily Iran and Afghanistan) are there as well.

An important breakthrough in **Russia's accession to the WTO** took place in the second half of 2011. The ratification process was moved to the year 2012. Kristjan Aruoja in his forecast did not rule out obstructions on the Russian side, although he did not consider them very likely. In reality there were no obstructions. The majority in the State Duma during the ratification was not very convincing, yet it seems that there was no real threat to the process. The ratification debate merely provided an opportunity to both the opposition and some pro-Putin MPs to express publicly their concerns over the competitive pressure the Russian economy would encounter after joining the WTO. While the WTO accession is an event of major

significance, it had no immediate impact on economy in 2012 due to a number of agreed-upon transition periods.

Relations between Russia and the EU after Putin's return to the presidential post could be best described as cautious. As Ahto Lobjakas remarked in his forecast, while during Medvedev's rule this cooperation or at least prospects for cooperation were accompanied by the terms "strategic partnership" or "partnership for Russia's modernisation", this is no longer the case. Competition with Russia over attracting the EU's eastern neighbours (especially Ukraine and the Caucasus countries) to its sphere of influence and Russia's recent relative success in that do not make the EU more favourable towards Russia. Yet Russian-EU economic relations, especially in the sphere of energy resources, are sufficiently important, so that their severing or even significant deterioration have not happened and are not forecast. A positive background to these relations is provided by Russia's current WTO membership, while some problems are posed by the Russia-Kazakhstan-Belarus customs union (the future Eurasian Economic Union), which is causing various complications in the development of Russian-EU trade relations. The Eurasian Union is apparently also one of the factors which has obstructed serious efforts for drafting the new basic agreement of EU-Russian relations. The importance of this agreement for the Russian side was emphasised by the EU leaders during the St. Petersburg summit. One of Russia's main agendas regarding the EU is to achieve the dropping of visa requirement and it has managed to receive some positive, although generally non-committing statements from the EU top level. However, close to the end of the year, EU-Russian relations were marred by accusations against Gazprom abusing its monopoly in some EU countries' markets and by aspects related to the so-called Magnitski list initiated by the European Parliament.

Several forecasts (Raivo Vare, Andres Mäe) addressed the prospects of Russian-Western cooperation in specific issues of energy supply (demands that Russia should give up retaining gas pipelines under Gazprom control in gas buying countries, possible

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major Western investments in the Russian oil and gas industry, etc.) No definite or clear results were achieved on these issues during 2012. On the contrary, the haggling continues. President Putin declared at the St. Petersburg economic forum in June that Russia is open to Western investments in its energy sector, but wants it to be accompanied by concessions to Russian business interests and investments in the partner countries. No major progress regarding investments can be reported for the time being; instead, Russia has arguably dropped rather than risen among the target countries for Western investments in 2012.

As for **Russian-Estonian relations in 2012**, Karmo Tüür predicted in the economic dimension the development would be propelled by the old momentum and would be positive rather than otherwise, while in politics vicious offensives, possibly provoked by Moscow, cannot be ruled out – for example, before the Russian presidential elections in order to divert attention from the country's own problems. Actually, there were no political aggravations this year. We shall not speculate here whether the reason was Putin's ability to handle the domestic opposition without much trouble or whether Estonia simply did not warrant any attention. The border treaty went unsigned in 2012 as K. Tüür predicted. Yet the issue was raised in discussions.

INTERNAL

POLITICAL SYSTEM

Viacheslav Morozov

In my last year's prognosis, I made an easy prediction that Vladimir Putin would win the presidential elections; I also correctly estimated the probability of a second round as rather low. More importantly, I was largely right to expect that Putin would make a choice in favour of stability over reform, and would risk neither a major political repression, nor a radical change. Despite the adoption of a number of laws limiting political freedoms, the use of repression against the opposition in 2012 was limited to "high precision" measures – thus, my prognosis was correct also in this respect. Mass mobilisation against the regime continued to increase during the first half of the year, as predicted, but I did not foresee the decline of the protest movement that started in June and continued for the rest of the year. This, however, did not indicate a return of the "strong Putin" enjoying unconditional support among wider society: by December, as opinion polls demonstrate, the level of trust to both the president and the prime minister fell back to the same low level where it was a year ago, at the start of the mass protests.

Putin's plan

The political atmosphere in the country swung from the upbeat optimism of the winter months, with expectations of an imminent change, to the cold summer, which brought the arrests of the 6 May protesters, the hasty adoption of the repressive legislation, and the

Pussy Riot sentence. However, the talks about the second 1937 also proved to be unfounded, and by the end of the year we are back to “politics as usual” – even though the background conditions have significantly changed.

There are signs that the top leadership is willing to continue with a modest political reform aimed at making the political system more open and responsive to public demands. In addition to easing the rules for political parties and the reintroduction of gubernatorial elections, it has been decided to return to a mixed voting system, where half of the Duma will be elected in single-mandate constituencies. Putin has even indicated his willingness to consider lifting the ban on electoral blocs, which in the long run would help consolidate the opposition.

In the short term, however, these measures are unlikely to significantly undermine the monopoly of United Russia. Next federal elections are scheduled for 2016, and even then, with the same degree of control over the media and the electoral process, the party of power can expect to keep and even consolidate its majority in parliament. The future of the political system will depend not that much on the formal rules, but on the ability of the opposition to present a serious challenge to the regime and to gradually chip away at its grip on power. In this respect, the local and regional elections will play a crucial role, but no major developments are to be expected before the end of 2013.

Intra-elite strife

Another key factor, which, in addition, has a much greater short-term significance, is an obvious conflict among the country’s ruling elites. The corruption scandal around the Ministry of Defence and the resignation of the Defence Minister Anatoly Serdiukov is only the most glaring manifestation of this infighting. Some experts believe that it is Dmitry Medvedev’s team which stands to lose most in this

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current conflict. This might be true in the sense of the changing balance of powers between various groupings. However, any major shift in the balance of power will, at the systemic level, first and foremost weaken Putin.

Putin's leadership is defined by his role as a supreme arbiter among the competing ruling clans. There are indications that he is no longer able to play this role effectively enough. Rumours about his poor health that persistently circulated during the last autumn only add to the overall confusion within the vertical.

From this point of view, what is important is not how long Medvedev is going to last as prime minister, or who will replace him. The key question is whether the Russian political system is able to keep internal balance. If the balance is lost, the intra-elite strife will inevitably go public – in fact, to some extent this has already happened. This will have unpredictable consequences, with scenarios ranging from an outbreak of violence to the establishment of a pluralist oligarchy and perhaps even democracy.

A more structured political space

Another fact that has become evident by the end of 2012 is that Putin has ceased to be the president of all Russians. His populist charm no longer works for a large part of the population, perhaps even a majority. On the one hand, his traditional conservatism has become much more visible against the backdrop of the deep split between the secular liberals and the religious conservatives, which was revealed by the Pussy Riot case. His talk about “traditional values”, big family and patriotic education is no longer perceived as commonsense and starts to play a divisive role, causing knee-jerk rejection on the part of the secular segment of the urban middle class. On the other hand, more radical nationalists perceive Putin's administration as too pro-Western and too lenient towards the immigrants and the indigenous ethnic minorities.

Russian society is rapidly moving from the anomie of the 2000s towards a much better structured political and ideological landscape. One indication of this is the creation of the Izborsk Club by a group of conservative intellectuals, who set out to imitate and openly challenge the liberal and moderately pro-Western Valdai Club. Another symptomatic fact is that after all the fuss about the introduction of the study of religion and ethics at secondary schools, an overwhelming majority of parents chose secular subjects for their kids, with less than a third opting for the study of Orthodox culture. The all-encompassing and contradictory ideology of early Putinism, which combined Orthodoxy, Soviet progressivism, imperial glory and liberal consumerism, is losing its appeal while people are making their conscious choice between the emerging ideological platforms. This process will certainly not be completed in 2013, but it will have a growing impact on the development of the political system, and in particular on the evolution of the political parties.

In the course of 2013, the Kremlin will continue with moderate reforms that would open new ways for political participation without jeopardising the monopoly of the party of power. This will be combined with targeted repressions against the most annoying members of the opposition and new laws limiting political freedoms and individual rights. At the same time, no major crack-down on the opposition, or civil society at large, is to be expected. Civil society, in turn, will become more structured and vocal in its demands, but it will not yet reach a stage where it would be able to make a significant and wide-ranging impact on state policies.

The intra-elite strife will continue and become increasingly public, which will lead to more high-profile resignations. This will lead to a gradual weakening of Putin's leadership. I would, however, dare to predict that not just President Putin, but also Prime Minister Medvedev will remain in their respective positions until

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the end of the year. Medvedev's standing is obviously much weaker than Putin's, and his resignation next year cannot be completely excluded. However, this will happen only if the government faces serious trouble in the economic, financial, or social sphere.

A similar prediction can be made regarding the next round of regional and local elections, scheduled for September. The results of the "party of power" will probably be somewhat lower than in October 2012 due to growing social tensions. However, it will keep its majority in most if not all of the regions, and win all gubernatorial elections.

ECONOMY

Raivo Vare

The previous forecast of developments in the Russian economy in 2012 correctly predicted trends, but the timetable of events and suggested numbers were somewhat off the mark. It was probably affected by a temporary interruption of several processes because of the presidential elections. Significant economic decisions were simply postponed because of the administration change. Everything switched into the waiting mode that is so characteristic of a centralised bureaucracy.

In 2012, raw material prices, the keystone of Russia's economic well-being, were higher than expected, thus enabling Russia to preserve (more or less) its fiscal position regardless of a dramatic rise in social spending and public sector salaries promised and delivered during the election campaign (salaries were raised for employees of the Presidential Administration, security services, federal agencies, etc.) These steps were based on political rather than economic considerations. The state was simply trying to secure the loyalty of its employees in light of the protest movement that started in late 2011. It was especially important in the case of security services.

The inflation rate in 2012 stayed close to 7%, i.e. a bit lower than predicted. Considering the stability or even a small increase in raw material prices that counterbalances impacts of the crisis, the continuation of money printing to support the rouble exchange rate and finance promised large-scale expenditure programmes, the inflation rate in the next year will be at least the same.

ECONOMY

The restructuring of the loan market, which has been going on for the last two years, will continue into the next year – strong or politically backed companies will be further improving their position while small companies and natural persons will be facing tough loan terms that impede the development of a broad-based economy. There are reasons to agree with Alexei Kudrin, the former Minister of Finance, who repeatedly warned that if the present situation with national finances continues unchanged for the next few years, the accumulated reserves will have been “eaten through” and the state will be unable to finance neither large-scale social programmes nor the defence spending and rearmament programme until 2020 as promised by the President. Fighting about the next year budget as well as the budget programme for the next three years during which the notion of balanced budget and the government’s position that to get everything at once is impossible were repeatedly aired supports the validity of this argument. As a result of the President’s personal intervention, a relatively ambitious version has been approved, the success of which depends on a modest rise in raw material prices, i.e. on the condition that the crisis in the world economy will end or at least will not deepen, because otherwise the prices of Russian raw material exports may fall to dangerously low levels. It has also become necessary to postpone several rearmament and, especially, infrastructure projects. It has been even confirmed at the highest level that only the most important high-priority infrastructure will be constructed and all the other projects will be put on hold due to the lack of resources. Moreover, the non-oil budget deficit reached 11% in 2012, with only a marginal decrease expected in 2013.

An expected rise of the social security tax and other encumbrances forced economic activity into the cash-based shadow zone, as predicted. The President also promised to replace the proportional income tax with the progressive tax. It is nevertheless unlikely to happen in 2013.

Economic growth is grinding to a halt

The growth rate of the Russian economy is unlikely to be as high as hoped, being influenced by export-limiting factors caused by the global economic crisis and limited domestic demand. Therefore, the Russian government's forecast expects a 3.5% actual growth rate in 2012 (instead of a rather more optimistic 4.5% which was forecast earlier) to accelerate to 4% in 2013. The OECD's figures are somewhat different – 3.4 and 3.1 percent respectively, as well as those of the World Bank – 3.5 and 3.6 percent respectively. Either way, a faster growth rate is deemed unlikely, which means extra budgetary pressures for Russia.

An insufficient inflow of investments is becoming a major problem for Russia. Contrary to programmes that envisage a two-fold increase of investments over five years, foreign direct investments to Russia actually fell by 15% last year. In 2013 Russia may at best hope to maintain the same level, mostly owing to large transactions in its natural resources sector. A continuing capital flight that once again exceeded USD 80 billion and further accelerated in late 2012 indicates the uncertainty felt by the Russian capital towards the future, which is probably explained by non-economic factors. Thus, a prediction of fears among Russian businessmen because of Putin's comeback with the resulting desire to defend their assets and diversify risks (for which relocation of capital has become the main method) turned out correct. New large investments into natural resources sector by big international corporations, especially into oil and natural gas production (of which the BP-Rosneft deal agreed upon in 2012 was the biggest) were also correctly predicted.

Contrary to earlier predictions, the restructuring of the European and Asian natural gas markets has suddenly accelerated. This process is mostly influenced by the US shale gas revolution and the explosive growth of the LNG market. It forced Gazprom to start using more flexible pricing formulae and shorter-term contracts instead of long-term contracts tied to fuel oil prices. However, it should immediately

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affect the company's profitability which is an important factor influencing the health of the national budget. Even Poland recently became a party to such new flexible contracts. Furthermore, Ukraine has started to increase its independency from Russia's natural gas supply by way of their own production and re-import from Europe. In any case, market developments put a serious question mark over the economic feasibility of the rapidly progressing South Stream project. They have already caused a delay in plans to develop the Shtokman off-shore natural gas field announced in the fall of 2012.

Continuing privatisation

An expected large-scale privatisation on the basis of a three-year programme approved in 2012 should be an important method to attract investments in addition to the continuing consolidation of big national corporations favoured by the President which are being forced to invest into new, especially knowledge-intensive, areas and projects. The programme has indeed been launched but is considerably behind schedule, probably because of the elections as privatisations have never been particularly popular with the Russian public opinion. Nevertheless, last year a 7.5 percent minority shareholding in Sberbank was successfully privatised in the international market. Shares of several infrastructure sites, such as airports and smaller ports, were also privatised. However, the new mainstream of privatisation may become the purchase of shares in privatised entities by big state-controlled companies as this scheme has been openly lobbied by Igor Sechin, the (once again) all-powerful head of Rosneft. A 6% share of Rosneft, up to 5% share of Russian Railways, minority shareholdings in Sovkomflot, Alrosa, VTB-Bank, several energy companies, Sibir Airline, and some other less-known companies are scheduled for privatisation in 2013, although most of them were supposed to be privatised already in 2012. It is especially true in the case of the Novorossiysk port,

the Vanino port and Rosnano, which made the greatest progress in preparations for privatisation. Moreover, it is energy and transport companies in the shares of which Rosneft and Gazprom are most interested. As predicted, planned IPOs were initially postponed because of the crisis, with the exception of Sberbank. At the same time, IPOs of several big private companies, such as Megafon and Promsvyazbank in London, and some natural resources companies in Asian exchanges, will happen in the near future.

Foreign economic policy

Russia joined the WTO in 2012, according to predictions. However, as was also predicted, protectionism-prone Russia has continued the application of various non-tariff barriers in spite of new rules, e.g. to the import of live pigs from the EU, including Estonia. This practice may be expected to continue.

The second Nord Stream pipeline was completed in 2012, as predicted. Contrary to predictions, preparations for the launch of South Stream accelerated and in 2012 Russia managed to secure the participation in the project of all Balkan countries crossed by the pipeline. A new development in 2013 would be the possible launch, for instance, of an automobile factory in the Kaliningrad Oblast to implement the policy of advanced technology localisation announced by the President. It is planned to build the total of six assembly plants and up to 15 automobile parts producing factories there over the span of five years. The markets targeted by the production include not only Russia, but also the neighbouring countries and the CIS states.

The development of the Customs Union's co-operation model will continue under Russia's leadership. Ukraine's participation or non-participation in the Customs Union is becoming the key issue for this model. The author thinks that Ukraine will not join the Customs Union, but this is a topic for another analysis. The Eurasian Union project initiated by President Putin will not initially

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attract a lot of attention because there are still three years until its promised launch, but necessary preparations will continue.

Modernisation

Although the issue of modernisation, a favourite subject of the “replacement president” Dmitri Medvedev, is still commonly used in the rhetoric of the new administration; there is no reason to expect any practical acceleration in this area in the coming years. However, the creation of several innovation and technology centres on the basis of strong universities and research centres will be attempted in addition to Medvedev’s favourite project – Skolkovo. The establishment of such centres will directly depend on whether they belong to high-priority technological areas announced by President Putin and supported by various benefits, scientific foundation funding and regulatory system and which are likely to become a major direction of economic policy. The President cited the following areas: pharmaceuticals, high-technology chemistry, composite and non-metal materials, nanotechnology, ICT, aircraft construction, space and nuclear technologies, natural resources extraction technologies, etc. In future, significant investments may be channelled to some of these areas. At the same time, modernisation has been a national priority for years and the results are still hard to come by as companies have low motivation to participate and the state activities are poorly administered and corruption-ridden.

Transit and border crossing

The effect of the port of Ust-Luga on the Estonian transit was relatively close to the predictions. The transit of oil products by the Estonian railway will continue to shrink in the coming years, partly

replaced by the growing transit of other goods (especially containers) by railway and through ports, as was suggested in the earlier forecasts.

Lines at Russian-Estonian border-crossing points have become smaller only on the Estonian side and will continue to be a problem in the next year due to the rules of play imposed by Russia. Fortunately, in 2012 Russia did not move customs clearance procedures directly to the border with a significant adverse effect on railway transit, as some feared. On the other hand, the pilot project of the first “green corridor” on the Russian-Estonian border was a great success and the assertive actions of the Estonian Customs and Tax Board against smuggling of petrol and other items based on considerable price differences between Estonia and Russia were especially instrumental in the significant reduction of border-crossing lines. The introduction of new parking lots and adoption of a new electronic queue technology by Estonia at Sillamäe-Narva and Koidula have made border crossing much more flexible and humane on the Estonian side.

Conclusions

All in all, the established trends of Russia’s economic development are likely to continue in 2013. Big (especially state-controlled) companies will be growing stronger. At the same time, the general uncertainty of entrepreneurs will also remain with the resulting capital flight. Rising wages and social and defence spending exert ever-growing pressure on the state budget and force the state to collect more taxes in ways that create discontent among the population and, especially, entrepreneurs. The general discontent with the scope and effects of corruption, which also impedes the economic development, is becoming more pronounced. If the world economy plunges into the next crisis, even the present growth rate may prove impossible to maintain owing to Russia’s continuing overdependence on the export of fossil fuels and natural resources.

ENERGY

Andrei Belyi

The last year's prognosis emphasized the impact of the ongoing implementation of the Third Energy Package on Gazprom. It would be yet premature to assess the effects of the European Commission's anti-trust monitoring started in late 2012 for the year to come. The case will involve lengthy procedures of the European Court of Justice, whose decisions will probably not be accepted by Russia. Then, if the case involves an expropriation of Gazprom's assets in order to enforce the hypothetical decision, investment arbitration cases will be likely to follow.

It was also noted that Gazprom is rather losing its competitive advantages on European markets. Indeed, Russia's pipeline gas exports face competition from liquefied natural gas (LNG). Gazprom faces a renegotiation of contracts and even arbitral disputes with European companies. An important arbitral decision was won by RWE-Transgas on the removal of destination clauses and take-or-pay obligation in the contracts with Gazprom. Although we cannot claim that the precedent will apply to all existing long term contracts (most of the gas undertakings prefer to have long-term supply agreements for imports), we can certainly iterate that important changes on the gas trading practices are occurring.

Interestingly, inflows of LNG in Europe create additional difficulties for the alternative pipeline projects from Central Asia and the Caucasus, which was also mentioned in the last year's report. Curiously enough, a declaratory competition between the EU-

backed “southern corridor” and Gazprom’s sponsored “South stream” has become economically outdated in spite of the explicit political support.

Consequently, there is a number of unknowns regarding the developments of the gas markets in Europe and their subsequent impacts on Gazprom. However, it would be of great interest to analyze the current trends of Russia’s domestic energy policies, which take into account the conjuncture of international markets.

Oil: Rosneft as an emerging NOC

One of the strongest supporters of State capitalism and one of the closest allies to V. Putin, I. Sechin, is now appointed the head of the state-owned company Rosneft. With an acquisition of TNK assets and a swap agreement with BP, Rosneft has become a crucial player in Russian oil production. Being one of the most influential political men in Russia, Sechin is now reinforcing his positions against the liberal wing of the Russian government headed by A. Dvorkovich. The latter tried in vain to convince Russian President V. Putin to privatize Rosneft. Instead, the State-owned Rosneft has become by far the largest oil company in Russia, who controls up to 50% of the national oil production. This way, Rosneft aims at becoming the key interlocutor with the western multinationals willing to invest in Russia. In other words, Rosneft will become a traditional “national oil company”, which could be rather compared to the Middle Eastern or China’s national oil companies.

Rosneft acquired Russia’s third gas producer Itera and therefore has become an important producer of natural gas, although lagging strongly behind the national monopoly Gazprom, who still controls the gas pipeline network. However, Rosneft and the private gas producer Novatek constitute an interesting challenge to Gazprom’s weakening positions in European markets.

Gas: novelties on export side

In October 2012 Novatek concluded an agreement with a German company on 10-year supplies of 2bcm of natural gas with no objections on behalf of Gazprom and the State. Novatek's export agreement can be considered as a precedent to non-Gazprom's exports. It is not a secret, however, that Novatek's leadership is close to the Presidential Administration and to the afore-mentioned I. Sechin. In this context, the Russian Ministry of Economy is now considering a de-monopolization of LNG (liquefied natural gas which is not grid-bound for transport) exports from Gazprom. Nevertheless, an explicit and legal de-monopolization of Gazprom pipeline exports is rather unlikely, especially in the context of the EC-driven anti-trust case. Consequently, we can speak about very complex negotiations between Russian and European stakeholders on the future of the gas markets in Europe in general and supplies from Russia in particular.

Electricity markets on the State side

The electricity market reform keeps taking steps back from liberalization and the State continues to reinforce its positions on the generation side. A high level of concentration of the State's assets in generation is observed in the Southern, Volga and Siberian electricity markets. In this context, the partial privatization of Roshydro, announced for 2013, is rather an exception. Gazprom explicitly considers its strategy on acquiring energy supply companies, including Russia's largest power supplier Mosenergo. The level of gas share in electricity generation already reaches up to 60-70% in the Central regions of Russia. This reinforces a convergence with Gazprom's interests in the sector. The Russian power sector could become an important alternative for Gazprom's revenues. This would require a gradual price increase, which remains a politically sensitive issue.

Non-fossil fuel policies and related issues

Russia's policy priorities announced in the Energy Strategy of 2009 are related to the diversification of the domestic fuel mix, which consists in decreasing the share of natural gas in the national fuel mix. Therefore, the State continues supporting nuclear capacity development. In 2011, Russia's civil nuclear operator Rosatom demonstrated a slight decrease in net revenues from 575 to 520 million euros, putting it into deficit. The revenue loss occurred in spite of a constant electrical demand and high utilization rate (above 80%). On these grounds, Rosatom recognizes the reasons of losses are related to the new capital intensive investments in both Rostov and Kalinin nuclear power plant modernization. The situation is unlikely to change for the balances of the year 2012. An extension of the lifetime of old nuclear power plants also poses the questions of renovation and replacement. These costs cannot be translated into the electricity price and hence become a non-rentable burden for Rosatom.

Other non-fossil energies remain poorly developed, apart from the already existing large hydro power generation and geothermal plants. Most of the renewable energy promotion targets have rather a declarative nature. The International Finance Corporation (World Bank Group) alongside with the Russian Energy Agency are now analyzing a possibility of developing wind energy in North West Russia and further export the generated electricity to Europe (Rustek project). It has been noted that Russian wind energy production could ease the achievement of the ambitious targets of renewable energy consumption in the Nordic countries. Nevertheless, no investment in the field has been noted so far.

Interestingly, the nuclear operator Rosatom announced plans to invest into wind parks in remote Russian regions. Such investments will allow Rosatom to diversify the investment portfolio from the capital intensive nuclear projects. The Rosatom plan is not related to the afore-mentioned Rustek project.

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Rosneft is emerging as a new national oil company. In 2013, Rosneft will become the key player in the oil sector and a growing player in the gas sector. In the meantime, Gazprom will be further challenged both domestically and internationally. Although the effects of the European anti-trust monitoring, of LNG inflows and the institutional transformation of gas trade are still premature to assess, Russia is moving towards a new approach to gas exports.

The State keeps reinforcing the electricity markets. Gazprom's gas exports are decreasing and therefore the company largely invests into the domestic power sector. The trend is to be continued in 2013.

The non-fossil fuel support policies will concentrate on nuclear projects. Renewable energy development remains rather limited to declarative objectives and interesting analytical projects. The stakeholder's interest to diversify the domestic fuel mix might be hindered by the reduction of the gas exports and Gazprom's reinforcement in the power markets. Hence, the year 2013 will not provide a breakthrough in the support of non-fossil energies in Russia.

ARMY

Kaarel Kaas

The last forecast was written against the background of general instability in Russia that caused a degree of uncertainty regarding the developments in the Russian military. However, several trends and events that were deemed probable did materialise.

Anatoliy Serdyukov, the then Defense Minister, and Army General Nikolai Makarov, the then Chief of the General Staff, have been both replaced. To be fair, both men resigned in the autumn rather than in the spring of 2012, as we predicted.

Russia's defence spending and financing of military procurement contracts have continued to grow. A salary reform was carried out to raise the incomes of professional servicemen (officers and non-commissioned officers) and contract soldiers (known as *kontraktniki*). A decision was made to increase the number of contract soldiers significantly within a 5-year term (2012–2017).

Developments in 2012

Probably the most important event in Russia's military development in 2012 was the change of the military top brass, which resulted in Sergei Shoigu becoming the Defence Minister and Colonel General Valeriy Gerasimov becoming the Chief of the General Staff. This change may be an important factor for the direction of the radical military reforms that started in 2008.

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Another important factor is the salary reform for the Russian servicemen that took many years to complete but which resulted in a considerable pay rise for officers, non-commissioned officers and professional soldiers. When the reform came into force in early 2012, contract soldiers in the Russian military started to earn approximately 30,000 roubles per month and junior lieutenants newly graduated from military schools approximately 50,000 roubles per month (€ 750 and € 1250, respectively).

An increased income is positive for morale and simplifies the recruitment of professional soldiers. The recruitment goal, which was made official in 2012, is to raise the number of contract soldiers in the Russian military to 425,000 by 2017. It should be noted, however, that similar goals have been repeatedly adjusted downwards in the earlier years.

Two regional developments must be also pointed out. First of all, the deployment of hi-tech weapon systems in the Baltic Sea Region has continued. In 2012, the missile brigade deployed in Kaliningrad Oblast received mobile theatre ballistic missile systems Iskander-M. In addition, long-range air defence systems S-400 were also deployed in Kaliningrad.

Secondly, in October 2012 the Russian Army resumed combat operations intended to suppress insurgents in the North Caucasus. In 2008 the army handed over the responsibility for “anti-terrorism” operations in the North Caucasus to the Ministry of the Interior, but the recent escalation of this conflict again required the intervention of the regular forces.

Predictions for 2013

The most immediate effect of Sergei Shoigu’s and General Gerasimov’s rise to key positions in the Russian military will be staff changes. Many Serdyukov’s and Makarov’s men in the Ministry of Defence and the central apparatus of the General Staff have been already

forced to leave and in the first half of 2013 the wave of “purges” will reach the regional level and mid-ranking officers. This large-scale “blood change” has somewhat destabilised decision-making processes in Russia’s defence sector. However, by the second half of 2013 the most important staff changes will have been completed, giving way to stabilisation.

It is very probable that a number of changes and decisions pushed through by Serdyukov will be reviewed and cancelled and the reform of the Russian military will grind to a halt and its certain aspects will be reverted.

Changes in the military training system introduced in the course of the reform will be cancelled (to the extent to which it is deemed possible); the headquarters of the Russian Navy, which were officially moved to Saint Petersburg in October 2012, will be returned to Moscow; the former powers and staff of the central headquarters of service branches that suffered seriously in the course of the reform will be restored (at least partially).

A pressure to increase the duration of conscription service to 1.5 years (it has been 12 months since 2008) coming from the conservative wing of the General Staff is likely to rise. However, it is unlikely to result in the actual increase of the conscription service duration.

The brigade-based operations structure and the command structure based on four strategic commands pushed through during the reform will be kept.

Shoigu’s and Gerasimov’s leadership will increase the morale of the Armed Forces and improve relations with the defence industry. In its turn, this latter development will bring about a certain acceleration of weapon procurement contracts and a rise in their volumes.

Russia’s defence spending will continue to rise – in 2013 it will amount to 2.1 trillion roubles (approximately € 52.27 billion) and by 2015 it is already planned to raise it to 3 trillion roubles (approximately € 74.67 billion).

The financing of the national rearmament programme will rise substantially next year (in addition to the defence expenditures),

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reaching 1.3 trillion roubles (approximately € 32.35 billion). In 2012 this programme received 900 billion roubles (approximately € 22.4 billion).

Starting from 2013, the West Strategic Command (the former Moscow and Leningrad military districts and Kaliningrad exclave) will become a prioritised region in Russia's rearmament programme, receiving significant amounts of new weaponry and equipment. It will substantially increase the capabilities of the Russian military in the Western direction within the next 4–5 years.

The Zapad-2013 strategic exercise scheduled for the autumn of 2013 will include exercises of large-scale conventional combat operations directed against NATO in an operations area that includes the Baltics and Poland. An emphasis will be put on keeping NATO's reinforcements out of the region, using air defence systems, Russia's Baltic Fleet and surface-to-surface tactical ballistic missile systems.

THE POLITICAL ROLE OF THE RUSSIAN ORTHODOX CHURCH

Alar Kilp, Jerry G. Pankhurst

The previous prognosis was correct in emphasising the rising political visibility of the Russian Orthodox Church based on the strengthening symbiosis between national, Orthodox and cultural identity, and in considering the status of anti-clericalist moods among the Russian populace to be dependent on the good or bad fate of the political opposition. It did not predict, however, further rapprochement between the ROC and Putin's administration before and after the presidential elections.

While it was guessed that there may arise "new opportunity structures" which contribute to further strengthening of the ties between the ROC and the state, between the patriarch and the president (and the advocacy of the patriarch and other clerics for the election of Vladimir Putin made apparent their open political collaboration), the rise of a female punk group to the status of enemies of the regime, nation and the church was unexpected.

On February 21, the punk band Pussy Riot conducted a performance at the Cathedral of Christ the Saviour in Moscow, where they mocked both Putin and patriarch Kirill I. During preceding weeks, when the relations between Putin and his opposition became increasingly tense, patriarch Kirill I had sided publicly with Putin, admonished believers to abstain from demonstrations, "to stay home and pray", and had praised Putin's rule as miraculous. Consequently,

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the musical performance of Pussy Riot was directly attacking the patriarch's entanglement in politics, the church's allegiance to Putin and Putin's candidacy to presidency via its religious ally.

Subsequently, two members of the band were sentenced to two years in prison for hooliganism. The event, which was at first considered to be a courageous act of political opposition and was later internationally supported as an act of "artistic expression" by "prisoners of conscience", was effectively re-framed by the state and the ROC as an insult of the Russian Orthodox Church, a "blasphemous act", and an incitement of religious hatred by opponents of the regime, the Russian nation and Orthodoxy. As a result, an overwhelming majority of the Russian population condemned this action and supported the two-year sentence punishment for the perpetrators.

Paradoxically, the 'Pussy Riot affair', which started as an opportunity of the political opposition and social dissent, turned into an opportunity for Putin's regime and the ROC as well. By autumn 2012, the opponents of both the ROC and the regime recognized that the 'costs' of fighting with the regime via a campaign against the church significantly outweighed the achieved 'benefits'.

What will the year 2013 bring?

First, the 'Pussy Riot affair' fades slowly, but consistently. On the one hand, this 'affair' has already been successfully framed as an act without legitimate political – or religious – motives. On the other hand, as the State Duma will be adopting new laws that protect religious feelings of believers and religious objects in its effort to integrate Russian people around traditional spiritual values, discursive struggle between the establishment and the liberal opposition will be focusing on new cases of 'desecration of objects of worship'. Even if the 'Pussy Riot affair' will be restaged in some form during 2013, it will not have any comparable public influence for two reasons. In 2013, there will be no major electoral campaigns at the federal level.

Also, the potential perpetrators perceive that the ‘costs’ of a similar event would be disproportionately high.

Second, the closer rapprochement between the ROC and Putin’s regime will be fortifying its social and political positions by several small-step policies, which will consolidate the cultural status of the Orthodox Church and the fusion between loyalties to the state, government, nation and Orthodoxy.

Formally, the constitutional principle of the separation of church and state will not be amended despite the introduction of legislation that will be protecting in practice mostly the ROC, but formally all Russia’s traditional and publicly recognized religions.

In 2013, public debates will be closely monitoring the outcomes of the nation-wide introduction of the classes of “Fundamentals of Orthodox Culture” to the public schools in September 2012. It is suspected that the elective classes on Orthodox culture, and the protection of (all of) the religious objects and feelings of (all) believers, is in practice dominated by the Russian Orthodox Church and Orthodox believers in a way quite similar to the way United Russia dominates the State Duma. United Russia does not have a formal monopoly in the State Duma. Similarly, the ROC dominates the Russian religious sphere, but does not have the formal status of a monopoly.

To sum up, Putin’s third term will be less secular – with a stronger reliance on religious symbols and cultural Orthodoxy – than his first two terms as president. Unexpectedly, the symbolical connection between Orthodoxy, cultural nationalism and political loyalty has proven to be a cost-efficient means for cracking down on dissent, pacifying the opposition and strengthening state authority within the framework of ‘managed democracy’. If a follow-up to the ‘Pussy Riot affair’ happens in 2013, it will be more likely doing a further service to the regime, which enjoys overwhelming support not only among the leadership of the Russian Orthodox Church and within the State Duma, but also among the populace.

MEDIA

Olga Chepurnaya

Most predictions made in the last forecast with regard to the development of the mass media in Russia have come true. First of all, the government continued their efforts to control and censure not only traditional media, but also relatively new Internet media. According to the All-Russian Centre for the Study of Public Opinion, two major trends became noticeable by the summer of 2012 – a growing trust to the foreign mass media and Internet sources. However, television remains the most important source of information.

The transition from the analogous to digital TV broadcasting in Russia has continued. Many regions still offer both types of broadcasting. The transition has become more complicated because after the launch of the project in 2009 the broadcasting standard was changed, necessitating the upgrade of broadcasting equipment in those regions that switched to digital broadcasting before 2012. Such modifications have made it necessary to replace the equipment of both broadcasting companies and consumers, significantly increasing the project costs. Moreover, other technical changes remain possible before the scheduled completion of the project in 2015 that might cause consumer dissatisfaction. It is quite possible that the share of cable and satellite television will grow.

A number of laws were adopted in 2012 that introduced new restrictions on the dissemination of information by the Russian media. Many analysts consider these laws a means of control over the mass media.

The federal law “On the protection of children from information harmful to their health and development” provides for a rating system of information materials based on the permissible age of potential viewers. There are five ratings of information materials with specific distinctive characteristics. Judging by comments of media representatives, if the rating of a product is hard to determine, it is easier to assign the product a higher rating than risk problems with the supervisory authorities. Nevertheless, the situation should gradually improve as this kind of self-censorship will become institutionalised and habitual.

Presently, this is the only law that caused the creation of the register of prohibited websites generated by a single criterion – publication of information harmful for children (drugs and suicide propaganda and dissemination of pornography). When the respective website (zapret-info.gov.ru) went online, during the first 24 hours users left more than five thousand complaints against illegal content. These included complaints against the websites of the President, the State Duma, etc. that indicated obvious attempts at sabotage. Only a small share of complaints justified the use of sanctions, i.e. blocking the websites. After the deletion of incorrect information several websites were removed from the register and their IP addresses were unblocked (including the notorious case of the Lukomorye website). Every single case was widely discussed in Internet media, but mass prohibitions never materialised.

Saint Petersburg legislators went even further in their desire to protect minors from harmful information. In March 2012 they enacted a law prohibiting propaganda of homosexuality and paedophilia; later similar laws have been passed or debated in other regions (Novosibirsk, Magadan and Samara Oblast, Krasnodar Krai, Chukotka Autonomous Region, etc.) Attempts to appeal these laws to the Supreme Court have failed and a complaint against the Saint Petersburg law was filed with the European Court of Human Rights in July 2012.

In the same month the President signed the law prohibiting the advertising of alcohol in print media and the Internet. This law

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is also supposed to promote public health, especially with regard to minors. However, this objective will hardly be attained: in the recent past the absence of alcohol ads did not have any impact on the consumption and there are many ways to bypass the new ban.

Furthermore, in October 2012 the President Administration launched a project for patriotic education of citizens (Rospatriotism). It provides for the creation of special-purpose art and literature, websites, movies, and other information products. This patriotic education will first of all target youth and, however strange it may sound, pensioners. Apparently, it is much more difficult to devise methods of influencing middle aged citizens.

All cited examples of legislative activity indicate that the control and censorship of the mass media are introduced gradually and the process is fragmented and eclectic. Such a patchy control is rather effective because it forces the mass media to navigate many different restrictions and bans. The government strategy is obvious – to put restrictions on the freedom of speech, while avoiding accusations of strict censorship. In 2013 the tendency to tighten control over the mass media will continue. New legislative restrictions on the mass media may be adopted (for example, the draft legislation “Upon the protection of population from information” will soon be debated that provides for the introduction of the “negative” information quota equal to 30 percent of the total content of a newspaper, magazine or TV programme.)

An ever-increasing control of and pressure on the mass media by the government will result in a further stagnation of the mass media in Russia. However, we may reiterate a prediction made in the last forecast that effective tools of control over Internet media will prove hard to find. Any meaningful changes are unlikely to occur in 2013, despite an initiative of Russia’s representatives in the International Telecommunication Union who proposed to divide

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the Internet space by country and perform control and censorship separately in each country. Russia has already proposed similar initiatives on several occasions. They have been routinely rejected by international organisations as it will undoubtedly be the case this time too.

CIVIL SOCIETY

Zhanna Chernova

Late 2011 – early 2012 saw a burst of protest activity caused by citizens' dissatisfaction with the results of the parliamentary and presidential elections. Protests against electoral fraud did not just accumulate in the Internet space, but spilled to the streets in the form of mass demonstrations and rallies. The events have shown that the previous forecast of the development of Russia's civil society was correct in essentials. Civil society capable of tangible actions is becoming less compartmentalized and affiliated with the authorities, developing into an actor of the real public politics. The Internet has been the most effective means of mobilisation for collective action.

Activities of civil society in 2012 have been increasingly political in nature, resulting in the institutionalisation of the protest movement in the form of the Opposition Co-ordination Council. This development was the main trend of 2012. The protest activities have been reactive, i.e. carried out in response to government actions that targeted civil society and the rights and freedoms of individual citizens. However, an increased political activity of the population indicates that the terms of the vertical social compact of the 2000s are becoming less acceptable to the citizens. They are ready to revise the compact by laying down specific conditions for the authorities, e.g. "fair elections". The composition of participants in mass protests has also changed. The chronically dissatisfied with the government policy have been joined by the formerly apolitical middle class of urban educated people that formed the backbone of those "angry" citizens who took protest to the streets.

The government, in its turn, has decided to continue tightening the screws and has not engaged in a constructive dialogue with the so-called off-system opposition. Pressure on NGOs, especially not affiliated with Russia's authoritarian regime, has increased. A law has been passed to discredit NGOs that receive financing from the West, demanding the registration of these organisations as "foreign agents".

Repressions were also in store for simple citizens who are willing to defend their rights, including participation in protest actions. The government responded with a law that increased fines for violations at public rallies manifold.

The reaction to the legislative changes has been varied. People have not just stopped going to rallies and demonstrations. They came out with creative forms of protest action, essentially exemplifying a resistance tactic that civil society develops in response to heavy-handed government measures.

Another example of a more prominent and energized civil society in Russia in 2012 was the activity of the volunteers who directly participated in the emergency response to the flood in Krasnodar Krai. The work of volunteers in the disaster zone showed that self-organising citizens are an effective way to overcome the failures of government policy in case of specific problems.

The events of 2012 also indicate that a new type of solidarity is emerging in society which is different from traditional professional or neighbourly unity. People are ready to co-operate and work together to solve specific tasks, accumulate their social capital and create horizontal communities. Such self-organisation is impossible without the use of social networks and contacts over the Internet. However, the winter rallies showed that a certain part of the urban educated middle class is not only eager to air their dissatisfaction with the authorities in the Internet, but is also ready to show the collective corporeality of protest at rallies and demonstrations. Civil society is becoming more political as a public reaction to the absence of real politics in Russia, "jammed" social lifts, and government corruption.

CIVIL SOCIETY

In all probability, relations between the government and civil society in 2013 will follow the scenario described below. The government will continue to regard collective action for the defence of civil rights as a negative phenomenon. If the “foreign agents law” does not endanger the mere existence of civil rights organisations, it will definitely complicate their activities. The 2012 protest movement has become institutionalised to be able to solve specific local problems (participation in regional elections) and to raise its profile with the authorities. Civil initiatives targeting ineffectual (e.g. social) government policies will see further development. The potential of such organisations is quite high. They focus on mutual help and co-operation instead of specific political demands. At the same time, the clericalization of society may draw a demarcation line between supporters and opponents of traditional values. In this case, the position of each party will define its actions on specific issues. Civil society will become increasingly divided into a mosaic of specific initiatives and projects with the growing participation of young educated members of urban middle class. The worsening of economic situation in Russia may trigger expansion of the social base of the protest movement as discontented citizens will be joined by those social strata that were not ready to put forward political demands, but are ready to support specific actions to defend their rights in the case of reduced incomes.

HUMAN RIGHTS

Kristiina Ojuland

Approaching the year of 2013 in Russia from the perspective of human rights, it is important to define Russia's strategic direction as a whole. In the case of such neo-imperialist states as Russia it is crucial to understand that it is Kremlin's deeds that are important, not the Kremlin's words. Russia's direction is linked to Vladimir Putin's personal visions and desires which are heavily influenced by Soviet nostalgia. Hillary Clinton's complaint of Russia's attempts at the re-sovietisation of the states that emerged in the wake of the Soviet Union's collapse is a belated recognition of facts. Russia's Ministry of Foreign Affairs confirmed that integration in the post-Soviet space is the absolute priority of Russia. There can be no doubt that such a strategic objective will mean even more aggressive and assertive domestic and foreign policy in the next six years. For this purpose the Kremlin must rally Russian society around its idea by any means, even by force. Putin's address to the Federation Council on 12 December 2012 was also overfilled with social issues that he hopes to use for attracting new supporters. To implement this plan, the Russians are required to sing to the single tune and be totally patriotic. Such atmosphere leaves a heavy imprint on the promotion of human rights.

From the perspective of human rights, political freedoms are the most important issue in Russia, because without them a broad promotion of human rights is impossible. In the experience of Myanmar, for example, political freedoms were also cited as a matter of first importance in the context of human rights – an approach that

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was completely justified. It is naïve to believe that the promotion of human rights in autocratic states is feasible. An autocratic regime may play with human rights (even Brezhnev did it), but it does not mean that the regime considers it a serious issue. Ella Panfilova, the former chairwoman of the Presidential Council for Human Rights, said that full-fledged human rights cannot exist in a Russian state where democratic institutions do not function normally and the political system has reached a dead end.

Thus, the Kremlin has considered political opposition an impediment to the implementation of its ideas. Therefore all opposition parties that were not loyal to the Kremlin have been virtually eradicated in the “managed democracy”. Then it was found that civil society promotes evil designs of the Western states that wish to weaken the Russian state. Consequently, a war was declared on NGOs that receive financing from the West. The term “foreign agent” has been introduced to describe such organisations and various NGOs have been created that are controlled and financed by the Kremlin. I predict the continuation of this trend in the next year.

This is a typical KGB vision in which everyone must be controlled, including political opposition and human rights activists. The fact is that the repression apparatus of the security services has been used against political opposition and human rights activists to an even greater extent. Putin’s clear message is that human rights and civil liberties are of secondary importance under his rule.

Marginalisation of opposition politicians has been a part of Russia’s modern political culture and is likely to continue. Since an independent opposition has been already eradicated, experienced opposition politicians have been marginalized and showmen have been pushed to the forefront; there is nothing left except playing with controlled opposition.

Discrediting tactics has also been an important tool for the authorities, whose interests are served by an army of sociologists, political scientists and public relations specialists. One of their objectives is to find issues that displease the population and link such issues to opposi-

tion politicians and NGOs that are not controlled by the state. Such issues may be migrants, sexual minorities or freedom of religion. Considering the scope of media resources available to the authorities, this tactics has been also very successful. During the last year, a number of leading Russian journalists openly raised the issue of wide-scale media censorship. Alas, there is no hope for change here.

At the same time, popular discontent does not depend on the degree of legitimacy of the state authorities or political opposition in Russia. Reviewing the incidents of civil unrest over the last year it may be concluded that a large part of Russia's population is simply dissatisfied with the regime. The Kremlin's reaction was swift and powerful. Several initiatives were proposed, e.g. elections of the heads of federal subjects by the local population. The same idea was aired regarding the elections of the Federation Council. A promise was made to allow the registration of new political parties. However, the "magic" of changes is hidden in the fact that the Kremlin may claim that changes in the election law accommodate wishes of the Russian people without losing complete control. In reality, however, all these changes change nothing. In practice, it has been next to impossible for opposition politicians to register as candidates. During the important regional elections next year we will find out who will finally receive a political "ticket" in this deficient election system.

Next year we will also see how the authorities plan to use legislative changes adopted in 2012. Amendments were made in the Criminal Code that provide for harsher penalties for the disclosure of state secrets and broaden the definition of high treason. Another adopted amendment significantly increases fines for the violation of rules for organising public events. At the level of federation subjects' legislative bodies decisions were passed that clearly narrow the rights of the LGBT community.

All these initiatives were put forward by the authorities with a view to prevent any disturbance of "stability", because the fight for human rights is considered just that.

HUMAN RIGHTS

It is also a reason why civil society activists were dealt harsh prison sentences in 2012 and before. Protests of international public opinion against strict sentences for Osipova, Tolokonnikova and Alyoshina did not help. The persons involved in the death of Sergei Magnitsky have not been punished; on the contrary, criminal proceedings have been posthumously initiated against Magnitsky himself. So far the practice has shown that such inconvenient persons usually serve their full time in prison with little hope for parole, if any. It is also confirmed by latest developments in the case of Khodorkovsky and Lebedev. We most definitely do not expect a better protection of human rights in Russia's courts in the coming year.

However, I personally believe that the Russian people will start noticing elements of this throwback in their country and the pressure will increase on the Kremlin to protect rights and freedoms stipulated in the 1993 Constitution.

EDUCATION

Dmitry Lanko

In 2013, like in the previous years, Russian education policy will be a result of the struggle between the two factions within the Russian elite, of which one perceives it as merely an industry of services, while the other views it as an element of the country's soft power. A representative of the former faction is Russia's ex-Minister of Education Andrey Fursenko, who, despite being fired from his post in 2012, was simultaneously promoted to the position of Vice Chair of the Presidential Council for Science and Education. A representative of the latter faction is Rector Yaroslav Kuzminov of the Higher School of Economics.

Claiming that education is an element of soft power, representatives of that faction understand it in the way that the role of education can have both a positive and negative valence. When having a positive valence, it can contribute to the modernization of the country, including the state, the economy and the third sector, thus making the country stronger. However, when having a negative valence, it can make the country weaker; in particular, as the faction claims, it happens when the country's education establishments become "agents" of foreign powers, as it happened in the case of the European University in St. Petersburg.

2012 was seemingly a victorious year for that latter faction. They managed to convince the cabinet to propose the bill on education, which was still under consideration in the State Duma late in 2012. Though the Russian academic community has widely criticized the

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bill, it suggested an important change of the role of education in Russia compared to the role it was suggested to have by what was above referred to as Fursenko's faction. Namely, while Fursenko et al. consider education a "service" and insist that legislation regulating the provision of services in Russia must also apply to education, the bill considers education an element of the "common good".

The State Duma adopted the bill in late 2012, despite fierce critique from the academic community and even part of the political elite; among the latter left-wing parties, such as the Communist Party of the Russian Federation and the Just Russia Party played the most important role. After the bill had been amended during hearings in the State Duma under public opinion pressure, it turned into even a bigger compromise. No surprise it continued being criticized from both sides even after the bill turned into law. The faction that perceives education as an element of the country's soft power criticized it for opening more space for "commercial" education.

The other faction, on the contrary, criticized it for opening the space for using education establishments for political purposes. For example, the new law provides universities with the right to expel students for other reasons than academic failures; some claim that state universities might use that right in order to put pressure on students who are simultaneously political opposition activists. The weakness of the law is that it contains references to over a hundred of other pieces of legislation; that provides the Cabinet with the opportunity, and moreover, with the duty to issue over a hundred of decrees concerning specific aspects of implementation of the new law.

2013 will thus be the year marked with discoveries in terms of the suggestions made by the Cabinet concerning the implementation of the new law. Both factions will continue lobbying their approaches to education to turn them into pieces of legislation; many compromise pieces of legislation will be thus adopted. Both factions will resort to both opposition political parties, especially the Communists and Just Russia, and on public opinion. Protests of education employees will thus become more possible, especially in Russia's remote regions,

where, in addition to traditional poor living standards of teachers and professor, higher education establishments suffered from the cancellation of admission exams, which took many potential students away to Moscow and St. Petersburg.

The relative strength of the two factions described above vis-a-vis each other will be highly dependent on the general economic performance of Russia. If oil price remains as high as it was during the most part of 2012, Russia will be able to afford treating education as an element of its soft power, thus allowing Kuzminov's faction to be a bit more successful in lobbying its approach to education during the debates in the Cabinet on the pieces of legislation concerning the implementation of the new law. Otherwise Fursenko's faction will be more successful in convincing the Cabinet that the country's education system is merely a service industry.

NATIONALITIES POLICY

Konstantin Zamyatin

In his forecast for the current year, the author outlined a new trend of growth in importance of nationalities affairs in Russia's political landscape. This growth corresponds, first of all, to the rise of Russian nationalism in society as a reaction to the increased labour migration. The paper predicted that the policy directed at the construction of Russia's nation will continue to be present in the country's political agenda, but the nation-building project will be modified according to new realities. The paper suggested that the nationalities policy will be institutionalised: a new policy document will be elaborated and a federal agency in the field will be (re-)established.

Indeed, in the current year the nationalities policy developed very intensively and came to the fore of everyday politics. In January 2012 in his President pre-election programmatic article 'Russia: Nationalities Question' Vladimir Putin acknowledged the tendency of accumulation of inter-ethnic tensions in the country and announced the need for a strategy of the nationalities policy based on 'civic patriotism'. The next day after his inauguration in May 2012 Vladimir Putin signed the decree 'On Ensuring the Inter-Nationality Accord'.

According to the decree, the Council on the Inter-Nationalities Relations had be established by June of the same year and the Strategy of the Nationalities Policy to be elaborated and approved by December; further, a 'hundred book list' on history, literature and culture of the peoples of Russia recommended for schoolchildren

had to be composed by September and the compulsory exam in the Russian language and history for migrant workers introduced by November. These measures have been implemented.

The Presidential Council on the Inter-Nationalities Relations, an advisory body (and not a federal agency), was given the task to ‘improve public policy in the sphere of inter-ethnic relations’. It includes the heads of federal agencies, members of scientific and expert communities as well as representatives from some Russia’s ethnic and cultural associations. Its first meeting was held in the Republic of Mordovia in August and symbolically coincided with the celebration of “the 1000th anniversary of the unity of the Mordovian people with the peoples of the Russian state”.

If until recently the civic nation was envisaged as the main goal of the nation-building, then the last developments witness a shift towards the incorporation of an ethnic Russian dimension as the kernel of the Russian nation. The Strategy of the Nationalities Policy Up To 2025 was enacted by a Presidential decree in December 2012. In an attempt to accommodate the nationalist demands, the document mentions the ethnic Russian people (*russkii narod*) as a historical ‘system-forming core’ of the State.

The document purposefully maintains ambiguity in the policy aiming both at: ‘strengthening the civic unity of the multinational people of the Russian Federation (Russian nation)’ (*rossiiskoi natsii*) and ‘maintenance of ethno-cultural diversity of the peoples of Russia’. In addition, the document proclaims two new aims: ‘harmonisation of inter-nationality relations’ and ‘ensuring adaptation and integration of immigrants in Russian society’. The latter aims are a novelty for official documents and could be interpreted as a part of the government’s response to the dual challenge of Russian nationalism and migration.

The Strategy is quite detailed, that is why hints to some measures are symptomatic. It is notable that the proposed task to ensure balanced development of large economic regions (to continue the practice of the enlargement of territorial units in the initial version

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of the draft) might actually imply the endeavour to remove ethnically defined units, national republics and autonomous districts, because they are viewed as the major obstacle for nation-building. The demand for the abolition of the ethnic principle of federalism is a recurrent topic in the post-Soviet Russian politics, but its implementation seems unlikely at least in the medium term.

Realising the conflict potential of such a radical decision, the tactics of small moves towards the erosion of the republics' symbolic status was chosen instead, because actually that is all what is left of their special status. A recent example of such a move was the idea to rename the republics. Political actors realise that nationalist rhetoric brings political dividends and throw in one-day populist ideas that often are not actually meant for immediate action. One of the implicit goals of the policy might have been the authorities' strife to channel public attention away from electoral fraud at the 2011 State Duma elections and protest movements.

After the protests the procedures for the registration of political parties were simplified; that was arguably intended at the atomization of the opposition movement. Under the new rules the first nationalist party, the Russian All-People's Union (Rossiiskii obshchenarodnyi soiuz), was registered. This fact is interesting rather as a precedent, because the party is unlikely to become a significant political force. More important, another nationalist party, Rodina, was reinstated, though not registered yet. According to expert opinions, the Kremlin continues to keep in check both major parties that use nationalist rhetoric, Rodina and the Liberal Democratic Party of Russia.

In the forthcoming year, the institutionalisation of the nationalities policy will be continued. The Strategy will have its impact on the wording of the new federal laws on education and on culture to be adopted in the near future. The Strategy will have the action plan to be assigned with budget funding through the earlier announced

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federal programme. The Strategy is to be adjusted to the regional level and municipal by approval of regional action plans and targeted programs elaborated on a common methodological approach which has to be ensured by signing agreements with the regional authorities.

IMMIGRATION

Sergei Golunov

Background

After the collapse of the USSR Russia has become one of the top recipients of immigrants worldwide, taking into account millions of both russophone resettlers and labour migrants from post-Soviet states that overwhelmingly have visa free regimes with Russia. The number of temporary labour immigrants coming to Russia is not known, while the existing estimates (even made by officials) are mostly not supported by valid proofs and differ essentially, varying from 7 to 20 million per year. The first figure seems to be more realistic taking into account both relatively modest demographic potentials of the majority of post-Soviet donor countries and also that the bulk of such immigrants have to leave and re-enter Russia each three months, each time after returning being counted as a new entrant by border guard and immigration services.

Russia's post-Soviet immigration policy is inconsistent, combining restrictive and proscriptive measures with sporadically occurring liberalisation of cumbersome and corruption-provoking registration rules, as well as with attempts to attract well-qualified labour force and so-called "compatriots" from abroad. Still, the existence of tight labour quotas, which correspond neither to the number of incoming immigrants nor labour market demands, make most such immigrants law-breakers. Actually, in Russia the very term "illegal immigrant"

predominantly does not refer to illegal entrants or to those who have overstayed the allowed term, but to those who have failed to obtain a job permission but have started to work illegitimately.

There are strong anti-immigration sentiments in Russian society that concern predominantly South Caucasian and Central Asian immigrants and to a large extent merges with enmity towards internal migrants from North Caucasian republics. Such sentiments boosted activities of radical nationalists, who in 2011–2012 have become one of the most important constituents of the anti-Putin protest movement.

In 2012 some important legal acts related to immigration policy have been adopted, including the new migration policy strategy, the citizenship law, and the law that obliges immigrants applying for job permissions in housing, trade, and service sectors to prove their knowledge of Russian. Thus, the Russian authorities have made a new effort to limit immigration and to get it under their control while encouraging integration of immigrants.

Prognosis on Labour Immigration

The officially approved quota for 2013 of low-qualified labour immigrants from countries having visa-free regime with Russia is virtually the same as it was in several previous years (1.7 million permissions). As the usual annual number of labour immigrants coming to Russia is several times higher according to virtually all estimations (and there is no sufficient ground to believe that the intensity of the flow of labour immigrants from post-Soviet countries (primarily from Armenia, Azerbaijan, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan, and Ukraine) will either diminish or increase essentially in 2013), it means that the majority of entrants will fail to obtain their permissions and again will find themselves in a legal limbo, being vulnerable both to employers' fraud and extortion by law enforcement officers.

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The mentioned law, obliging a large number of foreign job applicants to take a Russian language test, creates additional ground for corruption and other malpractices. As the procedure of taking such a test is not well-elaborated yet, it can not only create a shadow market of language certificates but even paralyse a large part of labour market during the first half of 2013. Additionally, this law can lead to a changing national and age structure of labour immigration since graduates from Soviet schools and citizens of the countries where Russian is recognized as official language (specifically Kyrgyzstan) do not need to take this test.

Attracting Compatriots

The number of ethnic Russians and other representatives of Russia's "indigenous peoples" living abroad and attracted by the extending Programme for Support of Resettlement of Compatriots is growing rapidly and can increase to 60–70 thousand resettlers in 2013 compared to approximately 50 thousand in 2012. It seems to be, however, unlikely that the ambitious aim to attract several hundreds of thousands of resettlers per year could be fulfilled in the short-term run. As for several last years, Russians and other russophones from Kazakhstan and Uzbekistan will likely prevail within this immigration flow while regions close to Moscow together with Kaliningrad province will remain the most attractive destinations for them.

Conclusion

There is no sufficient ground to forecast a visible increase or decrease of the number of immigrants who will come to Russia in 2013. There are no evident signs that a rapid economic growth or

decline in post-Soviet countries can change the number of immigrants dramatically. Even though the Programme for Support of Resettlement of Compatriots will likely succeed in attracting a much greater number of people compared to the previous years, their proportional share of the overall number of migrants will remain very small. It will thus not significantly influence the overall situation on the labour market.

Russian immigration policy will likely remain as inconsistent as usual, combining toughening control for appeasing nationalistic sentiments in public opinion with facilitating some bureaucratic regulations for some groups of labour immigrants from post-Soviet countries keeping good relations with Russia. The law on testing immigrants' knowledge of Russian will surely create a new large corruption services market and probably will seriously damage immigration-dependent sectors of the labour market in the first half of the year.

FAR EAST

Aimar Altosaar

The Russian Far East occupies the area of 6,216,000 sq. km (including 3,083,523 sq. km of the Sakha Republic). According to a UN forecast, Russia's population may decline by one third over the next 40 years. Twenty years ago more than 8 million Russians lived in the Russian Far East and in 2012 the number has already dropped below 6 million. At the same time, the population of China's three north-eastern provinces (Heilongjiang, Jilin and Liaoning) exceeds 100 million.

The fast economic growth of China means a growing need of fossil fuels and other natural resources which are abundant in the Russian Far East. It holds almost all Russia's diamond reserves, 70% of gold and considerable reserves of oil, natural gas, coal, timber, silver, platinum, lead and zinc; the local seas are still rich in fish. Timber processing has been controlled by companies with Chinese participation for many years.

According to Rosstat, in 1991 the population of the Russian Far East was 8,064 thousand people and in 2009 – 6,460 thousand. The largest de-population over this period was experienced by Chukotka: from 158 to 50 thousand. The population of Magadan has also declined by more than two times. The southernmost regions lost fewer people, but even Primorsky Krai experienced a population decline from 2,310 thousand to 1,988 thousand in 2009 (according to Rosstat). According to the 2010 population census, the region's population was 6,285 million people and records showed a further

decline by early 2012, when the population dropped to 6,266 million. However, analysts of the Russian Far East have claimed in recent years that the actual population of this huge territory has already dropped below six million. The region's population is forecast to a further decline to 4.5 million people by 2015 (without the Sakha Republic).

At the same time, a wide-spread opinion about the massive migration of the Chinese to the region is a myth. Although an average number of 750 thousand Chinese annually cross 14 border-crossing points, the majority of them are tourists and an even greater number cross the border multiple times. Russia's red tape has made the registration and management of companies so complicated for the Chinese that they prefer to do business on the other side of the border, offering only goods and services to the Russians. In practice, China's government has been facing similar problems in its northern regions as the population is moving to south provinces in great numbers.

The Russian Academy of Sciences estimates that up to 0,5 million Chinese permanently reside in Siberia and the Russian Far East.

Actually, the most active migrants are people from Central Asian states because of the visa-free travel to Russia available to them and the general familiarity with the life in Russia.

A small addition to the population mix in the Russian Far East is Koreans who were deported to Central Asia by Stalin and returned to Primorsky Krai in the 1990s. There are at least 30 thousand "Russian Koreans" in the region. Although they are mostly Russophone and loyal to the Russian state, they also develop close ties with the land of their ancestors. Some of their youth go to study in South Korea.

In the post-Soviet decades, Russia's central government has always faced serious difficulties with maintaining control over its remotest regions. Great hopes were put into foreign investments as a means to boost the local economic growth, but the investments mostly came from China, the domination of which Russia considers a threat. Naturally, Japan would be ready to make a much more substantial contribution, but it has been held back by Russia's stubborn position

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on the issue of the South Kuril Islands. Investments by smaller Asian tigers – South Korea and Singapore – are more welcome.

Patriotic Russians living inland urge Russians to move to the Far East and the willing migrants are even paid government subsidies (around €10,000), although even Gazprom does not have enough money to reverse the internal migration flow. Furthermore, a decline of the ethnic Russian population and an inflow of people of different cultural backgrounds is a problem in other Russia's regions too.

The central government has recently started to pump bigger financial resources into the Far East, especially Primorsky Krai and Vladivostok, trying to close the economic gap and make the region more attractive for prospective (not Chinese!) investors and Russians. Thus, in 2012 Rosneft is planning to invest USD 2.2 billion in a refinery, because the region experiences a great shortage of petroleum products.

At the APEC summit in September 2012, Russia's President Vladimir Putin aired an idea to build a super highway London-Moscow-Vladivostok-Beijing to make Siberia's riches accessible to the world. Currently Russia is showing a great interest in participating in the growing economy of the Asia-Pacific Region through the Russian Far East. In recent years the central government has invested USD 21 billion in the development of Vladivostok to transform it into a "world centre", as was publicly declared to the local population.

The Prime Minister Dmitri Medvedev said he was convinced that the economic environment of the Far East cannot be made attractive without a special taxation and property regime. He confirmed that nowadays it is not a plot of land that would attract people to the region, but a system of many tangible benefits that is quite difficult to develop and implement. He also promised that the Russian government would soon address this problem more seriously.

It is hoped that the creation of the Ministry for the Development of the Russian Far East will help to channel more domestic investments into the Russian Far East, especially to its southern part and Vladivostok. Such domestic investments might also attract foreign co-investments (not from China, however). By late 2013, it should be clear whether these investments will have materialised. The creation of the ministry does not exactly broaden the competence of the local authorities and a conflict between the growing regionalism and the centre is possible.

Nevertheless, it would be unreasonable to expect miracles from the initiatives by Russia's political leadership and the region's decline will continue in 2013 regardless of huge (compared to the earlier period) investments and Utopian plans. De-population might proceed at a slower pace, because northern parts of the Russian Far East are already quite empty and there is a steady inflow from Central Asia. The ethnic Russian part of the population is constantly decreasing by at least 20-30 thousand a year. The influence of other Asian states in the form of investments and people will start to be felt in addition to China. The image of the region as an appendage, producing raw materials, to Asian-Pacific states and economic powerhouses will be strengthened.

NORTHERN CAUCASUS

Nona Shakhnazaryan

Last year I predicted that Russia will be unable to ensure order in the North Caucasus without consistently fighting corruption. Nothing has been done in this direction, except for paying usual lip service. The only exception was the sacking of some high-ranking corrupt officials in the Chechen Republic. Moscow has done nothing to address the issues of the Circassian (Adyghe) communities. Russia has not distanced itself from the direct intervention in the affairs of Abkhazia and South Ossetia as a result of Russia's accession to the WTO.

The efforts of the federal authorities have brought some improvement of the social and economic conditions by injecting huge amounts of taxpayer's money into the local economy. In spite of this, the threat of Islamic fundamentalism and other radical movements has not disappeared. Separatist ideas continue to circulate even among independent intellectuals, while anti-Caucasian sentiment in other Russia's regions has significantly intensified. It is exacerbated by the fact that the federal centre is openly bribing the elites in the North Caucasus, thus showing a special attitude to the Caucasus.

Non-transparent financial schemes also aggravate social tensions between the elites and common people in the Republics of the North Caucasus. In this aspect the state is not a reliable partner to the population of the North Caucasus. People prefer to work around the government and its mechanisms, thus creating a broad

support base for those who have chosen the path of armed struggle against the government (the centre of this struggle is currently in Dagestan.) Moscow is trying to ease the tensions by creating new jobs, in particular in the tourism sector.

Security issues and the Sochi Olympics

The overall number of victims in Russia's South declined last year and the counter-terrorist operation regime in the Kabardino-Balkaria Republic was lifted. Nevertheless, experts of the Institute for Economics and Peace ranked Russia 153rd out of 158 states in the Global Peace Index. The situation in the North Caucasus was cited as the main source of instability in the state. In the third quarter of 2012 at least 383 persons fell victim to armed conflicts in the North Caucasus (242 of them were killed).

Memory wars continue to be a key factor negatively influencing the security situation. The key issue of contention has been the forced migration of the Circassian people as a result of the Russian colonisation in the 19th century. Repatriation foundations created by the regional governments (in particular, in Adygea) have significantly cut their support programmes. The repatriates continue to face unwelcome reception.

According to many Circassian intellectuals, the 2014 Winter Olympics in Sochi will be virtually organised in the "Circassian burial ground" (Sochi once was a capital city of the Circassians). Against the background of hundreds of acts of terrorism in which not only employees of security services, but also civilians were killed, Moscow's claims that stable conditions for the Olympics have been created do not look particularly plausible.

The discontent of the local population is amplified by Moscow's stubborn unwillingness to discuss the consequences of the Russian-Circassian war for the indigenous people. This discontent was evident in the rallies to express solidarity with the Circassians in

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Syria that were organised in capitals of the Circassian Republics (Adygea, Kabardino-Balkaria and Karachay-Cherkessia).

The Chechen Republic

The standoff between the Head of Chechnya, Ramzan Kadyrov, and Memorial, a human rights centre, reached its climax this year when Kadyrov lost his lawsuit against Memorial. He was trying to collect damages for what he said were false accusations of his being involved in the murder of journalist Natalya Estemirova. Some progress has been made in the investigation of another outspoken critic of Kadyrov's regime – journalist Anna Politkovskaya. At the same time, journalists continue to be targeted, as demonstrated by the recent murder of Kazbek Gekkiev.

Certain significant changes occurred in the top leadership of the Chechen Republic. On the one hand, twenty officials of the Ministry of the Interior were sacked on the suspicion of corruption. On the other hand, the former head of Chechnya's Ministry of Finance has been moved to the Financial Monitoring Service, which indicates that the republic may hope for sufficient financial transfers from the federal budget.

“The Russian Caucasus”

There have been few changes in the composition of the regional elites in the “Russian Caucasus” (Krasnodar Krai and Stavropol Krai). Krasnodar's governor Alexander Tkachyov has upheld his reputation as a convenient leader capable of maintaining good relations with the federal centre. The progress of the so called Kuschevskaya case is a litmus test of how corrupt Tkachyov's administration really is. In the horrific events of November 2010 in Kuschevskaya village, a hotbed of post-soviet lawlessness located on the border between

Krasnodar and Rostov Oblast, gang members murdered 12 people, including children. The investigation is still under way, but there are no indications that the prosecution intends to bring the case to completion.

The background to this case is, again, tensions between ethnic, religious and other groups. The authorities continue with their efforts to “return” ethnic Russians to this troubled part of the country, in particular, by promoting the “Cossack revival”. In practice it implies discrimination against other groups. Such an attitude increases friction between different social groups and actors in the region. Moscow is also extremely worried by the increasing outflow of the ethnic Russian population from the region.

Conclusion

Dagestan is apparently going to be the main source of trouble in the forthcoming year, because the local extremist groups continue armed raids from their mountain bases. The strategic programmes intended to fight corruption and bribery in Russia in general, and in the North Caucasus in particular, will be improved. These actions will result in a faster economic growth in the region, alleviating to some extent the breeding ground for extremism and terrorism.

At the same time the federal support of the Cossack paramilitaries can be a disturbing factor for the native population. The struggle for power and resources along Russia’s borderlands remains a profitable pursuit for some, and deadly for others. From the murky and complicated Kuschevskaya case a conclusion can be drawn that at least a part of the regional elite profits from the oppression and exploitation in the region. This is unlikely to change in 2013. Violence in the region will decrease in quantitative terms, but it is unlikely to be rooted out within a year. Moscow will continue to promote the development of the Chechen Republic as a showcase of the federal government’s success in the region.

CROSS–BORDER COOPERATION

Ekaterina Mikhailova

To talk about cross-border cooperation in Russia one should take into account that this issue is very sensitive and subtle due to its two fundamental characteristics: it touches the competences of both the Federation and regions and has an impact on both internal and external state policies.

To change the status of cross-border cooperation of Russian regions from being a “gray zone” to an officially recognized activity federal regulation is needed. First of all, the adoption of the federal law on cross-border cooperation is Russia’s obligation arising from the ratification of the European Outline Convention on Transfrontier Co-operation between Territorial Communities and Authorities. Furthermore, such a law will create a united legal framework of cross-border cooperation at the federal level and will provide regions with a basement for creating regional laws aimed to regulate border regions activities. The need to adopt such a law has been repeatedly declared by various policy-makers for over a decade, but up until now such a bill does not exist.

One of the most influential reasons for that situation is the heterogeneity of opinion within the executive branch of power in carrying out the cross-border cooperation policy. A significant step for solving that problem was made in September 2012 when the Russian Interagency Commission on Inter-territorial and Trans-frontier Cooperation was established. It is aimed to provide a platform for inter-ministerial discussions with the presence of 16

federal authorities. The Statute on the Commission has a remark about the possibility to invite the Presidential representatives in the Federal districts of the Russian Federation to take part in the sessions together with Commission's permanent participants, but the Statute keeps silence about the representatives of the administrations of border regions. Such neglecting of the regional governments' point of view will obviously cause a wave of discontent and criticism from the border regions to the Commission's initiatives.

The appearance of the above-mentioned Commission gives grounds to expect that the work on the law on cross-border cooperation will soon be resumed. Although it is not very realistic to expect the law to be adopted by the end of 2013, it is highly probable that the reactivation of interagency negotiations will lead to the introduction of a new bill, rather than to proposing amendments to the previous draft.

To be quickly adopted, a bill needs a strong, effective political lobby. Despite the fact that more than half of the subjects of the Russian Federation and most of their municipalities are highly interested in the creation of a unified official legal framework for cross-border cooperation, it is unlikely that in 2013 the topic of the border areas' status will receive active support from the top officials.

From a geopolitical perspective, the highest priority of cross-border cooperation will remain under the Russian-Ukrainian border. After the welcome start of its demarcation in November 2012, the work will be continued and probably finished in 2013. The process of renovating and setting up new border crossing points in this part of the Russian border will be the main activity of Rosgranitsa (The Federal Agency for the Development of the State Border Facilities of the Russian Federation) at least for the next 5 years.

The question of deepening the collaboration in the most industrially developed Southern part of the Russian-Ukrainian border will become more visible in the presidential agendas in both countries. In 2013 it is likely to result in structural and institutional changes of the Southern Russian-Ukrainian cross-border cooperation,

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which might take the form of either an expansion of the existing “Donbass” Euroregion or the launch of a new Euroregion “Azov”.

As for the Russian-EU member-states cross-border cooperation, 2013 is the last year of the current European Neighborhood and Partnership Instrument Programs. All five ENPI-CBC programs with the participation of Russia (Kolarctic-Russia, Karelia-Russia, South-East Finland-Russia, Estonia-Latvia-Russia and Lithuania-Poland-Russia) are usually treated as a new milestone in the Russia-EU cross-border cooperation because it was the first format which included co-financing of projects by the Russian side. The significance of this change consists in the fact that Russia began to use not only administrative power but also financial incentives to promote its interests in the border regions of the EU member-states.

The Russia’s political consent about the need for continuing cooperation in the same mode and level of intensity has been already announced. The crucial point of the Russian priority during the first round of the negotiations about new ENPI-CBC programs was to retain the equal participation status of the subjects of the Russian Federation. The fact that the EU negotiators agreed with this approach indicates that in 2013 the agreement about the new programs will be signed.

With a high level of credibility we can say that next ENPI-CBC program period (2014-2020 years) will strengthen the importance of a switch from cross-border cooperation projects with people-oriented content to projects with sufficient investment component and increase the weight of the infrastructural criterion in the whole procedure of project selection.

Thus, in 2013 one can expect that the need to negotiate the issue of cross-border cooperation will require the presentation of a clear unified position of from the Russian side and will be a

great opportunity to check the institutional capacity of the Russian Interagency Commission, while the most powerful regional actors of cross-border cooperation will try to promote their interests regardless of the Commission's performance.

EXTERNAL

INTEGRATION INTO GLOBAL ECONOMIC STRUCTURES: WTO AND OECD

Stanislav Tkachenko

The prognosis of Kristjan Aruoja in the previous edition of this book on Russia's possible membership in the WTO as well as on its immediate little effect on the country's foreign trade and investment regimes proved to be correct. Since August 2012, Russian economy is inside of the global liberal trade regime, associated with the WTO. It is the most important macroeconomic reform which has been implemented in the country in the previous 15 years.

The very first generation of Russia's post-Soviet leaders has made a strategic decision to integrate the national economy into the global one. It is still one of the few decisions of the Kremlin, which has never been reconsidered or even reformulated.

The reality of the contemporary world is that global economic governance has been concentrated in a number of organizations and forums. Membership there is both a matter of national prestige and a useful tool for national involvement in the management of international socio-economic affairs. The Russian Federation has become a member of some of them without serious efforts: IMF, World Bank, the Bank for International Settlements, G8, G20. The only exception for many years has been Russia's failure to obtain a full member status of another two global economic institutions:

the World Trade Organization (WTO) and the Organization for Economic Co-operation and Development (OECD).

WTO

Applying for WTO membership, Russia has strived to obtain several goals. Besides the facilitation of access of Russian goods to foreign markets and the reduction of prices for imported goods, current Russian leaders are using WTO membership for solving a number of important political and economic tasks. It is these tasks that are the most important challenges for the country in 2013 and in many years to come.

Firstly, to intensify competition in national markets and improve the business climate. With WTO membership as an external driver, liberals in the Russian Government are planning to speed up the development of economic institutions. The country needs a more efficient legislation and court system, equal access to information for all market players, governmental protection of property rights, law enforcement, clear rules of the game in relations between the government and business.

Secondly, to attract foreign direct investments into the national economy to overcome disastrous consequences of the deindustrialization in the 1990s. This task is rather contradicting since the flight of Russian capital reaches annually the level of \$50 billion due to an unfavourable business-climate and a lack of trust in the Russian authorities. It is because of these factors that the attraction of foreign capital is becoming both a commercial and political challenge. The Government's message to the national business community is: the business climate is changing for better and the Russian authorities are working hard to stop the flight of national capital.

Thirdly, to solve the strategic long-term task for the Russian economy: the elimination of the orientation to the export of raw materials and finding a way to the global market for national high-tech products.

INTEGRATION INTO GLOBAL ECONOMIC STRUCTURES

After record-breaking 18 years of negotiations, the Russian Federation became a full member of the WTO in August 2012. The terms of Russia's accession are rather attractive for its government and many sectors of national business. At the same time, many Russian producers of industrial and agricultural products are appealing to the Government and Parliament with requests to protect them from the growing competition. Since August 2012, requests for more protectionist policy are more and more active. Until now, the reaction of the Russian authorities is firm: limited assistance will be provided during the transitional period, as agreed with the WTO. Of course, we should expect multiple attempts by the regional authorities and inefficient enterprises to postpone the implementation of the WTO rules in the national legislation and law-enforcement practice. But our prognosis is that despite occasional symbolic concessions to different lobbies, the Russian Government and the Federal Council will oppose to major attempts to revise formal WTO obligations.

Definitely, the access to the WTO will assist Russian reformers to put the country on a track of a more sound and transparent economic policy. The weak institutional system of the country will still prevent SMEs and individuals to benefit from the liberalization of the economic system. But we consider WTO membership as the most important positive external shock for Russia's system of economic governance and in several years we will document fundamental institutional changes of that.

OECD

The Russian Federation's accession to the OECD was announced as a high foreign policy priority as early as in January 1992, right after the collapse of the USSR. On June 1994, Russia and the OECD signed the Declaration on Cooperation, which opened doors to almost 30 OECD committees and working groups for Russian experts and researchers. Two years later, on May 20, 1996, the

Russian Federation officially submitted a request for membership in the organization. Since 1997 there is the Committee on interaction between the OECD and the Russian Federation, whose mission is to discuss Russia's economic reforms with experts of the OECD.

The new era of OECD-Russia relations started on November 30, 2007, when the Session of the OECD Council approved the Roadmap for the accession of the Russian Federation to the Organization. Igor Shuvalov, the First Deputy Prime-Minister of Russia, is nowadays the Head of the Governmental Commission on interaction with the OECD. At the APEC Vladivostok Summit in September 2012, he declared that it should take no more than 2 years for Russia to implement the 2007 Roadmap as well as later-on OECD decisions, and 2014 is a realistic date for its accession to the Organization.

Today, the Russian economy is globally seventh, if we count its Gross Domestic Product by purchasing power parity – approximately \$2,800 billion in 2011. That is why Russia's problems with entering the OECD have nothing to do with its size. The real obstacles are the quality of its institutions, the tradition of governmental institutions' interference into business, illusory independence of courts, monopolization of many economic sectors.

The strategic aim of the Russian Federation is to upgrade its status among the leading economic powers of the world and to become an integral member of the community of the developed nations, associated with the OECD. This task is predominantly political. Liberals in the Russian political leadership and business community are committed to the irreversibility of democratic and market-oriented reforms as well as interested in fixing transparent “rules of the game” in the national economy.

I think that Russia does have very good chances to become an OECD member in the next two years. The accomplishment of this task could be encouraged by its chairmanship in two forums of the leading global economies. In 2013, Saint-Petersburg will host a G20 Summit and one year later Russia will take the rotating presidency

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in the Summit of Eight. Russia's leadership in these two forums may become a good background for its attempts to enter the OECD.

We do consider entering the WTO and OECD as the most reliable guarantee that Russia is serious in its attempts to integrate into the global economy. The current generation of Russian leaders would like to see Russia in the group of the developed countries, even if there is no interest in developing political institutions in the country alongside the standards which exist in the OECD member-states. The effect of the WTO accession on institutional changes will be rather limited in the short run, but its influence will be very positive if we take a longer historical perspective.

RUSSIA AND NATO

Toomas Riim

The war of words between Russia and NATO over the Ballistic Missile Defence System planned to be built in Europe by the USA/NATO continued in 2012. Since Russia was not given any guarantees at the NATO Chicago summit held in May 2012 that the missile defence would not be directed against Russia's nuclear deterrence, Russia declared that the negotiations with the USA upon the missile defence reached a deadlock (as was predicted in the previous Russia-NATO forecast). Although the leaders of NATO member-states at the Chicago summit provided Russia with a political guarantee that the missile defence in Europe would not be directed against Russia, Vladimir Putin, who was again elected President of Russia in March 2012, declared that 'mere declarations' are 'childish' and real guarantees would be required. According to NATO's Secretary General Rasmussen, NATO has already given Russia "a lot of representations and guarantees" that the missile defence system will not be directed against Russia's nuclear deterrence. In essence, the rhetoric of both parties on the missile defence remained the same as in 2011 and even its vocabulary did not change much.

Naturally, in 2012 Russia renewed its threats to deploy the theatre ballistic missile system Iskander in the Kaliningrad Oblast. As early as January a "source in the Baltic Fleet headquarters" informed that a battalion of Iskander missiles would be deployed in the Kaliningrad Oblast in the second part of 2012. In May 2012 Nikolai Makarov, the then chief of the General Staff of the

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Armed Forces of the Russian Federation, said at the international conference dedicated to the missile defence system that “in south and northwest Russia the deployment of new attack weapons designed to shot down components of the ballistic missile defence system, including the deployment of the theatre ballistic missile system Iskander in the Kaliningrad Oblast, is one possible option to destroy the infrastructure of the ballistic missile defence system in Europe” and Russia might “make a decision to deal a preventive strike against the ballistic missile defence system to be deployed in Europe.” The deployment of Iskander missiles in the Kaliningrad Oblast has so far remained merely a threat, but the deployment of modern S-400 anti-aircraft weapon systems in the region supposedly started already in April 2012.

In June, the Russian prime-minister Dmitri Medvedev warned about the possibility of a new arms race if NATO and Russia fail to resolve their differences concerning the planned missile defence system by 2018. Nevertheless, by the autumn of 2012 the parties renewed their interest in the advancement of political dialogue and practical co-operation, at least within the framework of the NATO-Russia Council (Lavrov-Rasmussen meeting in September). Furthermore, Alexander Grushko, former deputy foreign minister nominated by Putin on October 24 for the position of Russia’s ambassador to NATO (the former ambassador Rogozin was relieved on April 25), may be hoped for to improve relations. Already on November 15 Grushko announced that Russia is ready to re-start negotiations with NATO upon the CFE Agreement from the “clean slate”.

Against this background it was stated in 2012 that “military co-operation between Russia and NATO has been restored to the level achieved by August 2008, i.e. by the start of the Russian-Georgian war”, especially in the areas of counter-terrorism, fight against pirates, sea rescue and military logistics. Several Russia-NATO joint military exercises in the above listed areas have been carried out or planned for the future. Several arms purchase agreements have been also concluded between Russia and NATO member-states, e.g. the sale

of French Mistral-class helicopter carriers, armored vehicles and modern infantry gear, German brigade training complexes and Italian armored personnel carriers. However, some NATO member-states, including the Baltics, expressed their concern because of the sale of the Mistral-class helicopter carriers. Such “massive” purchases of Western weaponry are understandably disliked by the Russian defence industry as well. Therefore, this issue was put for review under Sergei Shoigu, who became the defence minister in November.

Russia-NATO practical co-operation in Afghanistan continued in 2012. During the last year NATO and Russia have been negotiating upon the creation of a logistics centre in the Ulyanovsk-Vostochny airfield in Ulyanovsk city to handle NATO shipments from Afghanistan. It is supposed to be a multimodal transit from Afghanistan to Europe using carriage by land as well as air. For this purpose, on June 25 the Russian government granted NATO member-states a permission to use air and railway transport in addition to land transport for the transfer of weapons and military equipment through its territory to Afghanistan and back. Moreover, in June the State Duma ratified an agreement with Italy, allowing the latter to transfer military personnel and equipment to Afghanistan. Russia already has similar agreements with the USA, Germany and France, allowing the use of air corridors and railways to transfer equipment to Afghanistan and back. However, in April Russia’s foreign minister Sergei Lavrov criticised NATO’s plan to withdraw troops from Afghanistan by the end of 2014. “Until Afghanistan is capable to ensure security in the state by itself, it is not right to set artificial deadlines for withdrawal and they should not be set this way,” said Lavrov.

The last forecast mentioned that Russia would not tolerate NATO’s intervention in the civil war in Syria similar to the events in Lebanon in 2011. Russia blocked a resolution upon Syria in the UN Security Council, as it had promised in 2011. NATO (speaking through Rasmussen) also declared that it had no plans to interfere with the situation in Syria, but in November Turkey asked NATO to deploy the surface-to-air missile systems Patriot along the border

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with Syria. On November 23 Lavrov warned against the deployment of the Patriot missiles on the Syrian border, adding that this step may cause a temptation to use the missiles and start a serious armed conflict with NATO's participation. According to Rasmussen, such a step would be merely a "defensive measure" and would not in any way mean "the imposition of a no-fly zone or other offensive operation." However, certain new tensions have become visible that may darken Russia-NATO relations more seriously in 2013.

Forecasting the development of Russia-NATO relations in 2013, any breakthrough with regard to the Ballistic Missile Defence System in Europe is unlikely. Since the USA on principle does not wish to provide Russia, as demanded by the latter, with legal or "military-technical" guarantees that the missile defence system is not directed against Russia's nuclear deterrence, the rhetorical war is bound to continue in 2013. At the same time the USA will continue the deployment of the missile defence components in Turkey and Romania and Russia will continue threatening to deploy the Iskander missiles. It is not impossible that Russia will deliver on its threats and deploy a battalion of the Iskander missiles in the Kaliningrad Oblast. Nevertheless, such a step is unlikely to cause a radical change for the worse in Russia-NATO relations, except the displeasure of Poland and the Baltics.

However, if the situation worsens in Iran and Syria, NATO intervention in these states with subsequent angry reactions by Russia cannot be ruled out. At the same time, we can reiterate the prediction made in the previous forecast that irrespectively of the developments in the missile defence system, Russia-NATO military-technical co-operation will be expanding. As NATO plans to withdraw battle units and heavy weaponry from Afghanistan by the end of 2014, it will still need transit corridors through Russia. Direct financial benefits enjoyed by the Russian state and companies from

such co-operation are no small matter as well. The construction of the NATO logistics base in Ulyanovsk, which would significantly simplify for NATO its Afghanistan-related transit, is likely to proceed in 2013. During the meeting of the Russia-NATO Council at the level of foreign ministers in early December, a need to strengthen co-operation upon stabilisation and anti-drug activities in Afghanistan in 2013 was also declared. Regarding the missile defence system in Europe, it was agreed that (at least) consultations would continue.

RUSSIA AND EU

Ahto Lobjakas

The 2012 forecast got at least this right: the year 2012 saw growing “disorder” in the EU-Russia relationship. Entropy in the contractual underpinnings of the relationship has now become the rule. Talks on a successor treaty to replace the Partnership and Cooperation Agreement, which expired in 2007, are in limbo. Even Russia’s entry into the WTO, instead of lending new coherence to commercial ties, appears to have just served to open another front in the escalating tug-of-war between the two sides over rules and the wider significance of rule-bound behaviour in international interaction in general.

What the forecast failed to foresee was the degree of potential for discord in the relationship. It failed to predictively credit the European Commission with the determination to take on Gazprom’s price-setting practices. It failed to foresee the rise and fall of Pussy Riot. It failed to foresee the European Parliament’s enthusiastic and repeated involvement in the Magnitsky affair (as well as Herman van Rompuy’s dry but stinging comment that the affair is “emblematic of what’s wrong with Russia”). It certainly failed to foresee the toughening of Angela Merkel’s stance vis-a-vis Moscow.

The 2012 report did suggest, more or less correctly, that the shared neighbourhood would be contested by Russia with a growing determination even though the changeover in Georgia appeared to have been very much a domestic matter. Belarus, Ukraine, Armenia and Azerbaijan are slipping away from Europe. Even without ascribing all this to direct Russian interference, this process inevitably means Moscow is acquiring greater leverage in the capitals of these countries.

Applying foresight without the benefit of hindsight to 2013, it appears that the course of the European Commission's investigation into the alleged price-fixing by Gazprom could prove decisive. The Kremlin has made it crystal clear it does not intend to cooperate and has suggested, for good measure, that it suspects sinister anti-Russian geopolitical motives to be at work. The European Commission, on the other hand, has a fearsome record when it comes to infringements of EU single market rules. It also has not lost a single such case in the European Court of Justice since 1958.

It also appears a relatively safe bet that having emerged unscathed from skirmishes over Russia's rights record in 2012, officials in Brussels and member state capitals will continue in a similar vein in 2013, to the mounting chagrin of Vladimir Putin and his entourage. Should this prediction prove correct, the EU's greater assertiveness on issues of principle along with a more determined stance vis-a-vis Gazprom could lead to, if not a fullscale Cold War, then at least a minor ice age.

As ever, Germany's position will be the key in determining developments. Assuming that Angela Merkel retains her current healthy lead over her Social Democratic challenger Peer Steinbrück, the elections in September 2013 could open the door to a serious contest of wills between Europe and Russia.

Allegations in 2012 of heightened Russian spying activities in Brussels and other EU capitals are likely to be harbingers of more of the same to come. Responses at the national level can only lead to further complications in the EU-Russia relationship.

However bad things get though, outright EU sanctions over anything (whether Gazprom or human rights issues) appear very unlikely. Should there be sanctions of any kind, the whole relationship could rapidly go into a nosedive – something which Germany, especially, will be very anxious to avoid.

Whether these tensions could spill over to a renewed clash of wills in the EU's eastern neighbourhood is too early to say. Certainly, the EU will remain embroiled in multiple crises and hence unable to mount

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a credible challenge to Russia even if it wanted to; also developments in the region seem increasingly driven by domestic factors and these are proving very difficult to gauge (Georgia is a case in point). A lot will depend on whether the EU will be able to close ranks ahead of the Vilnius summit with the Eastern Neighbourhood countries. Association and free trade agreements signed simultaneously with Ukraine, Moldova, Georgia (and possibly Armenia, too) could send a powerful signal. Current indications suggest, however, another damaging intra-EU row with most of the eastern member states ready to move on Ukraine, others not.

Moldova's leapfrogging Russia in visa liberalisation talks could also cause psychological damage to Moscow. In any event, Moscow is extremely unlikely to secure what remains its major remaining desirable vis-a-vis the EU – visa free travel – in 2013.

Russia seems to have been caught on the hop by much of what has happened in 2012. News ahead of Vladimir Putin's trip to Brussels for the twice-yearly summit with the EU (no changes here) certainly suggest he is in a mood to create complications – reportedly intending to seek recognition as the leader of the Eurasian Union (Russia, plus Kazakhstan and Belarus). If so, Putin is likely to miss a trick, sowing bemusement instead of confusion among his EU hosts. The EU has failed to take the Eurasian Union seriously at any level.

One area worth closer attention and inspection in 2013 will be the EU and Russia's diverging foreign policy agendas. There is a longstanding, semi-institutionalised split over Iran, but Syria could prove even more damaging in the short run, with NATO now also taking a closer interest via Turkey.

Overall, Russia is likely to exploit the various crises and domestic difficulties in the EU (as well as the US) to advance its long-term goal of being accepted as one of the ranking decision makers – and “normative poles” – in what both Vladimir Putin and Dmitry Medvedev have both previously described as the “Euro-Atlantic civilisation.”

RUSSIA AND GERMANY

Kalvi Noormägi

The trends predicted in the last forecast have failed to materialise. There have been no developments in the energy partnership. The German government has not formulated a specific position in support of visa-free travel between Russia and the EU and relations in the area of security policy have not become any closer.

Germany's policy towards Russia is entering a new stage. Germany is visibly dissatisfied with the continuity of Vladimir Putin's rule. It is clear that Putin's return to presidency has not exactly filled Germany with enthusiasm. Putin has firmly removed from the agenda Medvedev's talking points about the modernisation and democratisation of the system of government. On the contrary, similarly to his first term in office, Putin again started to further consolidate state power. It is evident in legislative changes limiting the activities of civil society and a more inflexible approach to foreign policy.

Germany has not failed to take note of these developments and different parliament factions adopted a resolution (supported by the conservative CDU/CSU, liberal FDP and the Greens) in the most abrasive terms used since the collapse of the Soviet Union.

Germany's partnership philosophy – to help Russia where it is weak and ensure democratisation through economic partnership – has failed. At the same time, the official strategy carried out by the Foreign Ministry has not changed and Germany's politicians have not yet worked out a new approach to Russia. The relations between the two states intensified at the beginning of the last decade

during Gerhard Schröder's red/green coalition government with an emphasis on economic ties, because Russia needed Germany's investments and technology and Germany needed fossil fuels. Mr. Schröder claimed that economic interests are national interests (*nationale Interesse*). The intensive dialogue established by the former chancellor continued during Angela Merkel's first government; the continuity was ensured through Frank-Walter Steinmeier, who served as Chief of Staff in the German Chancellery during Gerhard Schröder's government and, subsequently, as foreign minister in the government of Ms. Merkel.

Germany is unlikely to work out a new approach to Russia in the near future. The government and political elite are too preoccupied with multiple other problems, most of all with efforts to overcome the European debt crisis. The recently started parliament election campaign (the elections are scheduled in November 2013) also does not leave much room for the deliberation of long-term strategies.

At the same time, the global economic and financial crisis has clarified Germany's role to a broader public. This role started to change after the fall of the Berlin Wall and it has been interpreted by political scientists as the normalisation of the state. A 'Berlin republic', the biggest European economy that replaced a 'Bonn republic', has remained faithful to the major keystones of its foreign policy: European integration and transatlantic co-operation. However, Germany's economic power has also translated into a greater political power which is especially evident in the utmost attention paid by Europe to developments in Germany and to what and how decisions are made in Berlin. During the last two decades Germany's politics has seen several moves that may be described as the search for a new identity. All three chancellors who led Germany after the re-unification had different political styles and political realities have been changing in parallel with Germany's growing power. Now is the first time since 1949 when Germany is being criticised for its role (most vocally on its European policy).

Germany's Moscow strategy – to promote and strengthen democracy through economic ties – has failed. Russia wants technology and investments and more eagerly protects its public against foreign influences. German think-tanks and civil society organisations have recently been more critical of the Russian political elite. Russia's new law on NGOs allows the government to brand NGOs foreign agents and legally close them.

Germany's earlier ability to nudge Russia to compromise has greatly diminished.

Germany is short on new ideas how to promote this partnership. It is also preoccupied with the European debt crisis. Berlin is being increasingly looked to for leadership, of which the most telling example is the much-quoted words of Poland's foreign minister: "I fear German power less than I am beginning to fear German inactivity."

In 2007 the Bertelsmann Foundation carried out a research of Germany's image in the world and how the Germans perceive the place of their state in the international system. The research came to the conclusion that the Germans see their state as less important compared to the perception of Germany by other nations; they consider Germany an economic power but do not think it has a lot of political clout. Timothy Garton Ash commented in this regard that Germany is a reluctant hegemon that has found itself a leader of Europe, being unprepared for the role.

Germany definitely does not wish to antagonise Russia. A certain romantic fascination with Russia will fade, but realities of geography will never allow Berlin to ignore Moscow and, therefore, the German government will be adjusting its policy according to changing political realities. Economic co-operation (strategic partnership) will remain the main area of the bilateral relations between the two states and Germany will abandon hope to promote civil society through closer political relations. However, against the background

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of these political relations the year of 2013 will be greatly influenced by the Bundestag election campaign. Any progress on visa-free travel between Russia and the EU is unlikely, because the German public opinion is against it. To sum up, I predict the following developments in 2013:

- trade between Russia and Germany will grow;
- the political dialogue will remain abrasive;
- Angela Merkel will form a new government in late 2013 with the Greens as a coalition partner.

RUSSIA AND UNITED KINGDOM

Eoin Micheál McNamara

The September 2011 state visit to Russia by British Prime Minister David Cameron was heralded by many, including the author of the last year's prognosis, as an event that would likely reduce tensions and improve relations between Russia and the United Kingdom. The past year has produced events that verify this prediction, but also events that could signal a further slump in UK-Russia relations. Diplomatic interaction remains minimal. Paradoxically, Britain's policy towards Russia is largely mundane, but often interrupted by high-profile, politically controversial issues. Meanwhile, Russia prioritizes Berlin, Paris and Brussels as the main contact points in its EU relations, leaving London of only marginal importance. There has been a conscious attempt on both sides to conduct relations in a cordially pragmatic manner. However, this has not been enough to mask the mutual unease built up over the past decade. The prospects are mixed as to whether these patterns will change in 2013.

The economic sphere provides modest opportunity for positive relations to develop. According to UK Trade and Investment, in 2011, British exports to Russia amounted to £4.78bn, which was a 39% increase on 2010's figures. Outside Europe and North America, Russia is Britain's third largest export market. With industries concerned with oil and gas extraction the most popular, Russia is emerging as an attractive investment location for British capital. In 2012, BP, a significant player in this market, lost out to American giants ExxonMobil in their bid to collaborate with Russian state-

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owned Rosneft on the further exploration of Western Siberia's oil fields. While a setback, this is unlikely to hurt BP's ambitions in Russia as this market is likely to provide other lucrative opportunities in the future.

2012 saw Britain's political focus on Russia concentrated mostly on the events surrounding the Russian presidential election. Vladimir Putin and his associates have a number of prominent critics within the British establishment. British media coverage of the election was plentiful and commentary on possible electoral fraud by the Russian authorities was well heard. Nonetheless, Prime Minister Cameron was seen to respond pragmatically. As reported by the media, Cameron spoke to Putin on the phone shortly after his re-election. Steering clear of more controversial issues, Cameron did not congratulate Putin as Russia's president-elect, but stated that he looked forward to working with him in the future. One suspects that Cameron's stance was influenced by Britain's continued close alignment with the United States on foreign policy matters beyond the EU. Since 2009, the US position on Russia has largely tried to avoid confrontation and instead attempted to develop areas of mutual interest. Thus, one can likely presume that the UK will take a similarly pragmatic line towards Russia in the future.

While this pragmatic position will persist, points of discord in UK-Russia relations will still be seen in 2013. The mainstream British media keeps a close eye on Russia's domestic politics; there has been no shortage of criticism for what continues to be seen as a sharp deterioration in Russian standards on democracy and human rights. Roughly starting with coverage of the Litvinenko assassination in London in 2006, the Russian leadership is often portrayed by the British media as crudely cynical, particularly in its domestic dealings. This emerged during the coverage of the sizable protests around Russia's recent parliamentary and presidential elections. In this respect, British coverage of the prosecution of the Russian punk group turned anti-regime activists, Pussy Riot, was particularly scathing. Thus, constrained by an influential media often piercingly

critical of Russia's rulers, it is unlikely that the British leadership will seek to better relations with Moscow beyond the pragmatic position being pursued at present.

Sharp disagreement surrounding the Syrian civil war was a major point of discord between Russia and the West in 2012. This will likely continue in 2013. Despite domestic economic fragility and declining military prowess, the UK has repeatedly argued Western intervention as a remedy for civil war in the Middle East. September 2012 saw Cameron denounce those blocking UN sanctioned action against Bashar al-Assad as having "the blood of children on their hands". There is little doubt that this message was directed at Russia and China. Conversely, as a long standing supporter of both the principle of sovereign non-violation and Assad's regime, the Syrian situation is particularly tense for Russia. Putin was an angry opponent of the British and French led military intervention in Libya in 2011. With the Syrian conflict protracted, high-profile disagreements between the UK and Russia on this important issue are very likely in 2013.

In sum, the patterns defining UK-Russia relations will remain somewhat paradoxical. Mutual interests remain relatively sparse. Each sees the other of medium importance and would like to foster a relationship of pragmatic cooperation in both economic and political affairs. Mutual relations should remain reasonably amicable due to progressing trade ties. However, politically speaking, prominent difficulties in 2013 will likely originate from British criticism of lapsing democratic standards in Russia and/or heated disagreements on how to deal with civil disputes in the Middle East.

RUSSIA AND ITALY

Stefano Braghiroli

The 2012 prognosis rightly predicted a trend of growing de-personalization of bilateral relations, following Berlusconi's resignation and the appointment of a technocratic government chaired by Mario Monti. However, the normalization of the relations did not alter the substance of the bilateral ties, based on solid mutual economic and strategic interests. The new government marked a strong continuity in terms of policies and did not abolish most of the structures (i.e. "2+2" ministerial meetings) developed in the past years as a reflection of the strong personal friendship between former Italian Prime Minister Silvio Berlusconi and Vladimir Putin.

Italy traditionally represents one of Russia's "strategic partners" in the EU and its special relationship with Moscow has been occasionally called into question within the EU circles for undermining the European unity, especially in the case of EU energy policy.

The prioritization of warm and intense bilateral relations represents a constant in Italian foreign policy, regardless of the political colour of the governing coalitions. Similarly, Russia's perspective on Italy did not change following the alternation between Putin and Medvedev at the Kremlin. In his first visit to Russia in July 2012, Monti stressed the importance of further strengthening political and diplomatic relations marking a strong continuity with the previous government.

In 2012, Italy represented the third trade partner for Russia and its seventh largest exporter. More than 500 Italian companies operate in Russia, while the Italian presence in the banking system appears particularly relevant, with Unicredit Bank and Banca Intesa. As suggested by the 2012 report, the intensity of bilateral trade between Rome and Moscow has approached the pre-crisis level and

economic exchanges are likely to further increase in the light of Russia's WTO membership. However, the way the ongoing global crisis will evolve might pose significant challenges. Worth noting is the persistent negative trade balance for Italy. This trend is likely to continue in 2013, given the structural difficulties of the Italian economy. When it comes to the current crisis in the Eurozone, Italy is likely to advocate a greater involvement of Russia in its solution. Given the strong interconnectedness, a solid Eurozone appears in the interests of both the EU and Russia.

When it comes to the energy partnership with Russia, in 2012, Moscow covered 15% of the oil supply and 30% of the gas supply. Russia is regarded as a traditionally trustable provider. Moreover, the main Italian energy companies such as ENI, ENEL, and SAIPEM consolidated their presence in Russia and actively cooperated with Russian partners. In 2013, the Italian government is likely to further support ENI Group's involvement in the South Stream project diplomatically and economically, within the framework of a wider process of the liberalization of the energy sector between the EU and Russia.

An important aspect of Italian-Russian relations that gained momentum during the previous government concerns the cooperation in the field of foreign affairs and security, both bilaterally and within the framework of the NATO-Russia Council. In this respect, while continuing the tradition of enhanced bilateral cooperation as part of the "2+2" ministerial meetings (the last summits of the Ministers of Foreign Affairs and Justice were held in April 2012), the Monti government is likely to frame it as part of a wider EU Foreign Policy cooperation strategy with Russia. In this respect, in 2013 Italy is likely to promote more intense consultation between the EU and Russia when it comes to the management of the Syrian crisis. An example of fruitful cooperation in this field with clear economic implications is the cooperation of Sukhoi and Alenia groups for the production of the military aircraft SuperJet 100 initiated in 2012. This trend is likely to continue over the next years.

Another key aspect that Italy is likely to promote at the European level is the introduction of the visa-free regime for Russian citizens willing to travel to the Schengen area. This dossier is particularly relevant for the Italian government not only in the light of enhanced bilateral cooperation, but also considering the fact that over the past years Italy has consolidated its role as one of Russians' preferred destinations.

A clear element of uncertainty that should be taken into consideration is the upcoming Italian parliamentary elections scheduled for April 2013. While none of the three possible scenarios – continuation of the technocratic government or party government either of centre-left or centre-right parties – is likely to sensibly alter Rome's relationship with Russia, some contextual changes according to the outcome of the elections are likely. In the unlikely event of a victory of a centre-right coalition, the government would profit from the good personal relations developed during the years of Berlusconi's premiership and it would possibly include ministers that are already "tested" in Moscow's circles. On the other hand, a centre-left government, while preserving the traditional "strategic partnership" with Moscow, would possibly intensify the de-personalization of bilateral relations. Moreover, a progressive government appears also likely to be more vocal on issues related to human and political rights in Russia, although the criticisms are likely to be more formal than substantive.

RUSSIA AND SPAIN

Hendrik Lõbu

As the last prognosis predicted, the elections in both countries did not cause any notable change in Russian-Spanish relations. The new leaders, Prime Minister Mariano Rajoy in Spain and President Vladimir Putin in Russia, have the same look on the Russian-Spanish relationship as their predecessors. Since there are not many topics where these two countries could theoretically harm each other's essential political interests, then the main focus of the bilateral relations will be economy. The future of Russian-Spanish political relations should be looked in the context of Russian EU-policy and to some extent, considering Russian interest in Latin America.

Economic relations

In the last two or three years, Russia has prioritized the cooperation in the fields of science and technology. In 2011–2012, there were signed a number of contracts between Russian State and Spanish construction companies and Information Technology enterprises in the framework of the so-called Partnership for Modernization. However, in 2012, some initiatives in this sphere were postponed to the future for different reasons (bureaucratic obstacles, economic crisis, etc). I still dare to claim that in the next year we will probably see the first actual fruits of the recent deals and the realization of some common projects in Russian infrastructure. The preparations

for Sochi Olympics in 2014 ought to be finished by the end of 2013 and Russian-Spanish joint engineering projects will get, at least from Russian side, its full support.

The main challenge for economic cooperation and mutual trade in 2013 will be the unpredictability of the Spanish national economy. The financial struggle of Spanish banks and low country rating may deepen the debt crisis of Spanish multinational companies. In some point, this would cause a radical setback in Spanish-Russian trade volumes or the change in the structure of the latter. Some processes seem to be on their way already. In the first four months of 2012, the trade between the countries was only two thirds of the amount of the last year's margin at the same time. Meanwhile, the annual trade may not decrease, because there are some signs of the changing nature of traditional trade relations between Russia and Spain. Russia's export to Spain is so far mostly constituted of oil and oil products. This year there has been an enormous rise of Russian direct investments to the Spanish real estate market. The estimates vary that about 250,000 to 0.5 million Russian citizens own real estate property in Spain and allegedly a big part of it has been bought in the last 12 months and for permanent stay. These numbers will be probably reflected in the next year's trade statistics. The influence of the Russian middle-class immigration on the Russian-Spanish relationship needs further investigation in the coming years. In accordance with the Russian investments in Spanish real estate the growth of the number of Russian tourists in Spain will continue. Here lies the cause why Spain has been and will be interested in visa freedom with Russia.

Politics

Russian interests in Spain have remained the same, except only with small connotations and I predict it to be so also in the foreseeable future. Russia sees Spain as a friendly country in the EU and NATO and tries to keep it so. For Russia, Spain's continuous support in the

EU in the visa issue is important and Spanish traditional skepticism about EU Eastern neighborhood policies. The same applies to Spain's position in NATO on its partnership with Ukraine and Georgia. In these matters, nothing particular happened in 2012. In world politics, Russia and Spain have opposing views on the situation in Syria and in 2012 both countries held some discussions over the issues of Latin America. In 2013 these two themes will remain important.

Latin America

Spain has a crucial role to play in Latin America and compared to other European countries, it has very intense economic, cultural and political contacts and power there. Spain is the second (after the US) when it comes to foreign aid in the region. Russia, which has deepened its relationship with anti-American regimes in Venezuela and Cuba, has to acknowledge not only the USA but also Spain in its Latin-America politics. For instance, when Russia is encouraging Venezuelan populist campaigns against international companies, it is aiming to weaken the positions of the US. On the other hand, this damages mostly Spanish companies, which have invested into the Venezuelan economy. The developments in Venezuela have been one of the main topics in the meetings between foreign ministers of Russia and Spain this year and this will continue in 2013. Russia sees Spain in Latin America as a kind of counterweight to the US hegemony and somewhat is willing to coordinate its policies with Spain in that region. A good example of that kind of tendency is Russia's participation as an official guest of this year's Ibero-American Summit, which was held in Spain. In the coming year, I predict that Cuba will gain more importance in Russian-Spanish political relations. President Raul Castro has made first steps to open Cuba's economy and Cuba is a country where Russia and Spain have some advantages compared to the US.

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In Russian-Spanish relations economic cooperation will prevail over politics. The problems in the Spanish national economy and ongoing migration of middle-class Russians to Spain may affect the trade balance.

There will be no considerable changes in political relations, except some consultations over the interests in Latin America (especially in Venezuela and Cuba).

RUSSIA AND NORDIC REGION

Veiko Spolitis

The previous analysis of relations between Russia and the Nordic countries is trustworthy, and so far Russia has cooperated with the Nordic countries mostly within the framework of low politics. Cooperation within sub-regional frameworks of the Arctic and the Baltic Sea States councils has continued at the low policy level and has been satisfactory so far. Strengthening of the president's "power vertical" and subsequent crackdown on civil liberties have added tensions to Russia's relations with the Nordic countries. Structural problems in the EU and the US decision to pivot to Asia have emboldened the current Russian leadership to view the West as "the other", thus making the Nordic countries cooperate also at the levels of high politics.

Framework of relations

The co-operation between North-West Russia and the Nordic countries is intimately linked to the European Union's (EU) policies for co-operation with Russia and the EU. The 1994 Partnership and Cooperation agreement is still effective and the Four Common Spaces framework enables to cooperate in such fields as economic issues and the environment; freedom, security and justice; external security; and research, education, and cultural aspects.

However, such cooperation is regenerating the same framework and for stepping up the cooperation at a whole new level a new EU-Russia Partnership and Cooperation agreement should be envisaged. After all, Russia's WTO membership and the NATO and EU

enlargement have changed the traditional framework of relations, but cooperative instruments have stayed with us unchanged all those years, such as the Knowledge and Networking Programme, participation in the Northern Dimension's Partnership, co-operation with NGOs (the NC's NGO programme), cross-border co-operation, co-operation through the Nordic institutions as well as co-operation with other regional players, such as the Council of the Baltic Sea States, the Barents Council, Helcom, and the Arctic Council.

The sub-regional framework for the cooperation between the Russian Federation and the Nordic Countries has not changed since the middle of the 1990's and is provided by strategic documents of the Nordic Council of Ministers (NC). Guidelines for the Nordic Council of Ministers Cooperation with North West Russia 2009-2013 are still there and fundamental for the relations in the fields of education, environment, good governance, education, and cross border cooperation. Mostly the North Western Russian regions are affected within such framework of relations.

Future outlook

It was my assessment in 2011 that gradually built pillars of regional cooperation in the wider Northern European region, which are based on principles of mutual trust, should not be affected by endogenous events because they are mutually beneficial. At the end of 2012, there is an increasing number of signs that the vulnerability of Putin's "power vertical" continues to decrease trust between the partners and affects relations between the Russian Federation and the Nordic countries even at the level of low politics.

The child abduction case between Finland and Russia has strained relations between Finland and Russia. Because Russia has not ratified the Hague Convention on the Civil Aspects of International Child Abduction, it is complicated to find solutions to such civic matters. Under the pretext of the "Foreign Agents

law” closure of the organization RAIPON (Russian Association of Indigenous Peoples of the North) by the Russian Ministry of Justice will seriously affect lives of about 300 thousand people in the Barents Sea region and diminish the trust between the Arctic, Barents Sea Council partners and Russia. Norway protested against the decision to close RAIPON and Russian Security Services responded with the academic Ivan Moseyev being prosecuted for treason by promoting indigenous Pomor separatism (population around 7 thousand).

To add insult to the injury, the Kremlin has aggravated the relations with Norway by stationing the 200th Motorized Infantry Brigade on the Norwegian border. Relations between Norway and Russia have been in their downward slope since 2007 when Russia renewed its long-range air patrols in the far North. Now, the decision of the Russian military to create two “Arctic brigades” does not constitute an immediate military threat; however, it is not a friendly act and has prompted NATO to hold military exercises in the north of Norway. Regardless of the latest reforms in the Russian military which have been partially halted by the new Minister of Defence, one may foresee that the haphazard formation of “Arctic Brigades” will stay with us due to the significance the melting Arctic ice plays in the new Russian military doctrine.

2012 was unusually loud in terms of the Kremlin’s announcements about the militarization of the Nordic Countries, and the Chairman of the Armed Forces General Makarov’s speech in Helsinki was used to show Moscow’s dissatisfaction with the close cooperation between the Nordic countries and NATO. Among reasons for such announcements is the slow development of the European Defence and Security policy, which has inconspicuously changed the traditional neutrality policy of Sweden after the Lisbon Treaty, but cannot still provide credible military guarantees as NATO. Still the decision of Norway to guarantee Icelandic air space within the Nordic Defence Cooperation (NORDEFKO) with non-aligned Sweden and Finland providing the air surveillance starting from January 2014 and the establishment of the Nordic Transition Support

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Unit (NTSU) for providing orderly transition in Afghanistan, with Latvia participating from early 2013 to underline that the Nordic countries' military cooperation is going to intensify. In broader terms it probably reflects Moscow's dissatisfaction with NORDEFECO, which indicates that the Russian military establishment feels vulnerable to the dynamically changing security environment around its borders.

The traditionally stable relations in high politics between the Russian Federation and the Nordic countries are fading away due to Russia and the West not converging but leading separate paths of development. Moscow is unable to hold domestic peace in democratic state affairs without modernizing its economic and political system. It means that even though most of the low politics programmes involving the Nordic countries and North Western Russia will continue, the participants in those frameworks of relations must be ready for arbitrary intrusions of the federal government. Russia is a member of the Council of Europe, OSCE, WTO, and several sub regional organizations that keep human rights in high esteem.

However, it is ironic, that the Kremlin will have to curb economic and social liberalization and deepen "the encircled castle mentality" in order to survive. It means that without common values being strengthened the pure interest based cooperation will become based on primitive tit for tat strategy and will only estrange the existing partnerships.

Future accusations of the Russian Secret Services will become a norm and one may predict the once cool relations of the Nordic states with Russia will turn frosty. The Kremlin's stick and carrot policies vis-à-vis the Nordic countries as well as preventing integration between the Baltic and Nordic countries (the so-called NB8 framework) will use the zero sum game strategy, but those Moscow's policies will backfire and should intensify both the NORDEFECO cooperation as well as the embedded integration of the Baltic and Nordic countries.

RUSSIA AND ESTONIA

Karmo Tüür

Last year we predicted some covert positive as well as overt negative developments. On the one hand, we expected progress in bilateral economic relations regardless of the many so-called grey zones and a tendency to suppress success stories. On the other hand, we predicted the continuing use of pressure issues (the Russophone minority, “false” interpretations of history, etc.) and the familiar confrontation in big politics (Estonia opposing Russia’s interests in Georgia and elsewhere.)

The forecast was mostly correct, but it did not foresee the lively discussion of the border treaty in late 2012. Although we did surmise a possibility of a quiet technical resolution of this issue, we did not expect its noisy political debating in 2012.

Border treaty

Therefore, in the first half of 2013 the border treaty will be the hottest topic. This process most effectively illustrates the difference between the two states. Since Russia is a presidential state, the push to resolve the border treaty problem came from the President, who gave an instruction to put Russia’s borders in order. Estonia is a parliamentary republic where the government is authorised to act by parliament and the position of Estonia’s Foreign Ministry changed within just a few days: an initial position “we have nothing

to talk about” (because the current situation satisfied both parties) was quickly replaced with “we need a border treaty” (because it is customary between neighbours to have one.) We may only guess the exact mixture of personal ambitions and willingness to weigh national interests of specific members of Estonia’s parliament behind these events.

One way or another, the parties indicated readiness to finally resolve this issue by late spring 2013, before the summer parliamentary recess. However, the author is not at all certain of a positive outcome, because the resolution ultimately depends on Russia’s political will. Although there are no material impediments, the source of political will in a presidential state may unexpectedly change direction. If this should be the case, all the preparatory bombardment would have no bearing on the final decision.

Economic relations

A quiet improvement of bilateral economic relations will continue through the increase of tourism (because of Estonia’s favourable visa policy) and the continuing growth of transit flows (because Russia’s ports lack sufficient capacity to service rising freight volumes). The fact that waiting lines at Russian-Estonian border-crossing points have been reduced to the minimum (thanks to the eradication of illegal petrol import from Russia in fuel tanks of personal vehicles and the general improvement of border-crossing procedures and infrastructure) is an apparently minor detail that will nevertheless create a favourable environment. At the same time, non-economic restrictions on the development of economic relations are still in place, of which the best example is an unofficial limitation of railway traffic to 60 pairs of trains a day.

There will be a significant progress in several cross-border cooperation projects. It is true, however, that this progress does not so much depend on mutual attraction and accumulation of resources as

on the financial incentives provided by a third party – the European Union.

Although economic ties are profitable to both participants, this area of relations will retain hypersensitivity to politics. To put it simply, to speak of Russia's interests in Estonia is to harm Russia's interests in Estonia.

International level

There are no major reasons to expect harsh verbal exchanges in 2013. At the same time, the habitual pressure applied by Russia to Estonia is unlikely to disappear. Most of all, “the situation of stateless persons and Russophone population” will continue to be a keyword at international forums.

In its turn, Estonia will not fail to focus attention on human rights, independence of courts and other issues (the cases of Sergei Magnitsky, Pussy Riot, or other similar cases). A somewhat odd mutual positive engagement in which Estonia pushes one way or another the issue of the Finno-Ugric peoples in Russia and the latter, in its turn, tries to build the image of Setos as an indigenous Russian people will also continue.

Estonia has had only tactical significance in Russia's political calculations. It means that the issue of Estonia is used selectively and according to necessity when Russia needs to achieve something in a larger strategic game, especially in Russia-EU relations.

Russia will also continue to be the “important other” for Estonia – something which Estonia is glad to keep silent about, but cannot help responding to irritants/signals coming from that direction.

If Russia's decision makers show a sufficient political will, the Russian-Estonian border treaty will be ratified, thus removing

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a technical but visible problem in Russia-Estonia relations. In its turn, it might give a positive momentum to issues of an even more technical nature, such as the construction of a new bridge over the Narva River, etc. However, the author has his doubts as to the sufficient extent of that political will. Still, he is inclined to believe that the border treaty will be ratified, although the chances are almost even that it will not be.

Noticeable setbacks in economic relations are unlikely, although the use of political measures might quickly change their likelihood. In big politics, Estonia will continue its energetic activities within NATO, developing its defence capability (e.g. the Ämari Air Base). Considering Russia's remarkable military activity across its Western border, a somewhat odd parallel game will be developing in which both parties will be building up military muscle without direct references to each other.

RUSSIA AND LATVIA

Andis Kudors

As it was predicted a year ago, the proposal for granting the status of state language to Russian was rejected by both the Latvian Parliament Saeima and at the referendum in February. The prognosis that the referendum would be followed by critical statements towards Latvia on the part of the Russian foreign policy establishment was also correct. Latvia responded by condemning what it described as Russia's attempts to cause split in Latvian society by using its compatriots policy and the media. This concern was expressed in the reports of Latvian Security Policy and Constitution Protection Bureau at the beginning of the year. The expected launch of the new Russian Foundation for Support and Protection of Rights of Compatriots in Latvia has not taken place yet. However, this may be expected to happen in the nearest future, for its importance was raised with mentioning it in Vladimir Putin's decree on foreign policy priorities signed immediately at his re-election.

Russia's Compatriots Policy

Russia's compatriots policy pays particular attention to spreading a specific historical view in foreign countries. In the early spring, two key figures behind Russian official memory politics were declared *personae non gratae* in Latvia. The theme of history will probably

not lose its timeliness also in 2013. Russian, American and European think-tanks have initiated a historical reconciliation process within the OSCE, which in the years to come may have an impact not only on the Russia – Poland, but also on the Russia – Latvia relationship.

It is significant that not only history but also the other timely issues in the policy toward compatriots – the Russian language, compatriots' rights and ecclesiastical matters – cause tension in Latvia. Whichever of these issues is made urgent by the implementers of Russian policy toward compatriots and NGOs in Latvia supported by them, the result is always expressed in political claims against the Latvian laws on language and citizenship. The negative impact of the Russian media and compatriots policy on the unity of society in Latvia will also remain the same. Konstantin Kosachev, head of *Rosstrudnichestvo*, an agency supervised by the Russian Ministry of Foreign Affairs, announced in September that the implementation of *soft power* by Russia would be based on the concept of “Russian World”. The mentioning of the concept of “Russian World” indicates that Russia will continue its support for the status of the Russian language in the neighbouring countries.

“Economization” of Relationship

The “economization” of Latvia’s foreign policy initiated a few years ago will probably continue and the background of negative rhetoric will not have a considerable effect on the growing volume of trade between Latvia and Russia. Although it is still too soon to assess the eventual gains for Latvia from Russia’s accession to the WTO, some tendencies already indicate that Russia wishes to protect particular sectors from free competition. The increase in the volume of trade with Russia stimulates the asymmetrical interdependency, which is both profitable and risky for Latvia. The IMF, while praising Latvia’s achievements in its recovery from the economic crisis, indicates, however, that Latvian banks have a too large amount (approximately

50%) of non-resident deposits. The collapse of the bank *Krājbanka* at the end of 2011 can serve as a warning that the “character” of investments should be evaluated more attentively. Also in 2013, wealthy Russians will probably continue to obtain residence permits in exchange for investments in Latvian companies, banks, or purchase of real estate.

“Europeanization” of Latvia’s Foreign Policy

In 2013, EU-related issues will predominate in Latvia’s foreign policy, such as the fight around the EU long-term financial perspective, preparation for Latvia’s presidency in the EU Council beginning in January 2015, preparations for accession to the eurozone. In summer, it will become clear whether Latvia will enter the eurozone on 1 January 2014 or later. The process may be hampered if the pro-Moscow party Harmony Centre initiates a referendum on Latvia’s accession to the “European nucleus”. It is significant that the Russian emissaries who are visiting Latvia advise not to make haste with the introduction of the euro in Latvia. Considering Russia’s latest initiatives in the regional integration sphere, the introduction of the euro has not only economic nature, but it is also one more step in Latvia’s geopolitical choice.

The issues related to the European Union will draw most attention in Latvia’s foreign policy of 2013. However, that will not cause a decrease in the importance of the ever timely relations with the neighbouring state Russia. It can be predicted that the “economization” of Latvia’s foreign policy will continue to be profitable in the relations with the neighbouring country. Russia’s criticism towards Latvia, which intensified in 2012, will continue also next year. Implementation of the compatriots policy and the

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influence of the Russian media are not easy to counteract in such a small, open and liberal country as Latvia. West Europe is gradually becoming aware of the influence of Russian information space in the neighbouring states. The above mentioned, combined with Europe's growing concerns about the violations of human rights in Russia, will cause the intensification of EU normative foreign policy and criticism of Russia.

RUSSIA AND LITHUANIA

Dovile Jakniunaite

Russian relations with Lithuania have already for a long time been described as “stable” and “stagnant”. The positions of both countries regarding each other are not changing and mutual negative perceptions are not improving. The recent years have demonstrated that only an incurable optimist could expect any radical positive changes in Russian – Lithuanian relations. Thus, the prognosis for 2012 was conservative and largely proved to be right.

As expected, the energy questions dominated the agenda, while politics of history lost just some of its previous intensity. Russia’s influence on Lithuanian domestic politics reappeared in public and political discussions of the country as the electoral season began to intensify.

Bilateral energy relations concentrated on gas and nuclear energy. As Lithuania continues to pay one of the highest prices for gas in Europe, it treats Gazprom pricing decisions as being discriminatory and political. Lithuania is one of the most enthusiastic promoters of the Third EU energy package seeking to unbundle the sales, production and transportation of energy in the EU. Gas production and transportation by Gazprom is one of the main targets of this policy. 2012 was marked by fights with the Russian company. When the European Commission started the investigation on Gazprom activities in Central and Eastern Europe, Lithuanian politicians celebrated and considered this move to be their victory as well.

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Lithuania continued its efforts to start building a new nuclear power plant (NPP). As Russia is planning to build a new NPP in Kaliningrad and Belarus is also having one, Russia looks very critically towards the Lithuanian project. In late 2012, the project got into problems after a referendum was organized regarding its construction and the majority of the voters opposed the proposal to build a new NPP. During the campaign against and for the referendum, Russia was considered the main interested party not to have the NPP. These discussions made Russia a significant player in Lithuanian domestic politics.

Discussions on history seemed to slow down, but the approaching elections intensified them in the second part of 2012. The main ruling party, the conservative Homeland Union, started to remind more often of the demands for the damages of the Soviet occupation, emphasizing their moral obligation and the will of the population. Another governmental commission was established to prepare for the negotiations with Russia regarding the occupation damages, and the Minister of Foreign Affairs, Audrius Ažubalis, expressed his hope that one day Russia, as the legal successor of the USSR, will make an apology to Lithuania for what was done during the sixty years of Soviet rule. Naturally, these actions provoked negative comments from Russian officials and commentators.

All these problems did not produce major escalations in bilateral relations. They just demonstrated that nothing has changed. However, 2013 promises to bring some changes, at least at the rhetorical level.

After the national elections to Parliament on October 14 2012, the former opposition parties – the Social Democrats and the Labor Party – won and together with the smaller Order and Justice Party have formed the ruling coalition. The new coalition is talking about the need to change Lithuanian policy towards Russia. The Social Democrats even mentioned the “reset” with Russia, implying a more forthcoming approach towards the bigger neighbor. They expressed a skeptical view about the demands for the damages of the occupation and stressed the need for a more pragmatic policy. Thus,

the new parties in power promise more effective and closer relations with Russia.

Can this change in mood of Lithuanian politicians bring any changes in bilateral relations? Energy questions, especially gas prices, will definitely stay on the agenda at least for the next couple of years. However, the assertiveness of the future government might decrease in desire not to annoy Russia even more. It will be a very convenient position as most probably the EC will successfully continue its anti-trust investigation on Gazprom practices in Central Eastern Europe on its own. A much trickier situation has formed around the project to build an NPP, but the solutions to this matter will be domestic and relations with Russia will play a secondary role.

The politics of history, especially the issue evolving around the occupation/ incorporation, should remain dormant and will provide a space for critique from the Lithuanian opposition. But the government should remain immune to such remarks. The recent increasing trend of tourism from Russia will most probably continue and economic cooperation should develop on a more positive note.

In the second part of 2013, Lithuania will hold the Presidency of the EU Council of Ministers and in that capacity will have to develop relations with Russia on the European level. The development of the Eastern Partnership is one of the Lithuanian priorities during its presidency, which might become a place for some additional clashes.

Historically we can see that changes in Lithuania's position regarding Russia might improve relations a little. However, these changes usually are not as big as expected. So, a friendlier and more open Lithuanian policy most probably will not create a huge impact on bilateral relations. There are two main obstacles to better relations: gas prices and policy, and questions of history which cannot and will not disappear in 2013 even despite a more proactive Lithuanian position.

POST-CIS POLITICS

Andrey Makarychev

Developments in 2012 have confirmed most of the forecasts made a year ago. This is especially true with regard to the prediction of *Russia's institutional competition with the EU in the common neighborhood area*. The EU (and Germany in particular) took rather seriously the challenge posed by the Russia-led projects of reintegrating the largest post-Soviet states, and wishes to take advantage of Russia's key weakness – lack of normative appeal in its neighborhood policies.

The question of the *limits of Russian power* in the post-Soviet region raised in my previous forecast also holds its importance. Russia's adherence to Realpolitik type of thinking prompts the Kremlin to perceive the Western soft power policies as inimical to Russia, thus requiring counter-measures. Yet attempts to integrate value-ridden issues in Russia's foreign policy only widen normative gaps with Russia's Western partners.

As for the *balance between two integrationist logics – political and technocratic* – it gradually shifted toward the latter in 2012. The Russian elite puts a strong emphasis on managerial and legal instruments, leaving aside the arguments related to common identity or history.

A year ago I expected the growth in *criticism of Putin's integrative project*. Russian critical voices were not that loud, but the criticism from the outside augmented. Discourses in Ukraine and Moldova remain very skeptical about the Eurasian Union, while in Georgia or Azerbaijan this option is not even considered as worth analysing. In

Europe, experts complain that Russia's sponsorship of the Eurasian integration makes Moscow less cooperative in issues of major concern for the EU, including conflict resolution and modernization of the Russian state.

As far as the “*great power management*” practices are concerned, they have not given so far much result. This is evident in the case of Moscow's obstruction of the Meseberg initiative, which was meant to institutionalize the EU – Russia security dialogue under the condition of cooperation in the Transnistrian conflict. While Moldova keeps capitalizing on its reputation of the East European “success story”, Moscow continues to torpedo the very spirit of the Russian – German security dialogue.

These trends will most likely continue to be of primary importance for 2013. The dominating trend will consist in Moscow's attempts to make its policies in the post-Soviet area more comprehensive, linking with each other the issues of economic integration and security. A good example is Central Asia: Russia struck deals in the energy and security spheres with Kyrgyzstan and Tajikistan and ensured its military presence in the region after NATO's withdrawal from Afghanistan, offering in return support on key economic issues – hydropower in Kyrgyzstan and fuel in Tajikistan. Yet Russia's policies toward its neighbours will face a number of structural impediments.

Firstly, Russia will be more strongly challenged by a group of Germany-led Eastern Partnership-interested countries who will do their best to turn the EaP into a platform for competition between the six countries for reaching European normative standards. In this sense the EaP will be seen as a framework for implementing the ambitions of those countries interested in association with Europe. It is likely that the EU will be eager to sign association agreements with Moldova and Georgia in November 2013 at the Vilnius summit of the EaP, while leaving the doors open for Ukraine as well.

The implementation of these plans will send a clear message to Russia. The competitive model of the EaP may evolve into conflicts with Russia, but the probability of this scenario will mostly depend

on Moscow. In the nearest future the Kremlin will likely get tougher on those countries – like Moldova – that achieved the best results in their bids for association with the EU. Russia has claimed that should Moldova “choose to lose its sovereignty” (i.e. join the EU), Moscow would reconsider its (though mostly rhetorical) support for Moldova’s reintegration. Russia will keep refusing to discuss troop withdrawal as unacceptable, and will argue that it must not be a condition for negotiations. Thus, Moscow will be increasingly reluctant to see the Meseberg initiative as a test case for Russia’s security relations with the EU.

Secondly, Moscow will keep interpreting sympathies to Europe in many post-Soviet states as results of unfriendly Western policies. The Kremlin’s estrangement from Europe will be in a sharp contrast with much more variegated discourses developed by those Russian neighbours that feel attached to Western institutions, either due to security reasons (Azerbaijan, Georgia), commercial interests (Kazakhstan), or their pro-European identity dynamics (Ukraine, Moldova).

Ukraine will be a particularly difficult challenge for Russia’s plans. The parliamentary election held in Ukraine in October 2012 gave the EU a chance to more robustly engage Kyiv in cooperation with the EU. Many European (especially German and Polish) entrepreneurs lobbied for a closer cooperation between the EU and Ukraine in spite of the negative effects of the Tymoshenko affair, and therefore for detaching Ukraine from Russian influence. Yet since the election has not been recognized by now as fair and free, political impediments for signing the association agreement are still there.

Thirdly, Russia’s positions in South Caucasus and the Caspian Sea region will be undermined by the strengthening of the Turkey – Azerbaijan nexus. This alliance will further marginalize Armenia, more deeply integrate Georgia in energy transportation projects, and “globalize” the Caspian region by expanding the operational space for Euro-Atlantic actors. All these effects will question the policies pursued by Moscow and render them more costly and less effective.

Thus, in 2013 Russia's strategy of institutionalizing its sphere of influence will not be implemented. Most of the neighboring countries will keep dealing with Russia as an important economic and security partner, but will be reluctant to take commitments stretching beyond mutually beneficial projects. Russia's policies toward former Soviet states will be conditioned by Russia's relations with other major players, above all Germany and Turkey. To enhance its competitive advantages, Russia will keep developing "soft" components of its power, but its skills and resources in this domain will be outperformed by other external actors.

RUSSIA AND BELARUS

Ryhor Nizhnikau

The last prognosis correctly stated that Belarusian-Russian relations would continue to put a major focus on strategic cooperation, economic integration projects and bilateral economic and trade issues. As it was also noted, the European vector of Belarusian foreign policy was largely neglected in 2012 and EU-Belarus relations continued to worsen. It is well expected that the core of Belarus-Russian relations will remain intact in 2013 and the trends of 2012 will be continued. The relations in 2013 will be characterised by close bilateral political, economic and military cooperation and may include another round of minor trade and economic conflicts, continued negotiations over the sale of several Belarusian enterprises or their merger with Russian counterparts, and receiving another loan from Russia. A major emphasis will be put on the development of Moscow-led regional economic projects.

Despite frequent rows that arise between the parties, bilateral cooperation is important for both governments as Russian support is important for maintenance of Lukashenka's regime and support of Belarus is important for Russia to keep its regional integration projects afloat and to contain the increase of the role of the European Union in the region. Moreover, as the developments of the recent years have shown, pressure on Alyaksandr Lukashenka bore no result. Neither an anti-Lukashenka campaign in the Russian media nor economic pressures on the regime worked, so Moscow so far has ceased its attempts to exert pressure. As a result, the system

of economic preferences, including access to the market and cheap energy, was reinstalled.

Economic cooperation

Russian economic and financial support is a key variable in the bilateral relationship. In 2012, Russia and Belarus maintained their strategic cooperation in numerous areas, including economic cooperation putting forward a few joint large-scale projects including the construction of the \$10 billion nuclear power plant. It is worth noting that the first foreign visit after his election as Russian President Vladimir Putin made to Minsk. Moreover, Minsk received necessary financial aid from Moscow without adhering to a precondition of privatization of state enterprises.

One important feature is that the formation of the Customs Union and the devaluation of Belarusian currency did not help Belarus to reduce its trade deficit with Russia. *Au contraire*, the trade deficit has increased by \$3.3 billion in 2011 to \$11.3 billion. The main problem of the negative trade balance is that it deprives Lukashenka's government of necessary funds to simultaneously maintain its socio-economic model and continue repaying government's external debt, which will amount to \$3 billion in 2013. This situation will presuppose a sale of one of the state enterprises and a request of another loan from Russia in 2013.

Minsk has also encountered a problem with Russian oil re-export and with negotiating the volume of supplies exempt from export duties for 2013. After 'the solvent case', in which Belarus exported duty-free oil products refined from Russian oil by labelling them as 'solvents', the Russian side proposed Belarus to pay a compensation and to reduce the designated amount of duty-free oil to be delivered in Belarus in 2013. This problem is yet to be addressed by the parties in December 2012; however, whatever decision is made, it is very likely that the same problem will occur again in 2013 as Minsk

is looking for possibilities to increase its earnings and re-export of refined Russian oil is one of few options it has.

Military and security cooperation

Military and security cooperation is another important dimension of multilateral and bilateral cooperation. In 2012, Belarus and Russia began to implement joint air defence agreements, while Belarus finally signed a treaty on regional missile defence group. Russia agreed to bolster Belarusian air defence by supplying modern Russian-made combat jets to protect the airspace over the borders of the Russia-Belarus Union State. Minsk also plans to have a full-size air defence battalion equipped with Russia-made Tor-M2 systems by late 2013 just as Kazakhstan will receive S-300 system.

In 2013 intensive military cooperation will continue. A major issue on the bilateral agenda will be the modernization of the Belarusian army. The Belarusian side wants Russia to help it modernize its military, which, as Belarus claims, is to protect Russia's own Western borders.

To sum up, in 2013, it is expected that Belarus and Russia will continue their strategic cooperation putting a major focus on the issues of trade, regional economic integration and privatization of Belarusian enterprises. Minor disputes will arise over trade, privatisation and conditions on a new financial loan, but overall Russia will continue its support of the Belarusian economy and Belarus will continue to take active part in Russian integration projects.

RUSSIA AND UKRAINE

Evgeny Treshchenkov

Despite the significance of Russia-Ukraine relations for both countries, there is a large quantity of factors that impede the onward and conflict-free development of these relations. In 2010 Viktor Yanukovich's rise to power accompanied by the formation of the coalition government by the Party of Regions resulted in the stabilization of Russia-Ukraine relations. However, the interaction between the two countries has not been marked by a qualitative improvement.

Forecasts of Russia-Ukraine relations for 2012 were corroborated in a number of respects.

Firstly, Ukrainian elites remained reluctant to accept Russia's attempts to embroil Ukraine to the Customs Union within the EurAsEC.

Secondly, Russia's hard-line attitude to the possibility of natural gas price revision for Ukraine remained stable.

Thirdly, agreements achieved in Russia-Ukraine relations in 2012 were either of technical importance (sectoral agreements and memoranda) or were only preliminary (for instance, the Statement on Principles of Delimitation in the Azov and Black Seas, July 2012).

At the same time, despite the forecasts, the return of Vladimir Putin to the presidency in 2012 did not result in any visible change in Russia's policy towards Ukraine. The hope to see the end of trade wars in Russia-Ukraine relations after the ratification of the CIS free trade area agreement was also thwarted.

Trends expected for 2013

Russia-Ukraine relations are asymmetric. Russia does not seem to be in an instant need of revising its approach to Ukraine. For Ukraine in its turn, a number of issues of Russia-Ukraine relations are of great importance.

The main challenges faced in the past years will remain on the agenda. Russia will continue its efforts “to rope” Ukraine into Eurasian integration projects. It will continue using *trade issues* and the *natural gas price problem* to exert *political pressure on Ukraine*. On the one hand, Gazprom senior managers have repeatedly indicated that there are no grounds to revise the gas price for Ukraine. On the other hand, Ukraine’s policy of gas supplies diversification can lead to the breach of the long-term gas supply contract with Gazprom. According to the contract, Ukraine has to purchase about 40 billion cubic metres (bcm) of natural gas annually, or pay for the unused amount. In 2013, Ukraine foresees to buy from Gazprom only 20 bcm of natural gas. This can provoke a new energy crisis in Russia-Ukraine relations. In addition, Gazprom’s projects for the South Stream pipeline and the expansion of the Nordstream need to be funded. Thus, any reductions for Ukraine would be subject to serious preconditions – for example, accession to the Customs Union or establishment of a consortium to manage Ukraine’s Gas transportation system.

Among the examples of trade issues being used as means to achieve political aims are the disputes on automobile utilization fees, regulation concerning steel pipe products imported in the territory of the Customs Union, etc. Evidently, trade disputes will be an essential part of Russia-Ukraine relations next year.

Factors that will affect Russia-Ukraine relations

In 2013 the bilateral relations will be influenced by the following factors:

1. Experts point out the decline of industrial production level in Ukraine. Discussions are also held around the prospects of national economy's default and on the possibility of the devaluation of the hryvnia. All these trends denote a *difficult situation of Ukrainian economy and financial system*. The suspension of the cooperation with the International Monetary Fund corresponds to the problem of searching for other sources for pumping up the budget. In this situation, the room for manoeuvre for the Ukrainian authorities will be severely limited, and the susceptibility to the problem of steep gas price will be aggravated.

2. *The lack of mutual understanding in EU-Russia relations* seriously compounds Ukraine's prospects for further development. Two main political and trade-economic partners – the EU and the Russian Federation – force the Ukrainian authorities to choose between two respective integration projects – European and Eurasian. Under these circumstances the in-between position of Ukraine, instead of providing country with new opportunities, results in a deepening of internal political splits and tensions.

3. *The factor of the Ukrainian opposition* in the new parliament will add extra strain against the background of bilateral relations. We should expect activation of the nationalist Svoboda party and other opposition forces both within and outside parliament. Such issues as the Language Law, the activities of the Orthodox Church of the Moscow Patriarchy, the legality of the so-called Kharkiv Agreements and the issue of the Russian Black Sea Fleet stationing in the Crimea will be on the agenda. Domestic tensions will undoubtedly impact on Russia-Ukraine relations.

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The potential dynamics of Russia-Ukraine relations is slowed down by both parties due to divergent views on the essence of these relations. The situation is unlikely to change in 2013. The estrangement observed in EU-Ukraine relations will hardly result in Ukraine's rapprochement with Russia. The European model preserves its attraction among the Ukrainian elites, at least rhetorically. On the contrary, the Customs Union is perceived as part of a Russia-led political project "sweetened" by trade-economic benefits. The Ukrainian authorities will continue to resist Russia's attempts to involve Ukraine in the processes of Eurasian integration. In addition, 2013 will demonstrate the limits of Russia-Ukraine political cooperation on several issues. One of them is the reform of the OSCE and Russia's approach to the problem. During its 2013 presidency of the Organization, Ukraine is unlikely to assist Russia's efforts in this direction. Russia in its turn does not seem to be interested in promoting Ukraine's interests within international fora, such as the G20 summit in St Petersburg.

RUSSIA AND MOLDOVA

Andrey Devyatkov

In 2012, the deterioration of Russian-Moldovan relations became a stable trend. Previously both sides managed to keep a pragmatic track, but now it turns out to be a less possible option. Conflict potential in bilateral relations is increasing.

2012 was remarkable because of two important factors. Firstly, on its way to Europe, Moldova took in October 2011 the incremental obligation to implement the second and third EU energy packages. These documents should provide the liberalization of European energy markets, but due to Moldova's participation in this regime the country finds itself in the centre of EU-Russian contradictions in energy sphere.

The Moldovan energy system is de facto under the control of Gazprom. The third energy package proscribes such a monopolistic position. Unlike in the case of the intra-EU markets, Gazprom does not yet signal any readiness to adjust to new rules in Moldova. Moscow has made Moldova's rejection to implement the third energy package a prerequisite for the negotiations about a lower price for Russian gas exported to Moldova as of January 2013. Moldova is asking Russia to make a 30% discount, first of all because Chisinau is unable to pay the current price of around 400 US dollars per 1000 cubic metres (one of the highest rates in Europe). Moldovan gas debts are already amounting to more than 500 million dollars. Consequently, Chisinau is facing a choice: to make a deal similar to that reached by Ukraine and Russia in Kharkov in 2010 (the so

called Naval Base for Natural Gas treaty) or to try to withstand Russian pressure. So far, Chisinau gained a 5-year postponement of the implementation of the third energy package at the Energy Community summit. But Moscow does not seem to be satisfied with such a half-solution.

Consequently, the gas issue will remain on the agenda also in 2013. But despite some expert predictions about the Russian – Moldovan gas war at the end of 2012, when a new agreement about importing and transporting Russian gas by Moldova should be signed, the opportunity for both sides to achieve a compromise is relatively high. It is unlikely that Russia is interested in repeating situations which arose in gas relations with Ukraine and Belarus in 2005–2006 and damaged its image as the key European gas supplier. Facing the low Moldovan payment capacity, Moscow will have to agree to a restructuring of the Moldovan gas debt. In the context of EU-Russian energy relations, Moscow will probably have to adjust to the new rules for Gazprom also on the Moldovan market and begin a reorganization of the national energy company Moldovagaz (this, however, might not happen as early as 2013). Chisinau, for its part, cannot expect any substantial discount for Russian gas, since it is given only to those countries which the Kremlin treats as strategic partners. As in the case of Ukraine, Russia will “not pay for the way of the country to the West”. Consequently, the problem of Moldovan gas debts will not disappear and it will cause further disagreements.

The second factor causing deterioration of Russian-Moldovan relations concerns Russia’s priorities regarding the settlement of the Transnistrian conflict. In 2012 it became clear that Russia is no more interested in the Meseberg process, which was initiated in June 2010 by Angela Merkel and Dmitry Medvedev as a means to deepen the EU-Russian security cooperation. Instead, Russia is going back to the status-quo policy. Dmitry Rogozin, who was in 2012 appointed the head of the Russian-Moldovan intergovernmental commission and the Special Presidential Representative on Transnistria, personalises this trend. Along with its harsh position on energy, Moscow also now

politicizes the issue of consular service for the Russian citizens in Transnistria and requests to open a Russian consulate in Tiraspol. This is being done despite the understanding that this request causes political conflict within the Moldovan political elites and society about what they see as de facto legitimization of the Russian occupation of the break-away region.

Moscow also seems to be unhappy about the prospect of the EU-Moldova association agreement, which is expected to be signed at the end of 2013 at the Eastern Partnership summit in Vilnius. An indication of that is the fact that the leadership in Tiraspol, which behaved in a very pragmatic way after the December 2011 change of government, has not taken part in the negotiations on the creation of the EU-Moldovan Deep and Comprehensive Free Trade Area (DCFTA). Due to this fact Transnistria will lose trade preferences on the EU market. This could cause a new political conflict, in which Russia together with Tiraspol will speak about a new “blockade” of Transnistria. It should be reminded that after the last “blockade” of Transnistria in 2006 Moscow used economic sanctions against Moldova. The situation in this case will be probably not so acute, but it will definitely damage Russian-Moldovan relations.

Another problem could be created by the visa liberalisation currently negotiated between the EU and Moldova. This liberalization will probably lead to the establishment of a visa regime between Russia and Moldova, and some restrictive measures against Moldovan migrants in Russia. Statements by the Russian officials clearly show that Moscow feels humiliated by the fact that the Eastern Partnership countries (first of all Moldova) have been more successful in negotiating a visa liberalisation with the EU than Russia. Yet since Moldova has not yet done its “homework” in the spheres of fighting corruption, border management, etc., the decision about visa liberalisation might be postponed for a few years. Nevertheless, this problem must arise if not in 2013, then later.

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Consequently, in 2013 Russian-Moldovan relations seem to be overburdened with political and economic contradictions. This must not inevitably result in political confrontation, energy wars, sanctions, etc. Nevertheless, solving the problems in a pragmatic manner rather than in a politicized, highly emotional way is getting increasingly difficult for both sides.

RUSSIA AND CENTRAL ASIA

Mart Nutt

Background

Central Asia, for the purposes of this forecast, means five former republics of the USSR – Kazakhstan (KZ), Kyrgyzstan (KG), Uzbekistan (UZ), Tajikistan (TJ), and Turkmenistan (TM). In addition to the common Soviet past, they share Sunni Islam and Russian as a language of instruction in educational institutions and *lingua franca*. Four of them have Turkic languages as official languages and TJ uses a dialect of the Persian language. All five states are ruled by authoritarian governments and face serious corruption problems. All five are rich in natural resources, especially Turkmenistan with its oil and natural gas reserves, but standards of living are low even compared to the former USSR, except for Kazakhstan. High unemployment, a fast population growth and low salaries have forced millions of people from Central Asia to look for employment in Russia, Kazakhstan, and other places.

The forecast for 2012 predicted the continuation of the “Central Asian Spring”, which is unlikely to bring about rapid change but indicates the escalation of problems in relations with Russia. The keywords remain the same – the growing influence of China, Iran and Turkey, attempts by Central Asian leaders to lower Russia’s influence and the problem of foreign workers that increasingly attracts international attention. A notion of Eurasia that the reactionary part

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of Russia's leaderships has been trying to put into circulation also exemplifies to some extent an attempt to increase influence over Central Asia. However, this idea has received a relatively cool reception in Central Asia, with the exception of KZ.

Developments in Central Asia in 2012 mostly conformed to the forecast with no major surprises or erroneous predictions.

International relations

In 2012 there were no international events in Central Asia that significantly surpassed the international media attention threshold. Earlier processes and developments continued. Changes caused by the Arab Spring, the civil war in Syria and activities related to Iran's nuclear programme did not significantly influence the situation in the Central Asian states. Impact of the war in Afghanistan on Central Asia was also practically invisible. Although it was used to justify the US presence in the region, the US influence over Central Asia remains small. Russia's concerns are more of a rhetorical nature, because the USA obviously does not interfere with domestic policies of these states and its influence is not even remotely comparable to that of China or Turkey. However, should the conflict with Iran turn into an armed clash in 2013, the importance of the Central Asian states as a possible support base and interest in their policies would increase dramatically. Central Asia continues to be an internationally attractive region because of its natural resources and geopolitical location as well as a possible market. The Central Asian states have themselves been active in the international arena, especially in their relations with Western states. Several regional powers such as China, Iran, Turkey and Russia compete for a greater influence here. The US and EU interest in Central Asia has increased. It mostly concerns fossil fuels (oil and natural gas), but also the strategic location in proximity to Afghanistan, Iran and China's conflict-ridden regions – Xinxiang and Tibet.

China has successfully increased its influence in Central Asia, slowly pushing Russia out of the region, especially from the easternmost Central Asian states. China has put an emphasis on the strengthening of its economic presence. A large part of cheap merchandise sold in the Central Asian markets comes from China. From the political perspective, China is still worried about the spread of separatism and radical Islam in its Xinjiang province. The Uyghurs, the indigenous people of Xinjiang, speak a language similar to that of the Uzbeks and profess Sunni Islam. Moreover, the ideas of Pan-Turkism tend to spread to Xinjiang from Central Asia. The interest and role of Turkey shall be also noted in that context.

Iran's attention is focused on TJ as a kindred people. However, Iran has no noticeable influence on TJ. On the contrary, the leadership of TJ is wary of the spread of radical Islam from Iran. An armed conflict between radical Islamists and government forces in TJ once again escalated in 2012. It makes the TJ government rather cautious in its dealings with Iran. Iran's attention has been mostly focused on conflicts in Syria and Lebanon and Iran's objective to complete its nuclear programme pushed Central Asia down on its list of priorities, even if only temporarily.

Turkey's attention, however, is quite noticeable in Central Asia. Turkey's Pan-Turkism policy has intensified during the government of Recep Tayyip Erdoğan. In addition to large-scale economic assistance and investments, Turkey focuses attention on education; for example, it is interesting that Turkey supports schools with the Uzbek language of instruction in TJ rather than with the Tajik language of instruction. Energy policies of Turkey in Central Asia have caused problems in relations with Russia; however, these relations are also influenced by conflicting interests of Turkey and Russia in the Middle East, especially in Syria.

The role of Russia

Russia's approach to Central Asia has been dualistic. On the one hand, demographic processes in Central Asia were a reason of the Soviet Union's dissolution. On the other hand, Russia has considered Central Asia as its colony, i.e. a source of labour and raw materials that must be kept, politically, in a satellite status.

Russia has avoided criticism against the authoritarian leaders of the Central Asian states and has not openly raised the issue of restrictions on the rights of Russians, although several million Russians have emigrated from these states during the last twenty years. At the same time, Russia has decisively intervened in the internal affairs of the Central Asian states in the case of developments that were considered disloyal to Russia. In 1991-1992 Central Asian leaders were among the least interested in the collapse of the USSR. According to unconfirmed information, Yeltsin wanted to leave the Central Asian states out of the CIS and tie them to Russia with unequal neo-colonial agreements. Furthermore, the accession of these states to the CIS was probably one of the reasons why the CIS has been unable to develop a closer integration.

In general, the attitude of today's Russia to the Central Asian states has not changed. These states depend on Russia economically to a very great extent. The outside border of Central Asia (i.e. the border of the former USSR) is guarded by Russian borderguards. The Russian military is deployed there. Moreover, their own armed forces are under Moscow's control through their officer corps, weaponry, equipment, training aids and paper work conducted in the Russian language. The Central Asian leaders avoid open confrontation with Russia.

Relations between Russia and Central Asia are definitely not problem-free. Russia dislikes the gradual slipping of these states from the Russian sphere of influence. Above all, it is manifest in the growing influence of China, Iran, Turkey and the USA in economy, politics, development aid and, in the case of Turkey, culture. The

Russian language is being consistently and noticeably forced out from education and communication, especially among the younger generation of intellectuals. The Central Asian leaders covertly encourage this process. A sharp decrease of the ethnic Russian population has helped the locals to rise to positions of prominence. Relations between the Russians and indigenous people have worsened, sometimes even resulting in violent clashes (first of all, in KG and KZ). Turkmenbashi, the former leader of TM, effectively expelled the local Russians by the introduction of new citizenship requirements. Gurbanguly Berdymukhamedov, the incumbent president of TJ, was re-elected in 2012 with 97% of the vote, which gave him a lot of space for domestic political manoeuvres. He has also used it in foreign policy, expanding contacts with the West and continuing the search for opportunities to sell oil and natural gas to the West, cutting out Russia as a middleman. Alas, it is still very unlikely that TM will manage to wriggle itself free from the economic dependence on Russia in 2013.

Foreign workers coming to Russia from Central Asia have been the source of the greatest tension in recent years. According to various statistics, their number is 3-5 million; most come from UZ, but the situation in TJ is the hardest. Approximately one million Tajiks work in Russia (and KZ). Most of them work illegally. Although they do not need a Russian visa, they do need a work permit which is, however, almost impossible to obtain and they work illegally as a result. Thus, they have no protection, receive no help against persecution and, mostly, no access to medical assistance. Russia's treatment of the Central Asians is racist – in the last year alone over 700 Tajiks were killed or became victims of racially motivated murders in Russia, which is more than the number of soldiers NATO lost in Afghanistan. Also, Russia has not recognised the new TJ passports which omit patronymic and does not allow Tajiks with new passports over the border. At the same time, Russia needs cheap labour and consciously disfranchises the Central Asians.

Strengthening Central Asian identity

In earlier years, leaders of the Central Asian states kept silent about the problem of foreign workers to avoid tensions in relations with Russia. Presently, however, TJ alone submitted several diplomatic notes to Moscow in connection with murder and poor treatment of its nationals. During the Human Dimension Implementation Meeting organised by the ODIHR in Warsaw in September/October 2011, TJ officially raised the problem of foreign workers and criticised Russia in very sharp terms. In 2012 TJ's energetic actions also infected other Central Asian states. Last year representatives of UZ, KZ and KG also sharply criticised Russia's policy on foreign workers, racism and discrimination against the Central Asians. This process is likely to continue in 2013 and criticism of Russia's economic policies by the Central Asian states will become sharper. So far, Russia has been relatively indifferent to this criticism. It has not denied it, but has done nothing to improve the situation.

The "Central Asian Spring" will continue in 2013. It is unlikely to bring about rapid change but indicates the escalation of problems in relations with Russia. The keywords will be the same – the growing influence of China, Iran and Turkey, attempts by Central Asian leaders to decrease Russia's influence and the problem of foreign workers that increasingly attracts international attention. There were fewer discussions of the Eurasian idea in 2012, which may be explained by the coolness of the Central Asian states to the notion as well as by Russia's preoccupation with domestic issues. At the same time, in 2013 the Central Asian states will remain in the same geopolitical trap as before, which makes them hostages to Russia and China. They cannot use the southern trade channels. If Russia succeeds in establishing its control over the Caspian Sea, oil exports of TM and TJ become almost totally dependent on Russia – a fact that will be surely exploited by Russia to the fullest extent possible.

RUSSIA AND CASPIAN REGION

Alexey Vlasov, Igor Barinov

Forecasts for 2012 were based on four main points:

- A high degree of probability of signing the Convention on the status of the Caspian Sea
- A higher rate of the continuation of the region's militarization process
- “Freezing” of Moscow's proposals for the establishment of the Caspian Economic Cooperation Organization due to the apparent unwillingness of the region, with the exception of Kazakhstan, to join any integration associations under the patronage of Russia;
- Continuation of trench warfare between Moscow, Washington and Brussels on the choice of energy supply routes passing through the Caspian region.

Three of the four predictions ultimately proved to be correct, but the key assumption – the signing of the Convention on the legal status of the Caspian Sea – remains unrealized. Moreover, the dynamics of the negotiation process on this issue was noticeably lower than in 2011. Against the background of rising tensions in the Middle East, the attention to Iran's nuclear program increased. This fact explains the key objective of the Caspian region in 2012 – find safe routes for the transportation of hydrocarbons.

In the autumn, it led to a slowdown of the positive dynamics of Russian-Azerbaijani relations, including the bilateral dialogue in the Caspian direction. At the same time, Iran, in the summer of 2012, got a series of tactical bonuses, which were determined by the

dependence of European countries on the supply of Iranian oil, and Ashgabat's indecision on the issue of the Trans-Caspian gas pipeline' construction.

Against this background, certain steps towards rapprochement between Moscow and Tehran (for example, a joint appeal to the environmental effects of the project) are expected. This route of energetic transportation is equally unprofitable for Moscow and Tehran. Despite active opposition from Russia, Azerbaijan and Turkmenistan, to a lesser extent, are increasingly seeking the "internationalization" of the Caspian Sea through the involvement of external actors. In this regard, in comparison with 2011, the activity of non-regional powers – the U.S. and the EU – in the issue of engaging Ashgabat and Baku in new energy projects and speeding up the construction of the Trans-Caspian gas pipeline increased markedly. In November, Azerbaijan appealed to NATO to assist in protecting the pipeline routes.

Thus against the background of a potential deterioration of the Iranian issue in 2013 and the unresolved issue of the legal status of the Caspian Sea, we will see an adjustment of positions within the "Caspian Five", as predicted by Russian experts. Under certain circumstances Russia and Iran will be able to be on the same side, while Azerbaijan and Turkmenistan will become their potential opponents. The external players U.S. and EU will try to keep a good position in order to strengthen the arbitrators of their own position in the Caspian. Turkey's position became stronger after the Parliament of Azerbaijan ratified the gas agreement with Turkey on gas transit through its territory and creating Trans-Anatolian pipeline, which, along with the Trans-Afghan gas pipeline, can be considered as a backup to the difficulties of building the Trans-Caspian gas pipeline.

However, more important in this context is the fact that the trend of the militarization of the region, pronounced in 2011, continued this year and probably would go on in 2013. The military build-up, particularly against the background of the conflict between the U.S. and Iran which has the risk to go into a "hot" stage, will

be number one problem, at least in the first half of 2013. In this regard, in the light of the perceived Russian-Iranian rapprochement on energy aspects of the Caspian theme, Russia's position becomes very ambiguous. So Russia will be forced to adjust its policy in the region.

Russia, pursuing its policy in the South Caucasus and Caspian areas, will take into account Iran's nuclear program.

In conclusion we can identify three main forecasts for 2013:

The growing militarization of the region should end the diplomatic discharge, or, in the case of a sudden heating of the relations between the U.S. and Iran or Israel and Iran, should move to a new round of confrontation. The likelihood of military action exceeds the level of 50 percent.

Formation of a new regional balance of power would postpone the conclusion of the Convention on Caspian status indefinitely.

Node contradictions in the oil and gas transit will lead to further cooling in the relations between Moscow and Ashgabat and Moscow and Baku.

RUSSIA AND ARMENIA

Sergey Minasyan

Co-operation between Russia and Armenia in 2012 has been stable in all major areas, as we predicted in the previous forecast. There have been no significant changes either in military and political or in economic areas; the relations have been traditionally positive. Interactions of the two states in the context of the Nagorno-Karabakh conflict as well as Russia's overall policy in the South Caucasus have not meaningfully changed over the last year. In 2012, Russia and the other co-chairmen of the OSCE Minsk Group (France and the USA) continued with their efforts to preserve truce in the conflict zone and ensure the ongoing negotiations on the conflict resolution.

Russia-Armenia relations currently have a multi-level format encompassing co-operation of the two states in many different areas. The most important is military-political and economic co-operation. Russia-Armenia relations are also heavily influenced by the fact that Russia co-chairs the OSCE Minsk Group, which has been the main format of negotiations on the resolution of the Nagorno-Karabakh conflict since 1992.

Current state of bilateral relations

Military and political co-operation is probably the most important dimension of the bilateral relations. Russia's 102nd military base has been deployed in Armenia and the Russian border guard assists Armenia in guarding its border with Turkey and Iran. This military

base is a key factor of Russia's military and political presence in the South Caucasus. It is also an element of Armenia's national security, helping to maintain the regional balance of power in the context of the unresolved Nagorno-Karabakh conflict, existing historical problems and security threats to Armenia from Azerbaijan and Turkey. After the treaty on the military base in Armenia was supplemented with additional agreements in 2010, the security functions of the military base have been significantly expanded. Armenia is a member of the CSTO, which is also an important factor in Russia-Armenia relations.

Economic, social and humanitarian ties between the two states are well-developed. Russia is the biggest investor in Armenia's economy with the total amount of investments in 2012 exceeding USD 3 billion. Prioritised areas of co-operation include the construction of a new nuclear power plant in Armenia with the participation of Rosatom, new telecommunication and infrastructure projects and the development of Armenia's military-industrial complex. In 2012, a new addition to the bilateral agenda was the idea of the so-called Eurasian Union. However, the participation of Armenia in such organisation would be complicated due to the lack of common borders with other possible member-states.

Prospects for 2013

In 2013, the general format of the relations between Russia and Armenia is unlikely to change. Military and political co-operation between Moscow and Yerevan will not be limited to the bilateral format. In particular, agreements have been already reached that provide for the creation of the Collective Forces within the framework of the CSTO already in 2013. These forces will also include Armenian military units. Moreover, armed forces of all the member-states of the CSTO are supposed to receive unified systems of command, military training and logistics in the near future (starting from 2013)

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and Russia will significantly assist the rearmament of its allies. An agreement upon the joint air defence system of Russia and Armenia is being prepared and may be signed as early as 2013.

Trade and economic co-operation between Russia and Armenia may intensify next year if the efforts of the new Georgian government to normalise relations with Russia are successful. In 2013, the processes of political, social and economic integration between Russia and Armenia will use the established bilateral formats, but will be more closely co-ordinated with the Eurasian Union project. However, the mere notion of a post-Soviet integration based on Russia's economic subsidies provided to some participants of the integration process does not seem to be very feasible.

There will be no significant changes in Russia's official position upon the peaceful resolution of the Nagorno-Karabakh conflict within the framework of the OSCE Minsk Group. Russia and the two other co-chairmen – the USA and France – will attempt to maintain the current negotiations format in order to avoid re-opening of the hostilities and will find common ground in the positions of the conflicting parties. In 2013, objective and subjective difficulties caused by the reluctance of the parties to make mutual concessions and compromises will limit the activity of Russia as a co-chairman of the OSCE Minsk Group to preventive measures. According to the most optimistic prognosis, an agreement to strengthen the truce in the conflict zone and establish a formal trust-building mechanism might be reached in 2013.

On the whole, the dynamics and level of Russia-Armenia relations are unlikely to change significantly in 2013. The relations will be steadily developing without abrupt breakthroughs. However, the multilateral format in Russia-Armenia relations will become increasingly important compared to the bilateral format. An exception is military and political co-operation, where the bilateral co-operation between Russia and Armenia will remain dominant.

RUSSIA AND AZERBAIDJAN

Anar Valiyev

Russian-Azerbaijani relations remain one of the most stable and predictable in the region. Both countries have tried to respect the interests of each other in the region and have defined the pace of relations.

However, a few key events took place in 2012 that will have a huge impact on the future.

First, the “re-election” of Vladimir Putin buried the last hopes of some Azerbaijani idealists that Russia would take a neutral position in the resolution of the Karabakh conflict. Instead, the negotiation process on the resolution of the Karabakh conflict stalled and was thrown back to where it was four years ago.

Second, Azerbaijan’s stance over the Gabala Radar Station greatly irritated the Russian establishment. Azerbaijan leased the Gabala RLS to Russia for a 10-year period starting in 2002. Currently, around 1,400 Russian military experts and Azerbaijani military specialists work at the Gabala RLS. The lease expired in 2012 and the Russian side was urging Azerbaijan to extend it for 25 years. Moreover, the Russian government intended to substitute the old station with a new transportable module station, specifically mentioning that the new, second station would be the property of Russia. In response, Azerbaijan then increased its proposed leasing fee by 40 times, demanding \$300 million from Russia instead of the current annual rate of \$7 million. However, none of the visits of the high-ranking Russian establishment forced Baku to yield to Moscow’s demands.

Third, Baku's independent energy policy disrupts Russia's most powerful weapon – gas. With the agreement to construct the Trans-Anatolian Gas Pipeline (TANAP) to Turkey with a further connection to European markets, Azerbaijan could provide the long-awaited energy security for Eastern and Central European countries.

Fourth, the Russian establishment began slowly to interfere with Azerbaijani domestic politics. If before, the only major tool for pressuring Azerbaijan was the Karabakh conflict, now Russia is interested in a domestic tool, too. In September 2012, a new diaspora organization consisting of Azerbaijani oligarchs, activists, artists and famous people was established in Moscow. Although the heads of the organization do not claim to want to become a political force, Moscow sent a signal to official Baku, worrying about any development in the run-up to the presidential elections in Azerbaijan, due to take place on 16 October 2013. There are some speculations that Russians may use the ethnic card in the north of Azerbaijan, in particular the Lezgi or Avar minorities to destabilize the situation in the country. However, such attempts would be suicidal since it may later boomerang the Russian Northern Caucasus that Moscow tries to pacify.

Forecasts and Scenarios

In discussing the future trends in relations between the two countries in 2013, a few prognoses can be made. Russia would hardly be interested in Aliyev's losing power since he is the most predictable candidate. Russia is not interested in the destabilization of the situation in Azerbaijan. Russia perfectly understands that stability in Azerbaijan is the key to stability in the volatile Dagestan region, where Avar and Lezgi separatism could take an irreversible course. Nevertheless, Russia will try to maximize Aliyev's possible vulnerability. That could apply to negotiating the fate of the Gabala RLS, limiting Azerbaijan's gas supply to Turkey, or other policies fitting Russian interests.

With political uncertainties in Georgia, Azerbaijan remains the only state in the former Soviet Union (except for the Baltics) conducting a policy contradicting Russian interests. Whether it is the intention of Azerbaijan's State Oil Company to build an oil refinery in Kyrgyzstan that would help this Central Asian country to gain energy security, or rushing to save the Belorussian enterprise Belaruskaliy from being privatized by the Russian government through some Kremlin controlled oligarchs, Baku continues to play independently without looking to Moscow. Such policies cannot continue forever and it is expected that Moscow (Putin) will sooner or later turn its attention to Baku.

We cannot rule out that, in order to put pressure on Azerbaijan during elections, Russia will use several old and traditional tools.

First, the Russian establishment may use the Karabakh conflict and fear of resumption of the war. The Russian side can easily initiate military clashes on the contact line between the Armenian and Azerbaijani side to send a certain signal to Baku. Of course, the military clashes will not turn into a full-scale war since it will ruin Russian efforts to maintain the status quo. Nonetheless, it would add pressure on the Azerbaijani establishment.

Second, as in Yeltsin's time, the pressure on Azerbaijani labor migrants and problems with crossing the checkpoints may emerge. The return of hundreds of thousands of Azerbaijani migrant laborers from Russia is one of the nightmares of the Azerbaijani establishment.

Third, Russia will continue to prolong negotiations over the status of the Caspian Sea as long as the talks of the TransCaspian pipeline from Turkmenistan to Azerbaijan and further to Europe is on the agenda.

Russia will hardly lose such golden opportunity as presidential elections to aggravate the situation in Azerbaijan in order to reach its short-term goals. Even though it is not interested in regime change, the Kremlin will utilize such situations that may put Azerbaijan in difficult circumstances.

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Overall, Azerbaijan will face difficult times in 2013 with a mounting Russian pressure. However, Russian efforts would hardly succeed due to the certain political stability in the country as well as the strength of the current government. Moreover, Azerbaijan may come out from such struggle stronger and more determined to play the role of the challenger of Russian interests in Caucasus and Central Asia.

RUSSIA AND GEORGIA

George Khelashvili

Russian-Georgian relations remained strained in 2012. As expected, there was no semblance of a breakthrough in this relationship, but there was not any significant sign of deterioration either. Russia's Presidential elections in March and Georgia's Parliamentary elections in October precluded further any hypothetical initiatives at thawing relations between the two states.

After the double electoral cycle, some faint signs of the two states' willingness to improve their relationship emerged. However, no progress has been observed on the most controversial issue – that of Abkhazia and South Ossetia.

Issues in Russian-Georgian relations

Major disagreements in Russian-Georgian relations – the status of Abkhazia and South Ossetia as well as Georgia's aspiration to join NATO – remain largely unaltered. Divisive rhetoric and apparent personal animosity between the Russian President Vladimir Putin and the still incumbent Georgian President Mikheil Saakashvili spoil this relationship even further.

Despite these differences, there are more fundamental grounds that make Russian-Georgian antagonism seem odd. First is the cultural affinity between the two Orthodox Christian nations. Second is the most serious shared security problem for both countries – the

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ongoing and potentially greater unrest in the North Caucasus, a spillover effect which is feared both by Moscow and Tbilisi. These fundamental factors notwithstanding, Moscow and Tbilisi failed to achieve rapprochement ever since the break-up of the Soviet Union.

Since last year, however, one important impediment to the improvement of the relationship was removed: there is less controversial rhetoric between the governments in Moscow and Tbilisi. This is likely to continue as both sides realize there is a sub-optimal impasse in their relationship.

Forecast for 2013

With the fundamentals of this troubled relationship are still in place, there are some important areas for improvement not touching the major divisive issues. Upon his victory in Georgia's Parliamentary elections of October 2012, the new Georgian Prime Minister Bidzina Ivanishvili said that the major areas of improvement with Russia are the economic relationship and cultural exchange. This progress is likely to occur when it comes to the resumption of regular air travel between Russia and Georgia and allows some Georgian agricultural products, including wine and mineral water, back to the Russian market. It is also likely that Russian investments into the Georgian economy increase, as there was little impediment for such economic activity even under the previous Georgian Government.

There are two more issues that are not entirely hopeless. These are (1) improvement of diplomatic intercourse between the two countries including softening the visa restrictions by Russia; and (2) a more positive role of the West in the Russian-Georgian relationship.

After the August war of 2008, Russian-Georgian diplomatic contacts are carried out through the respective Swiss Embassies in Moscow and Tbilisi. Therefore, since then, obtaining Russian visas has become more complicated for Georgian citizens, while Tbilisi abolished visas for visiting Russian citizens. This unilateral con-

cession did not elicit any reciprocity from Moscow. After the new Government came to power in Tbilisi, a more intensive official relationship between Russia and Georgia may develop, short of formal re-establishment of diplomatic relations. The formal end to President Saakashvili's term in office in October 2013 or even earlier may help the process. However, the real restoration of diplomatic ties is predicated on the status question of Abkhazia and South Ossetia, not the type of regime in Tbilisi or Moscow.

The other important area of potential progress is the outside countries' role in improving Russian-Georgian relations. Saakashvili's Administration assumed that maintaining good relations with both Russia and the West was nearly impossible. Apparently, Ivanishvili thinks otherwise and his position may be closer to the vision of both the Obama Administration as well as the official EU position with respect to Russian-Georgian relations. Some other regional states, in particular Turkey and Armenia, may as well welcome progress in the relations between Moscow and Tbilisi.

Due to political complications, it is unlikely that any formal conflict-resolution process between Russia and Georgia will be initiated by the EU or, even less likely, by the US. However, the restoration of the OSCE mission to Georgia may be the first step indicating whether there is a good potential for building trust between Moscow and Tbilisi.

Overall, the negative rhetoric in Russian-Georgian relations in 2013 may continue its downward trend and some minor progress may occur in economic, cultural and even diplomatic relations. However, it is difficult to conceive of any fundamental understanding being achieved over the partially recognized territories of Abkhazia and South Ossetia. Any breakthrough, albeit temporary, would require a dramatic regime change in Moscow or a serious civil strife in Georgia that would impose on Tbilisi an urgent need of Russian military and economic assistance.

RUSSIA AND USA

Mikhail Troitskiy

As we predicted in 2012, America-bashing became a favored political tactic in Russia while influential conservative figures in the United States, including presidential candidate Mitt Romney, portrayed Russia as one of America's principal, if clandestine adversaries. In line with the last year's forecast, human rights and rule of law issues surged powerfully in Russia-US relations.

In 2012, the Russian leadership developed grave concerns about the democracy assistance provided by US donors to Russian non-governmental organizations. In response, restrictive measures were introduced against foreign-funded NGOs and US government programs that allegedly sought to play a role in Russian politics. To increase its bargaining power, Moscow also decided to raise the uncertainty – as well as potential stakes – surrounding Russia's military planning and, in particular, nuclear policy. In its turn, the Obama administration found itself under political pressure to demonstrate firmness and principles in relations with Russia. It became politically costly for President Obama to address or even discuss Russian grievances or demands during the election season.

Apart from the negative fallout of election campaigns, all earlier constraints on Russia-US relations will remain in place in 2013. President Obama's freedom of maneuver will continue to be somewhat limited by the entrenched opposition of the Republican party, that which remains in control of the House of Representatives, to virtually any agreement with Moscow. The United States and Russia

will be lucky if they manage to avoid further damage to the bilateral relationship and preserve a rhetorical commitment to its improvement. A window of opportunity that opened in the post-election years will be squandered unless both sides undertake a conceptual reassessment of their place and strategy on the world stage.

In its approach to Russia, the second Obama administration will be driven by the willingness to reach a new compromise on nuclear arms control, including strategic and tactical weapons. It is expected that the new US Nuclear Posture Review to come out in January 2013 will announce that Washington would like to negotiate further cuts up to 500 deployed warheads and wants to get Russia onboard. The US government will also try to enlist Moscow's support for non-proliferation and nuclear safety efforts. The transit of the military personnel and equipment withdrawn from Afghanistan across Russia will remain another priority for Washington.

The Kremlin has displayed general interest in continuing arms control negotiations. However, Moscow seeks primarily to negotiate limits on missile defenses, space-based and conventional precision-guided weapons. Furthermore, Russian officials have repeatedly stated that a new round of nuclear arms control talks must be multilateral, involving the UK, France, and possibly China, and can only happen if the Russian leadership finds it "expedient", given the "array of threats and challenges to Russian security." This makes progress on the arms control agenda unlikely in 2013.

Seeking a compromise on arms control during the first half of 2013, the Obama administration will try to downplay other policy differences as well as human rights concerns and will refrain from linking different aspects of bilateral relations. Yet the simmering contradictions over Syria and Iran will remain time bombs under the Russia-US relationship. Russian officials have not wasted an opportunity to criticize the United States and its allies for fostering or even orchestrating a "regime change" and imposing "western standards of democracy" across the Middle East. Calls for easing sanctions against Iran have become common among the Russian

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policy community. In 2013 Moscow will deliver on its pledge to veto any draft UN Security Council resolution that may open the way for military intervention into Syria. Russia will also oppose further sanctions against Iran and reproach Washington for any measures against Tehran taken outside of the UN SC.

Against such backdrop, the Obama administration will find it increasingly costly to dispute an allegation, widespread among the US foreign policy community, that Russia's "international posturing" is a direct consequence of the "nature of its political regime." By implication, attempts at compromise with the Kremlin will be hampered and much of the US foreign policy community will view sanctions as an instrument of choice for dealing with Russia. As a result, human rights agenda may ultimately override all other aspects of the Russia-US relationship. The Magnitsky Accountability Act will be passed by Congress and signed by President Obama in Spring 2013. This law will be regarded by the Russian government as a direct assault given the blow it deals to Russia's international image and the divisions it may create within the Russian political and business elite.

Yet Moscow will refrain from an overt confrontation because it feels that Russia's exposure to potential pressure from China is growing and it requires a counter-balance. While seeking to expand Russo-Chinese economic ties and continue diplomatic coordination with Beijing, the Kremlin will be calling on the US to step up cooperation on missile defense and Arctic issues. Moscow will also maintain that it welcomes American investment in the eastern part of Russia. In its turn, Washington will treat the Russian proposals as largely rhetorical and will insist that strengthening the rule of law is the best way to attract foreign investment into Russia.

Going after tactical benefits in what they often see as a zero-sum game, Moscow and Washington lack strategic vision of the purpose

of their relationship. The Kremlin's risky gamble will be to convince the United States that Russia can become less dependent on the West by pursuing an "Asian alternative." In Washington, Russia-bashing will remain popular and no consistent attempt will be made to define the criteria for integrating Russia into the Euro-Atlantic community. Attempts to artificially create common projects will only produce short-term bubbles, and the relationship will remain adrift over the course of 2013.

RUSSIA AND BRAZIL

Cristina Soreanu Pecequilo

In the past few years, expectations regarding a political, strategic turning point in Russia's relations with Latin America and specific countries within this region, such as Venezuela and Brazil, have become common. These analyses were supported by an increase in bilateral political and diplomatic ties. In particular, Latin America's "turn to the left" with the popular governments of Hugo Chávez in Venezuela and Luis Inácio Lula da Silva in Brazil and with the recovery of socialism and its political and economic agenda of solidarity and development, added to an autonomous foreign policy, which seemed to indicate a deeper interdependence. However, as far as 2012 goes, most of these prospects hit a wall, and no relevant changes could be noticed in any of these relations.

Regarding Brazil-Russia bilateral relations, it is a fact that they gained a new impulse with the definition of Russia as a strategic partner in the framework of Brazilian diplomacy. The partnership was launched by Presidents Fernando Henrique Cardoso in Brazil and Vladimir Putin in Russia in the 2000s, envisioning the enlargement of cooperation between the two nations. The purpose of this new compromise was to enhance political, social and diplomatic links, in addition to the already existing economic ties, based on Brazil's commodities exports to Russia.

These exports date back to the 1970s, when the Military Regime (1964–1985) started to open new markets for the Brazilian economy, including the former Soviet Union and the Eastern bloc as a whole

(added to other regions in Africa and Asia). Trade was focused on commodities and politically the nations remained distant due to the differences in their regimes in the context of the Cold War. Whereas Brazil was an authoritarian regime with close ties to the Western Bloc and the US, the Soviet Union was the leader of the opposite model. The creation of strategic partnership intended to broaden these limits. A great leap forward was achieved during Lula's two mandates (2003–2010) and Putin's and Medvedev's presidencies in Russia.

However, these trends were not deepened and are still dependent on trade issues with countries mostly focusing on commodity products. Exchanges of technology, mainly in the space and nuclear arena, are still viewed as an area of growing opportunities that are yet to be explored in its full potential. Although bilateral trade enjoyed a significant increase during Lula's government, and Presidents Lula, Putin and Medvedev experienced closer contacts, the impact of the world economic crisis from 2008 onwards led to a cut down on trade. Politically, Dilma Rousseff's first two years of the Brazilian Presidency led to a different focus on previous strategic partnerships, including the one with Russia. Most of all, Rousseff's agenda is low profile.

Also, it is necessary to recognize that for both partners bilateral relations are not a high ranked priority in their respective policy agendas. For Brazil, the Western Hemisphere, South America, relations with the US and the opening of new spaces of cooperation in Central America are more important as well as for Russia in regard to its geopolitical position in Europe and Asia: China, the former Soviet Republics of Central Asia, Western Europe and the US are seen as more relevant. Further on, the new US policy of establishing a comprehensive strategic, economic and political framework in the Pacific (Transpacific Partnership) limits both Brazil's and Russia's stances in Latin America, since it promises to offer preferential trade and military ties with the US to countries in this region and Asia (in which it contains China's expansion).

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Considering the multilateral level with regard to alliances of variable design, such as the BRICS and the economic talks in the G20 framework, the prospects of cooperation are more promising. In these arenas, there is a clearer convergence of political and strategic goals, which gain more weight with the presence of China, India and South Africa in the coalitions. This framework of South-South cooperation is more comprehensive and focused on relevant issues, such as the need for the update of multilateral organizations (the United Nations, the International Monetary Fund and the World Bank), social and development issues regarding the growth and recovery of economies and reduction of asymmetries worldwide and the purpose of establishing a multipolar order.

But one cannot be so optimistic regarding these general purposes as a solid basis for restructuring Russia's bilateral relations with Brazil, or with other Latin American states. Therefore, the prospects for 2013 are still limited in both cases: in Latin America broadly to specific initiatives of some governments, in particular Venezuela's pending Hugo Chávez health issues (or even his death), and in Russia-Brazil relations to the recovery of trade in commodities and a rhetorical diplomatic convergence in multilateral talks.

RUSSIA AND VENEZUELA

Elena Pavlova

On 7 October 2012 Hugo Chávez was re-elected president of Venezuela. For Russia, it was the best possible outcome of the presidential elections, as was pointed out in the previous forecast. During the election campaign Moscow never strayed from the established course and avoided any contacts with the Venezuelan opposition. It ensured the successful development of Russia-Venezuela relations in 2012, confirming our predictions. However, such a straightforward pro-government position of Russia caused a great deal of surprise among the opposition. Russia has substantial investments in Venezuela's oil industry and such position of the Russian government would endanger these investments in the case of the president's defeat.

However, in the short-term perspective this strategy has proved successful. Hugo Chávez and his supporters see the Kremlin as a pillar of the "political containment of North American capitalism." This "containment wall" is based upon co-operation in the oil industry. The number of contracts has been steadily growing. The last big batch of documents was signed last autumn, providing for the establishment of a joint venture to develop the Carabobo 2 block of the Carabobo oil field in the Orinoco Belt. Several analysts expressed doubts in the profitability of this project, citing specifics of Venezuela's oil reserves and a possibility of errors in the reserve estimates, but a decision was made in favour of expanding the number of oil markets available to Russia.

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Arms trade is another important aspect of Russia-Venezuela relations. Russia has been the biggest supplier of arms to Venezuela. Furthermore, Russia not only sells finished products to Venezuela: a machine gun factory was recently commissioned here that was financed by a loan provided by the Russian government. Russian companies also participate in housing projects in the vicinity of Caracas. Russia hopes to increase the exports of Avtovaz products to Venezuela. Several years ago there was even talk about building an Avtovaz plant in Venezuela, but the project has failed to attract sufficient support. In its turn, Venezuela is ready to supply agricultural products to Russia. Finally, Russia's relations with the member-states of ALBA (the Bolivarian Alliance for the Peoples of Our America), in which Venezuela plays the leading part, are also important. All this makes Russia hopeful to strengthen its ties to this region.

President Chávez has repeatedly stressed in the mass media the success of his co-operation with Russia. His opponents, however, are less optimistic. In the final analysis, the whole model of co-operation between Moscow and Caracas depends on one condition, i.e. that Hugo Chávez will stay in power. In all the other scenarios, including his resignation due to health reasons which might happen as early as 2013, Russia will be facing unpleasant surprises. The straightforward support of Chávez by Moscow may adversely affect the future prospects of Russia-Venezuela co-operation. To be sure, even after the change of government in Caracas the Venezuelan political elites would hardly cancel contracts with Russian energy companies overnight. First of all, it is illogical to start a new foreign policy by straining relations with a big power. Secondly, it would contradict the opposition's market-oriented approach to the oil industry and, finally, internal reforms to purge all key positions in Venezuela from Chavistas would require some time. Nevertheless, companies expelled by Hugo Chávez would be gradually returning to Venezuela's oil market. It is difficult to tell whether Russia will be able to compete with them without overt government support. The

loss of Venezuela's good offices would also put a question mark on projects with Russia's participation within the framework of ALBA.

The change of course may be much more sudden and drastic in the case of Russia's arms exports. After the resignation of Hugo Chávez and his government Russia's arms sales to Venezuela would be most probably put on hold, because the key factor in this export – confrontation (at least rhetorical) with the USA – would have lost its significance. To be fair, this change would not depend on Russia's relations with Venezuela's political forces anyway. Supporters of Hugo Chávez currently explain purchases of the Russian weaponry as a necessary precaution against the USA. In essence, the arms build-up is not only justified by security notions, but also used as a means of maintaining anti-American sentiment in Venezuela. Russia, on the other hand, sees these transactions primarily as economic opportunities where political ambitions are of minor importance. Therefore, any improvement in US-Venezuela relations will result in reduced purchases of the Russian arms.

Thus, the main problem of Russia-Venezuela relations is that Russia can remain an ally and important partner of Venezuela only until Hugo Chávez and his supporters hold key positions in Venezuela, because all this co-operation is based exclusively on Hugo Chávez's support. However, changes in co-operation in the case of Hugo Chávez's resignation will be area-specific. In the arms trade, all contacts would be brought to a minimum within a short period, whereas in the oil and construction sectors Russia-Venezuela ties would be weakening gradually. After the change of government, the bilateral relations are likely to fade bit by bit. It may happen either in 2013 or later.

RUSSIA AND ASIA PACIFIC REGION

Asia Pacific in Russia's foreign policy: an increasingly important role

Fyodor Lukyanov

The APEC summit in Vladivostok became a major event in 2012 and a symbol of Russia finally turning towards Asia. However, the symbolical significance of the summit has not translated into anything substantial and the summit has not become a milestone after which Russia's problems in Asia Pacific would miraculously start disappearing. A painstaking and monotonous task of building Russia's new Asian policy is waiting ahead. The first steps were made by President Dmitri Medvedev, who started to raise Asia's profile in Russia's foreign policy. Russia needs Asia as a major source of development and Asia needs Russia as a balancing element in a complex developing system.

Understandably, Russia's policy has been always focused on the West. In cultural and historical terms, Russia is more a European than Asian country. In the post-Soviet period the distribution of the population (with the three quarters living in the European part) and the trade balance (the EU accounts for more than half of Russia's foreign trade) further emphasised the European trend.

Nowadays, however, when global power is shifting to the East, Russia simply cannot ignore the fact that it is an Asia Pacific power. We would not expect a decisive change of direction in favour of Asia, because it is impossible and unnecessary. However, to be present in Asia as a major actor whose interests are respected by other actors is of

vital importance. A natural way to achieve it is to use the advantages of Russia's position as a European-Asian state.

In economic terms it obviously means the use of transit. By transit we mean not only the straightforward transport connotation of this term, but also, indirectly, the expansion of the common market to encompass everything from Lisbon to Pusan and Shanghai. As a matter of fact, it is repeated over and over again in all the programme documents of the Eurasian Union, which is seen by Russia as the first step towards the giant European-Asian market.

Moscow has a unique advantage in the political and security areas as it is able to transfer to Asia Pacific the problem-solving experience accumulated in Europe.

On the one hand, Russia is an inseparable part of both regions. On the other hand, it has a sufficient (but not excessive) clout in Asia. It means that Russia is respected, but not feared. To occupy such a niche, Russia should carry out much more energetic policy in Asia, focusing not only on China (however hugely important China may be for Russia), but on the whole spectrum of interests and opportunities in Asia Pacific – from Japan, Korea and the USA to Indonesia and Australia. Moscow has yet to prove that it is capable of conducting an intelligent independent policy in Asia under new conditions, similarly to the European direction of its policy.

The regional tensions are growing, mostly because of the forthcoming confrontation between China and the USA. China has grown so powerful that it cannot hide anymore behind Deng Xiaoping's doctrine of "minding your own business". It means that the intensity of external opposition to China's growth will be increasing up to a full-scale containment in the long-term perspective.

Theoretically, Moscow has an advantageous position of a junior partner who may choose sides. The US-China balance depends to a large extent on whether Russia will decide to participate in the game and if yes, than on which side. However, such manoeuvres may bring dividends only if Russia is able to bring exceptional political skills to the game.

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Russia's current approach is to oppose the USA on the majority of issues, thus winning China to its side, but without offering any meaningful alternative to the contemporary world order and, ultimately, preferring co-operation with the West, which is culturally and historically closer. The aim of the opposition is to raise bets in the game, not to decapitate the king. Beijing readily supports Moscow in the UN Security Council. However, the bill for the unified vote on Iran, Lebanon and Syria (actually, different votes in each case) is coming sooner or later. Moreover, when the Security Council will be deliberating something that directly concerns China's interests (e.g. North Korea or issues related to numerous territorial disputes in East Asia), Beijing will rightfully ask Russia to show solidarity. However, the interests of Russia and China in this region do not necessarily coincide.

Some early warnings of this kind have already been noticed. For instance, China warned Russia to prevent the participation of Russian companies in joint oil field development projects with regional partners (most of all, Vietnam) in the South China Sea, which China considers a sphere of its vital interests. During the exacerbation of the China-Japan dispute over the Senkaku Islands, Chinese diplomats argued that Moscow should support Beijing in adherence to the joint declaration on the inviolability of the outcome of the Second World War. Russia and China signed the declaration in the second part of the 2000s, when the Kremlin very forcefully opposed "revisionists" from former Soviet republics and secured the assistance of China. Dragging Russia into foreign territorial disputes may not only endanger the fragile system of its foreign relations in Asia, but also tie Russia's hands.

If Russia finds itself dependent on China, can it successfully balance the situation by forging closer relations with the USA? It would be difficult because of two reasons. First, an alliance with the USA (even ad hoc) requires some basic level of trust and the trend is to the contrary. The fewer tense geopolitical conflicts Moscow and Washington have (objectively, their number is decreasing because

Russia's sphere of attention is shrinking and the USA is shifting towards Asia Pacific), the more obvious the conceptual contradiction and incompatibility of their models and approaches to the principles of the world order become. In the case of practical disagreements, it is possible to bargain and exchange interests. Conceptual differences are much harder to overcome. Second, the USA and China are so closely intertwined (both by forces of attraction and repulsion) and prioritise each other so highly; then in the case of a further increase of China's power, Russia will become a mere tactical factor for the USA.

The more assertive China becomes with the corresponding worsening of relations with neighbours and the growing awareness of the unavoidable confrontation with the USA, the more it values Russia as its "strategic rear" – the only border where everything is calm and predictable. This is Moscow's asset and an argument in favour of distancing itself from both parties of the forthcoming confrontation. However, these are long-term trends. In 2013 we will see further (not very specific) discussions in Russia about the need to develop Siberia and the Russian Far East on the one hand and self-assertive actions of the new leaders who came to power in China, Japan and South Korea in 2012 on the other hand.

RUSSIA AND CHINA

Leslie Leino

The 2011 forecast predicted right that after Putin's election for another presidential term he will turn his diplomacy towards the east in general. He did announce at the APEC meeting in Vladivostok a shift of Moscow's attention toward the east. It was also accurately stated that "Russia and China want to reduce their reliance on the US dollar and reinforce the international influence of their currencies". It was reported that in January 2012, Russia and Iran replaced the US dollar with their own currencies in bilateral trade. And China signed swap deals with Brazil and the UAE. Interestingly, after these media reports, one of the main Chinese media channels *Renmin Ribao* (People's Daily) published a long article which stated that, contrary to many reports, China's oil trade is still based on the US dollar. In the energy sector, it was predicted accurately that in 2012 Russia and China most probably will not reach an agreement over the disputed natural gas price. During the 9th China-Russia energy negotiators' meeting held in Moscow in December 2012, no agreement was indeed reached, but, according to Chinese media reports, there was some progress.

In 2012, China and Russia both went through a change of leadership, but they will continue to treat each other as strategically important partners. Vladimir Putin urged at the APEC meeting in Vladivostok to switch Russia's attention from West to East, and China's new leader Xi Jinping is regarded by Chinese analysts as strongly supportive of a military oriented relationship with Russia.

Therefore, Russia and China definitely continue to share common language in many areas.

Military cooperation between the two countries will remain stable, but Russia expects China to show more respect to intellectual property rights and to avoid copying Russian military equipment. An agreement to that effect was signed in Beijing in November of 2012 during a visit by the Defence Minister of Russia, Sergei Shoigu. In 2012, China launched its first aircraft carrier, but as the Chinese media quite broadly and proudly reported, all modern technology on the aircraft is developed entirely by their own companies and nothing was supplied by Russia. This kind of odd military relationship – Russia sells weapons to China, but in many cases without high technology installed on, is rather the norm than an exception. For example, in 2012 China obtained rights to produce the Russian Tupolev 22M3 bomber, but only without engine, which has to be supplied by Russia.

The year 2013 will see the continuation of strengthening cultural relations between Russia and China, because the Year of Chinese Tourism project will be carried out in Russia. That is the answer to the Year of Russian Tourism in China in 2012, which brought twice as many Russian tourists to China as in 2011. All kinds of cultural projects will take place in Russia and at the end of 2013; we will definitely hear how it is hailed as a highly successful expanding Chinese soft power project, being an extension of people-to-people foreign policy (*minjian waijiao*).

In Central Asia, China and Russia share a common interest to prevent the West from establishing its military presence in the area, which they see as their own backyard, in order to enhance their own influence and ensure geopolitical order. To be successful in closing down the Manas air base in Kyrgyzstan and in preventing other countries (namely Uzbekistan and Tajikistan) from leasing out their own military bases (Karshi-Khanabad and Ayni respectively) to Western troops, China is seeking to deepen cooperation with Russia to put more pressure on those countries. 2013 is the key year to act,

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because in 2014 the Manas air base leasing contract between the USA and Kyrgyzstan will expire, and Western countries probably will try to push Uzbekistan and Tajikistan to open their bases. Since Russia has a very close military relationship with Tajikistan through border guard cooperation, China wants to use this influence in his own strategic interests. As two most important players in the Shanghai Cooperation Organization (SCO), China and Russia definitely want to see some progress in the Central Asia military bases issue at the 2013 SCO meeting in Kyrgyzstan. During the 2012 SCO meeting in Beijing, China's president Hu Jintao asked all SCO member countries to develop the SCO into an effective platform, and this is what China wants to see to be realized at the 2013 Kyrgyzstan meeting.

On another front – the Arctic Ocean – much more complex relations prevail. In May 2013, the Arctic Council will take a decision to which new applicant countries observer status in this 8-member bloc is to be granted. China is also one of the applicants, but it is not clear whether Beijing will be elected, because many countries, including Russia, are still wary of China's aim to enlarge its global presence into such a sensitive area. Since China is not willing to fully support Russia's under-ocean territorial claim in the Arctic Ocean, Russia has been more wary than welcoming toward China's bid. Although China has got firm support from every Nordic country (except Norway), the Russian acceptance is vitally important to China, because at the moment the most navigable area of the Arctic Ocean is in the Russian part, with Northern Sea Route, and here China needs maritime cooperation with Russia. In 2013, Russian icebreakers will still escort cargo ships from Northern Europe (from the mines in Norway and Sweden, and with LNG from Norway) to Chinese ports through the Arctic Ocean, but starting from 2014, when Finland has finished building the Chinese first modern icebreaker, the Chinese presence and activity in the Arctic Ocean will definitely be much more considerable. Therefore, on this front the year 2013 is undoubtedly crucial. If China succeeds

in obtaining the permanent observer status, which is quite probable, it will definitely try to convince the cautious Russia to enlist Arctic Ocean stability as one of the core interests of a broadened SCO framework. This follows Chinese foreign strategic logic of switching the SCO from “Shanghai spirit” to “Eurasia spirit”.

Chinese fishermen occasionally clash with the Russian coast guard over fishing rights close to the Russian coast in the Sea of Japan. Although in April 2012 China and Russia conducted the first joint naval exercises in the Yellow Sea off China’s east coast, the two countries maritime cooperation needs improvement, especially on fishing issues. The absence of a Chinese representative from the Vladivostok International Fishing Conference in October 2012 demonstrates tellingly how complex the relations between China and Russia are on the question of the biological resources off the Russian coast. We probably will not see any remarkable progress in this issue in 2013, but since both countries are now in the World Trade Organization (WTO), there is definitely a need for more effective consultations.

To continue with Vladivostok and the Russian Far East region, in 2012 there was a very interesting phenomenon in the Chinese alternative media, such as private blogs and less-known media sites, related to the September APEC meeting in Vladivostok. Since the Russian Far East Region was under Chinese control during most of the Qing dynasty (1644–1912) period, many Chinese started to question why Russia has not given back Chinese land. Such opinions are very common amongst the Chinese, but the central government definitely will not tolerate such a critical attitude toward Russia in the main media in order not to threaten the strategically important relationship with the northern neighbour. In 2013, these voices will fade away, because Vladivostok will not get such media attention as in 2012.

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All in all, 2013 will be the period of strengthening the bilateral relationship. China's new government – which will be announced around March – will definitely reiterate its strategically important relationship with Russia, especially while the general situation over the South China Sea and East China Sea dispute becomes more intense. In 2012, Russia became a member of the WTO, and this will accelerate mutual economic relations even more. The Chinese government's aim is to broaden the scope of economic relationship to other areas than just the energy sector, and the Russian WTO membership is a good basis for this. For example, China wants to export more high technology goods to Russia, and one huge project which attracts the interest of Chinese companies is the Russian high-speed railway network planned to be built before the 2018 FIFA World Cup. In the energy sector, the dominant issue in 2013 is still the gas price dispute. China is not willing to pay for gas the same price at which Russia is selling it to Europe, and therefore finding a solution to this issue is not easy. Another project in the energy sector is two additional reactors as part of the second section of the Tianwan Nuclear Station construction. 2013 is the year of government shift in China, but the relationship with Russia will stay as strong and stable as before.

RUSSIA AND JAPAN

Akio KAWATO

The most significant unexpected development was the rapid deterioration of the Sino-Japanese relations over the Senkaku Islands. It worked as the last push to make the otherwise complacent Japanese more aware of their own security and a need for balance-of-power diplomacy, in which Russia should play a more positive role.

A Sea Change – China brings Japan and Russia closer

In East Asia, Russia is a feeble power with a population of 6 million in the Far East. On the other side of the border, China has a population of 130 million in the former Manchuria, an industrial and military center. As China becomes more assertive in its foreign policy, Russia has a good reason to come closer to Japan, the U.S. and other “Western” countries in the region. Russia sent its navy to take part in the U.S. hosted joint naval exercise Rimpac (Rim of the Pacific Exercise) in June 2012 together with the U.S. allies like Japan, South Korea, and Australia, although in late April the Russian navy had conducted a joint exercise with the Chinese navy, too.

Russia hosted the APEC summit meeting in September 2012 without its usual propagandistic hurrah; its chairmanship was pragmatic and responsible. As chair Country for G20 in 2013, Russia

may well take a similar posture. Despite the conservative trend within itself, Russia is gradually being incorporated into the global economic system, as its accession to the WTO testifies.

It was in September that the Sino-Japanese row on the Senkaku Islands suddenly became acute. It was striking that Russia basically kept silence over the conflict (in recent years Russia made it a rule to rile Japan by associating itself with China in this issue). Putin is aware of Japan's vital role in the modernization of the Russian economy and he values Japan as a counter-weight vis-à-vis China.

Just before the Senkaku conflict in September, premier Noda declared to pay an official visit to Russia toward the end of 2012, but later he had to postpone it, because he decided to dissolve the Diet and announced a general election for December 16. The odds of the election are not yet clear, but even if the erstwhile ruling Liberal Democratic party reinstates power, its policy toward Russia will not be much different from Mr. Noda's posture; Japan (and Russia, too) now recognizes the value of Russia as a counter weight (not decisive, though) vis-à-vis China, and Japan would be willing to take a more active part in Russia's economic modernization and to promote economic development of the Russian Far East (mostly in commercial terms).

However, neither Japan nor Russia would give in their own mutual territorial dispute, and they will keep negotiating for a solution. The embattled Russo-Japanese territorial row has a longer history than the Senkaku case, official negotiations started many years ago, and thus it is now far less emotionally charged.

Trade and investment

The Russo-Japanese trade stands at 307 million dollars in 2011, and will grow further in 2013. Japan's import of Russian oil and gas totals about ten percent of Japanese consumption respectively. If the gas production in Sakhalin further grows, a new large LNG plant

(natural gas liquefaction station) will be built near Vladivostok, boosting Japan's equipment export and import of LNG.

On top of that, Gazprom disclosed its plan to construct a new natural gas pipeline from Siberia to Vladivostok. This will be the first gas pipeline which connects the Far East with Siberia and will substantially increase the export of gas. Besides, both sides may consider the construction of a gas pipeline from Sakhalin to Hokkaido, Japan.

All this, however, will not lead to Japan's excessive dependence on Russian oil and gas. Japan's dependence on the Gulf nations in its import of oil is large, reaching more than 70%. But Japan's crude oil imports have been decreasing from 255 million tons in 2000 to 229 million tons in 2007, as Japan has moved its industry abroad.

Japan's LNG import has been on the rise, because nearly all nuclear power stations were stopped after the Fukushima accident. But its supply is more secure than for oil, because 70% of Japan's gas import comes from Malaysia, Australia, Indonesia and Brunei, which are geographically closer than the Gulf countries, and because American shale gas may well become an additional source of supply. Therefore, Japan is not an avid competitor of China for Russian oil and gas. Russia itself prefers Japan, South Korea and other Asian countries as customer, because she does not want China to dictate import prices.

Japan's direct investment to Russia (residual amount) reached 1.2 billion dollars in 2010. This figure looks small for Japan, but one has to consider that an additional large chunk of investment has been made by European subsidiaries of Japanese firms. Japan's investment in Russia is playing an important role, because a large part of it is done in the manufacturing sector (automobiles inter alia), which would be vital to save Russia out of excessive dependence on oil export.

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In 2013 Japan will further promote its economic ties with Russia, quietly proceeding at the same time with the solution of the Northern Territories. Japanese internal politics may continue the disarray even after the general elections, but the government and the business may be able to promote the relations with Russia without incurring a protest in society; Russia has ceased to be a topic of emotional polemic because of the ever growing concern over China. Japan may even try to involve Russia into joint efforts for the security of the “sea lanes” (main sea-transport routes).

RUSSIA AND THE TWO KOREAS

Irina Lantsova

Developments in Russia's relations with the two Koreas in 2013 will largely depend on the change of leadership, which recently occurred in all the three states. Kim Jong-il, the former leader of North Korea, died in late 2011 and was succeeded by his son Kim Jong-un. According to the tradition, a respectful son must observe a three-year mourning period. The same period of grieving followed the death of Kim Il-sung in 1994–1997 when the foreign policy of North Korea became less active. A similar situation may be observed now. Isolated incidents notwithstanding (the successful launch of a satellite in December 2012 and the reaction of the international community), the leadership of North Korea is focused on internal political processes and attempts to consolidate power. A few foreign policy provocations might be used to strengthen the domestic prestige of the new leader.

In March 2012, Russia held presidential elections won by Vladimir Putin. There may be differing assessments of the policies of the incumbent president, but it was during his first and second terms in office that East Asia became a vibrant direction of Russia's foreign policy. This tendency will continue. At the APEC summit in Vladivostok, Vladimir Putin stressed the importance of the Asian direction in Russia's foreign policy.

Russia and South Korea

In December 2012, South Korea also held presidential elections. These were won by Park Geun-hye, a candidate from the conservative party and a daughter of General Park Chung-hee, whose name is associated with the fast economic growth of South Korea in 1961–1979. On the whole, the conservatives tend to favour a closer alliance with the USA. However, under the present conditions (a desire to dissociate themselves from the policy of the preceding administration and a hope that North Korea will alter its foreign policy after the change of leadership), Park Geun-hye already declared that her policy will be more balanced and focused on maintaining relations with all the states in the region, first of all China and North Korea.

Russia-South Korea relations in 2012 were quite dynamic. In particular, the trade volume between the two states grew by 40%, rising to USD 25 billion. South Korea has therefore become the third largest trade partner of Russia in East Asia after China and Japan.

In November 2012, Kogas, a state-owned gas corporation of South Korea, and Russia's Gazprom entered into an agreement upon the supply of one million tons of liquefied natural gas to South Korea in 2013–2014 by Gazprom Marketing & Trading, a subsidiary of Gazprom. LNG will be delivered by sea. South Korea also plans future investments into bilateral projects in the natural gas sector in Primorsky Krai. Korea National Oil Corporation (KNOC) is investing into the development of the Western Kamchatka shelf.

In addition to fossil fuels, the two states actively co-operate in the nuclear energy sector (Russia supplies fuel for nuclear reactors in South Korea). Russia's accession to the WTO in 2012 will provide a further boost to the economic relations between the two states.

The introduction of visa-free travel between Russia and South Korea in 2013 may become another important factor in fostering bilateral relations. This initiative would facilitate tourism as well as scientific and business ties.

Russia and North Korea

The change of leadership in North Korea, the observance of the mourning period and the need to consolidate power have brought about certain calmness in the foreign policy of North Korea. The most important foreign policy event in Russia-North Korea relations in 2012 was the write-off of the 90 percent of North Korea's debt which is equal to USD 11 billion. It is planned to use the remaining debt (approximately USD 1 billion) for the implementation of joint projects.

The most important projects for Russia and the two Koreas would be the Trans-Korean Main Line and the Trans-Korean Pipeline. Although the reconstruction of the rail link between Khasan and Rason has been already completed, a tense political situation on the Korean peninsula renders the use of the railroad for freight transit impossible. The project of the Trans-Korean Pipeline in the context of the intensification of Russia-South Korea energy co-operation is of great interest. However, in the next few years Russia and South Korea will continue to rely on sea routes. Both projects are being actively discussed by Russia's political establishment. It is believed that they may facilitate the normalisation of relations between the two Koreas and defuse general tensions on the peninsula. However, the business community is rather sceptical of both projects, because it considers the current regime in North Korea an extremely unpredictable business partner. Should the need arise, North Korea may use the pipeline as an additional means of applying political pressure to South Korea and other states.

On the whole, Russia is interested in the normalisation of relations between the two Koreas and the re-start of the six-party talks which allow it to emphasize its military and political importance in East Asia. Co-operation with South Korea will be actively developing.

RUSSIA AND THE TWO KOREAS

For Russia, South Korea is not only a new promising export market for fossil fuels, but also an attractive investment partner. In 2013, South Korea will continue to invest in spite of the crisis, especially in the infrastructure of Russia's Far East. The introduction of visa-free travel will increase tourist flows from both sides. A meeting of Vladimir Putin and Park Geun-hye is expected in 2013, when the two leaders may reach new agreements on the Trans-Korean Pipeline. North Korea is a traditionally important partner for Russia in East Asia. In the case of North Korea's foreign policy provocations that are possible during the period of power consolidation by the new leader, Russia is likely to shield North Korea from overly forceful sanctions by the UN or the international community.

RUSSIA AND INDIA

Oleg Barabanov

Political and economic co-operation between Russia and India has a long history and traditions. Already in Soviet times, India was a key partner of the USSR in Asia and in global politics. However, in recent years there have been some serious changes in India that impose certain restrictions on the development of Indo-Russian relations.

The most important of these changes is a progressing rapprochement between India and the USA which has changed the present situation. Since the USA is currently interested in the strategic containment of China, India as a natural counterbalance to China in Asia objectively becomes an American ally. Consequently, the military-technical co-operation between India and the USA has noticeably increased and the quadrangle of democracies (the USA, Japan, Australia and India) is being talked up in the context of Asia-Pacific geopolitics. This strategic drifting of India from Russia towards the USA is likely to continue in 2013, seriously annoying Moscow.

At the same time, the Sino-Russian strategic partnership has considerably strengthened over the last few years. In Beijing's political circles even a new official phrase has been coined – “Russia is China's strategic rear.” Therefore, Russia's policy towards India in 2013 and in the mid-term perspective will depend on Moscow's strategic choice – to conduct a completely pro-China policy or attempt balancing between China and other centres of power in the Asia-Pacific Region. An escalation of the territorial dispute between

China on one side and Vietnam, the Philippines, and several other states on the other side may become a decisive factor in this context. India has been actively developing military co-operation with Vietnam and Russia must choose between China and Vietnam. On the one hand, Sino-Russian military co-operation is expanding, which is evident in the cycle of their joint military exercises. On the other hand, Russia has contracts with Vietnam in oil and natural gas projects in the South China Sea, which already causes a nervous reaction from China. Therefore, the overall geopolitical relations between Russia and India are a hostage to this choice.

Another important region is post-Soviet Central Asia. India has been paying an increasing attention to this region in recent years because of a new strategic concept of India as a “continental power” with a foreign policy which prioritises not only the Indian Ocean (which used to be the tradition), but Continental Asia as well. For this purpose India actively supports the idea of the International North-South Corridor from the Indian Ocean to Russia through Tibet and Central Asia and makes energetic efforts to ensure an effective operation of the border-crossing mountain pass Natu La connecting the Indian state of Sikkim with China’s Tibet. India’s application to become a full member of the Shanghai Co-operation Organisation (SCO) pursues the same goal. However, India’s efforts encountered resistance not only from China, but also from Russia, which is not interested in a new foreign power in post-Soviet Central Asia. As a result, India’s application for full membership was rejected at the SCO summit in 2012, seriously worsening India’s attitude towards Russia. In 2013, India will obviously continue its efforts to split the Sino-Russian alliance trying to prevent new players from entering Central Asia on the one hand and attempt to find a roundabout way to the region, possibly through good offices of the USA on the other hand.

An ambivalent dynamics may be also expected in the framework of BRICS. On the one hand, steps will be carried out to enhance clearing operations in local currencies and facilitate investment

co-operation of the BRICS countries according to the declaration at the BRICS summit held in India in 2012. On the other hand, a possible strengthening of China-Russia and India-Brazil-South Africa axes within BRICS may pose a challenge to the internal unity of this association.

Finally, another important aspect of India's global policy is its fight for permanent membership in the UN Security Council. In this respect Russia's position is also ambivalent – it supports India by words, but comes short on deeds. It also causes a growing annoyance in Delhi.

Switching from politics to economics, it should be noted that India has an ever-growing need for energy resources to support its economic growth. Therefore it is very interested in a greater access to oil and natural gas resources and in the development of nuclear power engineering. In both areas India is interested in co-operation with Russia.

Russia is currently constructing two blocks of the Kudankulam nuclear power plant in the Indian state of Tamilnadu and is expected to commence construction of another two blocks next year. Although India makes active efforts to secure its participation in a number of oil and natural gas extraction projects in Russia's Sakhalin and Nenets Autonomous Okrug, Russia's share in the supply of oil and natural gas to India remains insignificant. This situation may change within 2–3 years (but not in 2013) when an LNG liquefaction plant will have been constructed near Vladivostok under the Sakhalin-3 project.

In the area of military-technical co-operation, India is scheduled to receive in 2013 another (already sixth successive) navy frigate built in Kaliningrad. However, the situation in this area is somewhat unstable. An extremely protracted (from 2004–2012) reconstruction process of the Russian aircraft carrier Admiral Gorshkov for the Indian Navy and serious deficiencies discovered during its test runs in 2012 negatively affected Russia's image as a supplier of arms in India. The total share of Russian weapons in India's army has fallen

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from 70% in the Soviet time to the current 60% and will continue to fall further.

Export of Russian wheat to India is another important component of foreign trade which is expected to drop significantly in the first half of 2013 because of the low harvest in Russia caused by drought in 2012. A radical change of the situation in this area may be expected within 2-3 years after the construction of a new grain terminal in the port of Vladivostok.

On the whole, Indo-Russian relations in 2013 will be contradictory and affected to the greatest extent by the Chinese factor.

RUSSIA AND AFGANISTAN

Harri Tiido

Forecast for 2012 and reality:

Moscow will secure for Afghanistan full membership in the Shanghai Cooperation Organization, SCO) to tie it more closely to other states in the region.

Reality: It has not materialized yet. In fact, the SCO officially formalized the observer status of Afghanistan during its Summit in June, 2012. If Afghanistan were to become a member, other SCO member-states would have the possibility of intervening under the solidarity clause even militarily after 2014, in case the situation gets out of hand. As to date, the member-states are not interested in it.

Russia may also bring Afghanistan closer to the Collective Security Treaty Organization (CSTO), e.g. as an observer state.

Reality: In 2012, Afghanistan participated for the first time in a CSTO Parliamentary Assembly and Heads of Security Council meeting in St. Petersburg. The CSTO has created a permanent working group on Afghanistan. There are conflicting signals about the CSTO's plans regarding this country – in October it was first declared that the CSTO could send their peacekeepers to Afghanistan, but then it was denied. But it was admitted that the CSTO is working on plans for future actions vis-a-vis developments in Afghanistan and a more active role could be in the making. The CSTO had a collective training exercise in 2012, the scenario of which was connected to repelling an intrusion of hostile forces from the South (Afghanistan). The CSTO has agreed not to station any foreign bases on member-states' territory without the agreement of every member

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of the organization. Thus, were Afghanistan to become a member, the CSTO (read: Russia) could decide whether there can be any US or NATO bases on the soil of Afghanistan.

The Western states (US) will be granted transit for shipping supplies to Afghanistan from the North, as before.

Reality: True. The Northern Distribution Network (NDN) continues to operate and it has been in principle agreed that reverse transit, i.e. leaving Afghanistan via a major transit hub in Ulyanovsk, will be activated as well. But the hub would be operated fully by Russians, without the US military presence on the ground.

Russia will again make a proposal for NATO to establish official relations with the CSTO, rather than deal with Central Asian states on a separate basis.

Reality: Russia has repeated the proposal on several occasions, but without success to date. At the same time, Russia has started to actively consolidate its influence in Central Asia, citing the situation in Afghanistan now and in the future as one of the main justifications. Kyrgyzstan was promised military aid for more than 1 billion USD, Tajikistan for about 200 million. Thus Russia tries to reduce the possible influence of the US in the region after 2014.

Russia will establish closer contacts with opposition forces in Afghanistan.

Reality: It is difficult to judge as there is some information only about contacts with the former Northern League.

Russia would make harsh declarations, demanding the end to the Western military presence in Afghanistan after the transfer of security responsibilities. Simultaneously, the US and Central Asian states will be warned against the establishment of Western military strongholds.

Reality: True. In a new development Russia warns the US and other foreign nations not to leave too hastily. In Russia's view, the role of ISAF in Afghanistan has not been fulfilled yet, the US has failed, and on the basis of a new UN mandate they should continue to guarantee stability and security in the country.

Economic cooperation will intensify; Russia will offer assistance for the reconstruction and development of infrastructure and industrial facilities once built by the USSR.

Reality: True. Russia also agreed to supply Afghanistan with 21 helicopters MI 17 and the deal was financed by the US. This means also the training of pilots, technicians, and providing spare parts in the future. At the end of the year, an agreement was agreed, according to which Russia would renovate an apartment construction factory that was built by the USSR. Trade between the countries is also growing. Russia is also taking a growing interest in the development of different energy-related projects that include Afghanistan.

Russia will repeatedly cite the inability – not to say reluctance – of the West to eliminate drug production in Afghanistan.

Reality: True; it is a continuous mantra of Russia. In the context of the CSTO, countering drug traffic is one of the activities for which the organization is preparing itself.

The Russian military structures will warn of a possible military conflict in Central Asia because of the transboundary effects of negative developments in Afghanistan.

Reality: True; preparations for this have been initiated in the framework of the CSTO and SCO. As a new phenomenon Russia has started to pay more attention to the regional context of Afghanistan's developments. Moscow started to warm relations with Pakistan, thus acknowledging the decisive role of this country in the future of Afghanistan, especially with a view to post-2014 developments.

Forecast for the 2013:

In general, there will most likely be no considerable changes in Russian-Afghan relations.

At the regional level, Russia will continue to probe Pakistan for a close exchange of information and for improved relations. This may be one of the ways of establishing further contacts with the Taliban and/or of influencing them.

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In parallel, Russia will keep the issue of Afghanistan on the table with India as well.

In Afghanistan, Russia will try to gain advance information about the 2014 presidential elections candidates in order to find ways of contacting them in advance.

Economic ties between the two countries will continue to develop as Russia takes a growing interest in the energy sector and mining industry in Afghanistan.

The NDN will continue to operate both ways, any disruption could be possible only in case of a very serious conflict between Russia and the West (US).

Accusations of Western failure in Afghanistan will continue to be voiced.

RUSSIA AND IRAN

Sven Mikser

To a large extent, the relations between Iran and Russia revolve around two main issues: nukes and oil, the same topics that dominate the discourse between Tehran and the Western capitals.

While it is an almost universally shared assumption in the US and Europe that Tehran is actively pursuing nuclear weapons and has an advanced ballistic missile development programme, Moscow has so far officially bought Tehran's line that its nuclear programme is purely civilian. Indeed, during a meeting with Iranian President Mahmoud Ahmadinejad on the fringes of a Shanghai Cooperation Organization summit in Beijing at the beginning of June, 2012, Russian President Vladimir Putin said that his country supported the right of the Islamic Republic of Iran to peaceful use of nuclear energy. And as recently as in October, 2012, Russian Foreign Minister Sergei Lavrov said that there was no evidence that the Iranian nuclear programme included a military component.

However, at the UN Security Council, Russia has, at times, grudgingly gone along with sanctions against Iran. UN Security Council Resolution 1929, passed in 2010, banned major weapons deliveries to Iran and caused a temporary souring of relations between Tehran and Moscow, when Russian President Dmitri Medvedev cancelled the sales of S-300 anti-aircraft missiles to Iran.

While Russia must also be genuinely concerned about the scope and complexity of Iran's ballistic missile programme, Moscow is nevertheless bitterly opposed to the US/NATO missile shield which

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is primarily aimed at defending the European NATO states against the Iranian threat. Washington insists that a limited anti-ballistic missile defence system could never be used against the huge Russian arsenal of intercontinental ballistic missiles, but it would be effective for countering the threat of nuclear proliferation and Russia would thus benefit from co-operating with the initiative. Moscow, on the other hand, has voiced a concern that the missile shield might over time be developed into a more extensive system that could deny Russia its second strike capability against the US.

The United States, Canada and the European Union recently adopted a new round of bilateral sanctions against Iran. These are going beyond banning the sales of military and dual use equipment and are targeting the all-important oil and gas sector. The Kremlin has made it clear that it will adopt an extremely cautious approach to the UN if any additional sanctions are being discussed, and will veto any resolution that could be interpreted as sanctioning the use of military force. The latter threat may in part reflect Moscow's bitterness over the way it feels it was tricked into abstaining at the vote on UN SC resolution 1973, which became the legal basis for the military operation that toppled Muammar Gaddafi's regime in Libya.

Anyway, a UN Security Council resolution introducing additional sanctions against Iran risks the veto of not only Russia but also China, a major consumer of Iranian oil. While both China and Russia believe they have good reasons for opposing what they perceive as undue US pressure at the UN, their other considerations are markedly different. Unlike China and other major importers of Iranian oil, such as India and Japan, Russia might actually benefit economically from tighter sanctions, as these would drive global oil and gas prices higher.

In all likelihood, the relations between Russia and Iran will not be dramatically transformed in 2013. Russia will continue to oppose tighter sanctions against Iran and emphasise Tehran's right to a civilian nuclear programme.

Moscow will try, as a matter of principle, to counterbalance what it sees as American unilateralist policy in the Middle East and to avoid the repetition of scenarios that unfolded in Iraq and Libya. Western military intervention in either Syria or Iran would, in Russia's view, seriously undermine Russian interests in the region. But while keeping up tough rhetoric, Moscow is well aware that there is no real urge in Washington or the European capitals to use military force in order to pre-empt Iran going nuclear.

At the same time, there is reason to believe that Russia will continue to participate cautiously in the multilateral efforts to bring Iran in line with the demands of the International Atomic Energy Agency. Russia's assessment of how close Iran is to achieving a military nuclear capability may be different from that of Washington, but a nuclear armed Tehran is not in Moscow's best interest, and the prospect of a nuclear arms race in the Middle East that would see Egypt, Saudi Arabia and Turkey also seek military nuclear capability must be a nightmare scenario in the eyes of the Kremlin as well as the White House.

There are a number of unknowns that may shake up the traditional pattern of Russo-Iranian relations. The toppling of the Asad regime in Syria with the active participation of outside forces may drive Moscow and Tehran closer together over the loss of a strategic ally in the Arab world. On the other hand, further escalation of the conflict between Iran and Israel may, paradoxically, force Russia join forces with the US in order to facilitate a political settlement.

RUSSIA AND TURKEY

Ahmet Sönmez

The previous prognosis was correct in predicting a further improvement of the economic relations between Turkey and Russia, but the trade volume in 2012 increased only to 35 billion US dollars, and not to 40 billion, as predicted. It was also true that Russia and Turkey are better allies in economic issues rather than in political ones, as the crisis in Syria has demonstrated. However, compared to the pre-1991 period, there has been an undeniable progress at the level of interaction between the two countries.

Being the biggest challenge in the Middle East for the moment, the Syrian crisis is a source of tension between Russia and Turkey. While the former maintains neutrality, the latter clearly supports the insurgents against the Baathist regime of Bashar al-Assad, who has strong and deep relations with Russia, which has military presence in Tartus naval installation in Syria. Doubts about the possibility of a Russian hand in shooting down a Turkish military plane by Syria with the pretext of air space violation in June 2012 made the relations between the two states even more tense. One more complicating factor was the deployment the Patriot Missile Systems in Turkey as part of NATO's common measures against a possible missile attack from Syria,

During the official visit of President Vladimir Putin to Ankara in December 2012 and his meeting with Turkish Prime Minister Recep Tayyip Erdogan, it was confirmed that both countries have *complementary economies and interests*. Both leaders seemed to be

willing to avoid the Syrian theme by focusing more on economic and trade issues, such as increasing the trade volume up to 100 billion dollars for the next five years.

But if we look at the economic statistics closer, we can easily see the asymmetry in favour of the Russian Federation, which is still the second biggest foreign trade partner of Turkey after Germany. For 2012, Turkey's trade deficit with Russia is 18 billion dollars, which constitutes the bulk of the total foreign trade deficit. The deficit has been consistently growing (almost sevenfold over the last ten years) due to the rising energy demand in Turkey, which is met by Russian gas. If the above-mentioned five-year target is achieved between the two countries, it will create an immense problem in the balance of payment for Turkey – and inevitably a unilateral gain for Russia – unless Turkey finds other resources to finance the deficit.

In 2012, 70% of Russia's total exports to Turkey is made up of mineral fuels and natural gas, and Turkey exports to Russia mostly foodstuffs, textile, chemicals, and road vehicles. In the services sector, around 3.5 million Russian tourists travelled to Turkey in 2012, and in the near future Russia will surpass Germany as the country from which the largest number of tourists come to Turkey. Besides, Russia has always been an important market for Turkish contractors who build shopping malls and residential buildings. Between 1992 and 2012, Turkish contractors have completed projects worth 37 billion dollars. The flow of direct investments from Turkey to Russia demonstrates a steady growth.

On the other hand, the Russian state-owned construction company AtomStroyExport is about to start building a nuclear plant in southern Anatolia with a cost of 20 billion USD. It will be the first foreign nuclear power plant that Russian companies are going to build and retain in their property. Turkey, for its part, will be able to alleviate her dependency on imported oil and gas (mostly from foreign Iran and Russia), although it will be dependent on the external supplies of nuclear fuel. A significant development in the financial sphere in 2012 was the purchase of the Turkish Denizbank

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by Sberbank, one of the largest Russian banks. The amount of the transaction, 3.6 billion dollars, is the biggest in Sberbank's 171-year history. This bank marriage will most probably increase the flow of Russian investment to Turkey by facilitating financial transactions.

Energy is Russia's strong card, and Turkey's heavy dependence on Russian energy imports limits Ankara's freedom of manoeuvring and makes Russia an indispensable partner. This could be a source of anxiety for Turkey in the long term, as its economy becomes increasingly thirsty for energy. At the same time, Russia also needs Turkey, which is a major transit country for the Russian gas bypassing Ukraine. Russia wants to maintain its dominant position as the largest energy supplier for the EU. Turkey's permission was crucial for the start of the construction of the South Stream natural gas pipeline at the end of 2012. This pipeline project is promoted by the Russian Federation because, among other things, it wants to leave no chance to the Nabucco project, which is a real threat to Russia's control over gas flows.

Thus, historical hostilities between Russia and Turkey are being replaced by an economic and strategic partnership. The latest developments will make the relations even closer, if the crisis in Syria does not damage it irreparably as Turkey aims to become a strong actor in the region. In the short run, it is very unlikely that the Syrian crisis is going to inflict an irreparable damage on prospering bilateral economic and political relations. These relations are too strong to break off and mutual dependency means that any issue will be solved without serious complications.

RUSSIA AND ISRAEL

Yakov Rabkin

The last year's prognosis has weathered the test of reality quite well. The long-term trends in the multifaceted relationship between the two countries have remained constant or have even intensified.

Russia was expected to maintain its position on Iran and Syria, and this has largely been the case. The projected growth of cooperation between Russia and Israel in the domain of military technologies has, indeed, materialized. More generally, Israeli companies have taken a prominent place in the Skolkovo project (often dubbed "Russia's Silicon Valley"). This strategic involvement, largely based on old contacts between former Soviet scientists and engineers working in Israel and in Russia, benefits from strong encouragement by the two governments.

Similarly, as previously foreseen, the Russian-language media continue to depict Israel mostly through the perspective of former Soviet citizens resident in Israel, who, as a group, are more rightwing and nationalist than the current government of Israel. Consequently, the average Russian citizen views Israel somewhat more positively than the average American, and significantly more positively than the average European. According to Google, most searches originating from Russia which are related to Israel concern tourism. Tourism from Russia to Israel, second in volume after tourism from the United States, has continued to grow, with the data for April 2012 showing an increase of 42% compared to April 2011. Russian tourists appear more intrepid or indifferent in the face of the threat

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of violence in Israel than tourists from other countries, and, barring a major economic crisis in Russia, the growth of tourism is expected to continue.

In 2012, Israel was one of the first destinations for the newly elected President Putin. He inaugurated a monument to Soviet soldiers in late June to commemorate the Nazi attack on the USSR on June 22, 1941. The high-level ceremony, which included President Peres and Russian-speaking ministers in the Israeli government, expressed official appreciation by Israel of the sacrifices on the part of Soviet soldiers and emphasized its rejection of recurrent attempts, particularly in Eastern and Central Europe, to draw a moral equivalence between the Nazi and the Soviet regimes.

Beyond these cultural affinities, trade and technological cooperation constitute the backbone of Russia-Israel relations. Israel exports a broad gamut of products, from wine and carrots to snow-making devices and drone technologies. The trade has increased fourfold in the last five years, and there is potential for further growth. Russia's Gazprom is set to take part in the development of gas reserves situated between Israel and Cyprus. A number of Russian billionaires, nowadays citizens and residents of Israel, strengthen business as well as political and media connections between the two countries.

The importance of the Russian-language electorate for the country's right wing is growing. Independently of the fate of the disgraced former foreign minister Avigdor Liberman, Russian-speakers, numbering over one million in Israel, are poised to increase their political clout in the wake of the January 2013 elections.

President Putin is known for his pragmatism and, unlike his American counterpart, he rarely pays lip service to spreading democracy. Moreover, both Russia and Israel are concerned about the democratic awakening that strengthened the U.S.-supported islamization of the region. Russia, which underwent its own demodernization in the wake of the dismemberment of the USSR, is less sanguine than Israel about the dismantlement of the technological and industrial infrastructure built with Soviet assistance. While also

wary of the Islamists, Israel, whose leaders have threatened to bomb Iran and Gaza “back into the Middle Ages”, sees in the spreading demodernization a means to strengthen its qualitative military edge in the region. While dependent on the United States, Israel offers material support to Russia’s attempts to establish a counterweight to American hegemony through cooperation in the production of weapons largely exported to China and India, thus strengthening the non-Western component of BRICS.

Russia’s support for Syria and Iran may not necessarily complicate its relations with Israel. Russian commentators dismiss Israel’s rhetoric about Iran’s nuclear ambitions as “a weapon of mass distraction”, i.e. a means to distract public opinion away from the Palestinian issue. They also note that since 1973 Israel has lived peacefully with Assad’s Syria, and does not view Russia’s support for him as a threat. As part of its policy of bringing about a multipolar world, Russia’s intention to play a more active role in the Middle East meets with understanding on the part of Israel. Russia, in turn, finds in Israel an alternative to the dismissive attitude it has faced in Washington since the end of the USSR. Commonalities and, particularly, common interests, rather than differences, are likely to define the relations between Russia and Israel in the future.

To summarize, Russia and Israel are likely to increase strategic, economic and cultural cooperation as well as the flow of tourists. Political differences on Syria, Iran and the fate of the Palestinians do not pose a threat to this trend, which relies on an extensive network of connections ranging from the rank and file to the upper echelons of politics and business.

RUSSIA'S POLICY TOWARD COMPATRIOTS

Tatyana Kiilo, Margus Gering

Evaluation of the last forecast:

On the whole, directions of Russia's policy toward compatriots have not changed: repatriation policy (including aspects related to citizenship policy), defining the diaspora community of Russia's compatriots and supporting its identity ("consolidation" in Russia's official parlance) and creating mechanisms of (mutual) influencing the diaspora community ("interaction" in Russia's official parlance). All agencies involved in the policy toward compatriots have been increasingly co-ordinating their activities with Russia's foreign policy priorities, including respective legal acts and programmes. The role of religious organisations in the consolidation of compatriots has been also growing. Financing of the compatriots' organisations has been non-transparent and uncoordinated. Altogether, Russia spends on this policy approximately USD 340 million a year.

A new "division of labour" and institutional hierarchy have emerged within this policy dominated by the Foreign Ministry and its affiliated agencies, e.g. Rossotrudnichestvo and the Foundation for the Protection of Rights of Compatriots founded by the Foreign Ministry and Rossotrudnichestvo. The status of the Russkiy Mir Foundation created by the Foreign Ministry and the Ministry of Education and Science is unclear in this new hierarchy. Officially, the foundation's main task is the propaganda of the Russian language

and culture (as of October 2012, the foundation had 89 Russian centres abroad and 119 so called offices of Russkiy Mir). At the same time, the declared objective of Rossotrudnichestvo is to consolidate all humanitarian projects related to compatriots as well as their financing. As of July 2012, Rossotrudnichestvo had 68 centres abroad and it is planning to double their number in the CIS member-states. In a long-term perspective, the competition for resources between Russkiy Mir and Rossotrudnichestvo is possible.

An emphasis is put on the protection of rights and legitimate interests of the compatriots in the target states. In addition to usual functions (collection of information, preparation of reports, scientific research, etc.), the Foundation for the Protection of Rights of Compatriots (which is responsible for this policy area) also prepares proposals of Russia's possible reactions to the violation of compatriots' rights. The foundation handles the following areas: the right to mother tongue, stateless persons living in the Baltic states, the right to information, citizenship problems.

In earlier forecasts we gave a rather reserved assessment of the effectiveness of the repatriation policy and also mentioned the criminal proceedings in connection with the repatriation programme. On 1 January 2013, a new redaction of the repatriation programme will come into effect. The total of 100,000 compatriots have moved to Russia over the period of six years. Most compatriots who returned to Russia under the repatriation programme came from Kazakhstan, Uzbekistan, Moldova, Armenia, Kyrgyzstan, Tajikistan, Turkmenistan and Georgia.

Forecast for 2013:

- further efforts to protect the rights of compatriots; financial capabilities and influence of the corresponding foundation will grow. Centres for the protection of rights of compatriots will be opened in the target states (first of all, in the Baltic states) with support and/or at the initiative of the Foundation for the Protection of Rights of Compatriots.

RUSSIA'S POLICY TOWARD COMPATRIOTS

- The number of persons using the repatriation programme will continue to grow; nevertheless, it will still be insufficient to satisfy labour needs of Russia's regions and compensate for demographic problems (ageing and shrinking population). A majority of repatriates will come from Central Asia.
- The foreign policy dimension of the policy toward compatriots will be focusing on the active promotion of Russian language and culture, including teaching of the Russian language to foreigners and financing studies of young compatriots in Russia's universities (the financing is currently available to 10,000 persons a year; attempts are being made to increase this number.)
- At the legislative level, the focus will be on the simplification of Russia's naturalisation procedure (for compatriots) and visa regulations.
- At the administrative level, schemes to finance compatriots' organisations will be developed that would put these organisations under the complete control of Rossotrudnichestvo and the Foreign Ministry on the one hand and involve various Russian foundations and NGOs on the other hand.
- The development of the concept of the Russian school announced in 2011, which is supposed to become the standard school model based upon Russia's educational standards, is likely to be postponed. The main target group in the area of education is teachers of Russian language and culture as well as of other school subjects taught in Russian.
- The Baltic States and the CIS member-states will remain strategically important target states among the compatriots' home countries. The set of policy issues with these states will not change: education with the Russian language of instruction, the status of the Russian language, social problems, discrimination and human rights, organisations of compatriots.
- Ideologically, the policy toward compatriots is becoming an expression of soft power. The goal of this policy is to increase Russia's presence in the world, especially in states with a

russophone population. Russia's policy toward compatriots has been effective in those states that have a relatively small Russian diaspora and lack any serious and long-term political tensions with Russia. In the case of such states, the set of issues involved is limited to Russian language and culture and the general image-building of Russia. In target states with a large russophone population and in states that have unresolved political problems with Russia, an emphasis is put on discrimination and human rights, indicating conflict relations within the following triangle: Russia – target state – diaspora community.

THE POLITICS OF MEMORY IN RUSSIAN FOREIGN POLICY

Heiko Pääbo

The politics of memory affects other state policies and at the same time it is also influenced by them. However, changes in the politics of memory are not very rapid and only few sudden events can bring some significant changes overnight. Therefore not each curve would provide long-lasting results. The 2011 prognosis focused on two major case studies of Russian politics of memory: Ukraine and Poland. In the first case Russia has managed to succeed in making Ukraine follow the Russian aims, the second case showed how Russia is able to make compromises.

The change in the **Ukrainian** administration in 2010 has brought a lasting change in Ukrainian official memory discourse. From the Russian perspective, one of the most challenging issues – the Holodomor – has been “depoliticized”. The current Ukrainian president Viktor Yanukovich campaigns for the idea that it was a universal tragedy of Soviet people and he denies the position that it was an act of genocide against the Ukrainian nation. In 2012, the 80-year anniversary of the Holodomor was commemorated. Comparing the speeches of the Ukrainian presidents for the 75th (held by President Yushchenko) and the 80th anniversary (held by President Yanukovich) commemoration, one can notice an immediate difference. Both presidents emphasised the tragedy, but while Yushchenko also explicitly said who was behind the tragedy

and draw clear conclusions that it was a targeted policy to suppress the Ukrainian nation, Yanukovych was silent about the agents of the crime and tells about a terrible tragedy that fell on Ukrainians and other nations of the USSR. Although it is one example, it clearly demonstrates a Russian victory in the Russo-Ukrainian memory battle. However, it does not mean that the alternative narratives and memories of the Holodomor have disappeared in Ukraine, but at least the policy of the current government aims to subscribe to the Russian version of the narrative.

The **Polish** case seemed to show a tendency to overcome the conflict between Poland and Russia and the latter was ready to acknowledge the Polish position of the Katyn massacre. However, the two last years have not proven that this initial change has been permanent. The European Court of Human Rights declared the Katyn massacre a war crime in April 2012 and the Court criticised Russia that it has not been willing to cooperate during the investigations – Russia did not offer all the requested documents to the Court. Russia seems to aim to keep a low profile in this issue and despite the international assessment to the past events, the Russian administration wants to protect its own investigation reports as classified documents. The initial sign of an improvement of Russo-Polish relations has not brought bigger changes and there is still a strong mutual distrust between Russia and Poland.

The 2011 prognosis also mentioned the **Estonian**-Russian border treaty. Although the Russian ambassador hinted that the issue would be solved in 2011, it was not solved in 2012 either. However, based on the Russian request, the parties started consultations in order to solve the issue related to the disputed preamble text in order to overcome the deadlock and to make the outcome suitable for both parties. It means that Estonia should explicitly state that it does not have any explicit or implicit claims for the former territories that are under Russian control today and it may enable the Russian side to acknowledge the Treaty of Tartu. Nevertheless, it is not an easy decision for Russia, but it would allow coming out from the

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deadlock with a saved face. Also it is a debate for Estonian politicians how to deal with the Treaty of Tartu and to what extent Estonia can make compromises. Although Russia has mentioned several times earlier the will to solve this issue, then current developments show that 2013 can be a year when one chapter in the war of memory between Estonia and Russia can be closed.

At the very end of 2010 and early 2011, there was an attempt in the Russian presidential administration to change the strong opposition with the former Soviet countries and together with them to condemn Stalin and **Stalinism**. The proposal was made by one of the working groups of the Council for Civil Society and Human Rights. It aimed to refocus from the Soviet era to the tsarist period and emphasise victories from earlier history. Although it created some hopes in the Baltic states and Poland, this initiative remained only as a proposal and today the presidential administration has decided to return to the earlier position – confrontation with the Central and Eastern European countries. Another interesting development was observed at the international level. In November 2012, the UN General Assembly adopted a resolution that condemns Neo-Nazism. The resolution was sponsored by Russia and although it carries the noble principle of tolerance and condemns racial hatred and xenophobia, it was quickly associated in the Russian media with the Baltic states by referring to the commemorative practices of *Waffen SS* veterans. This step shows that Russia aims to intensify another memory battle with the Baltic states in 2013 and the few steps towards reconciliations considered in earlier years are not in the agenda of the current Russian government.

The above-mentioned developments also affect domestic dimensions in Russia. Although the recent law that requires the NGOs who get financial aid from abroad to register themselves as foreign agents was initiated for other purposes, it puts also Memorial, the major organisation that deals with victims of Stalinist repressions in Russia, into an awkward situation. One independent organisation that could function as de-Stalinisation instrument can be labelled

as a foreign agent and its activities are thereby undermined. Therefore, maybe not intentionally but at least implicitly, the initiative for de-Stalinisation is very limited. Or at least it is under the control of the Kremlin and the presidential administration. I predict that the current administration does not feel a necessity to deal with this issue and it remains a marginalised topic, at least during 2013. Thus, the Russian government has forgotten the above-mentioned initiative and prefers to follow old glorifications instead of common victimhood.

To conclude, Russia has made a few steps towards compromise during the last couple of years, but they have not been very consistent ones. Current developments rather make us expect that these few attempts to find reconciliations with former Soviet countries have been in vain and there will be a turn towards a more intensified use of history in Russian foreign policy. Although there may be possibilities to overcome the border issue between Estonia and Russia, this compromise from the Russian side may not mean that the confrontation with Estonia is over. It can mean that Estonia and Russia are not battling over the Treaty of Tartu and the border because it is not anymore reasonable. However, there can be a new campaign at the global level against the Estonian memory regime about World War II. Therefore, I do not forecast any bigger changes at the major level of politics of memory, but some smaller scale compromises may be possible.

CONCLUSIONS

Viacheslav Morozov, Karmo Tüür

It seems that the end of the open phase of the domestic political crisis in Russia, with the protest activity going down and Vladimir Putin firmly back in the presidential office, made predicting the developments for 2013 somewhat easier compared to the previous year. At least it looks as the strategic goals are set, both in domestic affairs and in foreign policy, and there exists no political force which can present a credible challenge to the government's priorities. Under these circumstances, the main factors that still create uncertainty are the state of economy (both national and global), the multiple factors that affect Russia's security (from domestic extremism to the developments in the Middle East), as well as President Putin's standing as the national leader (which can be undermined if his health deteriorates or if the simmering intra-elite conflict spills over into the public domain).

In accordance with the internal logic of our collection, our concluding remarks and assessments consist of two parts – one focusing on internal trends, and the other on external relations.

To provide a systematic assessment of the diverse prognoses, the editors tried to evaluate each individual forecast from the point of view of the Russian government's relative success. We have tried to be as neutral as possible in order not to pass judgements on the basis of our understanding of how Russia must develop, but through Russia's own interpretation of its interests (whether a certain development looks like success or failure in the Russian eyes).

When it comes to foreign affairs in particular, it is important to highlight that what we are evaluating is the relative success or

failure of Russia's policy towards a certain state or an international organisation, and not the state of the relations as such. Thus, a low "grade" does not necessarily mean that the relations are bad, but rather that the Kremlin largely fails to achieve this goal. A case in point could be Ukraine, whose leadership finds it relatively easy to find a common language with Putin's government, but is still unwilling to yield to Russia's pressure, in particular as regards the Common Economic Space and the Eurasian Union project.

Such an approach can certainly be disputed – who can tell what is good for Russia in the long perspective? Is the state keeping control over the media useful or harmful? In the short term, it probably helps to preserve the status quo and thus to ensure stability, which is declared as a key goal by the regime. But what about the long term?

At the same time, we do not have any other ways of measurement. We are not talking about "the ideal Russia in the ideal world", but about real life. If the state is successful in its own policy, it is probably good for the state at a given moment... even though later it may turn out to be a Pyrrhic victory.

Moreover, Putin's Russia has arguably reached a stage where the government "success" means an obvious loss for the nation, even in the short term. This is especially evident in such spheres as the church-state relationship. While the state is obviously trying to use the Russian Orthodox Church to defend and spread the "traditional" values, this is only accepted as a valid goal by one part of society, while the other part is strongly against it. As a result, the more "successful" Putin's government is in promoting this goal, the deeper the split between the religious-conservative and the secular parts of the nation is. As suggested by the available data, this is a roughly fifty-fifty division, which makes it especially dangerous.

The Kremlin's policies towards independent societal actors in civil society and the media are aimed at controlling them as fully as possible. In the previous decade, this perhaps could have been described as "success" (with the reservations spelled out above), because such control helped to ensure stability. However, with

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corruption becoming increasingly widespread and obvious to everyone, tougher control over the media and civil society means, in fact, that corrupt officials have a freer hand. The “vertical of power” is obviously unable to cope with corruption, and the fact that the official media are silent about something which all citizens observe on a daily basis makes the “stability” more and more ephemeral.

To some extent this also concerns economic policies. For the Kremlin, “success” in this sphere means controlling the assets, and this model probably worked in the 2000s, when the growth was less dependent on structural factors. Today, as some analysts argue, the resource-oriented economy has reached the ceiling in how much it can deliver; more state control could be detrimental to economic growth and well-being even in the short run.

With all these limitations duly acknowledged, we can say that most of the authors see the Russian government as moderately successful in its domestic policies. In most areas, it manages to preserve at least the minimum required degree of control, and in some sectors it is even visibly successful. For example, the role played by the church and orthodox religion in education, raising the level of state patriotism, creating the myth of unity – all these are certainly steps towards national consolidation. Even though Russia is a multiethnic and multiconfessional country, Orthodoxy is the dominant faith and therefore supporting it can probably help to ensure political and social stability, at least in the short run. Despite the indications that this policy is more divisive than the Kremlin is ready to admit, there is no hard evidence (yet) of any manifest failure.

Similarly, in the nationalities policy, a shift is taking place away from creating a civic nation towards an understanding of the nation state centred around ethnic Russian culture and Orthodox Christianity. This certainly causes hostility on the part of the minorities, but from the point of view of the state as a whole, at least in a short term perspective, it is a reasonable solution (in any case it seems simpler and may be more rational).

At the same time, serious problems exist in some areas. For instance, immigration control mechanisms are so far inefficient, with their functioning distorted by multiple corruption risks. The state has not managed to establish firm control over many explosive areas in North Caucasus.

Generally speaking, however, out of thirteen domestic issues, only a minority (four or five) get a negative grade, indicating some degree of failure. Foreign policy-wise, the picture is more diverse. Success in the development of bilateral relations differs greatly from country to country, but if one divides the world into several parts, it is possible to get a better structured view.

Russia's position vis-à-vis multilateral institutions (WTO, OECD, NATO and the EU) is mostly evaluated positively. The relationship with the European Union, as seen from Moscow, is defined by many disturbing factors, such as the Commission's regulatory powers and Russia's most vocal critics in the European Parliament. At the same time, it is possible to mitigate the conflicts by a careful handling of bilateral ties with the "key" member states.

Among the European states, Russia has established the best connections with Germany, Italy and Spain. The UK and the Baltic states emerge as the most troublesome partners, although even in their case the development of economic ties remains on the positive side.

Relations with the US and other "Americans" remain on a rather neutral level. Of course, Moscow keeps trying to counter US policies, while the US remains a dominant power in the international system, and this is not going to change any time soon. At the same time, relations with the U.S. are dominated by the short-term conflicts, which make cooperation on long-term shared goals difficult, if not impossible.

The situation in Asia is, from Russia's viewpoint, much more exciting. Practically all states in the region are trying to court Russia in an effort to change the balance in their mutual rivalries. This, coupled with the growing energy demand in the region, makes it possible for Russia to feel comfortable, at least as regards the nearest future.

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Moscow has repeatedly declared the post-Soviet states a foreign policy priority. In the process of putting this collection together, we have come up with a term which could be remarkable in its own right – “post-CIS politics”. In our view, it characterises very well the situation where most of the integration mechanisms created earlier have all but disappeared, while the invention of the new ones has probably exhausted its initial potential for success. The Customs Union seems to work in its present distorted and incomplete form, but any attempts to deepen the integration among the existing members or to broaden it by including more states will likely face formidable structural obstacles. In terms of success stories, one could name relations with Armenia and Belarus, with some sporadic deviations in the latter case.

Looking at the numbers, one can say that out of 33 foreign policy vectors, 21 get a more or less positive evaluation. Among domestic policies, as pointed out above, about two thirds can be viewed as successful. On this basis, one can say that Russia’s outlook for 2013 is, on the whole, more positive than negative.

This “bird’s view” assessment is, of course, an oversimplification. Every author observes his or her “own” Russia; each author emphasises different aspects, which determines the specificity of each individual prognoses. It is also important to keep in mind that their vision reflects Russia’s tactical steps rather than strategic long-term strategies. Yet it often turns out that a state’s behaviour is to a much larger degree directed by incremental everyday decisions, rather than by voluminous written strategic documents. Therefore, short-term evaluations and prognoses could be, in their own right, more adequate tools for the assessment of the developments in Russia.

The conclusion which thus emerges is the following: Russia has reached a period of relative stability, which is, however, threatened by a number of systemic risks, first of all of domestic origin. Comparatively speaking, Russia is still a giant player in world affairs, but this giant is not in the best shape.

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