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THE WORLD AROUND RUSSIA: 2017

An Outlook for the Midterm Future

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Contents

The World of Today and Tomorrow

What you are holding in your hands is not a fully completed work. Rather, this is an intellectual trigger, a skeleton for a more serious study, which is planned for release at the end of 2007.

The information contained herein will be used in a series of discussions and situation analyses, upon which a more fundamental study will be prepared. The following chapters will be rewritten, with new subjects added, first of foremost as interdisciplinary chapters: on the evolution of ideologies and civilization, on the role of human capital and new technologies. Work on these chapters is already underway, but they are not ready yet even for preliminary discussion.

The work on each chapter proceeded in the following way. First, a working group that was comprised of the authors, advisers and editors of the project discussed each individual topic. Then, the main authors prepared drafts of the texts, which were rewritten until they were agreed upon with the editors.

The year 2008 will be momentous for Russia as this country will once again be at a historical crossroads. In the next few years, it will have to choose a new strategy for the future. To this end, Russia's political class will have to visualize, at least in a general way, in what international environment this country will have to develop.

Whatever the level of a country's national sovereignty, the external world now increasingly determines the internal development of individual states. A country can and should seek to ensure the maximum degree of freedom of action for itself. But in this present epoch of intensifying globalization, increasing cross-border processes and multi-layer interdependence, this freedom will be more and more relative. These global trends can be reversed only by a series of cataclysms of global dimensions. Thus far, such events seem to be nowhere on the horizon, yet there is a sensation that threats are accumulating and will emerge sometime within the period under review.

The upcoming decade is expected to be turbulent and unpredictable. All the more so we need fundamental scientific forecasting, although this is a tremendously stubborn matter. For a long time, Russia has avoided serious attempts to provide a comprehensive forecast concerning global changes to which we must adapt. Therefore, the authors and advisers who worked on this study had very little documentation to rely on. It should also be mentioned that we showed great caution in using foreign studies. Forecasts, especially those made by state institutions, almost inevitably serve the current ideological purposes and are instruments of influence on the expert and political classes of other countries and regions.

The present collection of studies contains many contradictions, both inside individual chapters and between them. The editors attempted to smooth these over, yet they did not seek to remove them completely. The main authors had the right to independent assessments and forecasts, especially since no one in the world can claim to know the ultimate truth. The famous joke, "Forecasting is very difficult, especially about the future" is now as true as never before.

I have no intention to retell the whole content of this study in this introduction. I will only mention some of the ideas, which I think are particularly important.

The global economy continues to develop at a very rapid pace, despite possible crises and fluctuations. The second half of the forecasted period may see stable growth even in Europe; these tendencies help improve international relations and remove the causes of many tensions. At the same time, the downside of economic growth (social stratification and polarization) may provoke additional problems.

General economic trends are expected to be positive. However, the persisting and, possibly, escalating political and military-political instability in the Broader Middle East will continue to have a negative impact on the situation throughout the world. The more optimistic scenario would be, if not the settlement of the existing conflicts, at least preventing them from escalating further. The second half of the decade may already see the beginning of a new round of nuclear proliferation and the aggravation of the conventional arms race.

International governance will continue to decline. This trend may also involve internal governance and affect even well-established democratic systems of developed nations.

Instead of a unipolar world, where the domination of one superpower has evoked so much apprehension among other countries, we will be faced with a new reality – not "multipolarity," which is so dear to so many, but rather growing chaos and a vacuum of governance and security.

This vacuum may begin to be filled only by the end of the forecasted period – and only if the political classes of leading nations realize the need to overcome their disunity and traditional distrust, rise above their own egoistic prejudices, and start building a new system of universal security.

Energy will remain a key factor determining the world's future. However, by the second half of the forecasted period the present acuteness of the energy problem will be partially overcome. Energy flows will be partly reoriented toward the growing Asian economies. The role of energy and, especially, traditional energy resources, will be reduced for the United States and the European Union. Moscow must take this factor into consideration in order not to be enthralled by the illusion that it can become an "energy superpower."

Despite measures taken by the international community, some ecological problems of a global scale (fresh water shortage, climate change, and deforestation) will inevitably worsen. Russia's ecological resources are plentiful, and this country has many more economic and geopolitical opportunities opening up before it. However, these opportunities may turn into challenges if Russia does not immediately prepare for the development of its ecological wealth on its own.

East Asia will continue on the path toward becoming a global economic growth center. The region will feature "soft" integration tendencies, which by the middle of the decade may start acquiring the form of institutions.

Meanwhile, the influence of the United States, which is now facing a "post-Iraq syndrome," will continue to decrease. However, by the end of the forecasted period, the U.S. will start to partially restore its international positions, although it will not be able to claim the role as being "the only superpower" (recently, this role has been more virtual than real).

New tendencies are also increasingly manifesting themselves in Latin America, the U.S. "backyard." After a long calm in the 1990s, the 'leftward drift' in the region is being accompanied by the active foreign policies of Latin American states. The U.S. is now paying the consequences of its disregard for the region in previous years, while the European Union and China, on the contrary, are gradually consolidating its positions.

During the next few years, the European Union will be in a state of prostration. The euphoria from its integration achievements has brought about inflated demands among the EU member countries concerning this organization, while its rapid enlargement in 1995-2006 has caused malfunctions in pan-European mechanisms. Yet, by the middle of the forecasted decade, the integration process may start emerging from its systemic crisis. Economic reforms will be intensified, and the EU may rise above its stagnating development model.

While it is not ruled out that the EU will make some headway toward a common foreign policy, there are no signs that it will adopt an effective defense policy any time soon. In any case, the next decade will determine a model for the development of future Europe, with several possible scenarios.

The larger part of the post-Soviet space will continue with its separation tendencies. Real integration processes are possible only between Russia and Kazakhstan – that is, if Moscow and Astana set down and implement far-reaching decisions. (Belarus, too, may join in these processes if the ruling regime in Minsk and its development model are soon replaced). In any case, former Soviet republics will increasingly gravitate toward different regional powers. At some point, the Russian leadership will apparently admit the obvious thing: the post-Soviet space is no longer Moscow's main foreign policy and foreign-economic priority.

The present synopsis does not necessarily predict Russia's foreign policy, although it provides some recommendations and suggests general conclusions. The world will be contradictory, unstable and easy to influence. In such an environment, a precise policy, even with limited resources, can go a long way toward the success of the country and its citizens. The main strategic changes will begin by the end of or beyond the forecasted period.

The direction in which Russia will move will depend on the foreign-policy decisions it will make in the next few years. This country is able to continue its ascent (although not as fast as in recent years) to the role of a great and rich power of the future. Yet mistakes could result in the Russian "star" setting, and this decline would be irreversible.

Russia's burst of development in the last few years has been easy to achieve in comparison to what is in store for it. We started from the chaos of the late 1990s, when there was no efficient state in this country. In order to make the right decisions, one must know and understand the external world as never before, because Russia's dependence on the outer world will continue to increase.

The authors and editors of this study, in cooperation with the organizations that supported them, sought to broaden this knowledge and deepen this understanding to the best of their professional abilities.

Sergei Karaganov

PART I

GLOBAL TRENDS

1 The Global Economy

Introduction

The last two decades represented a period of momentous political, social and economic changes in the world. Those changes, however, did not have an unequivocal direction; they were contradictory and contained both positive and negative consequences for the further progress of the global community. Nevertheless, those changes make it possible to predict the most probable scenarios for the development of the global economy for the next 10 years. Russia, which became an integral part of the global economy after 1991, has new opportunities opening up in the sphere of innovation development, which will enable the economy to overcome its present dependency on raw-material exports.

The main social and economic changes that have taken place in the world since the late 1980s can be divided into the following four groups:

- **First,** the liquidation of the Communist centralized administrative economic system that was opposed to the market economy; this was accompanied by the market-oriented transformation of the former Communist countries of Europe.
- **Second,** growing economic globalization, which is acquiring a new quality due to its sharply increased innovation quality; the development of globalization through regionalization (regional integration), although the globalization and integration processes, while creating new opportunities, bring about problems that occasionally become critical;

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- **Third,** general acceleration of economic growth, while its fluctuation and regional differentiation persist and even increase; steady reduction of the share of the "old" developed countries in global production, and emergence of new growth leaders in Asia and Eastern Europe, amidst increasing social and economic degradation of a large number of backward states, most importantly in Africa;
- **Forth,** failure of social and economic models developed by industrialized countries in the 20th century to meet the new conditions of the globalizing world and the new stage of post-industrialism; the beginning of modernization (reform) of these models (above all, their economic, political and social elements).

These changes have predetermined an agenda for many years into the future. Most likely, the next decade will be a period for the global economic entities to adapt to the new conditions, a period of "digesting" what emerged at the turn of the century. This process will most likely be evolutionary yet rapid.

Expected Framework Conditions for Global Economic Development

Our forecast for global economic development during the next 10 years is based on the following major premises:

- in the period until 2017 – despite existing threats and a high probability of local conflicts – the world will not experience large-scale wars or armed conflicts that would shake the global economy (in particular, no military actions will be taken against Iran or North Korea; the Middle East conflict will not escalate to a new level; there will be no new seats of tension in Latin America or East Asia; weapons of mass destruction will not fall into the hands of terrorists; no catastrophic terrorist acts will be allowed in the West, etc.);
- energy supplies will remain stable, while energy prices will fluctuate within an acceptable range with a small upward trend (the price of Brent oil will vary from 45 to 70 dollars per barrel on the present scale of prices); meanwhile, the share of alternative energy sources will slowly increase;

- the international currency system will see no upheavals. The dollar will probably weaken – more likely in favor of the euro than any other currency, for example, the yuan; the latter, despite the achievements of the Chinese economy, will hardly gain the status of an international currency during the period under review;
- the speed of international financial flows will increase and their volumes will grow; simultaneously, measures to prevent crises on the financial markets will improve, although in individual countries movements of speculative short-term capital may provoke crises. These, however, will be of a local nature;
- innovative development will accelerate, thereby creating the conditions for modernizing traditional industries and increasing labor productivity. These factors will extend the postindustrial system to an increasing number of countries, while reducing the dependence of economic development on material resources and energy. Obviously, the process of obtaining technical knowledge will be more rapid, and production cycles will decrease; at the same time, we do not expect any revolutionary changes in technology during the next decade, although some spheres may see considerable progress, for example, in biotechnologies, nanotechnologies, communications, and environmental protection technologies;
- ecological restrictions will not become critical; the threat of global shortages (for example, the shortage of fresh water) and global pollution will not reach the point of an acute crisis. The reduction of such risks will not entail excessive financial costs for state budgets and businesses, although the shortage of fresh and potable water may reach a pre-crisis level in individual regions;
- global population growth will slow down (the slowdown rate will increase by the end of the period under review; this process will become particularly noticeable between 2020-2040). This slowdown will affect all regions of the world, although to different degrees (if the world's population grows by about 10 percent during 2007-2017, the population of the 27 EU countries will grow by less than 2 percent). At the same time, the aging of the population will accelerate due to increased life expectancy;
- the intensity of migration flows will grow to some extent, yet it will be checked by administrative security (police) measures, together

with positive changes in some countries that are potential sources of labor and social emigration. Nevertheless, immigration to North America and Europe will most likely grow.

Global Economic Scenarios

1. Heightened Risks

If most of these prerequisites are not fulfilled, the situation will develop according to a very pessimistic scenario with predictably unfortunate consequences for all mankind.

- The rapid recovery from the small recession of 2001 may not be something that global markets can repeat especially if there emerges a developmental gap and a major economic and political conflict between the "old" developed countries (that still possess the largest economic and innovation potential) and new Asian economic growth leaders.
- This may happen if developed countries sharply increase protectionist measures and try to influence (for example, through "their" multinational corporations) the nature of economic development in the fastest-developing economies.
- Hierarchical economic and political structures ("verticals") – above all at the level of national economic systems – may be built and strengthened in order to counterbalance the networked (i.e. horizontal) interaction of economic actors.

This variant may involve a scenario in which a strong state will play a key role amongst the majority of the leading countries of the world, taking charge of security matters and ensuring equal opportunities and individual freedoms. Simultaneously, it will actively join in hierarchical economic systems or even organize them itself, thereby forming a new model of corporate economy with a peculiar "state-private partnership." As a result, economic development will be relatively slow, yet stable for some time, without violent market fluctuations. However, the expansion of the nation-state's economic competence (internal economic de-liberalization) will inevitably slow down the globalization processes, which become impossible when liberal elements within state-business relations are reduced: dynamics will be sacrificed for stability which, however, will hardly be consistent and long-term.

The greatest threats may come from the establishment of a bloc of Islamic countries (including Iran), together with China and India, which will compete in an economic rivalry against the West. The establishment of "patriotic" barriers by developed countries to counter unbridled expansion of Asian manufacturers will not only slow down global economic development, but may also provoke serious problems in the global economy (inside the trade, currency and financial systems). Thus, both sides will end up losing, as well as Russia, even if it tries to play the neutrality card in this case.

We believe this pessimistic scenario is unlikely (although we do not rule it out completely) and therefore we will not consider it below.

2. Global Acceleration

The more probable case is an optimistic scenario that envisions the continual acceleration of development and the maintenance of average annual growth rates of the global economy (or even their increase to 5-5.2%). This will be based on the booming Chinese and Indian economies (8-10% a year for each of them), high growth rates in post-Communist countries (6-7%), and accelerated development in postindustrial countries of the West (about 4% in the United States and 2.5-3% in Western Europe and Japan). The realization of this scenario requires stability on the global markets and in the political sphere; greater liberalization of the movement of basic commodities and resources (in particular, the trade in services); rapid technological progress (specifically, by expanding innovation and achieving breakthroughs in specific areas, e.g. in power engineering); increased efficiency of economic policies in various countries, including the leading ones; and, finally, the rapid fulfillment of long-awaited reforms in the countries of Western Europe.

Unfortunately, this favorable scenario is probably not the most likely variant. Numerous risks and limiting factors prevent a favorable combination of the best overall development conditions. Even the present political instability in the world, not to mention the aggravation of the geopolitical situation, will check global economic development, which is largely based on the rational globalization of markets and the continuing deepening of the division of labor. A qualitative shift can be achieved by a basic increase of mutual trust and cooperative behavior by a majority of actors in the global economy; however, these are unattainable goals in the period under review. At best, it will be possible to prevent a sharp escalation of tensions between the Western and Islamic worlds, as well as between the Euro-Atlantic and Asian capital.

Under a favorable development of events, it will take 15 to 20 years to build more or less reliable bridges between the West, on the one hand, and South and East Asia, on the other, by means of their slow and simultaneous movement toward each other, that is, through various tactical rapprochements. The Broader Middle East will hardly become a region of stability in the next few years; therefore one can hardly expect an "economic miracle" there. Latin America may equally see upsurges in economic development and retrogressions to stagnation. The political factor – stability of governments and efficiency of their policy – remains one of the main factors determining the character and rates of growth there.

Moreover, an accelerated development of postindustrial countries – especially in Western Europe – is open to question, as structural and institutional reforms are checked by the absence of public support for them (society reasonably fears that the welfare state will be dismantled under the pretext of its modernization) and the absence of political will, a common vision and an ability to implement the strategy of reforms in the government, as well as in the opposition. Although the reforms were launched at the beginning of this decade, they are of an overly compromising nature, meandering and slow and they fail to keep up with new challenges that face the global economy.

3. Adapting to a Globalizing World

Therefore, we believe that the main scenario in the period until 2017 will be moderate global development on the basis of continuing globalization. This will require a combination of adaptation strategies, evolutionary growth and radical reforms at the national level (especially for different countries).

The average annual growth rates of the global GDP in 2007-2017 will make approximately 4% – as much as in 2001-2005. However, in the period between 2007 and 2012, there may be a slowdown in development (3.7-3.8%) and then a modest acceleration (up to 4.5%). The slowdown at the first stage will affect, above all, the U.S. (2.5-3%), China (7-8%), and some other Asian countries (except for India, whose economy will most likely accelerate to about 7% and then to 8-9% as its government implements institutional reforms and as the country becomes increasingly involved in global trade and open to foreign capital).

The slowdown of growth in China will be due to the need to eliminate structural disproportions (sectoral, regional and social) and address environmental problems, which can no longer be ignored because of heightened risks. The expected slowdown of the American economy will inevitably affect China. Additionally, the expected revaluation of the yuan and the need to raise salaries for numerous categories of the growing middle class will cause some decrease in the competitiveness of Chinese products on international markets. Further coexistence of the fast-developing market economy and the undemocratic political regime will be increasingly difficult even when we consider China's national and cultural peculiarities, which will create additional risks for the country's economic development. Economic growth in the EU countries, at least until 2012, will retain its present sluggish dynamics (about 2% a year), while the development of the former Soviet states as a whole will slow down to some degree (to 5.5%); yet, the differentiation of growth rates by countries will be great in both groups.

After 2012-2013, we may expect to see a gradual acceleration of global economic development with simultaneous modernization of the technological base and institutional conditions for growth. Global growth rates will increase to 4-4.5%, including 2.5-3% in the enlarged EU, 6-7% in the post-Soviet countries, and 9% in India. China will not eliminate all the imbalances in its development within the next five years, so by the end of the period under review one should not expect annual growth rates in that country to be higher than 7% –which is not insignificant, however. Nevertheless, by the middle of the next decade internal political factors will check economic development in China, while attempts to eliminate these factors, or at least ease them, may bring about problems that will prevent high growth. After 2012, growth leaders will most likely include India and some medium-size countries: Malaysia, Turkey, Kazakhstan, etc.

The slowed-down "adaptation" and "reform" period of 2007-2012 will be replaced by a new, upward trend, which will become manifest in full after 2015. The main driving forces of the upward trend will include a growing openness of national economies, new and more liberal conditions for trade in services, accelerated technological renovation of production facilities, increased flexibility of national and global labor markets, and stabilized supplies of basic resources (in particular, energy). The modernization of economic and social policies in developed countries and countries with developing markets will make a major contribution to growth. But the reforms will yield fruit only after 2013-2015, and only if they have been carried out in the main in 2007-2010.

Regional Peculiarities

Obviously, social and economic modernization, together with the content of reform initiatives, will have different features even for major countries and regions. A new "Washington Consensus" is now impossible, and each country needs its own recipe for economic success. Through the globalization of economic ties, integration of markets and increasing internationalization of business, this factor is certainly creating tensions. However, a diversity of models for adapting to 21st-century challenges will ensure that these processes are preserved – and even made more effective in favorable circumstances.

Even if China manages to achieve global leadership by 2017 in terms of GDP based on the purchasing power parity (PPP), the dynamics and quality of global economic growth will be determined by the development of the American economy. During the period under review, the U.S. will retain its superiority in some fundamental factors and areas of social and economic development. The state of global flows of goods, services and capital will also largely depend on the activities of American economic actors, most importantly, American multinational corporations. At the same time, the U.S. economy is confronting serious challenges and risks, ranging from balance of payment deficit to state budget deficit to the occasional "bubbles" on the financial, innovative and real estate markets, which can provoke nationwide crises. However, a rational economic policy can help to cope with these threats and avoid serious upheavals.

Nevertheless, an American economic boom is hardly likely – more probable are moderate average annual growth rates of 3-3.2%. The slowdown will be due to heightened competition in the global economy and to a slower (compared with the previous 20 years) increase in spending on R&D and innovation investment. The unemployment rate will inevitably increase from the present 5% to 6%, but inflation risks will decrease (the average annual inflation rate will fall to 2-2.5%). After 2008, the new

American administration will probably give up deficit financing and will seek to make the federal budget more balanced by 2015-2017. The slowdown in growth rates may also be due to the present and future spending on the policy in the Broader Middle East, which includes expensive military operations.

Japan is yet to assimilate the economic stagnation of the 1990s-2000s, and the results of structural reforms started by the Junichiro Koizumi Cabinet. The reforms are far from completed: the government has yet to modernize the social system, ease restrictions on the labor market, and de-regulate some other markets. The unfinished reform initiatives, together with the lack of strong public support for them (as is the case in Western Europe), impede economic development in Japan. Thus, the average annual growth rates of the Japanese economy will hardly exceed 2%. Nevertheless, active growth in the APEC countries has an inevitable impact on Japan and makes it one of the world's producers of knowledge and innovations, although probably to a lesser degree than in the U.S. and even the EU.

In the 27 EU countries, average growth rates are likely to remain relatively low – 2.0-2.3%. In case of an unfavorable situation on the global markets, a decline in global trade and further rise in oil prices (higher than $80 per barrel on average), growth rates may fail to exceed 1.8%. The period of 2007-2010 may see economic growth rates ranging from 1.9% to 2.2%, and in 2011-2017 the growth rates may increase to 2.1-2.4% (the results of the reforms will make themselves felt; new impetuses are expected from the American economy, as well as from the economies of China, India and Russia; the period of adaptation of the EU's 12 new members will be over). Higher rates, exceeding 2.5%, are possible only in case of successful innovation breakthroughs in the EU's largest countries, and successful integration and modernization of its new members after 2015.

Of more importance, however, is not growth rate figures but the quality of growth, ensuring the high competitiveness of national economies and their growing innovativeness, while preserving strong social systems (although modernized in the course of reforms). We predict the success of reforms aimed at achieving this goal, conducted in the whole of the EU and, especially, in its leading members, as highly probable, especially by the end of the period under review. Simultaneously, respective spending by businesses, including large multinational corporations and small and medium-size firms will also grow. Thus, the Europeans will be able to spend 3% of their GDP on R&D already in 2011-2013.

In both the new and old EU member countries, consistent and rapid growth highly depends on structural changes, increased innovation in production, and a broader range of new kinds of services (in particular, in science, design and management). Real efforts by the EU countries in this field may impose a further minor decrease in the share of industry and construction in the GDP (to 25-26%), while stabilizing the share of agriculture at 2% of the GDP (in the EU-27). Obviously, the EU will manage to alleviate unemployment, the most acute problem today, and increase employment; the unemployment rate will decrease from the present rate of 9% to about 6% in 2017 (according to forecasts of the International Labor Organization).

Simultaneously, the EU countries will have to overhaul its educational system, introducing advanced learning programs typical of American higher education. Competition with the Asian and Latin American countries will occur not in the traditional sphere of public goods production costs but in the sphere of innovation and development, which do not allow for economizing on labor costs. As a result, there will be no need for the highly developed EU countries to dismantle their socially oriented market economies, although they will have to seriously modernize them. In particular, the share of the GDP redistributed by the state will decrease in these countries from 46-49% to 42-45% (in Britain it will remain at 38-40%).

Conclusion

Although the dynamics of global economic development in the next decade will be measured, as before, by growth rates of the GDP (both absolute and per capita), the importance of this parameter will decrease, as its value for determining the quality of development and living standards is becoming more and more questionable. This is due to growing structural changes in the conditions of variety and new alternatives, the rapid renovation of products and technologies, and the decisive importance of receiving and propagating knowledge for economic progress. In other words, not only the total number of products made is important, but also their quality, innovative characteristics and significance for consumers.

We can assume that the highly developed countries of the West will overcome the consequences of de-industrialization by creating fundamentally new markets. Here, they will be able to offer services for producing and adapting knowledge to the production potentials of other countries. The West has indisputable competitive advantages for supplying intellect-intensive products, whereas in the spheres of material production and traditional services it is losing its advantages.

Therefore, already within the period under review, a new paradigm will take shape in the international division of labor, featuring new approaches to competition between postindustrial and industrial (agrarian-industrial) countries. Leadership in global economic development will go from the largest producers ("world factories") to knowledge and management centers ("world laboratories" and decision-making centers). This factor offers opportunities for the American and, especially, West European economies. Perhaps Russia too will be able to – or be forced to – join them.

In general, the more probable scenario of global economic development is favorable for Russia's economic prospects. However, it not only does not guarantee stable development and high dynamics, but also is fraught with risks that may prevail over the positive opportunities. Therefore, the trajectory of Russia's development in the next 10 years will be largely determined by the ability or inability of the political authorities and business leaders to take advantage of the chance offered. A minor slowdown in global economic growth rates would not cause a marked decline in prices of traditional Russian exports, although it would apparently impede their growth or make them relatively stable. Such stability is a good condition for an investment maneuver planned by the government to ensure structural diversification of the economy by developing high-tech industries and a modern services sector.

The predominant orientation of Russia's economic, scientific and technical ties to European countries, where innovation development in the period under review will also be given priority, would allow this country to derive benefit from international cooperation in science, technology and production. It would ensure greater cooperation between the Russian and European capitals and help reduce the predominance of the energy factor in their mutual relations. Such a relationship would not damage the development of economic relations with the fast-developing countries of Asia (above all, China), and it would create better export positions for Russia, thus saving it from the role of supplier of raw materials and energy resources to that region.

The diversification of the Russian economy with emphasis made on innovation industries, the strengthening and improvement of relations with European countries, and the formation of a democratic system with a strong civil society are interdependent processes that have an approximately equal probability of implementation. Even if this probability is low in the short term, it is estimated to be rather high in the mid-term forecast (beyond 2012), because any scenario involving autarky and the renunciation of large-scale international economic cooperation will hardly take place. Should such a scenario take place, however, it will most likely quickly fail – but with possible dramatic consequences for the country.

At the same time, even a gradual reorientation of the Russian economy to an increased share of innovation industries (which apparently will not begin earlier than 2008) will at first slow down economic growth – to 4-5% a year – due to the emergence of structural and adaptation problems (including in business organizations) and reduce export activity. If political developments in the country head toward authoritarianism and populism, such a variant may prove unacceptable and would force the authorities to look for ways to prolong the orientation of the national economy to raw material export. That would prevent a decline in growth rates in the short term (provided energy prices remain stable) but would create difficulties on global markets already by 2015, when the gap in technology will become critical.

A well-planned and active integration of Russia into the global economy following its accession to the WTO, the development of in-depth cooperation (integration) with the EU, together with structural reforms would really increase the innovative character of the Russian economy. As a result, growth rates will again rise (to 6-7% by 2012-2015) and the quality of economic growth will rapidly improve. However, if political considerations cause Moscow to postpone the improvement of the economic environment until after 2008, and if Russia fails to find common ground with the EU, the situation will not evolve beyond image-building projects, and Russia will fail to make its economy more competitive internationally.

2 The Military-Political Situation

If we look at international relations from the military-political perspective, for both Russia and the world at large, the next decade may mark the end of the strategic pause that replaced the epoch of bipolar confrontation in the late 1980s. The gradually increasing scale of threats that have been emerging before our eyes over the last decade may acquire a new qualitative element in the next few years. This could force the leading nations to make a strategic choice with regard to the role that force will play in their foreign policies and international relations in general.

For now, however, the external conditions in the military-political sphere can be described as relatively favorable for Russia. The probability of an attack against the Russian Federation by some large nation or coalition is low. Russia has no explicit enemies or potential aggressors in the world – just as it has almost no friends left. Thus, it is not in the situation where it must exhaust itself with a program of militarization, spending exorbitant financial and raw material resources.

The end of the bipolar confrontation opened new opportunities for intensive and constructive interstate cooperation on the regional and global levels, at the UN, and other international organizations. Today, the threat of a global conflict has been reduced to the minimum. The existing system of international relations ensures an unprecedented level of mutual trust and control in the military sphere.

However, the world's leading powers are not giving up their excessive arsenals. Indeed, they are constantly modernizing them, and this

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includes the most offensive weapons. It seems that the use of diplomatic methods and compliance with the generally recognized principles and rules of international law have not become a prevailing trend in addressing the problems of international security.

The Crisis of the Security System

At the regional and local level, the danger of interstate armed conflicts and their uncontrolled escalation is increasing. This applies above all to the Broader Middle East, Transcaucasia, Central Asia, Southeast Asia, and the Korean Peninsula. The likelihood of an exacerbation and increase in the number of internal state conflicts is growing, primarily in the Middle and Near East, as well as in the Balkans, the Ferghana Valley, Moldova (Transdnestr), Georgia (Abkhazia, South Ossetia and Javakheti), Azerbaijan (Nagorny Karabakh), and some African countries.

Despite a pronounced trend toward polycentrism, global politics is characterized not by a classic multi-polar order but rather a multi-tier one. This is a highly mobile international and interstate system in which global problems have taken center stage, requiring new multilateral mechanisms and international institutions. But until such mechanisms and institutions have materialized, destabilization and even chaos will continue.

In general, the potential for conflict in the world is growing, and there have been increasing attempts at implementing the use of force. Stability is being seriously undermined by unilateral and therefore illegitimate (from the standpoint of international law) actions by a number of powers. These states wish to advance their positions while completely ignoring the legitimate interests of other partners.

Today, it is clear that virtually all international security mechanisms that were instituted after World War II or during the Cold War era (UN, NATO, OSCE, etc.) do not measure up to the challenges and threats of the new century. The attempts to reform these structures have thus far proven to be in most cases unsuccessful. As a result, international crises have been increasingly slipping out of control.

The attempt by the United States to consolidate its leadership in the world by relying on military-political mechanisms and unilateral actions in crisis situations has failed. As it stands, globalization tends to reduce economic leverage. Meanwhile, the status of a nuclear power alone no longer brings any visible political dividends, while it is more and more difficult to use supremacy in conventional weapons for political or military purposes. At the same time, there is ample evidence that U.S. policy is conflict-prone. And although the United States is striving to make 21st century wars low-intensive and selective by using precision guided weapons and information technology, these attempts are also failing.

Asia-Pacific countries, above all China, are beginning to play a growing role in global affairs. This aggravates the existing contradictions in the world, as well as creates new ones. These new global players also increase competition, not least in the military realm.

Ethnic and socio-economic problems are worsening in various parts of the world. This trend endangers international stability through regional conflicts, regional arms race, proliferation of weapons of mass destruction (WMD), terrorism, drug trafficking, and other security challenges. One highly dangerous challenge to regional and international stability is the growth of national and religious extremism, especially in a number of Islamic regions. Meanwhile, protectionist tendencies are also on the rise.

The emerging global system, which involves economic globalization and the spread of information technology, opens up unprecedented opportunities for development, but at the same time makes the entire system increasingly exposed to terrorism, WMD, and IT weapons. Rivalry over energy resources is also on the rise.

Presently, the arms race is once again getting out of control and has reached a fundamentally new level, while its scale in certain regions even exceeds that of the Cold War era. Amidst the degradation of global and regional arms control mechanisms, the regional arms race is picking up pace, including the spread of WMD and missiles and the growing militarization of the world, especially in sensitive conflict areas. With the lack of effective international control procedures for trade in conventional weapons, these weapons are rapidly spreading throughout the world, not least among criminal structures.

The threat of so-called destabilizing weapons, low-yield nuclear weapons, and strategic missiles with conventional warheads is growing. A number of countries are striving for the freedom to deploy such ominous weapons – including nuclear weapons – in outer space.

According to the Stockholm International Peace Research Institute (SIPRI), in 2005, a total of $1.12 trillion was spent on global defense programs. Aggregate military spending keeps growing, more rapidly than during the Cold War era (6% and 2.5-3% a year, respectively). Military spending has been growing the most intensively in the Middle East, as well as in some CIS countries (Georgia, Azerbaijan, and Belarus).

The main causes of the new global arms race include the growing destabilization of international relations, together with the U.S. "peace enforcement" and "democracy enforcement" policies. The armed conflicts in Iraq and the former Yugoslavia have amply demonstrated that the hopes that have been placed on international security guarantees are illusory, compelling other states to build up their armed forces as a means of protecting their national sovereignty. If we consider those countries that are increasing their arms imports, we see that they include not only U.S. allies or anti-American regimes, but also those that are arming themselves "just in case." These countries (e.g., Malaysia, Vietnam, and the United Arab Emirates) lack their own military industries. Yet another disturbing factor in the arms race is the folding of the nuclear umbrella under which the Soviet and U.S. satellites once felt a sense of security. Today, many of them must rely on their own resources in matters of defense.

The United States continues to be the pacesetter in the arms race both quantitatively and qualitatively. The present U.S. military budget accounts for about one-half of global defense spending. In 2006, the United States' aggregate defense spending was approximately $505 billion (as compared with Russia's $28.8 billion and a little over $30 billion under its 2007 draft budget). It is noteworthy that U.S. military spending is clearly innovative with $75.7 billion earmarked for the development and testing of new weapon systems. The Pentagon has requested $51.1 billion for ABM, military-space and nuclear weapon programs alone. New types of weapons based on innovative physical principles – geo-physical, ionospheric, electromagnetic radiation, etc. – are being actively developed.

With respect to the nuclear factor, the following trends need to be taken into account:

- Despite a notable improvement in the international situation regarding the outbreak of large-scale wars and armed conflicts between the world's major powers, it has not been matched by a commensurate decline in the role of nuclear weapons in world politics. Furthermore, unprecedented terrorist attacks and shifts in security priorities are causing a dangerous lowering of the threshold for using nuclear weapons, increasing the probability of their use, which could get out of control. The ongoing proliferation of WMD and their delivery means are a contributory factor here.

- The U.S. technological head start, which includes field tests of certain components of a missile defense system, indicates that in the medium term (5 to 10 years), a limited missile defense system could be deployed, whose density could then steadily increase. Such a system would not endanger Russia's interests within the next 15 to 25 years, especially if its strategic nuclear capability continues to be modernized, but will result in the nuclear forces of other countries being "re-aimed" from U.S. to Russian targets.

Large-scale transnational terrorism remains a serious threat. There have been reports from security services, including within military intelligence, that point to foreign support for the terrorist underground in Russia.

Short-Term Threats and Challenges

In the short term (three to four years), global instability will increase in the world, and this will be driven by the exacerbation of traditional threats, as well as the emergence of new threats and challenges. Instability will also derive from the progressive decline of the existing regional and global security institutions (UN, NATO, OSCE, etc.).

The "centralized" arms control regime, which ensures the predictability of the military-political situation and provides a professional strategic warning – in other words, it effectively prevents the danger of a surprise attack – will continue to degrade. In 2009, the terms of the major bilateral Russian-U.S. Strategic Arms Reduction Treaty will expire; in 2012, the Treaty on Strategic Offensive Reductions will follow suit. Inspections under the Intermediate-Range and Shorter-Range Nuclear Forces (INF) Treaty ended in May 2001, when the 13-year inspection term expired (but the ban on the production of intermediate-range and shorter-range missiles is still in effect because this treaty is open-ended and of unlimited duration). The Treaty on Conventional Armed Forces in Europe will likely become completely ineffective, above all due to NATO's eastward expansion. Meanwhile, no new arms agreements with the U.S. or NATO can be expected in this area. Although the Comprehensive Nuclear Test Ban Treaty was ratified by three nuclear powers – Russia, the UK and France – the prospects for its entry into force remain bleak (this is due to the position of the United States, China, Israel, Iran, India, Pakistan, Egypt, North Korea, and some other nuclear states).

The Treaty on Strategic Offensive Reductions will probably be the last Russian-U.S. arms reductions agreement. Any further reductions of nuclear weapons will most likely proceed through parallel unilateral moves, possibly without any mutual coordination. In other words, the decisions will be based on considerations of technical and economic expediency that each side will determine on its own, without consultations with the other side. It is not as yet entirely clear whether this is good or bad for international security, strategic stability and bilateral relations.

The impression is that the United States does not intend to bind itself by any arms control or reductions agreement. Over the past nine years, the 65 member countries of the UN Disarmament Conference have not made a single important decision. The U.S. and the UK are in effect the only two countries that are opposed to the start of global negotiations to prevent the militarization of space for reasons that go deeper than the need to fight international terror.

Apart from its political component – the U.S. striving for global military-political domination in the 21st century – this course has a technological and economic dimension related to the interests of U.S. military-industrial corporations, as well as to the intention of the U.S. administration to enhance the scientific-technical level of American industry through massive financial infusions into large-scale military-technological programs.

According to a number of Russian experts, the said changes in Washington's military policy do not pose an immediate threat to Russia's national security – at any rate, for the next 15-25 years. The scenario may change if the Americans deploy a strategic missile defense system and Russia is unable to take effective countermeasures.

A crisis situation is developing in the realm of nuclear nonproliferation. North Korea's nuclear tests came as a major setback for the international community.

First, Pyongyang showed to the world that the political and military means at the disposal of the so-called Group of Six leading nations are ineffective in countering the spread of nuclear weapons. That is a strong signal to other countries striving to acquire such weapons.

Second, North Korea's decision sharply increased the probability of a chain reaction in the Far East and Southeast Asia, where a number of countries have the technical capability to develop nuclear weapons in the foreseeable future.

Third, Iran and other 'threshold' states will now advance more rapidly toward their own nuclear status. A chain reaction should also be expected in the Broader Middle East, including Saudi Arabia, Turkey, Egypt, and some other states.

Over the past few years the United States has delivered three devastating blows against the nonproliferation regime. The **first** blow was the U.S. withdrawal from the 1972 ABM Treaty. That move affected the entire system of agreements that had been established with such difficulties during the Cold War era. **Second,** the new U.S. nuclear doctrine, which has not simply lowered the threshold for using nuclear weapons, but in effect transferred them from the arsenal of political deterrents into the category of conventional weapons (it should not be ruled out, however, that Russia's nuclear doctrine is quietly moving in the same direction). **Third,** U.S. recognition of India as a de-facto nuclear power, complete with the signing of a large-scale nuclear cooperation treaty. These actions eliminated the last political and moral impediments to nuclear proliferation; what remains now is only the threat of the use of force, but that obviously did not work in the North Korean case.

It seems that the world is slipping into a new nuclear age, and one that is potentially more dangerous than the previous. During the "first nuclear age," instability reigned from the late 1940s until the early 1960s. Since then, despite expanding arsenals, the situation remained stable, not least due to an effective 'mutual nuclear deterrence' system between the Soviet Union and the U.S. Today, the situation can become more unstable with multilateral nuclear deterrence capability. New nuclear states will not have the experience that the old nuclear powers had (having acquired their nuclear weapons in the middle of the past century), and this will increase the atmosphere of general anxiety and military-political instability. Some states will be encouraged to use preemptive strikes, while the United States will get yet another reason to stockpile assets for a global space-based missile-defense system. Other countries, including Russia, will be encouraged to deploy regional air defense systems. A new arms race could start in this area.

During the Cold War era, countries joined the 'nuclear club' not so much as a deterrence against the Soviet Union or the U.S. (How could China, for example, have possibly expected to "deter" the U.S., or France or the USSR?) as for considerations of prestige – to gain political weight on the international stage. (In Europe, there was also the aim to prevent the U.S. from breaking away from the European security system: the West European nuclear powers were in theory supposed to play the role of a "Bickford fuse," linking the U.S. nuclear capability to Europe and thus strengthening the regional deterrence capability.)

The situation today is different. Many countries need nuclear weapons not only as a status symbol, but as the sole means of upholding national sovereignty and national identity (i.e., their choice in favor of a particular civilization). "Threshold" North Korea and non-nuclear Iraq provide illustrative examples. In the first instance, the United States preferred diplomatic means to the use of force, whereas in the second it implemented massive military force. Unsurprisingly, many countries have already made appropriate conclusions and are following in North Korea's footsteps. It is enough for us to mention Iran.

The proliferation problem is all the more pressing in light of the growing threat of international terrorism. Should weapons of mass destruction fall into the hands of Islamic radicals, or any other extremists, the consequences would be disastrous. This compels military and political leaders to look for new approaches toward this problem. In particular, passive "classic" measures in the nonproliferation area could be supplemented with active measures involving the use of military force. This in turn lowers the threshold for the use of military, as well as nuclear, force, which could destabilize the situation in certain parts of the world, as well as on the global scale.

Unless the world's most developed countries (the G8 plus three to four other countries) take extraordinary measures (which seems unlikely in the next five to seven years), the nonproliferation regime is bound to erode even further. During this time, the "nuclear club" may expand (in addition to the five "veteran" powers, it de facto comprises Israel, India, Pakistan, and North Korea) – most likely with Iran and possibly with South Korea and Japan. In this case, a number of other countries, above all in the Broader Middle East and Southeast Asia, may declare their nuclear programs – if only for the purpose of blackmailing the international community. Nuclear proliferation could be driven further by a new stage in the development of the atomic power industry unless the IAEA regime is modernized. If the missile technology control regime (MTCR) is not tightened, missiles and missile technology will spread further with new nuclear powers acquiring intermediate-range missiles that can potentially hit targets on Russian soil. Apart from other issues, this will confront Moscow with the need to deploy regional missile defense systems.

Eventually, in a worst-case scenario, a combination of these factors could create a fundamentally new geostrategic situation in the entire Asian region – from Japan to the Mediterranean. This is where the most serious WMD proliferation challenges now exist.

In the next one to three years, the United States is unlikely to withdraw from Iraq (even if the Republican administration is replaced, leaving the problem to a new administration), and it will hardly be able to get involved in other large-scale military operations. At the same time, one cannot rule out the use of military force against Iran in the form of precision strikes on its nuclear installations, which could sharply destabilize the situation in the region. In any event, armed conflicts with the involvement of two or more countries, including Israel and Iran, are quite possible in the Middle East. They can start according to a similar scenario – under the pretext of fighting transnational terrorist organizations based in a number of Arab countries. This is all the more likely as long as the Americans are in Iraq, since these organizations will continue to intensify their activities. When the U.S. pulls out of Iraq in three to five years, failing to achieve either democracy or stabilization in the country, tens of thousands of militants, thoroughly trained during the war in Iraq, will be "released." Further radicalization of the Islamic world will continue to aggravate the global terrorist threat; this "Terrorist International" will spread its operations throughout the world, including to Russia. Anti-American and anti-Western sentiments are bound to rise throughout the world (also impacting Russia), coupled with the growing realization that the U.S. has failed in its role as the "global policeman." Over the next few years, a post-Iraq syndrome, similar to the post-Vietnam syndrome, will affect the United States. This will deepen the global security vacuum, setting the stage for a worst-case scenario: disintegration of Iraq, the rise in militant Islamic terrorism and the inability of the United States to stand up to it.

Today, the Islamic world is something of a virtual civilization: hundreds of millions of Muslims are united religiously yet divided politically, legally, historically, etc. Still, in the long term, the Islamic community is a powerful force of resistance to the establishment of a new world order if the latter continues (as is the case now) to develop without taking Islamic interests into account. Furthermore, unless the Islamic world is treated with due respect, Islamic extremism could prevail, which is fraught with a 'conflict of civilizations.' The worst nightmare would be the seizure of power by Islamists in Pakistan (either as a result of a military coup or legitimate elections). In such a situation, they would gain control of nuclear weapons.

The growing divide between the super-rich and super-poor countries (which marginalizes not only individual countries but also entire regions), together with the exacerbation of the 'Weimar syndrome' in the Islamic world, will lead to an escalation in the activities of transnational terrorist organizations, not least with respect to Greater Europe, including Russia. Whatever the case, the level of international terrorist activity will remain just as high as in 2001-2006, and may even increase in the next decade unless drastic, well coordinated measures, including the use of military force, are taken to prevent it.

The above problem is connected with the utter inability of the more developed countries to stop or at least slow down the growth in the number of so-called 'failing' or 'failed' states.

The aforementioned threats could within the next decade be partly downgraded to the category of risks and challenges provided that the following measures are implemented:

- strengthening the nonproliferation regime, in particular, the NPT, the IAEA, the MTCR, and the Wassenaar Agreements;
- coordinating actions (above all by Russia and the U.S.) in dealing with regional conflicts and crises as breeding grounds for proliferation; coordinated individual work with potential "proliferators" such as North Korea, Iran, Pakistan and others; initiating the development of a graduated regime of economic, political, and military sanctions for violation of the nonproliferation regime;
- reaching an agreement on strengthening national export control systems;
- instituting a global system of early warning and monitoring the nonproliferation of WMD and their delivery means. This task can

be fulfilled by putting in place a unified automated system to control the nonproliferation of nuclear weapons and their tests, based on existing U.S. and Russian automated nuclear test monitoring systems, encompassing land, sea and outer space;

- creating a data bank and an international nonproliferation agency as a special subdivision of the UN Secretariat. This agency would help identify possible violators of the nonproliferation regime and, in conjunction with other international organizations, work to prevent and stop illegal actions;
- laying down elementary rules of international control over conventional arms trade;
- reaching agreement to extend the term of existing arms limitation and reductions treaties;
- forming a comprehensive system of treaty-based relations preventing the deployment of any weapons, not only WMD, in space;
- putting in place a missile-space IAEA (based on MTCR);
- taking target-specific efforts to create regional collective security systems in the Near and Middle East;
- radically reforming the UN (if it is still possible), including measures to empower the Security Council to decide on the use of collective military force (with the formation of corresponding UN Security Council forces);
- holding multilateral political consultations under the aegis of the UN, designed to adjust the basic principles and rules of international law;
- opening negotiations on setting up a system to deal with the problem of failed states (within an enlarged G8 format);
- starting a serious and respectful dialog with the Islamic world, but without elements of "appeasement;"
- moving toward a security alliance of powerful and responsible states (parallel to the UN) that would assume responsibility for the maintenance of international security (G8 plus three to five other states).

With respect to Russia, it is important to mention the possibility of armed conflicts breaking out near its borders and the danger of getting involved in them; the emergence of an unfriendly military-political environment; the problem of unrecognized states in the post-Soviet area; and NATO's further eastward expansion (to Ukraine, Georgia and Moldova). NATO expansion to take in Ukraine is especially dangerous, since it would cause a "semi-circle" of mini-crises, including those provoked by the local population, throwing Ukraine back and creating serious problems for Russia and Europe as a whole. Many in Russia may see this move as declaration of a new Cold War. Failure in some way or other to resolve the problem of unrecognized states can provoke crises around them (especially in the Caucasus) within the next two or three years.

Alongside all of these regional and global trends, which will affect Russia's national security in some way, the external threat may exacerbate, above all in the South. Amidst the ongoing rise of Islamic extremism, in five to six years Russia could witness serious instability in Central Asia. Failure to avert confrontation with the Islamic world by political means could lead to conflicts with some Muslim countries striving for domination in a broad geographic region – from Bosnia to Tajikistan. Destabilization of Central Asia is a short-term challenge. Another problem involves the excessive concentration of our efforts in these relatively important but secondary regions, which diverts financial and intellectual resources from more profitable and promising areas of development. Russia cannot afford to get stuck in the dead-end southern parts of the former Soviet Union.

Mid-Term Threats and Challenges (2017)

Unless the most responsible members of the international community take effective action within the next three to four years to reduce, or at least alleviate the aforementioned threats and challenges, they will continue to grow. Only some of the problems will be removed as a result of unprecedented global economic growth. If, however, these threats and challenges are not dealt with in a timely and effective manner, substantially more efforts and resources will be needed to counter them.

By 2017, another three to six nuclear states (at least de facto) will appear on the world map.

By 2015-2017, Iran will most likely become a nuclear power. After its failure in Iraq, the United States will likely moderate its global ambitions and attempt to follow a more isolationist foreign policy course. But this will hardly be a viable option.

The Broader Middle East will likely see serious destabilization, including two or three local wars on the scale of the 2006 war between Israel and Lebanon. Israel and Iran will possibly be involved in these wars.

As for the West and the East, neither of them is likely to cause a direct military threat, although challenges cannot be ruled out. But if an effective partnership mechanism is not created between Russia and NATO during this time, if the North Atlantic Alliance remains a closed military bloc and is not transformed into a peacekeeping organization with Russia's participation, and NATO's military infrastructure ends up in direct proximity to the Russian borders, this would seriously aggravate the situation. Most importantly, however, such developments will not promote an effective Euro-Atlantic and, therefore, global security system.

In the Far East, China will likely step up its efforts to recover Taiwan, which could provoke an acute crisis in Chinese-U.S. and Chinese-Japanese relations. This course of events would be hardly auspicious for Russia, because it would mean an acute destabilization of the entire Asia-Pacific region with unpredictable consequences.

Unless regional security systems are created in Greater Europe, the Asia-Pacific region and, more importantly, in Central Asia and the Middle East, together with strengthened global security mechanisms under the aegis of a reformed UN or/and a new security alliance, by 2017 acute rivalry between new centers of force, typical of a polycentric system of international relations, could re-emerge. These new forces could attempt to establish control over regions that are of vital importance for Russia and even over some parts of the Russian Federation.

Conclusion

In the emerging situation, Russia has no other option but to remain a strong nuclear power in the foreseeable future (at least in the next 20-25 years). It would also be expedient to accelerate research efforts in developing cutting-edge weapon systems by tapping the country's finest intellectual resources. Furthermore, it is essential to consider the expediency of resuming work on measures to counter the U.S. missile defense system, including different methods of both overcoming and neutralizing it.

In the foreign policy realm, priority should be given to initiating measures mentioned above, especially the modernization and strengthening of the existing regional and global security mechanisms (including the UN, NATO, the Collective Security Treaty Organization, the Shanghai Cooperation Organization, etc.). It is essential to work on a mechanism of real partnership between Russia and NATO, if this is possible at all. Then, an effective Euro-Atlantic security system could be put in place. An enlarged G8 (including China, India, Brazil and South Africa) should be granted the functions of a global security alliance (alternatively such an alliance could be built "from scratch"). Whatever the case, it would be expedient to strengthen national security and deal with new challenges and threats in close cooperation with the world's economically and militarily advanced powers.

3 The Global Governance Crisis

Introduction

The general decline of governance in the global system represents the main trend in international affairs and will continue for the next 10 years. The international community – including both states and non-state players – is presently unable to reverse the increasing state of chaos in the world. Most of the major international institutions and rules of conduct are weakening or are inadequate to the constantly changing conditions now affecting the global community. The unpredictability of global development poses a serious challenge to the security of the leaders of the international system, and this includes Russia.

One of the most destructive factors in the global governance system is the trend toward the weakening of the main element of international relations, which is the state itself. Today, this trend manifests itself on two levels:

- The degradation of governance at the state level, and the diminishing ability of state institutions to perform their basic functions (in the realms of security, law and order, education, public health) in the majority of African countries, as well as in many states of the Broader Middle East;
- A latent crisis of political systems and the declining quality of state policy in European countries and the U.S. This has a serious impact on the ability of the international community to appreciate the nature of the principal threats and propose the necessary commensurate and effective methods of eliminating them.

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On the other hand, however, state governance in some East Asian and Far Eastern countries is strengthening or at least being maintained at the current levels. Still, these exceptions cannot compensate or reverse the general trend toward the degradation of the international system of governance.

Degradation of State Governance in the "Developing" World

Today, there are tens of countries in Africa and the so-called Broader Middle East whose state institutions are unable to effectively manage their own territory, population or resources.[1]

The situation in these countries is characterized by many factors, including widespread corruption, ineffective bureaucracy, and the inability of the military and police to protect state borders and enforce law and order. In many states, security agencies are in the process of decay, and are escaping the control of the state and even turning into uncontrolled gangs. Other problems include a dysfunctional judiciary, poor public health infrastructures, and the growing inability of many states to meet the specific needs of globalization, including – perhaps most importantly – the needs of public education.

State institutions as providers of public goods are being replaced with non-state players. In many cases, these can be (and often are) transnational terrorist networks, as a result of which a specific territory becomes a hotbed of international terrorism.[2]

The majority of countries with ineffective state governance systems have no chance of approaching the Western standard of living and economic development in the foreseeable future. Many of them are degrading in absolute terms, leading to the impoverishment of the overwhelming majority of their populations.

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[1] According to analysts, at least 60 countries currently encounter the problem of feeble and ineffective state governance, which means that around 2 billion people in the world now live in countries facing the threat of collapse. The most offensive cases of degradation (or even lack) of governance are Iraq (after the overthrow of Saddam Hussein), Afghanistan, Somalia, Sierra Leone, Liberia, Rwanda, Sudan, Cote d'Ivoire, DR Congo, Chad, Yemen, and Haiti.

[2] Evidence of control of social and political space by terrorist networks can be found in Afghanistan, vast territories in Iraq (after the overthrow of Saddam Hussein), some regions in Pakistan, and Palestine territories.

The dissemination of the mass media also has a potentially destabilizing effect, namely, with the "political awakening" of the population in countries of the Broader Middle East, as well as Africa and some of the backward nations of Asia and Latin America. The popular masses, which have until now not shown any political activism, are becoming self-conscious as a social factor and political engine. Authoritarian political systems do not seem to be ready for this phenomenon. As a result, the only alternative to the degrading corrupt regimes – i.e., radical Islamism – is becoming increasingly popular in the Broader Middle East.

The combination of such factors as the degradation of state institutions, poverty, the lack of the means to influence politics, political "awakening" and access to information, breeds a mood of mass protest, radicalism, and, as a result, anti-Western terrorism.

The political elites of the degrading countries are striving to compensate for their weaknesses by asymmetric methods, including the acquisition of weapons of mass destruction (WMD). The WMD are designed to play a three-pronged role – deter the West, intimidate internal rivals, and create a semblance of power in the public's eyes. Nevertheless, the possession of WMD cannot provide adequate compensation for poverty and the lack of prospects for improvement. In the event that one of these regimes collapses and radical Islamists, for example, come to power, the acquired WMD could end up in the hands of international terrorist networks. In such a scenario, a terrorist act with the use of WMD is only a matter of time. Today, this threat is primarily linked to Pakistan.

Therefore, amid the ongoing process of globalization, the degradation of state governance leads to a combination of such threats as regional instability; loss of territory to non-state players, mafia-style clans and terrorist structures; political and religious radicalization of the broad masses of the people; proliferation of WMD that may fall into the hands of non-state players, and international terrorism as such. Successful action to counter these challenges and threats involves improving state governance in the "developing" countries and strengthening their state institutions.

Outlook for State Governance in the "Developing" Countries by 2017

The most likely scenario on this point is the worsening of the governance crisis in Africa and the Broader Middle East.

In the next decade, it is unlikely that a greater number of developed countries will accumulate the required knowledge and, more importantly, the political will, to stimulate the populations of the less developed countries to create effective state institutions.

Meanwhile, the U.S. policy of "spreading democracy" can only deprive the weaker countries of the last elements of true governance. Considering the current political mood in many countries of the Broader Middle East and Central Asia, elections there may bring to power not peaceful proponents of democracy, but radical Islamists. Furthermore, successful democratization is impossible without first creating effective state institutions (the armed forces, law enforcement agencies, government ministries).

It is also unlikely that formal recognition of the sovereignty of weak, degrading or "failed" states will be withdrawn in the next decade, which happens to be a prerequisite for addressing the 'state weakness' problem. Meanwhile, the restoration of effective state institutions (or building them from scratch) is only possible through the introduction of direct external governance. This need can only start to be appreciated by the end of the next decade.

Finally, by 2017, the U.S. and the EU will not be ready to review the global rules of economic cooperation, or to create more favorable conditions for the economic development of weaker countries. Meanwhile, a fair pricing policy, together with the abandonment of indirect restrictions on imports from these countries, as well as aggressive exports that crowd out local producers, are crucial if economic backwardness is to be overcome.

Declining Effectiveness of State Governance in the Developed Countries

The crisis of governance in the "developed" countries manifests itself in the ideological rather than physical realm, specifically in the narrowing of the ideological spectrum and the crisis of the political party system in the EU countries and the U.S. This tendency leads to an ideological vacuum in domestic and foreign policy, as well as a growing inability to respond effectively to emerging threats and challenges.

The leading European states, as well as the U.S., are showing a growing trend toward a rapprochement between the political platforms and ideologies of their mainstream political parties. There is less and less competition of ideologies or policy courses, as the programs of rival political forces are intermixing. As a result, these governments tend to pursue a kind of "middle" course regardless of party affiliations. Because political systems in the most influential European and North American states have a bipartisan structure, this results in de-facto ideological monopoly. The remaining differences only concern some minor, tactical matters and models of conduct, not strategic policy issues.

The first cause of this crisis stems from the monopolistic position that Western democracy acquired in global ideology following the collapse of the Communist idea. The purported universality of the Western political model (an illusion that emerged in the 1990s) and the related perception that Europe and the U.S. had arrived at the "end of history" (that is, achieving the ultimate political system) were largely responsible for the ossification of the political platforms of the mainstream parties.

The second cause is the high level of prosperity that was achieved in the West, coupled with the creation of developed social systems and consumption models. This makes the preservation of the status quo at any price the main imperative of political life in the West. Commitment to the status quo and hostility toward any change create clear-cut boundaries for the possible political and economic course.

On the other hand, a fundamental division of Western societies along formal political lines accompanies ideological rapprochement and the intermingling of principal political forces. Although the election programs and platforms of mainstream parties do not substantially differ from each other, elections show that the public gives balanced support for the main competing forces. As a result, it becomes altogether impossible to implement campaign programs that make parties different from each other. Due to an almost equal number of votes gained by the parties during the elections, Western countries are doomed to "common denominator" state policies.

This imposes serious constraints on the domestic and foreign policy of the United States and especially of the EU countries. Innovative, long-term decisions, strategic goals and policy guidelines are effectively ruled out. The domestic and foreign policy of Western countries is becoming predominantly reactive and tactical, based on the preservation of the status quo and pursuit of short-term interests.

A case in point is the current situation in the EU. In light of stiff competition from China, India, the U.S. and Japan, a demographic crisis, and slower economic growth in the EU, the West European social model is becoming less and less competitive. Yet these states are unwilling to carry out long-overdue reforms. The critical condition of the West European political system has already caused the EU to lag economically behind the rest of the world, which is creating a serious crisis within the EU as a whole.

A similar situation is developing in the United States. The growing balance of payment and trade deficit in America undermines the existing economic model in that American society consumes much more than it produces, while sustaining this level of consumption through external borrowing. The gradually declining trust of the global financial markets in the U.S. dollar underlines the limitations of this model. But none of the leading political forces in America are in the position to propose or implement reforms that would demand a certain moderation of consumption.

The global policy course pursued by George W. Bush's Republican administration since 9/11 appears to be something of an exception from this trend. With neo-conservative ideas apparently taking center stage, Washington made – for the first time since World War II – an attempt to substantially reform the international system and "reorganize" those parts of the world that it saw as threatening U.S. security.

But in reality this policy reflected America's mainstream foreign policy course, which is designed to consolidate its global leadership. The latter has been America's principal and unquestionable foreign policy priority since the end of the Cold War, while the neo-conservatives have only pushed for more decisive tactics of achieving this strategic goal; America's orientation toward long-term strategic solutions stems from the sheer fact that it is the world's sole superpower. Meanwhile, in the foreign policy realm, the crisis of the American political system manifests itself in its inability to propose an alternative foreign policy model.

At the same time, far from strengthening itself, America's global hegemony substantially weakened in the 2001-2006 period, with none of the tasks set by the George Bush administration being fulfilled. Furthermore, the United States' relationship with Western Europe – the foundation of its global hegemony – has seriously worsened as its image and "soft power" are deteriorating considerably.

Outlook for the Evolution of State Governance in the Developed Countries

It is unlikely that by 2017 the European countries and the United States will overcome the crisis of their political systems. This is caused by their inability to adapt to change, make unpopular decisions (in the EU case), or decisions that go beyond the bounds of existing political ideology (in the U.S. case).

In the case of the U.S., its over-doctrinaire foreign policy, political system and culture as a whole are major impediments to addressing the root causes of its foreign policy crisis. America's political class – regardless of the political affiliations of its individual members – evaluates world events through the prism of a few ideological dogmas, each of which is essentially erroneous.[3]

They are so deeply ingrained in American political thought that an attempt to go beyond them effectively marginalizes those making such an attempt. Thus, criticism of the Bush administration's foreign policy by the Democratic Party is based on more or less the same dogma as the neo-con ideology. The focus of discussion is not on how far these ideological propositions conform to reality, but how best to implement them. In other words, the only foreign policy alternative today is a "softened" version of the George W. Bush administration's strategy – pretty much the same content, if somewhat "watered down."

This is also true for the EU countries. The further advance of the European integration project requires a final choice in favor of either a supranational or intergovernmental integration model. But the likelihood of this choice being made by 2017 is extremely low due to the specifics of the West

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[3] In general, these dogmas are as follows: 1) democracies do not wage wars. The propagation of democracy is directly proportional to stabilization of the international system and its reduced proneness to conflict; 2) Western democracy is a universal value inherent in each society since the need for freedom is inherent in every individual; 3) Western democracy is an inevitable final goal in the development of every society, which heralds in a kind of universal "end of history;" 4) a U.S.-led unipolar global system is the least conflict-prone structure because it eliminates rivalry between great powers; 5) U.S. domination enjoys sympathy among the majority of countries in the world because it is a new type of hegemony that is based on universal American values, together with the attractiveness of the U.S. society, economy and political system; 6) it is more effective to maintain hegemony by fragmenting the geopolitical space of potential rivals and directly regulating regional processes, as opposed to delegating the rights of leadership and regulation in specific areas to leading regional powers.

European political systems, above all, the impossibility of changing the substance of the existing policy course, and deviating from the status quo.

The Crisis of the International System Regulation

Not only the central elements of the international system (i.e., the states), but also the system of relations between them are in crisis. By 2005, most of the rules, mechanisms and procedures regulating the conduct of international players were seriously weakened.

Presently, the global power hierarchy is relatively stable: the U.S. is far ahead of all other states and even groups of states in aggregate power. However, the U.S. political influence is weakening, and Washington's inability to abandon a number of ideological dogmas may cause its political influence to collapse altogether. The failure of the American strategy in Iraq and the Middle East and the U.S.' subsequent withdrawal from the region would drastically change the internal political balance within the United States. At the same time, there remains the possibility that America will partially abandon its obligations in East Asia and Europe.

Furthermore, the loss of U.S. influence will not be compensated by a commensurate rise of other centers of power. None of the alternative "poles" (Europe, China, India, and Russia) – separately or as a whole – have the ability or desire to act as guarantors of international system regulation, above all in the military sphere, and thus compensate for America's weakness. Therefore, the trend toward the formation of a nonpolar, as opposed to multipolar, world is about to strengthen. This trend may reverse only by the end of the forecasted period.

The Crisis of International Institutions

By 2005, virtually all of the fundamental multilateral decision-making mechanisms were in serious crisis. The majority of international institutions established during the Cold War years proved unable to cope with new security threats and challenges, which are as a rule of a transnational, dispersed, and "cellular" nature. The existing institutions are unfit to improve the conditions of state governance in the "developing" countries. Meanwhile, there seems to be little chance that target-specific organizations will be created in the short or medium term to facilitate nation-building in the "developing" countries.

During the present decade, the current trend toward more and more decisions being made outside international institutions will work to seriously undermine their legitimacy.

The weakening of international institutions results in the reduction of “constitutionality” of regulating international relations, and eventually makes states less receptive to regulation.

The United Nations

The crisis of international institutions manifests itself primarily in the weakening of the main multilateral decision-making mechanism – the United Nations Organization. The UN has become hostage to the split within the international community between the states that are comprised of the “golden billion,” and the weak, politically and economically degrading countries. It is also the hostage to the divide between the U.S. and the rest of the member countries.

Today, the UN Security Council – the main decision-making mechanism on issues of war and peace – remains relatively ineffective, and fails to reflect the real lineup of forces in the world in the post-Cold War era.

The UN General Assembly as a universal mechanism of global discourse is not in a position to facilitate the elimination of the basic threats and challenges to the existing international system, primarily because the General Assembly is dominated by representatives of weak and degrading States whose political elites know that any real efforts to improve state governance will deprive them of the numerous perks and benefits they presently enjoy.

However, a number of cautious steps in the right direction were made. For example, the Monterrey Consensus acknowledging the importance of state governance for the “developing” countries was adopted. According to the Consensus, the economic assistance rendered to these countries now depends on the governments’ efforts to improve governance. At the same time, the UN has thus far failed to formulate a global agenda for enhancing the effectiveness of state governance and state development in many of the Asian and African countries.

Prospects for successful reform of the UN by 2017 are bleak, while the steps that are currently being taken to reform the UN are unlikely to make the organization more effective.

NATO

In the second half of the 1990s, it appeared that the strengthening of the North Atlantic Alliance could compensate the decline in institutional regulation, which was caused by the weakening of the UN. That possibility was tentatively considered during the presentation of the NATO's Strategic Plan of 1999 and tested in Yugoslavia later that same year. Nevertheless, already at the beginning of the new century, NATO's role in the global decision-making system began to break down. This was caused by the strengthening of unilateral tendencies in America's foreign policy, as well as by opposition to the alliance's gaining the status of the UN that came from Russia, China, India, Brazil, and even a number of "old" NATO member countries. The U.S., it seems, was only interested in strengthening the alliance's global role insofar as it remained an obedient tool of pursuing Washington's foreign policy agenda. Thus, NATO's international role was dealt a crippling blow when the U.S. ignored Article 5 of the Atlantic Treaty after 9/11.

By 2017, NATO is unlikely to be a key international security institution. The main factors behind this prediction are as follows:

- The EU's reluctance to boost defense spending or even participate in peacekeeping operations, especially in prolonged nation-building missions.
- The EU's refusal to unquestioningly follow America's foreign policy agenda as Washington strives to impose its position without conducting consultations on an equal footing; as well as competition between NATO and the EU that undermines the effectiveness of both.
- America's tendency for unilateral action in situations in which it is unable to secure support within the alliance; America's refusal to submit to any multilateral structures, especially insofar as concerns the use of force and command of military operations.
- Russia's non-participation in NATO and the Alliance's policy of admitting former Soviet republics without integrating the RF into the Western security and decision-making system. Today, Russia lacks the incentive to help preserve or strengthen the alliance's positions in the world.
- The unwillingness of the Asian centers of power to support NATO or its operations.

Meanwhile, attempts to turn NATO into a global security structure will continue. The success or failure of these attempts will largely hinge on the outcome of the ongoing operation in Afghanistan.

G8

Russia's admission to the G8, together with its nomination to the rotating presidency of this institution, lent the forum extra legitimacy in the developing countries. Thus, the recommendations of this institution began to be taken more constructively in the majority of countries, which could make it an even more effective vehicle for development in the future. The G8 has made a number of important strategic decisions to deal with modern challenges and threats. These include economic policy proposals designed to improve state governance in the developing countries (Sea Island, 2004; Gleneagles, 2005) and its attempt to strengthen the nuclear nonproliferation regime (St. Petersburg, 2006).

China and India's possible accession to the G8, which is being widely discussed today, could transform it into a central mechanism for regulating international political and economic relations. It could also serve as an institution well positioned to tackle the problem of improving state governance in the developing countries. On the other hand, their accession could deepen the contradictions that have appeared in the G8 since Russia joined the organization. In this context, the G8 could become as paralyzed as the UN Security Council.

Considering that the G8 lacks a permanent secretariat (and which is unlikely to appear in the foreseeable future), and that its decisions are non-binding (and are unlikely to become binding any time soon), it will in the next decade remain a forum for consultations between the most influential countries on certain international political and economic issues. But there is little chance of its turning into an institutional regulator of international relations, let alone a central institution, in the medium term. At the same time, however, the G8 should be expected to expand institutionally by the end of the next decade.

The Crisis of Norms and Rules of Conduct

By the middle of the first decade of the 21st century, a conflict emerged over the norms and rules regulating the conduct of international players.

Although the overall number of rules is increasing, rules regulating the most important areas of conduct are lapsing or eroding. Oftentimes several conflicting rules are in effect in one particular area. Today, there is an ongoing crisis of international public law, especially relating to the use of military force.

Some provisions of international law, based on the UN Charter, do not measure up to the existing transborder threats. In this context, their partial revision can be justified as helping to improve global governance. But the fact that such revisions are often accomplished without preliminary consultations, without consensus, and without acceptance by the majority states, is rather contradictory and has a negative impact on global governance.

Some of the most important rules and norms of conduct that are in a state of crisis now are:

- **Decision-making procedures relating to the use of force.** Under the rules of international law, the UN Security Council can only make such decisions. But although it exists de jure, this rule is quite often violated de facto (Iraq, 1998; Yugoslavia, 1999; Iraq, 2003). At the same time, it was agreed that decisions relating to the use of force may also be made by regional collective security organizations (NATO, the CIS, or the Collective Security Treaty Organization). Finally, the UN Security Council's monopoly is being openly challenged by the U.S., which has officially declared its readiness to use force unilaterally if this is dictated by American security interests.
- **Criteria relating to the use of force.** International law allows for the use of force in self-defense, as well as to preempt an imminent act of aggression. In the 1990s, that provision was supplemented by the norm of humanitarian intervention, which, however, does not enjoy universal support. Meanwhile, the events of 9/11, which highlighted the problem concerning the weakness and vulnerability of states, required an objective expansion of the rules relating to the use of force, as well as a review of the concept of "external threats" and their imminence. But these considerations were not enshrined in international law. Instead, the United States put forward the doctrine of "preemptive strikes," which, because of its intrinsic contradictions and inherent deceptiveness, only deepened the crisis concerning the norms and rules of international

conduct. An even more devastating blow to the criteria relating to the use of force was dealt by the war against Iraq in 2003: force was used against a relatively stable state that had no links to international terrorist networks, nor did it possess either WMD or WMD production programs. Meanwhile, those countries that possessed both (for example, North Korea), or were directly or indirectly linked to international terrorism (Saudi Arabia, Pakistan), escaped punishment.

- **The absence of a universal definition of international terrorism.** It should be no surprise that there is a vacuum of "constitutional" norms and rules of conduct relating to international terrorism. At the same time, due to the contradictions between different countries concerning this issue and others, the likelihood of this vacuum being filled by 2017 is extremely low. What one nation may define as international terrorism, for example, may be regarded as a legitimate struggle to others, and so on.
- **The sovereignty problem.** There is a lack of consensus on the definition of state sovereignty, its criteria and qualifications. Obviously, threats relating to the ineffectiveness and weakness of state governance necessitate a substantial review of the traditional understanding of sovereignty as an unconditional and essential element of each sovereign state that limits outside interference in its internal affairs. At the same time there are no clear-cut criteria for limiting state sovereignty except in the cease of humanitarian catastrophe. There are no standards regulating the degree of "weakness" or "inconsistency" of a state that would warrant external interference, including military intervention. This makes for the arbitrary limitation of state sovereignty by influential states, usually proceeding from their own interests.

Outlook for 2017

The likelihood that the system of norms and rules of international conduct will be adapted in a legitimate and "constitutional" way by 2017 is extremely low. The vision of how these rules and norms should develop differs considerably depending on the category of countries – countries of the "golden billion," weak and degrading countries, or the U.S. (as a distinct category in its own right). Whereas recognition of state sovereignty for some countries directly depends on its stability and viability, for others it is an inalienable, intrinsic concept. As for the United States' interpretation of events, sovereignty is often dependent on how pro- or anti-American a specific regime is.

The Lapse of Basic International Security Regimes

The nuclear nonproliferation regime, which is crucial for international stability and security, has already become seriously weakened. The international community failed to prevent India and Pakistan, followed by North Korea, from acquiring nuclear weapons. The emergence of these countries as nuclear powers – while the U.S. was delivering military strikes against Yugoslavia and Iraq – gave those countries that fear punitive action from Washington a powerful incentive for acquiring WMD. Furthermore, North Korea's nuclear status could provoke the outbreak of an arms race in East Asia with the participation of Japan and China.

There is a high possibility that Iran will acquire nuclear weapons by 2012-2014. But once again the international community will hardly be in a position to prevent this event from happening. If Iran becomes a nuclear power, this will greatly increase the likelihood that Saudi Arabia and/or Egypt will gain access to nuclear weapons by the end of the period under review. It should be noted that none of these two countries are noted for their stable or effective governance. There is also the growing probability of WMD falling into the hands of non-state players who could use them to perpetrate terrorist attacks.

Conclusion

Weakening governance is a prevailing trend within the modern international system. The number of conflicts – both intrastate and interstate – is on the rise, whereas the international community is unable to stand up to this trend in any meaningful way. The effectiveness of peacekeeping operations or operations to avert conflicts and armed clashes is on the decline.

Generally, it is unlikely that the trend toward the degradation of global governance will be reversed in the medium term by counteracting trends involving the enhanced regulation of international relations.

The international system, it seems, will have to pass through serious crises, a fictitious and rather farcical “cold war,” and a worsening of trade and economic relations before the trend toward better global governance will prevail by the end of the forecasted period.

However, should the negative trends continue to prevail by the end of this period, mankind could slip into a series of large-scale military-political crises.

4 The Evolution of the Global Energy Market

Introduction

The global energy market is going through large-scale changes, some of which may reach their final phase by 2017. There are increasing signs that the traditional code of relations between energy producers and consumers, established in the last quarter of the 20th century, is becoming a thing of history. Mechanisms for regulating the global energy market no longer work. Competition between consumers, fueled by the emergence of new powerful players, like China and India, is obviously increasing.

Oil fields that are situated close to the developed countries, where oil price-hikes in the 1970s-1980s prompted oil production, are now near exhaustion. Today, large-scale investment is required in new oil-bearing areas in West Africa, Central Asia, the Caspian region and Russia in order to replace depleting oil fields. A new energy reality is taking shape in the world.

The world's key energy players include:

- The United States – the world's largest oil consumer (24.6%). It imports more than one half of the oil that it consumes. The United States is also the world's leading importer of natural gas (16% of global imports);
- The Middle East accounts for 61% of global oil and 40.1% of natural gas reserves, which makes it a crucial regional factor in the energy strategies of the world's largest consumers;

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- The largest oil producers in the Middle East are Saudi Arabia (22% of global proven oil reserves, 13.5% of global oil output), Iran (14.9% of proven natural gas reserves, 11.5 of proven oil reserves), Iraq (9.6% of proven oil reserves), and Qatar (14.3% of proven natural gas reserves);

- Russia possesses 26.6% of global natural gas reserves, 6.2% to 13% (according to different estimates) of global proven oil reserves, and about 20% of known coal reserves. The country is the world's leading pipeline gas supplier and the world's No. 1 oil exporter (together with Saudi Arabia). More than 90% of Russian energy exports today go to European countries;

- China, the world's fastest growing energy consumer, accounts for 31% of global oil consumption growth in 2004. In the past 40 years, oil consumption in China has grown more than 25 times over and is now at 8.55% of global consumption;

- The EU, which accounts for only 3.5% of global proven gas and less than 2% of proven oil reserves (mostly in Norway and the UK). At the same time, oil and gas deposits in Europe are exploited far more intensively than in other parts of the world, which leads to the rapid depletion of reserves. Western Europe consumes 22% of the world's oil supplies, while Germany is the world's second largest gas importer (14%). The main problem for the EU is its growing dependence on energy imports: by 2030, oil imports to the EU will grow from 76% to 90%, gas imports from 40% to 70%, and coal imports from 50% to over 70%.

Today, the situation on the global energy market is characterized by the following factors:

- oil is a global source of energy, and natural gas is primarily a regional source, while coal is a local source of energy;

- while consumption of hydrocarbons is growing rapidly, there will not be alternative energy sources in the foreseeable future;

- a rapidly rising need for energy resources in the emerging Asian economies amidst their ongoing economic development, rapid population growth, and the extremely high energy usage of national economies;

- the widening gap between the volume of hydrocarbon consumption (growth) and production (decline) in developed countries;
- limited production growth opportunities increase market destabilization risks;
- the global economy is experiencing a shortage of oil and natural gas;
- a shortage (temporary) of oil refining and transport facilities, together with a lack of additional oil production capacities;
- large industrial consumers are showing a marked interest in alternative energy sources;
- the growing importance of liquefied natural gas production and delivery projects;
- interest in nuclear energy is reviving in some countries;
- in the past few years mergers have been occurring exclusively within the limits of one country or a common geopolitical space as assets available for mergers and acquisitions are decreasing; and
- growing political risks in hydrocarbons-rich regions.

The Causes of Deepening Contradictions

The global energy situation is marked by a deepening of contradictions that will remain throughout the period under review.[1]

The conflict potential inherent in the distribution of oil resources in the world is the primary cause of geopolitical tensions. While the main consumers of oil are highly developed countries or emerging giants, the bulk of global hydrocarbon reserves is concentrated in a relatively small group of developing countries or transitional economies. This contradiction is a basic factor in the behavior of key market players. Such large consumers as the U.S., the EU and China are concentrating both economic and political resources on expanding on the same market, which leads to competition between them. The fact that the majority of resource-rich countries are

[1] The growth of prices for hydrocarbons has shown consistency since 2000, when a new Arab-Israeli conflict broke out. Since then, periods of high oil prices have always echoed increases in tensions in this region: the U.S. intervention of Iraq, the worsening of the situation involving Iran's nuclear program, the thirty-day war in Lebanon, etc.

politically unstable sets the stage for future upheavals on the world energy market, while opening some opportunities for Russian expansion.

The world's main hydrocarbon resources are controlled by national state companies. Meanwhile, downstream capacities, logistic and transport schemes, as well as distribution of hydrocarbons, are under the control of multinational corporations. This accounts for the differences in market players' behavior. Large multinationals are striving to strengthen their resource base while state controlled companies, which have the main resources, are striving to expand downstream operations and obtain an equity share in transport and sales structures. This contradiction is a growing trend that will likely continue in the next decade.

There are fewer regions today where hydrocarbon production can be raised sharply without the use of modern technology or production methods that demand many billions of dollars in infrastructure investment. As a result, there are fewer opportunities for maneuver by key consumers on the market, especially after 2013-2017.

Geostrategic confrontation is developing mainly between China and the United States, and by 2030, China will be importing as much oil as the U.S. At the same time the Chinese leadership is very well aware that further economic growth will be impossible without securing reliable energy sources. This is why energy security and the search for new markets is becoming a matter of survival for one of the world economic leaders. For its part, the U.S. is not interested in China strengthening its positions on the hydrocarbons market and is ready to use political and economic leverage to keep Chinese oil and gas companies off these markets.

Main Avenues of Development in 2007-2017

The main trends in the global energy sphere will generally continue in the next decade. The share of fossil energy resources (oil, natural gas and coal) will remain at the 2003-2005 level, i.e., about 80% of the aggregate consumption of primary energy sources. Until 2017, oil will be by far the most important source of energy in the world (interest in oil may only be expected to decline starting in 2030).

Within the next decade, oil will remain the leading source of energy, accounting for approximately 40% of energy consumption, followed by natural gas (28%), coal (20%), renewable sources of energy (7%), and nuclear energy (5%). The share of natural gas and oil will continue to increase whereas the share of coal and nuclear energy will decline. Possibly, by the end of the decade, the share of nuclear energy will stabilize and alternative energy sources will start to increase, but their growth will not affect global trends for at least the next 15-25 years.

In the longer term (by 2067), the world energy balance structure may change according to two basic scenarios.

The first scenario sees a gradual shift from oil to natural gas, similar to the way coal was earlier replaced by oil. This will be followed by a shift toward renewable sources of energy and possibly to nuclear energy. At the same time, oil will retain its positions as an important energy source at least until the mid-21st century.

In **the second scenario,** if considerable progress is made in hydrogen technology within the next decade and hydrogen fuel cells start replacing gasoline-powered engines, oil production will begin to decline much earlier, perhaps some time around 2025, but thus far this scenario seems unlikely.

While the huge energy demand of the global economy will gradually decline (mostly in developed countries), the dependence between GDP growth and energy consumption will remain. The continuing growth of the global economy will drive energy demand for some time yet, but energy consumption growth is slowing, and falling increasingly behind GDP growth. This means that world economies are beginning to adapt to the use of alternative and renewable energy sources. The share of energy in the GDP of Western powers will continue to fall. This makes it impossible to rely on energy sources as the foundation of national economic development even in the medium term (particularly for Russia).

In the next decade, energy consumption will grow the most rapidly in 2006-12, on average 1.6-2% a year, after which growth will begin to slow, but the main trends in the energy sector will generally remain. On the regional level, energy consumption growth will be the largest in the Asia-Pacific region. Attempts by China and India to solve their energy security problems with internal resources will most likely prove unsuccessful. Oil, natural gas, and coal consumption in the developing countries will exceed that in the industrialized nations.

Global oil consumption growth will be driven mainly by increasing consumption in the Asia-Pacific region (on average 2.8% a year), primarily in China (4.5%) and India (3.5%), as well as in North America (1.4%), Latin America (2.6%) and the Middle East (2.1%).

In the next decade, natural gas consumption will increase the most rapidly around the Pacific Rim (on average 3.6% a year), Central and South America (3.2%), the Middle East (3.1%) and in Africa (4.1%). Natural gas consumption will grow as natural gas (including LNG) transportation and utilization technology systems become cheaper and more advanced. Gas supplies will increase as a number of major production projects are implemented in a number of countries, including Russia (Yamal Peninsula, East Siberia, the Far East, the Kara Sea shelf), Iran, (North and South Pars), Qatar, Saudi Arabia, the United Arab Emirates, Kuwait, Algeria, Libya, Azerbaijan, Kazakhstan, Turkmenistan (Caspian Sea shelf), and other countries.

Due to an expected drop in oil production, industrialized states may substantially increase the volume of their oil imports, primarily from politically and economically unstable countries in the Persian Gulf. In general, this scenario makes diversification of oil supply a pressing problem. Hence the interest that major energy consumer nations and international corporations take in the energy resources of non-OPEC countries, including Russia and other post-Soviet countries.

Growing hydrocarbon consumption in the world will further aggravate the basic contradictions within the global fuel and energy system. In the future, energy markets will be affected by coordinated terrorist attacks against elements of the oil infrastructure, most likely in Iraq, Iran, Saudi Arabia, Latin America, and African countries, with resulting disruptions in deliveries. Growing hydrocarbon consumption in the world will substantially increase political risks and could cause new regional conflicts. At the same time, oil crises, like those in the 1970s-80s, are unlikely to appear in the next decade.

China will likely do its utmost to strengthen its influence and economic presence in the Middle East, Africa, Latin America and Central Asia. The United States will remain China's main competitor with respect to geographic expansion. It cannot be ruled out that China will form temporary alliances with India and possibly with Russia in order to expand its presence in the global energy system.

The main source of production growth in Latin America will be around Brazil's deep-water shelf. U.S. corporations will apparently develop this region in order to lessen U.S. dependence on suppliers from the Middle East with Brazilian hydrocarbons. At the same time, the formation of the Chavez-supported Venezuela-Cuba-Bolivia union could attract other Latin American countries. Thus, high oil prices may cause substantial amounts of South American oil to be re-routed from North America to Asia Pacific. Chavez will most likely retain his position or transfer power to a successor. At the same time, faced with the danger of the complete termination of oil supplies or the formation of a political opposition in Latin America, the United States could take more decisive measures with a view to changing the political regime in Venezuela.

The share of energy sources in the Black Continent in the global energy system is expected to grow considerably. Energy production in the region should be expected to peak by 2020, and then gradually decline. Apart from the existing production projects in North and West Africa (Nigeria, Algeria, Egypt, and Libya), international energy companies will begin to actively invest in geological prospecting and production in East and Southeast Africa (Sudan, Tanzania, and Angola). Oil production should also grow in Chad, Congo, and Equatorial Guinea. Priority will be given to shelf projects. Angola, where deep-water deposit, discovered in recent years, will reach full capacity will become the growth leader in Africa. The main competitors in African oil and natural gas projects are the United States and China. The U.S. was the first country to start working in this area, but China is now rapidly expanding its presence in Africa. From every indication, the U.S. will strive to use its political leverage in the majority of African countries to impede Chinese entry into the African fuel and energy complex.

In the Caspian region, oil production will continue to steadily rise. Until 2015, the regional leader will be Azerbaijan, where oil will be produced at the Azeri-Chirag-Gyuneshli fields, while natural gas will be produced at the Shakh-Deniz field. After 2015, the main oil field will be the Kashagan deposits in Kazakhstan. As for natural gas, by 2017 the main suppliers will still be Turkmenistan and Kazakhstan, while Azerbaijan shares will fall.

The geopolitical lineup in the Caspian region is generally developing in favor of the West. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline bypasses Russia and Turkish straits; the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline will be put into operation in 2007. Before 2015, a gas pipeline will likely be built from Turkey (subsequently transporting Iranian, Kazakh and

Turkmen gas) to Europe (Nabucco project). In this context, the U.S. and the EU will intensify their pressure on Turkmenistan to re-route the gas flow to this pipeline project. At the same time, Kazakhstan and Turkmenistan will implement pipeline projects to carry oil and natural gas to China. Russia's influence in the Caspian region will be minimized. Russia's positions will most likely remain at their present level – as a transit country for small volumes of Caspian oil along the Caspian Pipeline Project (CPC). Oil shipments along the Baku-Novorossiisk pipeline will likely stop flowing once the Baku-Tbilisi-Ceyhan oil pipeline reaches full capacity.

The Broader Middle East will generally remain under U.S. strategic control. In terms of energy security, Saudi Arabia will remain the main energy source until 2017. By 2010, it will put new production capacities into operation. As a result, Saudi Arabia's share of the world oil market will remain unchanged, despite the fact that substantial U.S., Chinese, EU, and Japanese resources will be spent to reduce dependence on Middle East oil. The majority of countries in the region will largely continue the policy of maneuvering between the principal consumers – the U.S. and China.

With continuing military-political instability in the Broader Middle East, no breakthroughs should be expected with regard to Iraqi oil and Iranian gas supplies to the world market before 2015. One likely scenario in the next decade is that the U.S. will attempt to establish control over strategically important oil and gas regions at minimum financial and political cost. With respect to Iraq, it is the "controlled breakup" of the country into three parts, as a result of which the oil rich north will, as the U.S. hopes, pass under the control of a U.S.-Kurdish administration. Then the Kirkuk-Ceyhan oil export system would expand accordingly.

With respect to Iran, the U.S. will apparently continue to work toward the "democratization" of the country's political life amid "mild" economic sanctions. One possible U.S.-Iran scenario could be separate agreements and the relinquishment of a number of claims in exchange for long-term fuel and energy projects. Given the long-term nature of these measures, as well as the growing political instability in the region throughout the period under consideration, neither Iran nor Iraq will be able to fully realize their energy production potential before 2017. For the U.S., the Broader Middle East will remain a "reserve" source of hydrocarbons for the long term. Meanwhile, in the next decade the U.S. will be actively developing oil production programs in Latin America, Africa, Canada and the Caspian.

Iran's role in the world – both in its political and energy dimensions – will continue to grow as Tehran continues with its efforts to expand the geographic base of its energy exports. There are three directions in Iran's regional gas strategy – western (Turkey, Europe), northern (Transcaucasia and Central Asia) and eastern (Pakistan, India, China, and Southeast Asian countries). The western vector of Iran's gas policy (the Iran-Turkey gas pipeline with the prospect of moving into European markets) is in the zone of high political risks. Nevertheless, Iran's reserves are a key to the EU's independence from Russia. From this perspective, the United States is interested in resolving the "Iranian problem" as soon as possible. Thus, it will be able to use Iran's energy potential to deal with its own geopolitical problems, specifically, as already mentioned, reducing the EU's dependence on Russian energy. Even so, projects that may bring Iranian hydrocarbons to the European market can only materialize after Iran's nuclear problem has been resolved "in a peaceful way." As long as this ominous problem exists, Tehran will continue to target primarily the markets of the Pacific Rim.

In the next decade, developed consumer countries will give high priority to alternative and renewable sources of energy. Today, this is one of the most dynamic segments of the energy sector. These include wind and hydroelectric power, as well as ethanol, Brazil being its largest producer. Large-scale bio-fuel projects will begin to surface. Investment in alternative types of energy is expected to come mainly from the United States, Japan and China, as well as from the world's oil and gas majors – BP, ExxonMobil, Royal Dutch/Shell, and others.

New technology will help make energy consumption more effective, but alternative energy sources will hardly be able to meet the world's growing energy needs: their share in the energy balance will only increase modestly. For renewable sources of energy to meet at least one-half of the required energy growth, their capacity would have to increase 63 times. Such growth is impossible to achieve within a space of 10 years. During this period (until 2017) it will also be virtually impossible to mobilize production of "alternative" oil (super-heavy oil, tar sand, blacks, etc.) or to develop fields and deposits in hard-to-access areas.

The liquefied natural gas (LNG) market is becoming a global market. The main growth in demand for LNG is expected to derive from the United States and the Pacific Rim countries. The U.S., which is already a major LNG importer, will continue to increase its LNG imports (there are 55 new projects for LNG terminals, including LNG re-gasification plants). Japan is likely to remain the LNG market leader until 2020, after which the U.S. will become the No. 1 consumer. Nevertheless, the main volume of natural gas by 2017 will still be delivered to consumers through pipelines. Implementation of LNG projects will be unable to reverse the trend in the next decade.

The share of nuclear energy will fall to 5.3% as developed countries pursue a policy to enhance the technological security and environmental safety of their energy systems. The use of nuclear energy in the world will decrease amid its reduction in Europe (–1.1% a year) and stabilization in North America. The steady reduction in the number of nuclear power plants in Europe (except France) will be offset by the construction of new facilities in Pacific Rim (China, India, Pakistan, South Korea, etc.), as well as in Russia, Iran, and Brazil. Consumption of nuclear energy in North America, Japan, and France will increase to some degree in the next few years, after which it will stabilize. Russia has a unique chance of increasing its share on the global nuclear energy market. But that rare window of opportunity will remain open for a brief period – about 10 to 20 years.

The risk of a major drop of world prices in the medium term is very high. Contributing factors here include sufficient supplies of oil and natural gas, declining interest of developed countries in traditional [fossil] fuels, and the construction of new energy capacities in the Caspian, Africa, and other parts of the world, as well as the policy of consumer countries (above all the U.S.) toward steadily increasing their interest rates. As a result, a considerable number of investors are moving away from the raw materials market, which narrows opportunities for speculative growth in hydrocarbon prices.

In the foreseeable future, Iran will play a major role concerning prices on the hydrocarbon market. The course of events in and around Iran is likely to follow one of three possible scenarios.

Scenario 1 (the more likely): further confrontation between Washington and Tehran, which, however, will not lead to an armed conflict. In this case, the world energy market will see a downward trend with oil prices falling to $40-50 per barrel and fluctuations within the range of $5-10.

Scenario 2: reaching agreement and resolving the conflict by peaceful means, which will lead to a sharp fall in oil prices within a year. But the chances for the realization of this scenario are rather slim.

Scenario 3: an armed conflict. In this scenario, oil prices will exceed $100 per barrel. Subsequently, if the armed conflict becomes protracted, the price could rise to $130-150 per barrel, which would force the U.S. to exert unprecedented pressure on the OPEC to increase production. As a result, competition in non-OPEC production areas will grow considerably. But if the military confrontation in Iran follows the "Iraqi model," the market will gradually adjust itself and stabilize by 2015-2017.

Outlook for the Russian Oil and Gas Sector

Russia has a large potential on the world energy market. By now, more than 3,000 hydrocarbon deposits have been discovered and prospected in Russia. About one-half of them are being developed. Over 50% of Russian oil production and more than 90% of natural gas production is concentrated in the Urals and West Siberia. Most of the deposits in this region are marked by a high rate of depletion so while it remains the country's main hydrocarbons base, it is also necessary to develop alternative energy production areas.

According to official estimates,[2] by 2015, oil production in Russia could hit 530 million metric tons with oil exports at 310 million metric tons. The West-Siberian oil and gas province will remain the country's main oil base. New oil production centers will emerge in East Siberia and the Republic of Sakha (Yakutia) – up to 50 mln metric tons by 2015; on the Sakhalin shelf (25-26 mln metric tons), in the Barents Sea and the Russian sector of the Caspian Sea. Oil production will also increase in the Timano-Pechora Province.

The capacity of main oil pipelines and sea terminals for the export and transit of oil from Russia beyond the CIS could increase 50% by 2015. This will enable Russia by 2015 to export to non-CIS countries about 70 mln metric tons along the western and northwestern lines, about 130 mln metric tons along the Black Sea-Caspian line, about 80 mln metric tons along the eastern line, and up to 25 mln metric tons along the northern line.

By 2015, natural gas production in Russia could reach 740 billion cubic meters, with gas export hitting 290 bln cu m. Gas production in West Siberia during this period will stabilize, therefore, most of the increase will be ensured by putting into operation new fields in East Siberia and

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[2] Russia's Energy Strategy for the Period Until 2020.

Russia's Far East, as well as the northern and Far East seashelf. Substantial natural gas reserves in East Siberia and Russia's Far East make it possible to form new gas production centers in this region

At the same time, the existing trends in the development of the Russian fuel and energy sector suggest that in the next decade Russia will not be able to strengthen its positions on the world energy market, converting its energy potential into political dividends.

The main impediments to oil production growth in Russia are:

- the critical condition of the existing oil export infrastructure;
- mineral and raw materials reproduction problems;
- political restrictions with respect to construction of private pipelines and access for foreign companies to the Russian market;
- the low investment activity of oil companies; and
- the shrinking resource base of Russian oil companies (production has been exceeding reserve growth potential for many years).

The main factor in Russia's weakening positions on the oil refining market is the obsolescence and general poor condition of most of Russia's oil refineries. Thus, although some companies have modernized their refineries in the past few years, the general quality of Russia's oil refining infrastructure is considerably below international standards.

The main impediments to natural gas production growth in Russia are:

- the policy of Gazprom, which finds it unprofitable to develop the domestic market with the current domestic gas tariffs;
- the gap between the growth of gas production and consumption;
- the need to invest substantial resources in development of new deposits;
- the preference that is given to the purchase of Central Asian gas over investment in production projects;
- the state policy of barring foreign companies from developing the most promising fields (Yamal, Shtokman) as project operators;
- the critical condition of the existing gas export infrastructure, and the monopolistic nature of Russia's natural gas sector.

The upshot of all this is that the existing oil production growth potential will only last for a few more years. Because of a confusing, poorly regulated tax system, and a lack of investment incentives for prospecting work, raw materials companies will be unable to prospect and develop new large deposits. The rate of oil production growth that Russia showed in 2000-04 is unlikely to be maintained in the future. By 2017, Russia will reach the maximum production level of 10-11 million barrels a day (530-550 million metric tons a year) by the end of the second decade, and that level will eventually stabilize. By 2010, Russia will account for about 15% of the world oil market, and this share will fall to around 10% by 2030. Therefore, factoring in global consumption growth, Russia's share on the world oil market will tend to decline.

By 2010, natural gas production in Russia will stabilize, and by 2010, given domestic demand and export levels, Russia could have a natural gas shortage of 75-150 billion cubic meters.

To maintain or increase energy production and exports, Russia needs to start developing new areas – above all in Siberia and the Northern shelf. This requires a political decision to attract investment (including foreign investment). No drastic changes in this sector are expected before 2010 – or even by 2017.

Despite its leading positions in the production and shipment of hydrocarbons, Russia lags noticeably behind in the implementation of advanced technologies. The country's leadership puts the main emphasis on oil, natural gas and coal as the principal instruments that allow Russia to attain and retain the status of a great energy power. Meanwhile, the world's changing energy structure will by 2030-2050 substantially reduce Russia's competitiveness.

Russia's technological lag, especially in the medium term, also concerns the production and transportation of liquefied natural gas (LNG). By now, about one-quarter of global gas exports come in liquefied form, with the LNG market expanding rapidly. It is not ruled out that by 2017 LNG will become a viable competitor to gas supplies that are transported via pipeline.

Concerning the implementation of large-scale LNG projects in Russia, the outlook is rather pessimistic. Virtually the entire LNG volume within the Sakhalin-2 project (the only Russian LNG project that could be completed within the next five years) has been contracted. As to the situation around other LNG plants, their future is uncertain. For example, it was decided to re-route natural gas from the Shtokman field (the most promising deposit for LNG deliveries to the U.S.) to Europe, to be shipped by pipeline. The LNG project in Ust-Lug, even if it is carried out before 2017, will not be enough to turn Russia into a great gas supplier due to its low capacity.

While Europe will in the next decade remain the main market for Russian hydrocarbons, Russia's capacity for oil shipments to Europe is rather limited. The main pipeline, Druzhba, is in need of renovation; the Baltic Pipeline System has already reached full capacity, while in the south all of Russia's oil export routes flow via Turkish straits with no viable alternatives in the foreseeable future. The throughput capacity of the Bosporus Strait is the most vulnerable part of Russia's transport policy as Turkey is expected to continue restricting its straits to the passage of foreign oil tankers. Such a scenario will, on the one hand, reduce Russia's export capacity, and, on the other, compel Moscow to use the BTC as a reserve route in the southern direction (should the Turkish straits be closed off completely).

Russia will be able to partially compensate for losses with the Burgas-Alexandropoulos oil pipeline bypassing Turkish straits. But given that the costs involved in Russian oil production and exports exceed analogous costs on the Caspian, it is quite likely that Russian oil will be partially crowded out of the European market.

The second most important market, whose influence will be growing in the period under review, is the Pacific Rim market. Meanwhile, here too Russia has only a limited capacity to ensure the declared increase in energy supply (from 3% to 30%). To meet this target, at least 60 mln metric tons of oil and 65 billion cu m of natural gas a year will have to be "re-routed" to the east. This task is technically unfeasible and financially dubious in the next 10 years.

The Russia-U.S. energy dialog is in its early stages. From every indication, the resources of the Shtokman field will be sent to Europe, while the construction of the Northern Oil Pipeline to Murmansk will be frozen until 2015 – the deadline for putting the Eastern Pipeline into operation (Transneft will simply not have enough money to handle both projects). By 2017, the share of Russian oil and petroleum products on the U.S. market will not exceed 5%. In the most likely scenario, these restrictions will not allow Russia to emerge as a major player on the North American market in the next decade.

Russia will be confronted with growing competition on the gas markets in Europe and the Pacific Rim. European consumers are pinning hopes for energy diversification on the increasing share of North Africa (Algeria, Libya and Egypt), as well as states in the Caspian region, Central Asia and the Middle East. A number of pipeline projects, due to be completed in the next five years (the BTC, the BTE, which is to be linked with Nabucco, and others), are designed to limit Russia's influence. For its part, China will implement a number of projects, also reducing its dependence on Russian hydrocarbons – oil and gas pipelines from Kazakhstan and a gas pipeline from Turkmenistan. Furthermore, oil deliveries to China from South America and LNG from Iran will increase.

Nevertheless, in Europe, Russia will retain its status as a regional energy leader. The EU will remain the largest market for Russian energy resources in the foreseeable future. It is rather unlikely that an all-European energy market will be created any time soon that would crowd out Russia.

The major contributing factors here are:

- outstanding problems within the EU framework, and the lack of consensus on ways of ensuring energy security;
- specific projects on alternative sources of energy in Europe are implemented mainly on the national level;
- the explosive military-political situation in the Middle East (especially around Iran, which is being closely watched by virtually all Russian gas consumers in Europe and in post-Soviet states as an alternative to Russia in oil and gas supplies) creates a number of political and military risks, impeding the implementation of Western plans to build new energy corridors.

Conclusion

The main task facing Russia in the next decade will be to provide conditions to minimize expected losses, first, from its declining presence on world oil and gas markets, and second, from falling world energy prices. In this context, the main priorities for Russia are:

- a greater emphasis on the domestic oil and gas production sector

– both on the state level and on the part of oil and gas majors;

- incentives to stimulate investment in the reproduction of the mineral and raw materials base and the development of new deposits;
- temporary deviation from the concept of global energy expansion in favor of investment in national production projects in East Siberia and Russia's Far East, the Sakhalin, the northern shelf, etc.;
- at the same time, considering that the Middle East is going to remain the world's main energy powerhouse, Russia should concentrate on preserving and expanding the presence of Russian energy companies in Iran, Iraq, and other states of the region;
- reviewing production sharing agreements (PSA) and developing new mechanisms for participation of foreign companies in LNG projects in Russia, taking into account the interests of both sides;
- special attention needs to be given to LNG production projects as by far the most promising on the global energy market;
- enhancing technological security and effectiveness of energy transport networks;
- expanding hydrocarbon deliveries to European markets by building additional energy transport facilities (to northern and southern Europe and the Balkans) and consolidating positions on the Pacific Rim market;
- Russian oil and gas companies should take advantage of the favorable external environment to modernize their production capacities, use advanced technology, and develop their sales network, which will help them cut production costs and offer more competitive products on foreign markets.

5 Ecological Challenges

Introduction

The progress that was attained in all spheres of human life in the 20th century has essentially aggravated problems for civilization. This refers, above all, to problems concerning the main resources of human development, mainly: food supplies, fresh water and clean air. In former centuries, the shortage of these resources in individual countries and groups of the population was explained primarily by social reasons. In the 20th century, however, civilization, which has an ever-increasing impact on nature, approached a point of exhaustion of its sustainability.

Global public opinion, aware of the need for the rational use of the earth's vital resources, has come to the conclusion that further human development is possible only on the basis of harmonious relations with nature. To this end, mankind must solve a group of global problems brought about by man's impact on earth's environment and climate. These problems include soil degradation, shortage of fresh water, deforestation and global warming.

Degradation of the Soil

Farmlands are the main source of food for the world's population. Land farming provides four times more produce than products derived from livestock, yet almost 70% of the earth's landmass is unfit for farming. This includes areas covered by polar ice, permafrost, mountains, deserts and land that have thin topsoil. Two-thirds of the remaining 30% of land is only fit for pasturing. Thus, this leaves just 10% of the earth's surface that is usable for crop farming. In other words, there is a mere 0.25

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hectares of arable land per capita. Meanwhile, 0.5-0.7 hectares per person is required to sustain the food consumption level in the West.

Of lands potentially fit for farming, only 1.5 billion hectares are used in the world. As a matter of fact, farmlands are gradually shrinking because the reduction of arable land area due to soil erosion, salinization, desertification, and urbanization is occurring faster than new lands are being developed.

According to expert estimates, due to world population growth, by 2025, the amount of arable land will shrink to 1.7 hectares per capita and to 0.9 hectares per capita in Asia. This scenario will fuel the search for additional land resources for an additional 2 billion or 3 billion mouths to feed in the next few decades. Meanwhile, in Asia, about 82% of potential arable land is already in use. There are considerable land reserves in Latin America, but this mostly consists of soil that is not very fertile, or unfit for staple crops. The remaining land exists as tropical rainforests along the Amazon, which must be protected for other considerations. In other regions, additional land resources can also be secured only at the expense of forestland. This can further aggravate global warming and ultimately have a very negative impact on agriculture.

In Africa, which has an enormous need for food, overgrazing and soil degradation can lead to a complete loss of soil fertility with only a few areas getting enough rainfall for crop farming. Erosion is the worst form of soil degradation. The Sahara Desert is advancing to the south at a pace of 1-2 km a year. From 1970 until 1990, deserts spread over an area of about 120 mln hectares, which is more than the entire farmland area in China. During these two decades, farms across the planet lost about 480 billion tons of topsoil, which is equivalent to the total arable land area in India. Obviously, the use of farmland has been pushed almost to the limit so not even the doubling of crop yields, which is technically rather difficult, can help.

Therefore, additional farmland resources exist mainly in the developed world, especially in North America and Europe, not in countries that have acute food shortages. This is bound to deepen the existing social and geopolitical contradictions.

Shortage of Drinking Water

Ordinary water is becoming one of the scarcest natural resources in the world. There is a huge mass of water in the hydrosphere, but only fresh water from rivers, lakes, groundwater sources and glaciers, which is fit for consumption, can be regarded as water resources. At the same time, fresh water reserves are distributed rather unevenly on the continents. Although there are on average 7,500 cubic meters of water per person on earth, in Europe this figure is lower, at 4,700 cu m, and in Asia a mere 3,400 cu m.

As the population and industrial production grow, the need for water grows exponentially. Despite the apparent surplus of water, there will only be enough of this precious resource to last for the next 20-30 years to meet the doubled demand for water. Much of the problem stems from the uneven distribution of water resources, as well as from mounting pollution.

The water shortage problem is a principal impediment to the growth of agricultural production. Even in the U.S., where a huge amount of water is used in industry, which accounts for 11% of its total consumption (for example, it takes 300,000 to 400,000 liters of water to produce one motor vehicle), as well as for cooling equipment (38%), agriculture remains its main consumer (41%). According to some forecasts, by 2025 approximately 1 billion people will live amid an acute water shortage. There is no doubt that the water shortage will aggravate the problems of poverty and diseases, which in and of themselves have the potential for disaster on a global scale.

Control over water reserves may become a major cause of international conflicts, especially in regions where neighboring states have historically been in conflict with each other and where one country may control the distribution of water. Over the past 20 years, the number of river basins in shared use has grown from 210 to 260.

Even now conflicts over water resources are emerging in a number of regions of Central Asia (Turkmenistan, Tajikistan, Kyrgyzstan and Uzbekistan). Meanwhile, there is certainly a potential for conflict over water resources between Russia and China, which has a shortage of water in its northwestern regions and of drinking water almost throughout the country.

Deforestation

Deforestation is the main cause of the growing degradation of soil and desertification. Before man took up crop farming, there were more than 6 billion hectares of forests. Today, 4 billion hectares are left, and of this amount only 1.5 billion hectares are virgin forests. One-half of forests disappeared in the 1950s-1990s. In Europe, there are virtually no old-growth forests left. The United States has lost one-third of its forests and 85% of its old-growth forests. In China, three-fourths of its forests have been destroyed. Every minute, almost 20 hectares, or 7.5 million hectares of forests a year, is lost in the world, which is 10 times the rate of their natural restoration. Forests are being destroyed especially rapidly in the developing countries, where forest areas are shrinking at a rate of more than 130,000 square kilometers a year, or by almost 1%. As a result, one-half of the old-growth tropical forests have already disappeared, whereas the remaining half is being intensively developed and steadily degrading.

Progressive deforestation is extremely dangerous because the forest performs a multitude of important functions in the biosphere. Forests are, above all, the planet's lungs, which maintain the oxygen-carbon balance in the atmosphere. Furthermore, according to modern scientific studies, this function is performed not so much by tropical rainforests (which absorb approximately as much CO_2 as is released from the destruction of organic matter), as by forests in the moderate belt, to the north of 30°NL, i.e., in the latitudinal zone where Russia is located. Russia's vast boreal forests occupy a total area of 8.5 million square kilometers, which is 49.8% of Russia's entire territory and 22% of the world's total forests. Forests store more than one-half of all carbon on earth, while 26% of carbon is accumulated by the boreal forests. From this perspective, these systems are unmatched by any other ecosystems on earth.

Global Warming

Over the past 4.5 billion years, earth's climate has been constantly changing due to the impact of various geological, cosmic and other processes. Still, since the end of the last Ice Age, it has been relatively stable. Today, there is growing evidence to the effect that for the past 100 years, human activity has been an increasing factor in rising temperature levels. The process has been accelerating in the past 20-30 years at an especially alarming rate.

The greenhouse effect[1] is the cause of rising mean global air temperature near the earth's surface. Thus, in 1988 the mean yearly temperature

[1] The greenhouse effect results from the warming of the lower atmosphere which is transparent to short-wave solar radiation but absorbs long-wave thermal radiation from the earth surface. Factors contributing to the greenhouse effect include the emission of compounds produced by humans, including carbon dioxide, methane, and freon dust. According to the data of international ecological organizations, the largest freon emitters are the United States (30.85%), Japan (12.42%), the UK (8.62%), and Russia (8.0%).

was 0.4 degrees Celsius higher than in the 1950s-1980s, and by 2005, it increased by 1.3 degrees Celsius. A report by an international UN group on climatic changes concluded that by 2100, earth temperatures will rise by 2-4 degrees. The scale of warming during this short period will be comparable with the warming that happened on earth after the last Ice Age, which can have disastrous environmental consequences, such as rising sea levels as a result of melting polar ice and shrinking glaciers. The rise in the sea level by a mere 0.5 to 2.0 meters toward the end of the 21st century will disrupt the climatic balance. This will lead to the flooding of marine plains in more than 30 countries, the degradation of permafrost, and the swamping of vast territories.

Global warming will primarily affect Africa, where the desert area is already spreading with serious damage against agriculture. Amid the growing demographic problems, these factors are bound to provoke further ethnic and political tensions, impairing the development prospects for this continent, which is already largely, although not entirely, in a hopeless situation.

Global Ecological Problems and Russia

The impact that Russia has on the environment can only be determined by a comparative procedure that is part of an international effort. Implementation of such a project is somewhat impeded by a certain amount of skepticism that exists both in Russia and abroad over Russia's relationship with the environment. However, although popular consensus since the late 1980s asserts that Russia has a "dismal environmental record," studies by domestic researchers provide no evidence to substantiate this viewpoint.[2]

[2] According to their estimates, Russia's globally significant ecological characteristics are as follows (percentage of the world's figures): territory – 12; non-tropical forest area – 46; forest land – 21; wildlands – 15; permafrost areas – 32; seacoast length – 8; continental shelf area – 20; fresh water reserves in lakes – 26.9; renewable river water resources – 9.2; population – 2.6; urban population – 4.3; farmland area – 5; arable land area – 9.2; aggregate water reservoir volume – 15; gross domestic product – 1.2; electricity generation – 6.7; electricity production by nuclear power plants – 5.5; mineral fertilizer production – 6.3; water intake – 2.8; waste water disposal – 4; SO_2 emissions into the atmosphere – 6.2; NO_x emissions into the atmosphere – 6; CO emissions into the atmosphere – 7.5; emissions of solids into the atmosphere – 5.2; CO_2 emissions into the atmosphere – 8; toxic waste production – 6; enriched uranium reserves – 50; number of nuclear tests carried out – 12.

- Russia has a more environmentally friendly fuel balance structure than the world as a whole. Whereas natural gas accounts for 22.5% of consumption in the world, its share in Russia stands at over 50%.
- Russian agriculture is distinguished by its relatively low intensity, which has a positive impact on the condition of its farmland and the quality of foodstuffs. For example, global use of mineral fertilizer per hectare of arable land in 1997-1998 stood at 100 kg (in China, 290; the UK, 330; the Netherlands, 550), whereas in the Russian Federation, it was only 16 kg (in 1999, 15 kg, while in 2001 the trend continued). Concerning the amount of fertilizer and pesticides used in agriculture, Russia was behind other countries even before 1991. The environmental problems that Russia encountered in crop farming were related not to the amount of poisonous chemicals used, but to the technology of using them.
- As is known, a high level of mechanization in agriculture increases productivity but also damages the topsoil. There are 21 tractors per hectare of arable land in the world (in the United States, 26; The Netherlands, 198; Japan, 462), but only nine in Russia.
- By the number of motor vehicles per capita, which predetermines transport impacts on the environment, Russia is far behind Germany, Italy and the U.S. (over 500 cars per 1,000 people). Due to Russia's "underdevelopment" in the industrial and transport sectors, the levels of lead in the soil even in its European part is lower by about a factor of 10 than in Western Europe or North America.
- Russia is the only country with a large timber industry where the forest area is not shrinking but actually growing. On a global scale, the forestation/deforestation ratio is 1:10, whereas in the Russian Federation it is 1.36:1 (the figure is for the year 1999, while in 1998 the ratio was even 1.83:1).
- Industrial stress per unit of highly developed territory (i.e., territory with a population density of over 10 people per square kilometer) in Western Europe, Japan and Korea is 30-40 times higher than in Russia. As for large cities, as far as can be judged from different sources, pollution levels in Russian megalopolises are generally comparable to those abroad. However, the state of the environment in Russian cities is considerably improved by so-called buffer zones

– i.e., vast, sparsely populated areas, complete with free-flowing rivers and vast forest areas that surround many urban areas.

Russia's rather modest impact on the global ecosystem will become especially pronounced if we compare air pollutant emissions in different countries. The U.S. is far and away in the lead here. Russia's "gross indicators" are lower 6.5 times by SO_2 levels, 8.6 times by NO_x levels and 8.7 times by CO_2 levels than in the U.S. It should be stressed that due to geography Russia has more severe climatic conditions than the U.S. or Western Europe. This accounts for a higher consumption of energy resources (heating in residential and production facilities, etc.) and therefore for a higher level of emissions into the atmosphere and the use of water resources. Russia's transport sector, which ensures communications over a vast territory, also needs more energy resources. Meanwhile, Russia's environmental impact per unit of territory is rather insignificant when compared to other countries.

At the same time, Russia stands out globally as a source of potential risks in the form of nuclear and chemical weapons, military industrial enterprises, pipelines, gas storage facilities, nuclear and hydroelectric power plants, chemical production enterprises, aviation, etc. Furthermore, the Russian Federation has an estimated 50% of global enriched uranium reserves and about 50% of related waste products. Russia is responsible for 50% of man-made "space garbage," while the country is home to large areas of radioactive contamination. Generally speaking, however, Russia's contribution to environmental changes does not exceed its share of earth's territorial, population, or economic resources.

Despite an apparently favorable situation on the global level, Russia's environmental problems on the regional and local level are extremely acute:

- More than 40% of Russian Federation entities have air pollution, toxic waste disposal and radiation security problems;
- Some 30% of administrative-territorial entities have acute surface and underground water pollution and depletion problems, while soil fertility is a pressing problem for the entire country;
- In a number of regions, the ecological footprint has long exceeded the established norms, leading to a critical situation in which landscapes are changing, natural resources are depleting and the environment is deteriorating. These include the cities of Moscow

and St. Petersburg; industrial regions in Central Russia; industrial and mining centers in the Far North, southern areas in Siberia and the Far East; the Middle Volga region; the North Caspian region; the Middle and Southern Urals; and Kuzbass. These territories have a highly negative impact on the ecosystems of neighboring regions.

Outlook for Russia's Environmental Problems in 2007–2017

Expert estimates lead us to a number of predictions:

- On a number of global indicators, Russia generally has a favorable environmental record and is the world's greatest ecological power. In this connection, within the next 10-15 years the country is unlikely to confront ecological disasters on a massive scale;
- If the government does not implement effective measures to reduce or modernize production facilities that are environmentally unsafe or dangerous to human life, the number of environmentally insecure areas is bound to grow. Furthermore, the threat of environmental disaster on the local level will continue due to industrial risks that can cause serious pollution;
- As far as the atmosphere is concerned, motor transport in big cities will remain the main source of air pollution. But phasing in Euro standards will help to gradually reduce its harmful impact, and the Euro-2 standard has already been introduced. At the same time, it should be remembered that the overwhelming majority of motor vehicles in Russia today could be conveniently described as complying with the "Euro-0" standard;
- Industry and big cities will remain the main factor of inland water pollution. In this context, the problem of potable water supplies will likely be addressed by developing bottled water consumption. Water supplied through the municipal system will be declared unsafe and unfit for drinking;
- Experts predict that there will not be a reduction in the country's forest areas in the foreseeable future. A shortage of forested regions is expected to worsen around large cities, where they play a recreational, as opposed to an industrial, role;

- It is not anticipated that there will be serious contamination of sea water in Russia.

The state of the environment is a serious problem, affecting almost all aspects of public life. Lately, it has been visibly politicized – consider, for example, the formation of particular green parties. Western experience shows that such parties can have a substantial impact on the entire spectrum of political life. But their political role in Russia is unlikely to grow. Polls suggest that the attraction of "green" ideas among the electorate is on the decline.

The numerous public environmental organizations are also an important factor in politics. The most popular are traditionally used by Western authorities to highlight a specific problem. Greenpeace, which conducts all of its high-profile global activities with support from vested interests abroad, stands out among them. In Russia, local environmental organizations are also often guided by considerations not always directly connected with environmental concerns. Recently, for example, the concept of an "environmental racket" was quite common; but such groups are unlikely to cause any political disturbances. For the most part, they focus on specific problems and stay out of politics.

In the international sphere, the politicization of environmental issues manifests itself in propaganda campaigns. Yet these issues play a minor role in propaganda campaigns designed to show the inconsistency of a particular political regime, and are given less prominence than democratic freedoms and human rights.

Needless to say, Russia as a sovereign state which upholds its own interests in the world, should be prepared, in an unfavorable scenario, to face harsh environmental criticism. This criticism can have rather far-reaching implications: although on the global scale, the situation in the country appears favorable, on the local level in some regions there are pressing environmental problems that must be dealt with as a matter of urgency.

To reiterate, environmental problems are unlikely to seriously impede the country's development in the foreseeable future. This, however, does not rule out that they may aggravate locally, as well as globally if they are used as a platform for discrediting Russia on the international level.

At the same time, such a conclusion will only be valid if the country advances down the path of development, whereas backsliding is bound to lead to a degree of loose discipline, mass disregard for technological standards, and a chronic shortage of funding for environmental programs. In such a situation, environmental problems can result in a large-scale ecological disaster.

Conclusion

Even a cursory review of Russia's natural wealth suggests that it could be used with greater benefit for the country, thereby strengthening its positions on the international stage. Obviously, the state and society are receiving too little value from the nation's vast forested areas, rivers and lakes that are brimming with crystal clear water and huge untapped land areas.

However, in the next 10 years, and with relatively little spending, the country's natural advantages could yield far more dividends than is presently the case. This fully applies to Russia's timber industry. Its competitiveness is ensured by the huge resources inherited from the Soviet era. Today, potential for development is limited because the infrastructure, created in the 1990s, can no longer meet modern requirements.

The situation in the industry is also seriously complicated by the extremely low level of timber processing. The so-called round timber still constitutes the bulk of Russian exports. In the trade of lumber on the global scale, Russia's share is under 3%, while raw timber sales account for 22%.

Clearly there is a pressing need to invigorate efforts to develop a federal timber processing and reforestation program for the period until 2015. This would require that Russia adopt a forest code, without which its timber industry is unlikely to receive an effective incentive for development.

Development of Russia's huge fresh water reserves is a more remote but geopolitically very important prospect. Considering the increasing shortage of fresh water resources in the world, it is expedient that Russia devise feasible approaches for developing these resources in the next 10 years. The most viable scheme for making a profit on fresh water is to sell surplus resources on the world market. But before this program can be implemented, it is necessary to conduct thorough hydrologic research to establish how much water the country can sell without damaging its water balance. Only after this has been accomplished can practical matters be considered, such as implementation mechanisms, containers, pipelines, etc. Fresh water supplies can be expected to become a strategic resource in eight to 15 years, thus, research on these issues should start now, without delay.

The use of Russia's vast land resources is a more complex issue: on the one hand, as shown earlier, Russia has considerable land reserves; on the other, there is a shortage of land resources in the world. But Russian land cannot be sold abroad. Therefore, the only way to address this issue is to develop this natural asset by attracting foreign funding, but with domestic resources. This task cannot be fulfilled without an effective migration policy or a mobile workforce that is ready to work on the territory of Russia.

Considering that Russia's economic prospects in the next decade look promising, this period should be used for elaborating a special program to develop new lands, possibly giving it the status of a national priority project.

On the whole, the aggravation of a number of environmental problems – in particular, the shortage of drinkable water supplies and deforestation – gives Russia additional economic and geopolitical opportunities. Unless preparations are made in a timely manner, these opportunities can turn into formidable challenges. They could become a subject of claims by foreign powers, and this unique opportunity could simply be lost.

PART II

GEOPOLITICAL REGIONS

1 East Asia and Russia's Development Strategy

Introduction

East Asia positions itself as a region that is rapidly developing economically and non-uniform politically. Despite the rapid economic growth of the East Asian countries, together with their increased role in global politics, Russia has not yet provided convincing proof of its ability to use its geographical position in the region for its national development. Moscow often disregards geopolitical changes occurring in that part of the world and perceives the dynamics of the situation in East Asia only through the prism of its rivalry with the U.S. Also, Russia's economic strategy fails to take into account the great economic progress in the region.

Irrespective of Moscow's reaction, East Asia's dynamic and intricate development will objectively have an increasing influence on the development of Russia. This will affect, first of all, its East Siberian and Far Eastern regions, causing us not only to adapt to challenges and opportunities coming from East Asia, but also to look for mechanisms to influence the region in a way advantageous to Russia. The most important task in this context is working out a Big Asian Strategy that would link internal objectives and development mechanisms with the East Asian factor.

The main factor of political and economic change in the region is China. The growth of China's economic might and, therefore, political influence causes leaders to change their traditional view of "the Chinese factor" and adapt to its new global and regional positioning. China's integration into East Asian political and economic processes, as well as the way it is perceived by regional actors, has not been smooth. This reflects the difficult and contradictory nature of the deep transformations taking place in East Asia, where the rivalry for nation-

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al leadership and competitive advantages is intertwined with ideology and the practice of multilateral cooperation.

It was the dynamism of the Chinese economy and policy that was responsible for increasing Russia's interest in East Asia, as well as changing the structure of its ties with the region. Over the last decade, China has become Russia's main trading partner in the region, leaving behind Japan and South Korea. In the next five years, China stands a good chance to become also the largest investor in the Russian economy.

East Asia: State, Tendencies and Problems

In 2001-2006, average annual GDP growth rates in individual countries differed essentially: from 1.5-2.0 percent in Japan to 9.5-10 percent in China. China also featured the highest growth rates in foreign trade – about 30 percent a year. The aggregate East Asian GDP stands at 75-80 percent of the GDP of the United States and the European Union. Three countries of Northeast Asia – Japan, China and South Korea – account for more than 90 percent of the regional economy. Japan, which has been developing slower economically than China, still remains the regional leader in absolute economic terms and through its influence on the global economy. Japan's GDP (about 5 trillion dollars), which is approximately 45 percent of the U.S. GDP, is more than double that of China. Yet China is ahead of Japan in the volume of foreign trade (1.6 trillion dollars in 2006).

From a military and political standpoint, East Asia is divided into different unions. The U.S. maintains special relations with Japan and South Korea; ASEAN is another political and economic structure; other countries also play unique roles in the region: China, for example, is a member of the Shanghai Cooperation Organization (SCO) beyond the geopolitical borders of East Asia; North Korea (formally a member of a military-political union with China); and Mongolia, which is an observer at the SCO.

The 2000s have seen yearly growth in defense spending in East Asia to 1 percent of the GDP in Japan and 2.5 percent in China. The North Korean economy is 70 to 80 percent defense oriented. Japan leads the region in absolute volumes of defense spending, which is now 10 to 15 percent ahead of China.

Stability tendencies will prevail over destabilization tendencies in the political situation in East Asia. Due to specific interests of interaction in the economy, the energy sector, and in efforts to counter terrorism and atypical threats (natural cataclysms, bird flu, etc.), old rivalries between the main actors in the region will not develop into direct military-political conflicts. The main factor holding back a possible deterioration of political relations between China and the U.S., and China and Japan will be greater economic interdependence between these counterparts – under any scenario of the aggravation of the situation.

East Asia is developing an increasing need to pool together the economic resources of Japan, China, South Korea and the ASEAN countries. For the first time in history the liberalization and marketization of the Chinese economy may create prerequisites for regional integrative co-development. However, some things stand in the way of the parties' rapprochement, including the persisting imbalance between military-political forces, the perception of China by the U.S. and Japan as a politically "alien" actor, although they still view it as an economically "friendly" market "partner-rival," and last but not least, the preservation by the Chinese Communist Party of its monopoly on power.

The main threats and challenges to security in East Asia are:

- the North Korean nuclear problem;
- territorial disputes involving Japan, Russia, South Korea, China, and several ASEAN countries in the South China Sea;
- Chinese-Japanese and Korean-Japanese disagreements over matters of history, including visits by Japanese leaders to the Yasukuni Shinto Shrine;
- the Taiwan question;
- energy security of Northeast Asia;
- new and non-conventional threats, including terrorism, piracy, ecological and natural disasters, epidemics, etc.

Along with destabilization factors, there are the following factors of stabilization of the political situation in East Asia:

- the six-partite talks concerning North Korea in Beijing;
- the search for ways for multilateral regional mutual support in energy matters;
- cooperation in combating new and atypical threats;

- multilateral economic formats now emerging in East Asia: the Asia-Pacific Economic Cooperation, "ASEAN Economic Community," "ASEAN Plus Three (Japan, China and South Korea)," "ASEAN Plus China," "ASEAN Plus Japan," "ASEAN Plus South Korea," the ASEAN Regional Forum (_RF), and the East Asian Community (EAC), set up in late 2005, which includes the members of "ASEAN Plus Three", Australia, New Zealand, India, and Russia as an observer.

China plays the role of a regional "disturber of the peace." China seeks to strengthen its political influence on the basis of its growing economic might, its important and sometimes even leading role on world markets, and the active expansion of Chinese capital abroad.

India, entering the geo-economic and geopolitical space of East Asia, is becoming a new factor in the changing situation in the region. India seeks to expand the horizons of its domination in the Indian Ocean by joining the processes underway in Southeast Asia and, later, in the whole of East Asia. To date, the influence of the Indian factor has not been great. India seeks to consolidate its regional positions by normalizing relations with potential opponents, namely Pakistan and China, and establishing a new relationship with the U.S.

Evolution of the Region by 2017

In the next 10 years, East Asia will continue to build a new integration model that is different from that in the EU. The East Asian model focuses not so much on the reduction of customs duties and the creation of a free trade zone (although the region will continue its efforts toward stage-by-stage tariff liberalization within the frameworks of the APEC, ASEAN and ASEAN Plus Three by 2010-2020), as on integration into more open sectors of the knowledge economy, compared with the traditional economy, and on financial interaction in order to prevent a recurrence of the Asian financial crisis of 1997-1998. In 2017, East Asia will still be no closer to the creation of a common currency despite the increased discussions on this issue. However, it will increase interaction between national central banks within the framework of swap agreements in case of a currency and financial crisis and will broaden the sphere of application of the Asian Currency Unit (ACU) – a currency basket, i.e., a weighted index of East Asian currencies – within the framework of the Asian Development Bank.

In the security field, emphasis will be made not on the dismantling of the present military-political structure in East Asia, based on the American-Japanese and American-South Korean military-political unions. Nor will the emphasis be on the creation of any "counterbalances" involving China. Rather, emphasis will be placed, **first,** on the formation of new multilateral regional security structures, which could stem from the six-partite talks on the North Korean nuclear problem. **Second**, it will be based on interaction in combating new and atypical security threats.

Unresolved territorial problems and historical issues will have less influence on relations between East Asian neighbors than they do today. In a more distant future, they will be resolved in a "natural" way through the joint development of disputed territories and regional integration.

The increased role of new and atypical security threats in national strategies will gradually modify the United States' military unions with Japan and South Korea, making them more open to cooperation with other countries in the region, including China and Russia.

Chinese-U.S. relations will be characterized, on the one hand, by greater economic interdependence of American and Chinese capital, and on the other hand, by increased mutual concern: Washington is concerned by the non-transparent growth of China's military might, while Beijing is concerned over the proliferation of the "Chinese threat" theories. In both China and the U.S. there will be competing voices over these issues: some will strive to intensify mutual suspiciousness, while others will seek to ease them, each according to their own corporate interests. However, the role that economics, new threats, poverty, natural disasters, etc. play will have a positive influence on Chinese-U.S. relations. By 2017, these relations will most likely be characterized by a higher degree of interaction and lesser hostility than today.

Chinese-Japanese relations will develop according to a similar scenario, but with some peculiarities. China and Japan will not fully change their negative perception of each other due to their different interpretations of history. Nevertheless, the coming to power in 2012 of the "fifth generation of Chinese leaders," many of whom have received their educations in the West, and the rejuvenation of Japan's political elite thanks in large part to politicians of the postwar generation, can greatly reduce the atmosphere of historical hostility by the beginning of the 2020s in favor of interaction in implementing mutual interests. In the interest of cooperation there will evolve the creation of a tri-partite U.S.-Japan-China format to discuss matters of regional security and development.

If no progress is made at the negotiations on the global liberalization of trade, this factor will stimulate economic regionalism, including in the ASEAN and ASEAN Plus Three formats.

China will become increasingly closer to the West as it deepens its market reforms and integrates into the global economic, informational and political space. The following factors will promote these changes:

- growth of interdependence of Chinese and international business interests;
- changes in the composition of China's political elite, due in large part to politicians who have received their education in the West, rather than in the former Soviet Union (the Jiang Zeming generation) or in China (the Hu Jintao generation);
- democratization of Chinese society on the basis of a broader rule of law and a socio-economic "strategy of non-destabilizing inequality" ("harmonic society");
- cooperation with the international community in combating terrorism, WMD proliferation, and new and non-traditional threats.

China will retain high economic growth rates at 9-9.5 percent, making the East Asian region the fastest developing in the world. By 2017, China's GDP will reach the present GDP level of Japan. This forecast is based on the growth of domestic demand, which started around 2005 due to the urbanization of more than 700 million Chinese peasants and a rapid growth of the middle class. This tendency has revoked the description of China as a "world factory," which was correct in previous years when the Chinese economy was developing largely on the basis of export-oriented production. Now China can rather be described as something like a "vortex of consistent demand."

At the same time, China will face threats and risks that, under certain conditions, may bring about a deep crisis and a total downward revision of the forecasts. Domestic and external economic factors are more likely to provoke a deep crisis than external political factors. In the short term, the social, financial and energy sectors are the most vulnerable spheres. Other vulnerable areas include the Taiwan question (in the medium term) and ecological concerns (in the long term).

In the next decade, the Chinese Communist Party will preserve its monopoly on power. However, external and internal factors will force the CCP to conduct a political reform in the country. In particular, the West – in its competitive struggle against China on the global markets – will exploit the fact that the CCP enjoys a political monopoly. The internal factors include: the already mentioned growth of the middle class, as well as a class of Chinese bourgeoisie, which want their political interests to be taken into account as well; the decline of the CCP's authority among young people; the merger of the partocracy and the oligarchy, which requires a broader structure than the CCP for harmonizing political and economic interests between different groups; and the deepening of social stratification.

Relations between Beijing and Taipei will preserve a status quo, although occasionally their relations will be marked by political disturbances, together with intensified efforts on Beijing's part to integrate Taiwan into the rapidly growing Chinese economy.

Simultaneously, several factors will serve to increase international tensions. The growth of defense spending by China – with a view to acquiring the status of a global superpower – will provoke countermeasures by Japan and the Japanese-U.S. military union. Other countries in East Asia will increase their defense spending as well. Although the "status" nature of the new stage in the arms race will not lead directly to military conflicts, it will increase rivalries and threaten cooperation in international relations in East Asia.

The Korean problem will remain unresolved, continuing to be a slow-developing conflict with occasional disturbances caused by North Korea's provocations by means of missile tests, flare-ups in the Demilitarized Zone, rumors about nuclear test preparations, etc. However, the possibility of a war on the Korean Peninsula is unlikely. Technologically, North Korea will not be able to develop nuclear weapons and long-range missiles of its own, and will continue resorting to tactics of nuclear bluff and blackmail to ensure the survival of the present political regime. The demise of North Korean leader Kim Jong Il may entail radical changes in the country, although not necessarily.

The India factor will have a gradually increasing effect on East Asia; however, by 2017, India, even having consolidated its positions in South Asia, will nevertheless be unable to compete with traditional leaders either in Southeast or Central Asia. Therefore, it will not be able to play the role of a counterweight to Chinese and Japanese influence in the East Asian economic and political space.

India, relying on its growing influence in South Asia, will try to use the EAC mechanisms to gain access to East Asia. These efforts will run up against stiff opposition from China, which will be one of the reasons why the EAC will remain a rather amorphous political organization.

India's attempts to consolidate its positions in East Asia will complicate the configuration of its relations of cooperation and competition with China. At the same time, India and China will seek to avoid military clashes over unresolved territorial and political problems (Pakistan, Kashmir, Tibet). The two countries will develop mutual trade, cross-border cooperation and interaction in the energy sphere. At the same time, competition and opposition between them will increase as well.

The main spheres of Indian-Chinese rivalry will be:

- relations with the United States. India will seek closer relations with the U.S., compared with China, playing on two factors: "Indian democracy" as a counterweight to "Chinese socialism," and the help that India can give to the U.S. in "restraining" China;
- global sources of financing the economy. India will try to attract financial flows going to China from the world financial centers (including from Japan);
- influence on neighbors. India will retain its monopoly on the control of the situation in the Indian Ocean, while simultaneously attempting to enter the zone of Chinese influence in Southeast Asia;
- energy and the "new economy." India will seek to oust China from international energy and high-tech markets where it is more advantageous to India than interaction with China;
- military cooperation with Russia. For India it is important to become a preferential partner of Russia in the military-technological field. At the same time, India will use to its advantage Russian-American and Russian-European competition on the South Asian arms market.

In the tripartite Russia-India-China format, India will make emphasis on the development of bilateral ties. India can use both bilateral and multilateral relations in the "triangle" for applying political pressure on the U.S. in the case of disturbances in Indian-U.S. relations.

India will emphasize bilateral relations also in its policy toward the SCO, seeking to gain competitive advantages on the Central Asian hydrocarbon market. India does not view China and the Central Asian member countries of the SCO as "truly democratic" and will preserve its status of observer in the organization to monitor the level of energy cooperation in Central Asia, as well as China's behavior.

China's rapid economic growth, its transformation into a regional leader in East Asia, and the possibility of a Chinese-American rapprochement will increase the "competitive spirit" and "motivation for rivalry" in India's policy, bringing about fluctuating changes in India's behavior.

The future prospects of the Shanghai Cooperation Organization depend on the organization's readiness to adjust its development strategy. It remains an open question whether the SCO can shift the emphasis in its efforts on ensuring social and political stability in Central Asia on the basis of economic growth and the development of democratic institutions and civil society, despite the importance of the struggle against terrorism and other new threats and despite the usefulness of military cooperation. If it fails to do so, by 2017 its activity may grow increasingly vague and uncertain, which will weaken its regional political potential and will cause Russia and China to implement their interests in Central Asia outside the SCO frameworks: Russia will seek to strengthen the Collective Security Treaty Organization and the Eurasian Economic Community (EurAsEC), while China will seek dialog with NATO. This, in turn, will increase the military-political imbalance in Central Asia, caused by the absence of a clear-cut division of labor between the SCO, including China, and the CSTO Plus EurAsEC, which actually comprise all the SCO member countries, except for China.

A persisting imbalance in Central Asia, where the U.S., Japan and India have displayed their interest in establishing their own dialogs with countries in the region without the participation of Russia and China, may turn Central Asia into a zone of rivalry – as opposed to interaction – between the large countries. Such developments will not meet the interests of ensuring Central Asian security through mechanisms of cooperation and co-development.

East Asia and Russia Factor: Risks and Opportunities

Despite Russia's geo-economic position as a bridge between the European and East Asian integration zones, this factor does not play a decisive role in setting its national development priorities. Its economic strategy lacks "spatial economic thinking" that would enable it to see the problems of the depressive regions in Eastern Siberia and the Russian Far East in a supra-national, geo-economic context, rather than within the narrow framework of state borders. Also lacking is a "two-vector" development model that would allow for the orientation of the Russian economy, extended in space, toward parallel integrative interaction with the European Union and East Asia.

By 2017, these shortcomings in Russia's vision of its place in the East Asian region may result in missed economic gains, not to mention political troubles. As China consolidates its economic and political positions in the region, East Asia's political and economic interest in Russia will tend to decline.

On the other hand, as Russia becomes a major actor in global energy supplies, China, Japan, and South Korea will display a growing interest in energy resources, energy assets and energy cooperation with Russia. The ASEAN countries will seek to use Russia's energy and, consequently, political influence as a counterweight to the influence of the U.S., China and Japan in Southeast Asia.

The interest in Russia as a transport space between Europe and East Asia will depend on Russia's policy in developing its transport infrastructure, above all in Eastern Siberia and the Russian Far East.

The interest in Russia as a partner in the knowledge economy will continue to be selective and will depend on Russia's policy in the realms of research and technology. It also depends on its ability to revive Russian science, which from about 1990 until the turn of the century was severely hit by a "brain drain" and conceptual losses.

The interest in Russia as a possible recreational zone for East Asia's growing and increasingly rich population remains hypothetical and will depend on Russia's actions and on whether it is ready to view itself as a global recreational area.

The main risks for Russia in East Asia in the next decade will be as follows:

- As China integrates into the global and regional economy, Russia may find itself farther from the West – most importantly, the U.S. and Japan – than China. This factor will reduce Russia's competitive advantages and weaken its political positions;
- Russia may end up outside the integration processes in East Asia, which involve Japan, China and South Korea;

- Russia may yield to the political temptation to play on Chinese-U.S. and Chinese-Japanese differences, seeking tactical gains but overlooking strategic prospects;
- Russia still runs the risk of missing the opportunity to use the six-partite talks on the North Korean nuclear problem for joining multilateral mechanisms of security and cooperation in Southeast Asia, which are emerging on the basis of these discussions;
- Russia may continue misinterpreting the main threats from East Asia as concerns the prospects of a demographic or economic "invasion" of its East Siberian and Far Eastern regions. At the same time, it fails to notice that the main tendencies in East Asia's development sharply minimize such threats, putting into the foreground the threat of missed benefits because of Russia's nonparticipation in regional integration processes.

Conclusion

To counteract these challenges it is important for Russia:

- to use the long-term interest displayed by other countries in its energy sector to create an East Asian hydrocarbon market on the basis of Russian energy resources;
- to develop a new integration model for its parallel co-development with the European Union, the U.S. and Northeast Asia as a locomotive for the entire East Asian economy;
- to continue participating and increasing its activity and initiative in economic and political formats in East Asia;
- to continue deepening national market-oriented and democratic transformations and large-scale cooperation in East Asia in cooperation with the U.S., Japan and China, while taking the initiative to find and use areas where the interests of all these nations coincide in order not to fall behind China in terms of relations with the U.S. and Japan.

In this context, it is important for Russia to build permanent strategic dialogs with the U.S., Japan and China on East Asian issues and thus to prevent the formation of a tri-partite American-Japanese-Chinese regional partnership without Russia.

2 The U.S. Factor and Its Evolution

Introduction

Russian-U.S. relations have long ceased to be the main axle of the world order, while the importance of their mutual ties has decreased for both states. Nevertheless, in the next few decades the United States will hold a key place in Russia's foreign policy and will largely determine Russia's place in the global economic and political systems, as well as prospects for Russia's modernization.

The position of the United States in the international system is determined by a variety of factors, namely: its military potential; presence of U.S. troops in all key regions of the world; a developed system of alliances and partnerships, which covers the majority of states that are the most politically and economically influential; its economy, which remains the world's largest and most developed; and the ideological and cultural attractiveness of the United States. The latter factor, however, has been losing its former significance of late.

In the medium term, the United States will continue to be the only superpower in the world, by far exceeding all other states (and even groups of states) in a whole range of components of force. Nevertheless, U.S. influence on international processes will decrease.

Today, the main problem facing the U.S. can best be described as fatigue from the assumed mission of serving as a "global policeman" and building a hegemonic order based on the domination of one state. Behind the growing foreign policy rhetoric concerning the global proliferation of democracy and the eradication of tyranny, not to mention the increasing ideological tone of the U.S. foreign policy, there is a reluctance to take concrete actions, above all military ones.

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The increasingly frequent clashes between the agendas of the U.S. and the rest of the world undermine America's leadership and its ability to effectively use its might.

Other essential factors limiting the U.S. foreign policy are the following internal political problems:

- Extremely low public support for the actions of the incumbent U.S. administration in general, and President George Bush in particular. This will serve as a signal for the next U.S. administrations irrespective of what party comes to power.
- The decline of the psychological "zeal" in American society, which was prompted by the September 11, 2001 tragedy. With every new year, the U.S. population will be less and less prepared to sacrifice for the sake of an aggressive foreign policy that is aimed at active reform of the international system.

The U.S. Defense Potential

In the military-strategic sphere, the gap between the United States and all other states is particularly great. The U.S. defense budget represents 40 percent of global defense spending and exceeds the total defense spending of the next 10 countries that top the list of the largest defense spenders. The U.S., its allies and close partners account for over 75 percent of the world's allocations for defense. Moreover, during the next 5 to 7 years, America's absolute and relative military power will continue growing due to defense programs already started.

Twelve U.S. aircraft carrier groups control the world's main sea routes. The U.S. has more than 700 military bases around the world. The military equipment and new armaments in service with the U.S. Armed Forces rank this country at least 15 to 20 years ahead of all other countries. It is not clear whether the U.S. seriously wants to upset its nuclear parity with Russia, and whether such a goal is realistic – if, of course, Russia opts for minimum required modernization of its strategic forces.

Despite U.S. superiority in force and the possibility of a continuously increasing gap between the U.S. and other countries in the military sphere, American military might has proven to be ill-fitted to contemporary challenges. The Iraqi war has shown that the American army is ineffective in guerilla warfare and in combating international terrorist networks. Although the main danger to the United States and global stability in the next decade will emerge as non-state threats, the U.S. Armed Forces are still oriented to fight states without planning their subsequent restoration.

Furthermore, U.S. military reserves are near the exhaustion point. The U.S. conventional armed forces are already being used to the maximum, and their further build-up (for example, for conducting a new war) does not seem politically possible.

The U.S. Economic Potential

The U.S. economy is unrivaled in the world. U.S. GDP is more than 20 percent of the global figure, and the United States accounts for 41 percent of the world's high-tech production and enjoys a commanding lead over other countries in research and technology. Part of this may be explained by America's expenditures on education and R&D, which accounts for 50 percent of the G8's allocations in this sphere. Furthermore, the U.S. produces 55 percent of the world's aerospace products, 34 percent of its computers and 25 percent of its telecommunication equipment. In terms of economic growth rates (3-4 percent) the U.S. is far ahead of other developed countries amongst the EU member states and Japan. U.S. foreign trade is approaching 2 trillion dollars, comprising about 13 percent of global exports and 15 percent of global imports. The U.S. is also the largest importer and exporter of capital.

At the same time, the American economy is experiencing serious difficulties, which will only worsen in the next decade. This refers, above all, to the trade and payments deficit, the dollar's growing competition from the euro as an international and reserve currency, and the growing burden of defense spending, which is becoming particularly heavy considering America's huge federal debt ($8.3 trillion, or 64.8 percent of the country's GDP).

The growth of the budget deficit inflicts much damage on the American economy and the stability of the U.S. financial system, which reduces international confidence in the dollar as a reserve currency. In 3 to 6 years, this deficit of confidence may result in reduced foreign investment in the U.S. economy, a crisis of the U.S. financial system, and a slowdown in economic growth.

The potential for a possible economic crisis in the U.S., together with the role that a budget deficit could play in it, should not be overestimated. After all, in 1946, for example, the U.S. budget deficit stood at 121 percent of the national GDP, but America enjoyed economic hegemony in the world. No country in the world should be interested in a destabilization of the U.S. financial system, because they would be affected worse by such an event than America due to their economic weakness.

U.S. Foreign Policy

Globally, American foreign policy is aimed at preserving the superiority of the United States over all other states and their alliances. Simultaneously, the U.S. seeks to ensure for itself a free hand in the world and less interference from other countries and international organizations. The United States also seeks to build a Washington-oriented system of international governance based on the principles of "soft hegemony." In the opinion of the U.S., other countries must adapt to this project and cooperate with American policy. Thus, America perceives any partners as "juniors." In order to rally the international community around itself, the U.S. has proclaimed its mission against a new "universal evil" which it portrays as "global tyranny."

Conceptually and ideologically, America's present global strategy is premised on its "victory" in the Cold War, which has purportedly proven the absolute correctness and universality of the American liberal-democratic model of development and the efficiency of building a world order after the pattern of the former Western bloc.

However, this strategy has already shown its deficiencies.

- The policy of weakening potential leaders in many regions of the world (including the post-Soviet space) that could throw down a challenge to American domination results in general regional destabilization, the disintegration and degradation of states, as well as civil wars and interstate conflicts. This in turn creates challenges to U.S. security, involves it in new conflicts, antagonizes regional powers and the international community as a whole, and ultimately weakens America's global positions.
- Paradoxically, the creation of a new system of world governance in practice brings about a vacuum of governability: the old mecha-

nisms are destroyed, while new ones are not built, or are created as a counterweight to the U.S. (e.g., the Shanghai Cooperation Organization). Thus, America finds itself isolated from parts of the global processes. This tendency testifies to America's loss of its leadership in the international system.

- U.S. efforts to gain a free hand in the world serve to inspire other countries for unilateral actions and are fraught with chaos. Meanwhile, new local arms races are already being launched. Threats from the U.S. and the disintegration of the global security structure prompt many countries to rely on themselves, specifically by developing WMD arsenals of their own.
- The U.S. policy of proliferating democracy in the Broader Middle East in practice results in serious and long-term destabilization of states in the region, which may plunge into a cycle of continuous chaos or produce radical Islamic regimes. Neither option meets U.S. political or economic interests. The U.S. policy in the regions of Central Asia and Transcaucasia that border Russia may have a similar effect.

Regional Dimensions of U.S. Foreign Policy

Europe's role in America's architecture of foreign-policy priorities has seriously decreased after the conclusion of the Cold War and the emergence of new seats of instability in the world. The present U.S. policy in Europe pursues the following purposes: preserving and expanding NATO as the main lever of American influence on the European continent; softly opposing the EU's supranational integration in the spheres of foreign policy and security, as well as the EU's transformation into an independent pole of force; and increasing U.S. influence through the Central European and Baltic countries.

The prevailing tendency in U.S.-Europe relations is the reduction of U.S. influence on its longest-standing allies. This is partly due to Europe's reduced dependence on the United States in the security field, and partly due to America's unilateral foreign policy. These are signs of a deepening difference of opinion between the West European countries and the U.S. even concerning the perception of values in international relations. Their common agenda is becoming increasingly shortened; in the next decade, this tendency will only increase. U.S. attempts to make up for its weakened positions in Western Europe by means of the Central European and Baltic countries will ultimately prove unsuccessful. (The U.S. will thus prevent the EU from conducting a common policy; yet it will not be able to make Europe assist with the American policy.)

Unlike Europe, **the Asia-Pacific Region** will play a steadily increasing role in American foreign policy. Already now this region accounts for a major part of U.S. foreign trade, and in the next decade it will most likely become the main pole of economic growth. At the same time, it is an area of many differences and potential conflicts.

American strategy in the region is aimed, foremost, at maintaining the status quo and a balance of forces by supporting U.S. allies (Japan, South Korea, Taiwan, Australia, the Philippines and Thailand) and conducting a dual policy toward China. This involves checking Beijing's political and military strengthening and economic growth and getting China into the system of U.S.-oriented regional multilateral ties. Meanwhile, the greater part of the American foreign-policy establishment views China as the main potential enemy.

The last few years have seen the weakening of U.S. positions in East Asia and the reduction of U.S. influence on its traditional allies. Except for Japan and Australia, the states of the region conduct a policy of maneuvering between the United States and China, often showing more sympathy for the latter. The reason for this is Washington's unilateral and aggressive policy on the international scene, whereas China pursues a policy of "soft, friendly" expansion. Furthermore, the states of the region view China's economic growth as an opportunity for developing their own economies.

In **the post-Soviet space**, the United States conducts a policy aimed at its fragmentation and involvement in the American system of alliances. The main objective of this policy is to prevent re-integration of the post-Soviet space or its essential parts around Russia in the spheres of economy and security. Besides its political goals, the U.S. seeks access to the energy resources, as well as energy transportation networks of Russia, Transcaucasia and Central Asia.

The Broader Middle East is now the main regional priority of U.S. foreign policy. On the one hand, it is the main supplier of energy resources to the world market. On the other hand, this region represents the main threats from global Islamic terrorism and WMD proliferation. Finally, it is in this region that the primary U.S. foreign-policy projects – state construction in Iraq and Afghanistan – are concentrated.

The U.S. strategy of democratizing the Broader Middle East – the main foreign-policy project of the Bush administration – has failed and may result in a large-scale redistribution of power in the region in favor of Islamic groups, not to mention a major weakening of U.S. positions in the next few years. Therefore, the U.S. is likely to assign a greater role to Israel, its reliable ally in the region.

Latin America has traditionally been the "soft underbelly" of the U.S. Thus, American strategy in this region is traditionally aimed at preventing external forces from having serious influence there. However, although there is no large-scale presence of outside forces in Latin America, U.S. influence there is now on the wane. Moreover, the South American countries are increasingly uniting against the United States. Large countries in the region (Brazil, Argentina and even Mexico) express their opinions on many international issues (such as a reform of the United Nations, and the use of force) that are pointedly different from that of the U.S. An increasing number of countries (among them Bolivia and Venezuela) now conduct an openly anti-American policy. These tendencies may change only if Washington implements a new strategy in the region, which includes the following steps: First, it rethinks the economic rules of the game with developing countries of South America; second, it gives up its attempts to liberalize them in the interests of American corporations; third, it once again includes Latin America amongst the main priorities of its policy, including the policy of force. However, chances for such a change of strategy are bleak. As a result, Latin America will become a group of increasingly independent actors on the international scene, although a small number of U.S. puppet states will remain.

Russia-U.S. Relations

Presently, there remains strong political interdependence between Russia and the U.S. This interdependence is due to the following factors:

- Without Russian-American cooperation it would be practically impossible to solve many global problems threatening the security of both states. Any confrontation between Russia and the U.S. can seriously aggravate challenges on the international stage, which may ultimately serve to jeopardize the very existence of both countries. During the next 10 to 15 years, Russia and the U.S. must build up their levels of mutual cooperation to achieve the following objectives: stabilizing the situation in the Broader Middle East; reducing the growing conflict tendencies of the Asia-Pacific Region; and ensuring the peaceful development of the People's Republic of China as a status quo state.

- The need for control over WMD arsenals left over from the Cold War era, together with the disarmament problem.
- The experience of recent years has clearly demonstrated that the United States is unable to create and consolidate a new system of global governance on its own.

Despite the present low volume of Russian-U.S. trade, the economic interdependence of the two countries, most importantly in the energy sphere, will continue to intensify. More and more oil and gas fields will be in states that are outside the control of the United States and U.S. energy corporations. Therefore, U.S. interest in Russia and other countries of the former Soviet Union as potential sources of energy will grow.

Although these relations have retained a general partnership format (to which both parties attach much importance), the "positive" agenda of Russian-U.S. relations is constantly decreasing. Both parties forward different approaches to solving the main international conflicts and challenges (the Middle East, Iran) – from the struggle against international terrorism, to arms reduction and arms control, and the maintenance of strategic stability (although elements of cooperation still prevail in these fields).

By contrast, the "negative" Russian-U.S. agenda is constantly growing. The accords reached at the St. Petersburg summit in July 2006 may help to slow down this tendency, but they will not reverse it in the next few years. Moreover, the "negative" agenda includes issues that are particularly sensitive for both countries, especially for Russia. The Russian Federation's practices indirectly conflict with the main leitmotif of America's present global strategy, which is the "proliferation of democracy." Now, Russia and the U.S. are engaged in an increasingly open rivalry in the post-Soviet space. This may lead to the relations between the two countries becoming somewhat aggravated in the next four to five years.

Main Avenues and Scenarios of Development by 2017

In the military sphere, the United States will retain its gap from all the other states and their groups both quantitatively and qualitatively. Moreover, this gap will continue to increase.

In the sphere of economy, despite the threat of possible crises, the U.S. will most likely remain the best developed and most powerful economy in the world. And still, there are grounds for arguing that the next decade will see a decline in America's role and influence in the global economy, although they will still remain at a high level. By 2017, the U.S. contribution to the global GDP may stand at 17 to 19 percent.

U.S. foreign policy on the global scale in the next decade will be characterized by the following tendencies:

- a move toward greater multilateralism, less egoism in foreign policy and foreign trade, and more tolerance toward international institutions. Yet the unilateral approach will persist.
- a partial revision of U.S. strategy toward "undemocratic" countries, shifting the emphasis from their "democratization" to their stabilization. Nevertheless, the democratic messianism at the rhetorical level with regard to some countries (China, Russia) will remain.
- a partial reorientation of the policy of weakening regional leaders, with more emphasis placed on giving them support in exchange for their relative loyalty to the U.S. It is unlikely, however, that this policy will be successful with regard to some countries, particularly China. It cannot be ruled out that after the recent attempts to limit Russia's influence in the post-Soviet space, in 4 to 6 years the U.S. will try to turn Russia into a "loyal" regional leader and a guarantor of stability on the larger part of the former Soviet Union. Much will depend on Russia and its ability to uphold its interests in the periphery, and on whether or not it enters into inflexible confrontation with the U.S. in the next few years.

Even if the absolute parameters of American might remain unchanged, U.S. influence in the world in 2007-2017 will continue to decrease. This will largely transpire from the withdrawal of U.S. troops from Iraq, which is expected to take place in 2 to 3 years. The withdrawal will hit Washington's foreign-policy self-confidence every bit as hard as its past defeat in Vietnam. Judging by the duration of the "post-Vietnamese syndrome," America will recover from its Iraq shock only by 2013-2015.

Today, there is no force or a combination of forces in the world that could compensate for a weak America. Therefore, reduced U.S. influence will not bring about a classical multipolar world; rather, an increasing vacuum of governability will hit international relations.

There is a possibility that due to the problems America faces in its economy and in domestic and foreign policies, in 5 to 7 years it will return to a more realistic, multilateral and less aggressive policy. Then, America, together with other major countries of the world, will build a new system of global governance, based on a "concert of great powers" with the U.S. playing the leading role.

In relations with Europe, the U.S. will gradually lose its positions by 2017. The active involvement of the Central European and Baltic states will not compensate for the growing foreign-policy independence of Western Europe. The U.S. will also try to enhance the role of NATO (which is still largely controlled by Washington, although to a smaller extent than before) beyond the Alliance's traditional zone of responsibility. However, it is not clear yet how successful these attempts may be.

In relations with East Asia, the current weakening of U.S. positions in the region will continue during the next decade. However, by the end of the period, this tendency may slow down or even reverse. It is not ruled out that by 2017 China's growth in East Asia, especially from a military perspective, will no longer attract other countries in the region; moreover, this growth may even antagonize them. Such developments can aggravate disagreements in U.S.-Chinese relations.

By 2017, the post-Soviet space will rank higher among U.S. foreign-policy priorities – largely because of the possibility of destabilization in the Broader Middle East and ensuing energy shortages on the world market.

It is difficult at this time to give a precise assessment of U.S. policy toward the Broader Middle East by 2017. Yet one can say with confidence that it will be a policy of withdrawal – more or less rapid, with more or less negative consequences both for the United States and for regional stability and governability.

There are high chances that radical Islamists will come to power in many countries of the region. The outcome of such a scenario will largely depend on U.S. actions toward Iran and its nuclear program. The return of the U.S. to a multilateral policy concerning Iran inspires optimism.

Evolution of Russian-U.S. Relations by 2017

The next few years may see a certain aggravation of Russian-U.S. relations.

First, as the U.S. elections of 2007 approach, criticism of Russia by both Democrats and Republicans will increase.

Second, Russian-U.S. rivalry in the post-Soviet space will continue to intensify. This will arise from the U.S. policy of involving Ukraine into NATO, as well as from its attempts to solve the problem of "unrecognized states" in the post-Soviet space solely in favor of Georgia and Moldova.

Attempts to solve the problem of "unrecognized states" by force may provoke a direct clash between Russia and Georgia (less likely between Russia and Moldova). It may also force Russian troops into the territories of the "unrecognized states," as well as spark accusations from the U.S. about Russian attempts at occupying or annexing these territories.

Ukraine's accession to NATO may alter the entire partnership character of Russian-American relations. In this case, Russia may boost its military-technical cooperation with China and anti-American regimes in the third world; at this point, the "positive" Russian-U.S. agenda would finally degrade; and attempts may be made to reorient Russia's military-industrial complex to confrontation with the U.S. again.

Third, the next 5 to 7 years will see increasing competition between Russia and the U.S. for control over energy resources in the states of the former Soviet Union.

Fourth, Russia's foreign-policy independence on the international scene and its reluctance to support many areas of U.S. policy (in particular with regard to China, the Broader Middle East, the Mid-East conflict, and countries such as Syria, Iran and Venezuela) will be in the next few years a strong irritating factor in Russian-U.S. relations.

However, there are grounds to expect an improvement in Russian-U.S. relations on a new basis by the middle of the next decade. This improvement will be caused by the following factors:

- relative weakening of U.S. global positions;

- aggravation of some common security challenges (WMD proliferation, possible destabilization in Pakistan, etc.);
- destabilization and the encroachment of chaos in the Broader Middle East;
- degradation of governability in international relations;
- the growing scale of international terrorist activities;
- threat of Russia's strong political dependence on China;
- strengthening of China by 2017 to an extent that may threaten the security of both Russia and the U.S.

By the middle of the next decade, the United States (and the Western world as a whole) may recognize Russia's special role as a guarantor of peace and security in the post-Soviet space, in particular in the energy field. From a purely objective point of view, America would gain more from reaching an agreement with Russia on energy issues than from increasing its dependence on unstable and anti-American minded countries in Latin America and the Middle East.

Any reluctance on the part of Russia and the U.S. to normalize their bilateral relations for solving the aforementioned problems may bring about serious challenges to the security and economic development of both countries.

By 2012-2017, Russian-U.S. relations may improve on a multilateral basis, thus contributing to building a new system of global governance.

3 The European Union: Possible Ways of Development

Introduction

The political situation in the European region west of Russia's borders is largely determined by the state and evolution of its major states, the European Union and, to a lesser degree, the state of the NATO military-political bloc. An analysis of developments of the last few years provides solid grounds to believe that the EU political project is in a state of systemic crisis, which could bring about qualitative changes in the entire political and economic system of contemporary Europe. Russia's EU policy must not be oriented to the Europe of the present or past, but rather to possible scenarios for the development of the European integration project.

Today, the EU is faced with at least four potentially insurmountable strategic problems:

- A substantial weakening of the quality and effectiveness of governance within the EU. The EU's unprecedented enlargement in 1995-2007 has caused the EU institutions (the Council of the EU, the European Commission, and the European Parliament) to exceed the limits of their effectiveness for coordinating the interests of the EU member countries, lobbying groups, and other groups of interests.
- The lack of a common vision of strategic goals for the development of the 'European project' (the EU has achieved all of its main goals that are not in conflict with the basic rights of its member states);

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- The low economic effectiveness of the prevailing development model in the majority of EU countries;
- The declining level of trust in relations between the member countries on the one hand, and the member countries and EU supranational bodies, on the other. This trend manifests itself, among other things, in the so-called ‘democracy deficit,’ that is, the exclusion of EU citizens from the growing spectrum of political and economic matters.

General Situation

The EU’s political status in the modern world is not matched by its real (economic and military-political) capabilities. At the same time, the EU cannot play a completely independent role in international relations due to the extreme weakness of its military component, as well as its inability to formulate a single foreign policy and even a common policy concept. The attempts to create a common foreign and defense policy have proven inefficient and even counterproductive as they have tied the hands of the leading EU members and reduced their potentialities to a “common denominator.”

The EU’s position in the contemporary world is characterized by the following:

- The European Union, alongside the EU leading countries – France, Germany, Italy and the UK – participates in the activities of authoritative international forums, for example, the G8;
- On its immediate periphery, the EU is successfully promoting its vision of politico-legal and economic relations with its neighbors;
- Geographically, the EU’s positions are relatively strong in some parts of Africa, especially in northwestern and central Africa;
- The EU offers mild competition to the U.S. on a number of acute international political issues, for example, the Middle East and Iraq;
- The EU is building a constructive partnership with China, without making prospects of economic cooperation dependent on the factor of ‘democratic values’;
- The so-called ‘soft’ (cultural, political and economic) influence of the EU is tremendous. In the opinion of many representatives of

foreign elites, despite its problems, Europe remains a good example of civilized and humane development.

The EU's economic development is characterized by rather low growth rates (an average of 1-1.6% a year) and persistent high unemployment. At the same time, new EU member countries are showing higher economic growth, up to 3.2%., which in 2006 resulted in 2.6% growth across the EU Common Market.

The EU accounts for about one-fifth of the global volume of trade in goods and services, even though its population is just 7% of the world's total. Of the world's 100 leading companies, 32 are based in Europe, and about 50% of the world's foreign direct investment is made in the EU-15 member countries alone.

The EU economy is marked by the following trends:

- An abrupt increase in the number of economically backward member countries following the EU enlargement in 2004;
- Preservation in the medium term of a high level of agricultural subsidies (up to 40% of the EU budget). An attempt to slash subsidies was made in 2005 but was successfully blocked by France (which receives 60% of EU agricultural subsidies);
- Failure of the so-called Lisbon Strategy, a program that aims to make the EU the most competitive and dynamic knowledge-based economy in the world by 2010;
- A serious lag in the high-tech and R&D sphere. Today, the EU spends less than 2% of its GDP on this sector of the economy (as compared with approximately 3% in the U.S. and Japan). The EU's spending on IT and communications technology is 6.93% of GDP, as compared with 8.22% in the United States and 8.98% in Japan.

In the military-political sphere, the EU is not an independent international player and cannot effectively compete with traditional or emerging centers of power.

- Plans for creating a common foreign and defense policy thus far remain mostly on paper;
- With the exception of two EU member countries (the UK and France), the armed forces of the EU states are not a serious factor to be reckoned with. Military spending in the EU countries is 2.6%

and 2.4% of GDP at the most (France and the UK account for 40% of all defense spending), with spending levels in the majority of EU member countries being less than 1.5% of GDP. For example, Germany spends a mere 24 billion euros a year on military programs (as compared with $382 billion in the U.S.);

- The EU's spending on military R&D programs (per serviceman) is on average $4,000 (as compared with $28,000 in the U.S.), while its spending on equipment is $14,000 (against $44,000 in the U.S.);
- The European Union cannot be seen as an independent military factor in international politics. As a matter of fact, the EU's armed forces are not in a position to conduct military operations except for peacekeeping operations;
- The lack of a unified shared position between the majority of "old" and "new" EU member countries on current political issues, which was especially pronounced during the period preceding the U.S. intervention in Iraq in 2003.

The status of the integration process, which has been the focus of European politics over the past 50 years, can be described as critical (following considerable achievements made after 1986).

- The customs union (economic and currency union of 13 member countries) is thus far the only viable integration format. Such important issues as social policy and labor market regulation (the entire social block) are within the national purview of the EU member countries;
- The EU Constitution has been voted down and has slim chances to be resurrected;
- The more realistic option is the drafting of a new EU Treaty that would introduce more flexibility into the EU's internal structure, and would furnish its member states with additional capabilities to control the work of supranational bodies in Brussels.
- There are no prospects for the creation of the so-called 'federal Europe' – i.e., an effective political union – materializing within the next six to ten years;
- The EU is not ready to formulate strategic goals for its integration project; therefore it seeks tactical solutions that may calm public concerns;

- Following its enlargement in 2004, the EU's heterogeneity on a number of parameters – the level of economic development, the size of the economy, the status of the market and democratic systems, and the geographic position – has increased substantially.
- Regional political and economic groups are being formed;
- There is a theoretical possibility of further political divisions within the EU, while a common economic space will be preserved in key spheres of integration;
- There is an obvious trend toward the strengthening of interstate cooperation and the role of national governments and parliaments through the authority and powers of supranational bodies.

At the same time, an "integration core," whose erosion is possible only under emergency circumstances, can be determined. This must include, above all, a customs union, a free trade zone within the Common Market format, and a currency union for all member countries.

The Evolution of Relations with Russia

Political relations between Russia and the EU are generally friendly, but political cooperation is rather ineffective and there are strong elements of competition. In the recent period, a clash of interests has surfaced in:

- The situation involving Russia's Kaliningrad Region (2002);
- Ukrainian elections (2004);
- Energy cooperation (2006);
- 'Frozen' conflicts in the CIS, especially in the Transdnestr region (2003-2006);
- The EU's attempts to use Russia's WTO admission negotiations to secure the abolition of over-flight charges for Asia-bound European airliners that must use Russian airspace, as well as to further slash Russian agricultural subsidies (2003-2006).

Russia and the EU are not ready to harmonize the basic principles of their relations in dealing with potentially contentious issues, while greater attention is now being given to cooperation on the technical level.

The EU is Russia's main trading and economic partner. According to the latest statistics, the EU accounts for approximately 50% of Russia's exports and about 40% of its imports. At the same time, energy resources (oil and natural gas) constitute about 57% of Russia's exports to the EU countries with the bulk of the remaining exports being agricultural produce (4%) and chemical products (4%). The EU's share in Russia's foreign trade is expected to decline as Russian trade begins to shift toward Asia.

Energy is a key component of interdependence between Russia and the EU. Russia remains the principal supplier of energy resources to the EU countries (it provides 40% of the natural gas consumption in the EU, and 100% of this resource in several individual EU member states). The share of Russia's energy supplies to the EU is unlikely to decline.

The political and legal foundations of Russia-EU relations – the Partnership and Cooperation Agreement (1994) and the roadmaps for 'common spaces' between Russia and the EU (2005) – were laid down at a time when the EU was relatively strong while Russia was economically and institutionally weak. At that time, Brussels played a leading role in the negotiating process before Russia had acquired a new role on the international stage, based on its proactive energy policy and a more robust foreign policy.

The majority of Russia-EU plans for the next few years are built on the principle of bringing Russia closer to the EU's economic regulatory standards and requirements. It is not entirely clear how viable this cooperation model is.

After 2007, the development of Russia-EU relations will to a very large degree depend on the format of politico-legal relations, which became a subject of debate in light of the upcoming expiration of the 1994 Partnership and Cooperation Agreement. Although the new format and structure of relations may be important, it should not be exaggerated.

Main EU Development Avenues Through 2017

The future of the EU as a viable political and economic player depends on its ability to meet three main challenges of modern development:

- The insufficient economic and political effectiveness of the "European model" amid increasingly stiff international competition;

- The insufficient socio-economic stability of the EU member countries, including the changeable ethnic composition of their populations;
- The insufficient level of trust between EU citizens and the political elites, between EU member countries, and between member countries and EU supranational bodies.

Given the existing gap in socio-economic development and the growing disparity in the EU countries' national and state priorities, it is unlikely that these problems can be resolved in the foreseeable future.

The only breakthrough scenario could be the so-called 'Democratic Convention Plan,' which provides for a new EU treaty (Constitution) to be drawn up and approved in an all-European referendum. But the chances of the EU leaders making such a decision are slim.

Formal disintegration of the European Union and the dissolution of its supra-state institutions is also an unlikely scenario. The same goes for a "European federation" with a single government, parliament, all-European parties, and an elected president.

The European Union is more likely to evolve as a rather loose trade and economic association (including currency union) with elements of political cooperation between individual countries and groups. At the same time, such major areas of activity as social policy, energy, and defense will remain on the purely national level.

In this scenario, the role of EU institutions (above all the European Commission) will be reduced to three main areas:

- Ensuring the operation of the customs union, the currency union (in conjunction with the European Central Bank) and the common market of goods and capital;
- Representing the interests of the EU member countries at international trade and economic organizations;
- Assisting the implementation of foreign political and foreign economic projects in individual EU member countries or groups thereof.

The latter area is well illustrated by the European Commission's participation in the Russia-EU energy dialog. The Commission does not have formal powers in the field of external energy ties. Its latest proposals in this sphere were blocked in March 2006 by the EU member countries, which want all relations with Russia to remain at the interstate level and the level of energy corporations. Yet the Commission has an informal request from the Council of the EU to pressure Russia into ratifying the Energy Charter Treaty and the Protocol on Transit, which would help implement the national interests of some EU states (Germany, France, Italy, the UK, Belgium and the Netherlands).

The EU development paradigm through 2017 envisions two possible integration formats:

1. "A multi-speed Europe"

This scenario envisions a further deepening of political cooperation and economic integration of some EU countries with the others staying within the framework of the customs union and the common market of goods and capital. One possibility here could be a "European vanguard" comprised of the G6 plus Spain, Portugal, and Greece.

2. The Customs Union.

This plan foresees a general evolution of the EU toward free markets and free trade with declining cooperation in the political sphere. At the same time, basic sectors of the economy (e.g., energy and social policy) will remain within the exclusive national jurisdiction of EU member countries.

After 2012–2013, EU development could accelerate if the stagnant socioeconomic model shifts toward greater liberalization, together with a political integration that leans more toward federalization. But economic liberalization can come into conflict with social stability in large EU countries. So this option is less likely than ongoing stagnation with elements of economic modernization.

Conclusion

Regardless of the EU's evolution prospects, this region is crucial for Russia due to historical and religious factors that have formed this country's cultural identity. At the same time, the present level of Russia's economic and social development, as well as the export potential of the Russian economy, ensures greater flexibility in determining the strategic priorities and extent of the nation's foreign policy.

Despite the obvious advantages of rapprochement and the creation of a strategic politico-economic union both for the EU and for Russia, this scenario is unlikely in the next five to seven years. Its realization could become more probable if Russia embarks on the path of economic modernization and political democratization, which would help enhance interest in economic rapprochement and eliminate some of the obstacles to the rapprochement in the 'democratic values' sphere.

Russia's admission to the WTO will also objectively facilitate economic cooperation. At the same time, however, the benefit of a free economic zone with the EU for Russia is still an open question. The creation of such a zone without a substantial increase in the proportion of goods with high added value in the Russian export structure, or without the prospects of entering the EU's highly competitive market, is unlikely to benefit Russia. Nationalization of the European foreign policy as a result of a systemic crisis of the EU can objectively facilitate these activities.

A stagnant model of Europe's political development is not beneficial for Russia (nor is the transition to federalism). With any scenario, it is essential to preserve a semblance of dynamic relations with the EU. Over the next five to seven years, it would be expedient, without stopping dialog with Brussels, to intensify bilateral cooperation with the leading EU countries, as well as with the more promising partners among its newly admitted member states.

Presently, it would be expedient for Russia to restore the balance between the political and economic-legal components of its relations with the EU at the level of equitable cooperation between independent agents of international relations. In the future, Russia could consider its formal accession to an integrated entity that will replace the European Union after the European project overcomes the stage of stagnation. The way out of the emerging stagnation will most likely be found through consolidating the role and significance of sovereign states, which is a traditional path for the EU.

4 The Post-Soviet Space: Outgoing Reality

Introduction

During the period that has elapsed since the breakup of the Soviet Union, the majority of countries in the post-Soviet space have failed to build modern states that are immune to destructive external and internal impacts. The real sovereignty of a majority of the PSS countries has been challenged by the political games played by the EU, the U.S., China and Russia, as well as new regional powers – Iran and Turkey – that are now gaining strength. The growing dependence on external factors may – under certain conditions – promote stability; however, more often than not these conditions only serve to inflame political instability and crises.

East-European countries of the PSS – Moldova, Ukraine and Belarus – have formed an integrative EU-bordering zone and have actually entered a "EU candidacy corridor." This factor is already keeping a tight rein on their economic, social and ecological sovereignty. The EU's integrative structures, with the support of the political elite in these East European countries, will increasingly play the role of regional political and economic intermediaries.

Transcaucasia, the southern part of the PSS, remains an epicenter of political instability. The factors of instability include the threat of a full-scale war between Azerbaijan and Armenia or armed conflicts between Georgia and its former autonomies, and long-standing social and eco-

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The term 'post-Soviet space' (PSS) is used in a purely technical sense in this context, since no better term is available. As the Commonwealth of Independent States (CIS) is obviously degrading, it would be incorrect to use it here. The two remaining options are 'the former Soviet Union' and the 'post-Soviet space.' The latter term leaves out the Baltic States in the context of this memorandum.

nomic crises. In this region, outside forces exert the greatest influence on the domestic and foreign policies of the local countries.

The political class of the Central Asian countries is faced with problems that may jeopardize the very existence of their statehood. These problems include: the need to counter the Islamic, as well as terrorist, factor, together with the political forces in Pakistan, Saudi Arabia and Afghanistan that stand behind it; inevitable aggravation of the social, economic and ethnic situation in the Fergana Valley, which may result in political destabilization in Uzbekistan and Kyrgyzstan; and the foreign struggle for control over energy exports from the region. The creation of political, economic and demographic opportunities for China is a relatively new factor in the region.

The remaining hotbeds of tension in the post-Soviet space are unrecognized states (the Transdnestr Republic, Abkhazia and South Ossetia); zones of growing political destabilization (the Fergana Valley); and potentially problem states (Belarus, Tajikistan, Uzbekistan, Turkmenistan, Moldova and Georgia). Different approaches to critical issues in the post-Soviet space are aggravating Russia's relations with Western powers and organizations.

Internal Political Tendencies

- Struggle between unitary and federalist tendencies will continue inside new political classes in some of the PSS countries. The emergence by the end of the decade of new elite groups in individual PSS states will strengthen their sovereignty. Simultaneously, irreversible processes of political degradation will become apparent in some PSS countries, calling into question their survival as international legal entities.
- An authoritarian trend combined with state and ethnic nationalism, as well as underdeveloped political party systems and the corruption of state power, may become a dominant political element in the PSS countries.
- Social and political instability will grow as the political life in the majority of the PSS countries has become blocked by authoritarian regimes. The functions of political institutions there have proved little differentiated and, therefore, the political systems are irresponsive to economic, social and technological changes.

- In the East European countries of the post-Soviet space (Belarus, Moldova and Ukraine), the main internal political problem is the legitimacy of power. This issue will be in the focus of the struggle between internal political forces, and in the focus of attention of external forces. The internal heterogeneity of the Ukrainian, Moldovan and, partly, Belarusian societies, where various groups speak different languages, have different ideologies and actually live in different social rhythms – agrarian, industrial and informational, during the next decade will increasingly become a political dominant.
- The political elites in Transcaucasia are divided into supporters of pro-American (dominant), pro-Russian and pro-Iranian vectors. Presently, they are unable to work out an integral strategy for national development.
- Considering the peculiarities of the social and political life in the Central Asian states, inter-clan conflicts present special concern amidst the weak political stratification of the region and its increasing Islamization.
- The political struggle in Kazakhstan and Central Asian countries is determined by the prevalence of authoritarian political systems in the region. This situation puts in the foreground not the issue of political reforms or strategies for achieving a victory at elections, but the issue of what forms of political activity the regime's opponents will assume – legal or underground. In countries south of Kazakhstan, mosques will serve as a natural place for semi-legal political activity.
- The conservative policy pursued by some of the Central Asian countries (Uzbekistan and Turkmenistan), together with the ousting of the opposition from legal politics in Kyrgyzstan and Tajikistan, only delay the prospect of a social upheaval, which will inevitably acquire a political-religious dimension. In the future, the explosive combination of religious, social, tribal and economic conflicts can bring about large-scale destabilization in the region. This threat holds for the fast-developing Kazakhstan, as well.

The economic development indicators in the PSS countries are highly contingent on the economic situation in Russia and on the level of relations with Moscow.

- Countries where the economy relies on natural resource exports (Kazakhstan, Azerbaijan, and Turkmenistan) show the largest growth rates.

- Countries that show high dynamics owing to privileges on the Russian market (Belarus, Armenia) follow growth-rate leaders in their footsteps.
- The present economic recession in Moldova is rooted in internal political instability and the break of economic ties with Russia. Ukraine may have a promising economic development in the future if it normalizes its economic relations with Russia, bringing them to a new level, and if it establishes partnership relations with the EU.
- The ongoing labor migration to Russia from some of the PSS countries has become a universal indication of their economic failure. Its potential is now nearing exhaustion, and in the coming decade migration may become a resource used for political purposes.
- In the coming decade, none of the East European countries of the post-Soviet space will be able to free themselves of their energy dependence on Russia. The dependence of their economies on the supply of relatively cheap Russian gas is a long-term situation.
- In Transcaucasia, Azerbaijan's oil complex will seek to eliminate the imbalance that has emerged between newly opened transport opportunities and the volume of hydrocarbons received from its own oil production facilities, as well as from shipments from Central Asia. Yet it remains doubtful that Azerbaijan will reach the level of oil production that is necessary to meet the demand of Baku's clients by 2010.
- New opportunities for energy shipments from Central Asia will encounter political and economic obstacles, above all, in the form of oil exports from Kazakhstan to China. Only after 2010 will Kazakhstan be able to transfer its shipments to Ceyhan. Plans for creating a regional energy commodity exchange, which would serve oil producers from the Caspian region, have low prospects within the projected period.
- Kazakhstan's economic rise is due to intensive development of its energy sector as compared to all other sectors of the economy. Thus, new transport opportunities to supply Kazakhstan oil to China can compete – on a limited scale – with Russia's planned project to construct an oil pipeline from Eastern Siberia to the Far East. Although the status of the Caspian Sea is still undefined, in the beginning of the next decade, Kazakhstan may resume its plan

to build a gas pipeline to Azerbaijan along the bottom of the Caspian Sea. It cannot be ruled out that by 2017 Kazakhstan may build a gas pipeline to China. Such a pipeline would possibly run along Kazakhstan's southern border and connect to the gas export networks of Turkmenistan and Uzbekistan.

In the military-political sphere, most PSS countries are not independent players on the international arena and remain the objects of policy-making on the part of great powers (Russia, the U.S. and China) or regional organizations (NATO and the Shanghai Cooperation Organization). This only partially refers to Kazakhstan and – for different reasons – to Belarus.

- The Collective Security Treaty Organization (CSTO) does not have any clear prospects. Instead of playing the role of a southern "flank cover" for Russia in defending it from political destabilization, it can draw Russia into regional and intrastate conflicts. In this situation, Russia may have to take unilateral actions, while using CSTO only formally.
- The Shanghai Cooperation Organization (SCO) plays the role of a strategic compromise between Russia and China in the post-Soviet space and occasionally appears as an anti-American project. China has already used the SCO to get official access to Central Asia, and in the near future, Beijing will continue to expand its influence through this organization.
- International terrorism – specifically that coming from Afghanistan – will reinforce its pressure on the countries of the region, above all Uzbekistan. A crisis in Uzbekistan may have a destabilizing effect on the entire post-Soviet space.
- The U.S. and NATO will build up their efforts to increase their influence in the post-Soviet space, operating from the already established springboards in Georgia and, to a lesser degree, in Azerbaijan, Ukraine and Moldova. The ruling regimes in Central Asia will continue maneuvering between Russia, China, and the U.S. which for the next five to six years will be busy handling the problems of Iraq and Iran.
- NATO will continue efforts to draw the East European countries of the post-Soviet space into the sphere of its influence. Ukraine is likely to join the Membership Action Plan (MAP), as the first step of its entering the Alliance, after 2008. In that case, the issue of

Ukraine's NATO membership can be raised in two to four years; yet Ukraine's accession to NATO can be prevented.

- Transcaucasia is a global leader in terms of its military growth. In 2005, military expenditures grew more than 20% in Armenia, 51% in Azerbaijan, and 137% in Georgia. Apart from bids to modernize their armies, the countries in the region are preparing for conflicts on their territories, as well as their neighbors'. The emergence of hotbeds of military confrontation seems to be unavoidable in Transcaucasia in the foreseeable future.
- Currently, both Russia and NATO attach particular attention to Azerbaijan, which serves as a node in the transit of energy resources to the West through the geopolitical "slit trench" between Russia and Iran. In the future, international rivalry for gaining influence over Baku will largely determine the military-strategic situation in Transcaucasia.
- The U.S. and NATO will not be able to formulate a full-fledged program of cooperation with Baku; instead they will resort to various forms of "partnerships." Simultaneously, they will be concentrating their efforts to build a military infrastructure in Georgia. Such developments may secure for Tbilisi the role of NATO's "strong point, depot and field hospital" in this extremely unstable Eurasian region. However, this will not guarantee NATO membership for Georgia due to instability on its borders, the unsolved territorial integrity problem, and poor internal governance.

Real integration processes based on internal resources and objective conditions are lacking in the post-Soviet space; bilateral ties will dominate over the projected period.

- Only two countries, Russia and Kazakhstan, may set up a free trade area as the first step toward structural economic integration in the five years to come. Yet implementation of this project looks problematic as there are no closed borders between Kazakhstan, China and Central Asian countries. No prerequisites have been created in the post-Soviet space for the rise of a common market or an economic and monetary union, while even the initial conditions for launching such processes may disappear in the foreseeable future.
- The CIS, which is now gradually losing administrative functions, will cease to exist in its present format. However, it will not disap-

pear completely. It will develop on the basis of its consultative structures and viable bodies, which will coordinate the operation of national control systems for air, rail and, possibly, sea transportation. Structures coordinating the work of national pipeline systems may also emerge. The PSS countries will continue their interests for joint protection of their air space.

- The Russia-Belarus integration project will not take off while the current Belarusian authorities are in power. The present crisis, which stems from a loss of trust between the partners, can quickly outgrow into an acute crisis (as the events of early 2007 showed) and may eventually trigger the project's complete degradation. Russia's decision to eliminate Belarus' privileged prices for energy resources will initially bring about a concealed dismantling of the Russia-Belarus Union State, which will eventually turn into a public scandal. Russia may return to the integration process after it completes the construction of the North-European Gas Pipeline (in 2010) and after the leadership in Belarus changes.
- The beginning of a dialog on the creation of a free trade zone between Ukraine and the EU, which may become a reality after Ukraine joins the WTO, will make this country's participation in the PSS Common Economic Space impossible. Yet there are no grounds to believe that Ukraine can join the EU in the foreseeable future.

The Evolution of the Post-Soviet Space in 2007-2017

The future of the post-Soviet space depends on the scenarios for Russia's relations with the EU, the U.S., and China, and above all on the direction and pace of Russia's political and economic development.

- The political elites in the East European countries of the post-Soviet space will continue their efforts to bring their countries into the realm of the EU's and NATO's political and economic influence. Their economic, labor and transit resources will become a centerpiece of rivalry between the EU and Russia. The West will most probably continue to instigate the ruling circles of these PSS countries to use their political instruments against Russia's economic expansion in the region. It will also use information and other resources against Russia's attempts to strengthen its positions in Belarus and Ukraine.

- Ukraine will remain a country with a lax and unsteady constitutional system, hampered by internal problems, and these factors will eventually diminish the EU's interest in this country. At the same time, in a bid to keep up the interest of Western powers and organizations, certain political circles in Ukraine will from time to time try to exacerbate relations with Russia. Strong political outbursts with the involvement of outside forces may eventually bring Ukraine into NATO. This will not save the country from its long smoldering conflicts, and – most dangerously – it will generate an "arc of instability" and conflicts along its border with Russia.
- Belarus is gradually turning into an object of bargaining between Russia, on one side, and the EU/U.S., on the other. If Russia takes certain political and economic measures toward Belarus, the latter may become a westwards transit corridor that is loyal to Moscow. Belarus may thus become a western outpost for Russia's economic expansion to Poland and the Baltic States, as well as a model for energy integration in the post-Soviet space.
- Moldova is very likely to join the group of failed states, and turn into an object of "strife for heritage" between Romania and Ukraine.
- In spite of massive U.S. assistance and the EU's direct involvement, Transcaucasia will not become a safe and effective energy resource corridor connecting the Caspian region and Central Asia with Western consumers.
- The degradation of Kyrgyzstan and Tajikistan, in spite of the use of their territories as military-strategic springboards by Russia and the U.S., will enter its final phase.
- Kazakhstan will remain the formal leader in political transformations in the region. The country will continue with political modernization in order to consolidate state power by a selected political elite. However, Kazakhstan's development may be jeopardized by possible political destabilization in Uzbekistan.
- The current state authorities in Uzbekistan have very little political prospects. Its political leaders are unable to offer any options for the socio-economic and political strategy, while the country lacks financial resources to reduce social tension. Uzbekistan will be running an increased risk of political destabilization. This situation will bring about the inevitable Islamization of internal con-

flicts and mass migration from the country. Furthermore, such developments may trigger a destruction of state institutions in Kyrgyzstan and destabilization of the situation in Kazakhstan.

- In the coming decade, Turkmenistan will see a growth of crisis developments. The post-Niyazov regime will encounter an increased interference of external forces (China, the U.S. and Russia), as well as influence of the developments in the neighboring territories (Uzbekistan, Iran, Afghanistan).

Russia's Role in the Post-Soviet Space

In the period of 2007-2017, Russia's policy toward countries in the post-Soviet space will undergo fundamental and profound changes. These changes will be a response to the gradually decreasing significance of this region for Russia. They will cause the regionalization of Russia's policy, force its relations with individual neighboring countries to become very specific, and change Russia's priorities. To promote its interests, Russia will have to find a balance between the need to retain its influence on the political and economic situation in neighboring states, and resources for reacting to the objectives.

Sooner or later, probably during the coming decade, the Russian government will have to acknowledge that the post-Soviet space is no longer number one priority of Russian foreign policy.

Despite the general trend toward the diminishing role of the post-Soviet space in Russia's economy (with the exception of the energy sphere), there are some factors that make Russia's withdrawal from the region impossible and will continue to be relevant in the near future:

- The post-Soviet space will continue to be an arena of competition for energy resource deposits and supply routes, strategically advantageous territories and 'springboards', as well as marketable assets;
- The post-Soviet space will remain one of the few regions that continuously receives Russian investments.[1] In the foreseeable future, Russia will have to meet the challenges concerning the protection of its investments in the PSS economies; its competition with Western and Chinese capital for markets and marketable assets will grow;

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[1] Since 2000, Ukraine, Kazakhstan, Azerbaijan, Kyrgyzstan and some other PSS countries have received $45 billion worth of investment from Russia.

- Russian companies will face growing counteraction, while competition for PSS markets that are traditional for Russia's manufacturing industry and machine building will toughen. Already now there are no states left in the post-Soviet space where foreign trade is dominated by Russia;
- Russia's political and economic efforts with regard to the post-Soviet space will often meet with strong outside opposition. Thus, attempts may be made to involve Russia into bilateral and regional crises, similar to the Russian-Georgian crisis of 2006, and thereby limit its political and economic potential in the region.

During 2007-2017, Russia will retain some of its strategic advantages in the post-Soviet space:

- Russia is an important, although not the only, market for exports from the PSS countries;
- The Russian labor market gives millions of migrants from these countries an opportunity to earn a living, thus serving as a source of livelihood for their families in the country of residence;
- Russia's Armed Forces, which have retained and are continuing to bolster their combat and technological might, have no rival in the post-Soviet space. Although presently Russia cannot ensure security in the post-Soviet space on its own, the degree of its involvement in regional processes remains high and often decisive;
- Russia's international position, together with its permanent member status on the UN Security Council, denies other countries the ability to ignore the Russian leadership's views on any problems involving the post-Soviet space.

Russia has yet to solve the following general problems that are necessary to retain and broaden its political and economic influence in the post-Soviet space:

- Russia has so far failed to produce an attractive ideological, political and economic model that would allow it to counteract the absorption of the PSS's western parts into the zone of European border interests.
- The transformation and modernization of the Russian economy is still lagging behind the increasing competition on PSS markets.

- The need to look for answers to global challenges posed by the European Union, the U.S. and Asia-Pacific countries will force Russia to focus its policies on separate geopolitical directions and a narrow group of states, which have a key role in ensuring Russia's military, strategic, economic and political interests in Eurasia.

The changes taking place in the post-Soviet space demand that Russia devise – most rapidly – special strategies with regard to individual PSS regions and the countries these regions comprise.

- Any hope that Ukraine will become Russia's strategic ally in the foreseeable future is groundless. Actually, Ukraine is destined to participate in two geopolitical projects simultaneously: pro-Russian and anti-Russian. Russia will have to rely more and more on the standard format of international relations in its relationship with Ukraine.
- In the short-term perspective, there will be no political agreement to resolve the problem concerning the transit of Russian oil and gas across Ukraine. Under certain conditions, the EU may manage energy transit routes via Ukraine from Russia. Within a decade, Moscow will have to develop a program for eliminating the dependence of its hydrocarbon transits on Kiev and Minsk. This program may involve the construction of pipelines bypassing Ukraine and Belarus and plants to produce liquefied natural gas.
- By the end of the decade under review, if some internal and external political factors favorably coincide, a new national elite will surface in Ukraine that will be more open to agreement. This factor will help Russia to work out a stable strategy toward Ukraine.
- The Belarusian problem will move to the strategic level for Russia. The present intransigence of the Belarusian authorities to serve as reliable negotiators makes it impossible for Moscow to turn Belarus into a springboard into Central Europe. Belarus, which is now controlled by Alexander Lukashenko, will maneuver between the EU and Moscow and continue to exist as a closed political system and inefficient model of administrative economy. Unless Russia works out a prudent strategy toward Minsk, Belarus may replicate – with a pause of five to six years – Ukraine's past experience.
- In Transcaucasia, Russia will be compelled to focus most intensively on Azerbaijan, which borders the potentially unstable region of the Broader Middle East. The situation concerning Iran is par-

ticularly explosive. This factor will force Baku to seek some sort of balance in its relations with Moscow and Washington.

- The ruling circles of Kazakhstan and Central Asia have chosen to orient themselves with the EurAsEC and the Shanghai Cooperation Organization as their main geopolitical partners. This factor inspires hope that during the period under review Russia will not see mass efforts to oust it from the region.
- Kazakhstan's capital, Astana, may emerge as a new regional center of political influence. Moscow will have to devise a formula of support to secular regimes to the south of Kazakhstan, and be ready to provide it with security guarantees in case of destabilization in regions bordering with Kazakhstan in the south.
- Russia, which has military bases of its own in Tajikistan and Kyrgyzstan, will continue to be a major factor in ensuring the security of Central Asia. However, this does not rule out the potential for occasional problems with the governments of these states over the presence of Russian troops on their territories.
- During the next decade, Russian and Kazakh companies will inevitably compete between themselves over the transportation of Central Asian energy resources to the global markets. At the same time, they may set up joint ventures.
- Should a chain reaction of nuclear proliferation start in countries of the Broader Middle East, Russia, alone or together with other nuclear powers, may have to address the problem of granting nuclear guarantees to the countries of Central Asia and Kazakhstan.
- Russia's geopolitical competitors will most probably step up their efforts to impose on Moscow the role of an exclusively regional power that is confined to the boundaries of the post-Soviet space. Russia must prevent such developments, while not overinvesting in the areas where these investments yield very low political or economic benefits.

Conclusion

As a subject for general analysis, the former Soviet Union is an outgoing reality. This family of countries, united by a common historical legacy, economic ties and political system, rather suddenly ceased to exist as one separate entity. Today, these separate states are developing their own economic ties and building their own systems of tactical or long-term alliances on the international arena. The newly independent nations are already actors within their geopolitical and geo-economic regions, far removed from the days of the Soviet Union.

The destiny of the majority of these countries is in the hands of global players. Meanwhile, the issue of whether or not many of these post-Soviet territories are capable of becoming bona-fide, sovereign nation-states remains an open question. However, the ruling elites have already learned to use the former center of the Soviet Union – the Russia factor – as a tool in their own struggle for survival and to provide for their material resources. Yet, the results of this struggle depend on the situation in the field of global politics and economics, primarily in the sphere of energy.

With the "self-determination" of an increasing number of these countries, the family of the post-Soviet states is disappearing as an integral object of Russia's policy. This does not mean, however, a voluntary "withdrawal" on Russia's part; such a move would be impossible given Russia's national security interests. Furthermore, Moscow's cooperation with the majority of the post-Soviet countries is vital for meeting Russia's economic interests and earning income for the federal budget – especially as the competition with other interested players is growing. Cultural ties with former Soviet republics remain strong, yet over time they will weaken.

At the same time, Moscow no longer views the former Soviet republics as an indisputable priority with which it should maintain special relationships, including through the concealed subsidization of their economies. In its relations with these countries, Russia is trying to switch to a more traditional model of interstate relations that relies on a carrot and stick policy. At the same time, Moscow needs to reorient its foreign-policy priorities to other countries and regions of the world.

In general, the territories bordering Russia are becoming the arena for an increasingly active game involving various forces. In responding to the new realities, Russia must understand that a transition from the multilateral diplomacy of the past to effective bilateral relations of tomorrow will involve growing costs. Therefore, within the next decade, Moscow will have to find a way to minimize these costs and devise an integral strategy for achieving its goals.

5 The Middle East: Threats and Potentialities

Introduction

The Middle East region is traditionally viewed as a major energy "storehouse," yet its significance for global political stability goes beyond the energy interests of industrialized nations. The Middle East also attracts international attention because it is a source of numerous threats, such as the export of Islamic fundamentalism and terrorism, drug trafficking, and possible WMD proliferation. Some Middle East states are now in a stage of disintegration (for example, Iraq and Afghanistan), or are close to serious civil conflicts (Pakistan, Lebanon). Even in countries with a relatively stable political situation, there are emerging ethnic and sectarian conflicts, which may result in devastating social upheavals (Syria and, with some reservations, Iran).

For Russia, the political situation in the Middle East, in addition to the increased demand for energy resources in the United States, India and China, is the key factor influencing oil prices. The present boom on the oil market began in 2000 following former Israeli Prime Minister Ariel Sharon's visit to the Temple Mountain, which sparked the second intifada in Palestine. In 2003, oil prices soared even higher following the beginning of the U.S. military operation in Iraq.

In the early 2000s, Russia stepped up its Middle East policy. Moscow tried to reanimate its role in the Arab-Israeli settlement and uphold its national interests in Iraq and Iran. However, the initiatives of the Russian leadership were not systemic, and Moscow lacked a full-fledged Middle East strategy.

Russia's inadequate attention to Middle East problems may result in serious political and economic losses by 2017. Moscow may finally be

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denied access to promising energy markets and a lucrative opportunity to participate in the division of the "Iraqi heritage,"[1] not to mention the possibility to counter threats that originate from the region and enter its southern borders.

Regional Situation

The present situation in the Middle East remains highly tense. The region is torn apart by conflicts, namely the Arab-Israeli confrontation, the wars in Iraq and Afghanistan, and the Kurdish issue. At the same time, there are several potential conflict zones on the subcontinent, where acute political crises may erupt at any moment. These include, above all, Pakistan, where the ethnic and religious balance is so fragile that the situation in the country is maintained exclusively due to President Pervez Musharraf's deft ability to maneuver between the main political forces. There are also bitter political conflicts in Iran (Arab protests in Khuzestan in 2005, Azerbaijani protests in 2006, and instability in the Iranian part of Kurdistan, Sistan and Baluchistan), Saudi Arabia, Lebanon, and Turkey. In the long term, the situation in those countries may seriously deteriorate and even descend into civil war.

The following factors play a large role in the Middle East.

The social and economic crisis. The majority of the countries of the region are experiencing serious difficulties, while some have actually ceased to exist as a single entity (Iraq and Afghanistan). Iran is the only country to display real economic development. At the same time, Tehran is facing numerous internal political problems that incompetent governance or external influence may turn into social upheavals.

The crisis has deep social, economic and religious roots that cannot be overcome in the near future. The underdevelopment of much of the Middle East is due to its colonial past; the elite's oil addiction, which brings in super profits; and some cultural peculiarities.

Another symptom of crisis is the rather intense disunity within the Islamic world, which is divided along religious (Sunnis and Shiites), ethnic (Persians and Arabs), and political lines (some Arab countries have

[1] According to most estimates, the U.S. will withdraw from Iraq within the next 2 to 4 years (it may leave a small force in Kurdistan in the north of the country).

concluded a peace treaty with Israel, while others refuse to recognize the Jewish state in principle).

U.S. foreign policy. Following the rise to power of the neoconservative administration of U.S. President George W. Bush in Washington, the situation on the subcontinent dramatically deteriorated. Washington opted to use force to deliver democracy to local regimes in order to meet its long-term strategic interests. These interests included gaining control over the region's energy potential and stabilizing the situation in the region; impeding China's access to local resources from the Middle East.

On September 11, 2001, the U.S. was handed a "moral mandate" for military actions on the subcontinent. Later, the White House announced plans (worked out by the previous administration as well) to modernize the Broader Middle East by spreading democracy and liberal values. But now it has become increasingly obvious that American policy in the Middle East has discredited itself and proved counterproductive, and that Washington has suffered a strategic defeat there.

Islamic radicalism. The present growth of popularity of Islamic ideas is the result of a systemic social, economic and political crisis. Furthermore, religion serves for the local population as spiritual opposition to the authorities or "colonizers" (real or imaginary) in their shadows. America's active policy of "democratizing" the Broader Middle East forces the local central authorities (e.g. in Palestine, Lebanon and Iraq) to merge with extremist organizations. The latter are thus legitimatized and become part of official resistance to "Christian-Judaic expansion." Washington's opponents in the region (Iran, Syria) use the activities of the Islamic radicals to their own interests. Saudi Arabia also actively supports radical Islamic organizations and, according to some sources, is now the main sponsor of the Islamists.

The region is being swept by a kind of **'Weimar syndrome'** – the feeling that it has suffered a defeat at the hands of civilizations that better adapt to competition in the new globalizing world, and that the policy of the outside world, especially the West, is unjust. The local elites that do not want to launch systemic reforms play on these feelings. Thus, this syndrome is gradually becoming aggressive. Hence, the furious and coordinated response in the Islamic world concerning cartoons in European newspapers depicting the Prophet Mohammed, or misinterpreted quotations of Pope Benedict XVI. Meanwhile, the anti-Judaic and anti-Christian propaganda in the Islamic world is on the rise and is almost universal.

The aggressive behavior of the U.S. combined with the **appeasement policy of the Western world** is the worst of policies, which may bring about a 'war of civilizations' as early as the next decade.

China's influence. The growth of the Chinese economy has boosted Beijing's demand for energy which it seeks to meet by broadening its presence in the fuel/energy sectors of Middle East and Central Asian economies. China pays particular attention to Iran, while Teheran views China as a counterbalance to the U.S. The American-Chinese standoff will have an increasing influence on developments in the Middle East.

The rising prestige of military men with nationalistic leanings, who may successfully compete with Islamists in the struggle for power in some countries. The military enjoy strong positions in Turkey, Iran, Syria and Pakistan, where they have representatives in the supreme bodies of power. The rivalry between Islamists and militarists is particularly acute in Turkey, where moderate Islamists have made the generals yield some of their leading positions. Now, however, the process is beginning to reverse, and the military seem about to take their revenge. Actually, the military in these countries could become U.S. allies in the struggle for "democracy." However, Washington at present displays no interest in strengthening relations with such groups. This is what it opted for in Iraq, where the U.S. launched a policy of full "de-Baathization" of the country, which caused the military to join different political camps. Later, the Americans made an attempt to correct this mistake, but the country was already swept by religious and civil wars.

The present situation in the Middle East is characterized by the prevalence of destabilizing factors over stabilizing ones. By 2017, these processes may increase or, at least, remain very active because the region will remain a stage of struggle between developed countries for domination over hydrocarbon reserves, and between regional countries for leadership on the subcontinent. Also, the social and economic degradation of a majority of the states in the region will persist.

The political landscape of the region will largely be determined by the Arab-Israeli conflict. Most likely, the crisis will not be settled before 2017 – unless the great powers form a pool to impose peace, but chances for that are small. Israel is rapidly losing support in Europe. More and more Europeans perceive it as an aggressive state and a major threat to stability in the Middle East. In the eyes of the

Europeans, Israel is losing its legitimacy based on the Holocaust. The change in the attitude to Israel may be due to the increased inflow of immigrants from Arab and other Moslem countries into the West.

Another distinctive feature of the situation in the Middle East is the military and political weakness of regional countries. The only country to possess a strong and effective army is Israel. Its possible rivals are Iran and Turkey. There are no military-political unions in the region, except for the Washington–Tel Aviv–Ankara axis, however, this union has been hit by increasing internal conflicts (Turkey now actively cooperates with Iran, the main adversary of the U.S. and Israel in the region).

There is no single nation in the region or state that would have a real ability to become a leader. Three countries now lay claims to leadership in the Arab world – Saudi Arabia, Egypt and Syria; however, none of them have been able to achieve a deciding influence in the League of Arab States. From a political and military point of view, Iran is the strongest state in the region, but due to its religious and ethnic peculiarities, it cannot be considered a real leader. The majority of the local political elites – especially in the Arab countries – perceive the achievements of Persian Iran and its regional allies with mistrust or even open hostility. Indicative in this respect was the situation in the Arab world during the war in Lebanon in July-August 2006. Actually, none of the leading Arab nations, except Syria, supported the Lebanese Shiites, while Riyadh said that war was launched due to "irresponsible elements" in Lebanon. This "all-against-all" rivalry disrupts the effective operation of the majority of regional international organizations, e.g., the Arab League and the Cooperation Council for the Arab States of the Persian Gulf.

The economic potential of the Middle East depends on oil, and this dependence will continue for as long as the West remains interested in energy supplies from the region. Against this background, the relative economic backwardness of the majority of the Middle East states continues to grow. Of the countries in the region, only Israel (with U.S. support) and Iran seek to develop high-tech industries of their own. All the other states have focused on the fuel/energy sector and the travel industry. The educational system is underdeveloped as well, which predetermines the region's increasing lag behind developed countries in the West, in East and South Asia, and even Latin America.

Possible Developments by 2017

The bankruptcy of the White House's Middle East strategy is becoming more and more obvious. A new U.S. presidential administration, which will come to power in 2008, is expected to return to shuttle diplomacy and renounce the use of military force in the Middle East. At the same time, one cannot rule out individual attempts to use force (for example, the bombing of Iran). Yet the probability of such attempts will decrease over time. The U.S. is entering a period that could be best described as 'post-Iraq syndrome,' which may tempt it to flex its muscles once again in order to refute the belief, growing widespread in the Middle East and elsewhere, that the fiasco in Iraq has turned the United States into a "paper tiger."

Destabilization processes will prevail in the Middle East during the next decade, as radical Islamic parties and movements begin to grow ever more popular. The military will gain significant political weight and in the future may become a counterweight to religious radicals in some countries. At the same time, many of the circumstances in the region will depend on external factors, namely on the policies that the U.S., China, the EU and Russia will conduct there. In particular, the majority of regional conflicts will be linked one way or another with the interests of the leading world powers seeking control over the Middle East's resource potential.

At the same time, some countries in the region by 2017 will most likely cease to exist as independent political entities. These include Iraq and Afghanistan, in which neither the U.S., nor the United Nations nor NATO will be able to improve the situation in the medium term. At present, the only stabilizing factor in these countries is the presence of a large foreign army on their territories. Increased resistance of local radicals may force the U.S. and its allies to leave Iraq in the next few years. By 2017, the same scenario is likely for Afghanistan where full-scale civil wars seem inevitable. The most probable outcome of the war in Iraq will be its division into the Kurdish North, the Shia South, and the Sunni Center. Afghanistan will break up into several quasi-states – a Pushtu state with a conservative Sunni regime, a Tajik-Uzbek state patronized by the United States and NATO, and, possibly, a Hazara-Shia state influenced by Iran.

The possible breakup of Iraq increases the probability of the emergence in its northern provinces of an independent Kurdish state with its capital either in Erbil or Suleimaniya. It is not ruled out that the Kurds will establish control over the Kirkuk oil field and the city of Mosul. Most likely, shortly after its formation the Kurdish state will find itself under partial U.S. control.

It must be emphasized that the creation of a Kurdish state on the territory of present-day Iraq will not fully solve the Kurdish problem in the whole of the Middle East region (in particular, this state will not be able to give citizenship to all those who so desire). Therefore, Kurds in Turkey, Syria and Iran, inspired by the example of the Iraqi Kurds, may step up their separatist activities.

The situation in other zones of the subcontinent may develop according to various scenarios, depending on the internal policies of Middle East regimes and the policies of major world powers in the region.

The Arab-Israeli conflict. The situation will develop according to the position of the U.S. leadership. The White House will most likely stop imposing "democratic structures" on the Arabs and will resort to shuttle diplomacy. By 2017, it may achieve a certain degree of success in its Arab-Israeli policy, but before that happens, it will have to clean up the mess made by the Bush administration in the region, as well as improve the Arab world's attitude to it. Finally, Washington will have to give up its role as the Middle East region's "boss" and actively involve the UN, the EU and, most probably, Russia in the process of stabilizing the situation there.

If the U.S. reduces its pressure on Syria and Palestine and involves a moderate part of the Hamas leadership in the peace process, the Arab-Israeli dialog could resume. The negotiating process will enable Washington to transform Hamas by the beginning of the next decade into a kind of Fatah of the mid-1980s when this organization, led by Yasser Arafat, gave up terrorist activity. Of course, such developments will not completely remove the terrorist threat, because the problems of East Jerusalem and the return of refugees will hardly be solved even by 2017; however, the threat may be reduced. The aforesaid suggests that during the next ten years Palestine will not achieve state sovereignty. In those conditions, the more radical part of Hamas members may leave the organization, causing its split.

In Israel, the resumption of peace talks will strengthen the positions of moderate parties (Avoda, Meretz, etc.) and increase conciliatory sentiments among the youth. Simultaneously, certain destructive tendencies will begin to take root in the country. For example, a confrontation may begin between moderate public forces and conservatives. The moderates will increase their demands that religion receive less significance in public life, which will spark yet another social conflict. Thus, the reduction of the Arab threat will have a negative impact on the political situation in Israel. However, this will not result in a breakup or downfall of the Jewish state; it may face strong social upheavals, but these will not affect its territorial integrity. Threats to Israel's existence will persist and even increase, but this will happen beyond 2017.

If pressure on Syria subsides, its president, Bashar al-Assad, will receive additional opportunities for conducting market reforms and consolidating the positions of technocrats to the detriment of nationalists and the military. This will open the way for resuming peace talks between Syria and Israel for resolving the problem of the Golan Heights. If political events in Syria develop in such a way, one should not rule out the possibility of a coup d'etat or assassination of moderate leaders by Islamists (as once happened in Egypt). Syria will then be swept by a power struggle. Someone from the top leadership of the Baath party – most likely, a military man – will replace Assad.

In the period until 2017, the conflict between Iran and the U.S. is likely to continue to smolder. It is doubtful that Washington will dare launch a full-scale military operation to replace the regime in Teheran, especially amidst civil wars in Iraq and Afghanistan. At the same time, the White House will not tolerate Iran's strengthening positions on the global scale, so the Cold War between the two countries will likely continue. The main tactics of the U.S. in such a conflict will be to penetrate Iran economically and culturally, thus collapsing the clerical regime from the inside. In order to withstand the onslaught of "Western culture," the Shia clergy will have to either cling to traditional Islamic values or reform the country "from above." The latter option seems to be the most productive, and the new generation of Iranian politicians, which will come to power in Iran in the next decade, will most likely follow this path. Obviously, the majority of authoritative ayatollahs will quit the political stage by 2017, which will seriously undermine the clerical regime and aggravate the rivalry between the main groups in the ruling clique (conservatives, reformers and pragmatists).

The aforementioned scenarios suggest that by 2017 the clerical regime in Iran will lose many of its positions and, therefore, its monopoly on power. The role of secular politicians – enjoying support in business, the Islamic Revolutionary Guards Corps, and the Basij (an Iranian paramilitary force) – will grow. The President of the Islamic Republic, Mahmoud Ahmadinejad, is the most notable representative of this political type. In the next few years, he may separate himself from the weakening ayatollahs and become an independent and popular political figure.

Iran's future depends on the success of reforms. On the one hand, Teheran displays steady economic growth and has managed to handle a demographic crisis; on the other, it has failed to solve serious ethnic and social problems. In these conditions, rash actions by the Iranian leadership may provoke a serious political crisis in the country, which will weaken its positions in the region. The ethnic problem is particularly acute in Iran. For example, disturbances in the largely Arab-populated province of Khuzestan may inflict serious damage on the Iranian economy as this province boasts the bulk of Iran's hydrocarbon resources. A political crisis in Iran would turn this country into an arena of struggle between the U.S. and China – and possibly a veritable colony.

At the same time, capable governance would propel Iran into leading positions on the subcontinent; the Iranian influence will be particularly strong in Central Asia and the Caspian region. Also, Teheran stands to gain almost complete control over the Shia areas of Iraq and, possibly, the Hazara areas of Afghanistan.

Iran's position in the Arab-Israeli peace settlement will directly depend on Washington's Middle East policy. If the U.S. eases its pressure on Teheran, the latter will most likely reduce its support for Lebanese and Palestinian radicals, which will alleviate tensions between Israel and its nearest neighbors.

During the next ten years, serious political upheavals will occur in Lebanon, which will remain a hotbed of competition between the U.S. and Iran for regional influence. Teheran will support radical Shia organizations, while Washington will stand behind the "liberals" from among the followers of the late Prime Minister Rafiq Hariri. Considering that the Shia-Maronite alliance in Lebanon is rather fragile, Hezbollah and Amal may soon find themselves in the political minority. This will cause Shiites to isolate themselves and establish a kind of a state of their own in the south of the country. In the next ten years, Lebanon will face a very acute problem in the form of Palestinian refugees who are explosive socially and practically uncontrollable. If political conflicts in Lebanon grow, Palestinians' actions may bring about a new civil war in the country.

By the year 2017, the political status of Riyadh is likely to change. On the one hand, Saudi Arabia will still be a leading oil-extracting power. On the other hand, the political situation in the country may seriously deteriorate with the aggravation of the struggle for the throne. King Abdullah is now over 80 years old and he will not remain in power for long. Moreover, he was a half-brother of the late King Fahd and has had to challenge the royal family's Sudairi faction, which comprises the late king's full brothers. Presently, Abdullah is holding tight the reins of government. However, after he leaves the political stage, the situation may sharply deteriorate, especially considering that the sitting king has no successor since he does not have full brothers.

American efforts to "modernize" the political system of Saudi Arabia will not bring any appreciable results. Saudi society will remain conservative, and the religious factor will continue to play a big role in its life. Therefore, certain influential circles of the local elite will continue to provide support for Islamic organizations operating on the subcontinent and in other regions of the world.

The regional status of Egypt will not change. Cairo will seek the role of a leader in the Arab world, but it will not be able to compete with Saudi Arabia and Iran for leadership. Most likely, the situation in the country will degrade toward destabilization and the strengthening of radical Islamic elements.

Consolidation of Teheran's positions in the region will exacerbate contradictions between Iran and the leading Arab countries.

The main areas of the Iranian-Arab confrontation will be:

- struggle for influence in Iraq and Afghanistan. Iran will seek to establish control over breakaway Shia areas in these countries, while Arabs will make every effort to provoke instability in the region in order to prevent consolidation of political positions of the Shia community as a whole;
- in the realm of energy, Arab countries will seek to oust Iran from global energy markets in order to deprive it of financial levers that it could otherwise use to influence the situation in the region.

During the next decade, Pakistan will pose the main threat to regional and international stability. As in Afghanistan, the positions of Islamists in Pakistan are extremely strong, yet their influence is somewhat counterbalanced by the military that is now in power. Today, Islamists (Taliban and al-Qaeda) are based in the North and South Waziristan areas, which are not actually controlled by Islamabad.

Presently, Pakistan's fragile ethnic and religious balance is maintained by President Musharraf's flexible policy. However, if he unexpectedly leaves the political stage (for example, as a result of a successful assassination attempt), the country will be hit by serious upheavals. The most realistic scenario of developments in Pakistan by 2017 is a new coup d'etat (and perhaps more than one), a final loss by Islamabad of control over Waziristan, and a new round of tensions in relations with India (most likely, New Delhi will increase its support for separatists in Baluchistan). To some extent, Pakistan's political tensions will be fueled by Washington, which is dissatisfied with Musharraf's pace of developing democratic institutions in the country. Washington may therefore increase its support for the Pakistani opposition (especially secular Bhutto and Sharif).

The abovementioned political processes will lead to the emergence of a 100-percent Islamist-controlled quasi-state on the territory of North and South Waziristan and Afghanistan. It will conduct an aggressive foreign policy, which will seriously aggravate tensions on the Iranian border, as well as in Central Asia. This region will become the main target of the export of an Islamic revolution. In view of this, one should expect a further growth of influence of such organizations as the Islamic Movement of Turkestan (previously known as the Islamic Movement of Uzbekistan), Hizb ut-Tahrir, Akromiya, etc., which are stepping up their struggle against secular Central Asian regimes. It is not ruled out that Islamists' oppositional activity will receive strong public support in Central Asian states, where the population views Islamists as a real alternative to corrupt and inefficient local administrations.

A possible political crisis in Pakistan may result in Islamists taking hold of nuclear technologies. As far as it is known, the U.S. has no serious plans to seize control of Pakistan's nuclear arsenal in case of the country's disintegration or the coming to power of radical Islamists. In such a scenario, the global terrorist danger will multiply. Islamic radicals will hardly be able to develop a full-scale nuclear weapon, yet they may have enough knowledge to create a so-called "dirty bomb" for a large-scale terrorist act in some Western megalopolis. They may also seize nuclear weapons proper. In that situation, the possibility will be very high that nuclear weapons will be used by terrorists, or external powers (the U.S., India and perhaps others) that may attempt to destroy the nuclear potential of Pakistan with preemptive strikes.

Although the positions of radical Islamism on the subcontinent will considerably strengthen by 2017, no "Caliphate" will be established in the Middle East. Rather, the Muslim world will become increasingly disunited; contradictions between Sunnis, Shiites and representatives of other Islamic faiths (Druze, Alawites, Wahhabis, Sufis, etc.) will grow; and violence and terrorism will increase both inside the region and in adjacent areas, including in Russia. The terrorist threat stemming from the region may grow even after the U.S. withdraws from Iraq, where the forces of the "Terrorist International" are now concentrated and continue to multiply.

The role of the European Union in the Middle East will grow very little by 2017. Most likely, the EU will continue playing the role of financial donor, unable to challenge the U.S. monopoly on decision-making on key political issues. Of all European countries, France will conduct the most active foreign policy in the Middle East, as it has serious financial and economic interests in the region. Traditionally, Paris will focus its policy on Lebanon, Syria, and Iran. Russia may also step up its activity in the region, which would be a very desirable development.

If denied participation in the division of the "Iraqi heritage" and access to the region's oil-and-gas sector for Russian companies, Russia would hardly retain the role of a major energy power, on which its geopolitical influence is largely based. Finally, Russia may face a new wave of Islamic terrorism, which is more desirable to counter at distant outposts than on one's own territory.

By 2017, India will play a much greater role in the Middle East. Like China, it will show increased interest in the region's energy resources. Most likely, New Delhi will continue lobbying for Iranian gas supplies to India. However, all projects for laying pipelines from the Middle East into India may fail due to a possible aggravation of the situation in Pakistan.

Economically, the position of the Middle East countries will change little by 2017. They will remain a raw-material appendage of the world's leading powers, which will further preserve the semi-feudal state systems there.

Iran is the only country that has a chance to break its economic dependence on energy supplies to the West and the Far East, as it seeks to develop high-tech industries. However, its future directly depends upon the policy initiative that its leadership will choose.

There is a high probability that by 2017 Iran will acquire nuclear status, and a military attack by the U.S. or Israel would only postpone this event for several years. At the same time, this attack would spark a fierce reaction in the world and consolidate Iranian society around more radical elements. There is still hope that some Big Deal is possible, but it seems that too much time has already been lost.[2]

If Teheran obtains nuclear weapons, or is only close to that ambition, it is highly probable that such a development would trigger a nuclear arms race in the region by the end of the decade. This race will most likely involve Saudi Arabia, Egypt and Turkey. A fundamentally new strategic situation will emerge in the world then (in addition to the probable proliferation of nuclear weapons in East Asia). Russia will be challenged to revise its military doctrine in regard to the employment of nuclear weapons. Perhaps, it will have to deploy a regional antimissile defense system (formerly known as Theater Missile Defense).

Russia Factor

As China increases its influence in the Middle East, the latter's interest in Russia will markedly decrease. Also, if the United States eases its pressure on Iran and amends its regional strategy, American and European energy concerns will increase their activity in the Middle East. This may cause them to block Russian company contracts for the development of Iranian oil and gas fields.

At the same time, as the influence of radical Islam broadens in the region, Russia will be of interest for the governments of a majority of the Middle East states as a partner in the counterterrorism struggle.

It is not ruled out that by 2017 Russia and Israel, which is one of the main targets of radical Islamic forces, will establish closer contacts in countering the terrorist threat.

The interest in Russia as an arms supplier to the region will remain rather high. However, by 2017 Moscow will hardly establish itself as a leader in arms supplies and offer serious competition to the United States here. Russia's participation in arms trade with Middle East countries will largely depend on the positions of Washington and Tel Aviv, which may impose sanctions on some Russian enterprises if their products fall into the hands of Islamic radicals.

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[2] The Big Deal implies Iran's decision to renounce the development of nuclear weapons. However, this would be done in exchange for the West's decision to lift sanctions against Teheran, give up the idea to replace the regime in Iran, and grant Teheran the status of a respected leader of the international community.

By 2017, Russia's interest as a partner in the knowledge economy will gradually decrease. Much will depend here on the domestic policy of Russia itself and on its ability to revive scientific research.

Quite possibly, several Middle East states will show interest in cooperation with Russian oil and gas companies. However, this interest will be selective, as by 2017 the leading role on the Middle East hydrocarbon market will most likely belong to Western concerns.

Conclusion

The next ten years will see growing competition between Russia, which seeks to become a global energy player, and oil-extracting Gulf monarchies from among OPEC members.

Considering the interest of Europe in breaking Russia's monopoly on oil and gas supplies to the Old World, in the next ten years it will step up contacts with Middle East countries. The EU and oil-extracting monarchies will start devising routes for hydrocarbon supplies to Europe that bypass Russia. Also, if the international community eases its pressure on Iran, the latter may revise its foreign policy and join some of these projects (for example, in the gas sector).

The Middle East may pose yet another serious threat to Russia, and that is the proliferation of radical Islam to Russian regions with a largely Muslim population. In the coming decade, increased support for Muslims in Russia can provoke a new round of tensions in the North Caucasus. Also, Islamists may include Russia in their list of enemies, possibly attacking it with nuclear weapons.

The drug-trafficking problem will continue to be acute. Paradoxically, if Afghanistan comes under the control of radical Islamic elements, the drug threat may decrease. Compared with the present situation, there was far less opium poppy production in Taliban-ruled Afghanistan.

In the present-day conditions, it is vital for Russia to devise a long-term foreign-policy strategy that would enable it during the next ten years to reduce to the minimum some of the major challenges coming from the Middle East.

This strategy should provide for developing cooperation with China on Middle East issues, and reanimating old ties established with the region during the Soviet Union period. Meanwhile, it would be expedient for

Russia to support those Washington's initiatives on the Middle East that would not be in conflict with its national interests. But most importantly, Russia must sharply increase its efforts to enter the Middle East energy markets. Without this step, its role as a great energy power will dramatically decrease in the coming decade.

6 Latin America on the Eve of Change

Introduction

The Latin American region, which during the Cold War was a major arena of confrontation between the Soviet Union and the United States, after the collapse of the bipolar system proved to be in the periphery of Russia's foreign policy. In a majority of Latin American countries that had formerly stuck to the socialist model of development, democratic elections brought to power liberal political forces. In other states, Washington-sponsored dictatorial regimes voluntarily or almost voluntarily gave up power. As a result, an absolute majority of Latin American countries started building liberal market economies. However, negative social consequences of those efforts have introduced a new wave of leftist movements in the first decade of the new century.

Today, Latin America is going through a period of dramatic change. On the one hand, this is conditioned by a departure from previous standards of economic policies and conduct in the international area, on the other, by a redistribution of external influences that broadens the field for maneuvers and alternative decisions. This new situation, however controversial its aftermath might be, furnishes Russia with a good opportunity to consolidate its positions in the Latin American sector of its policies.

In the next 10 years, Russia's cooperation with countries to the south of the U.S. will hinge on a set of factors:

- a stage-by-stage transition of a group of countries – primarily, the region's leaders like Brazil, Mexico, Argentina, Chile and some others – from the shadows of the world economy and politics;

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- a focus on the diversification of Russia's political and economic relations abroad, as well as the maturing interest of Russian corporations in investing abroad, specifically in Latin America;
- an objective similarity of positions maintained by Russia and the Latin American countries on key issues of global development;
- Latin American countries' interest in getting access to the Russian market, combined with Russia's growing role on the international scene as an alternative center of power and influence;
- opportunities to refine Russian exports to Latin America, on the one hand, and opportunities to win Latin American countries over to Russia's side in the international arena, on the other.

General Situation

Latin America, a region boasting an impressive yet largely untapped resource potential, has traditionally stayed on the periphery of global politics and economy, mostly being in the zone of predominant influence of the U.S. In the middle of the 20th century, it was entangled in a rivalry between the two superpowers. One of Latin America's tiny countries, Cuba, fell into the spotlight of that rivalry and for decades was the stumbling block in Soviet-American relations.

Although ideological, political, defense and strategic considerations set the tune of the Soviet Union's relations with regional countries, Cuba was not the only one to enjoy a large volume of trade with the USSR. Trade with Argentina, for example, amounted to $3 billion in the peak year of 1981; this was another important partner and an alternative source of grain for the Soviet Union. Other important Latin American trading countries were Brazil ($835 million in the peak year of 1983), Peru, Chile before General Pinochet's coup in 1973, and Nicaragua after the Sandinista revolution. Soviet exports largely included machinery and equipment (in the 1980s, equipment accounted for over 80% of Soviet exports to Argentina). Soviet organizations built or supplied important infrastructures and industrial facilities to Cuba and other countries of the region. Even now, 25% of electricity in Argentina is generated on Soviet equipment. A large number of specialists in Cuba, Peru, Ecuador, Bolivia and Nicaragua received their education at Soviet colleges and universities.

The left-wing political sector was enfeebled in the 1990s, after the Soviet Union had bowed out of the world scene. Simultaneously, the upsetting of the international balance of forces narrowed the corridor in which regional countries could do political maneuvering.

It was in this environment that a wave of democratization, stimulated from the centers of global policy, swept the region. Neo-conservative and neo-liberal forces made a strident advance into the region, but the results of their experiments only dissatisfied the majority of the population. Although the tide of neo-liberalism brought about macroeconomic stability and slightly reanimated economic growth, it took a turn for the worst in the second half of the 1990s. The economic security of the Latin American countries was undermined and vulnerability to external critical shocks grew. Wealth inequality became aggravated; the middle class began withering, while the low-income classes were marginalized. Neo-liberal experiments solved the task of adapting to globalization, but far too selectively.

Political Situation

These conditions naturally affected people's electoral moods, opening up a constitutional access to power for alternative leaders and forces. A change in the political course occurred in one country after another, beginning with Venezuela in 1999 and then Brazil and Argentina in 2002, Bolivia and Uruguay in 2005, and then finally Ecuador and Nicaragua in 2006. In other cases, as in Peru and Mexico in 2006, the left of the political spectrum did not win but gathered under its banners almost half of the electorate. A weighty confirmation to this tendency was offered by the October 2006 election in Brazil when President Lula da Silva extended his mandate by a large margin of votes. All this gives grounds to claim that Latin American policy is drifting to the left and that the region's soil is fertile for the reproduction of a left-wing political culture. The peculiarity of today's situation consists in a marked "renaissance of the Indian element." This extends from the growing self-consciousness of the Indian masses that thrust themselves into the political life of countries that have a large proportion of autochthonous peoples.

The 'leftward drift' does not have a common denominator and its materialization varies from the radical leftist version in Venezuela to the socially oriented centrist one in Chile.

This drift is progressing against the backdrop of the Latin American countries' reanimation in foreign policy after a lull that continued throughout the 1990s. The U.S. is now paying the price of its inattentiveness to the region in the previous decade. In contrast, the European Union is increasing its presence in the region and the tendency is likely to continue unabated for another four to seven years.

On other fronts, an axis of cooperation embodied in the Iberoamerican Community is acquiring a new role. Another novel factor is the region's turn toward Asia-Pacific and, most importantly, China's breakthrough into Latin American markets.

Prospects for the Region

Given the transitional phase of the situation in the region, making forecasts on the economy is problematic due to a high degree of uncertainty. However, the period up to 2017 will quite possibly have the following specific features:

- The region will maintain its share of 7 to 8 percent in the global GDP and 8 to 9 percent in global population;
- Economic differentiation of regional countries will continue, with Brazil, Mexico, Chile and Argentina building up their potential and moving much ahead of the other countries. As for Venezuela, its new role will, quite naturally, be contingent on the development of the oil markets;
- Technological renovation and elements of the 'knowledge economy' will experience growth or develop patchily and will mostly exert an effect on Brazil, Mexico, Chile, and Argentina;
- Neo-Keynesian tendencies will dominate in economic policies and a number of regional countries will be able to make steps toward bridging the income gap between different sections of the population;
- Brazil will reaffirm its status of a rising giant and will develop a greater interest in forming its own zone of influence in South America.

Internal Political Situation

The life cycle of the leftward political drift will possibly experience a regression in some cases and continuation in others. Its eventual duration will depend to a greater degree on performance parameters in

Brazil rather than in Venezuela. The greatest degree of instability is expected to occur in the Andes (Bolivia, Peru, Ecuador, and Colombia), with the Southern Cone countries experiencing the least disturbances.

The traditional democratic system will be maintained although it will see some amendments of an authoritarian nature, especially in situations where the tasks of redistribution must be fulfilled.

Changes will occur in Cuba in the coming decade. Most probably, Cuba will gradually shift toward the Vietnamese model. Evidence of this is found in the fact that Havana has recently received tangible support in the region as the latter has drifted leftwards. Much moral, political and economic support has come from Venezuela.

Colombia has little chances of overcoming its persistent internal conflict, but if outside conditions (including foreign aid) are favorable, this conflict may lose its intensity. On the other hand, a radicalization of the Venezuelan government may deteriorate Venezuelan-Colombian relations, thus creating a new hotbed of tensions.

International Relations

A major geopolitical game unfolded around Latin America in the 1990s and became a contest for influence between the U.S. and EU. This competition will continue in 2007 through to 2017. Meanwhile, a new player, China, will join the regular competitors. Brazil's role as a regional center of power will continue growing, especially by the end of the forecast period.

Correspondingly, there are grounds to expect a relative lessening of U.S. influence, a sizable increase of the Chinese factor and a certain intensification of the European presence (most importantly, Spain).

A tendency toward the resumption of cooperation in the South-to-South format will become more pronounced, by all evidence, and will be implemented through expansion of trade and economic relations. A number of regional states (most importantly, Brazil) will show considerable interest toward rising giants in other parts of the globe (China, Russia and India).

A reconfiguring of integration blocs inside the region, and the controversies that surfaced during lengthy talks on the establishment of the Free Trade Area of the Americas, do not make it possible to predict any results in that field with absolute certainty, but in all probability the implementation of this Pan-American project will be delayed. It may be completed sometime in the future in reduced form and limited format.

Further development of the Southern Cone Common Market (Mercosur) – the most powerful of the region's integration blocs[1] – seemed to have received a new boost, as Venezuela became its latest member. However, this change has produced potential problems, which is typical of Hugo Chavez's regime.

Delimitation of the region according to geopolitical and geo-economic orientation between the northern (Mezoamerica and a part of the Caribbean) and southern parts, which surfaced in the past decade, will carry itself over to the period 2007-2017. In the meantime, Mexico has reached the limitations of orientation northwards, and even a protégé of the right-wing who emerged victorious in recent presidential elections, stated the importance of a balance in external relations, including a partial turn to the South (Latin America) during his term of presidency. As for southern Latin America, one should expect continued diversification of external ties in trade and politics in the spirit of 'open regionalism.'

An increasing outflow of migrants to the U.S., Canada and Spain is possible. This will create acute problems in relations between countries (primarily between Mexico and the U.S.). The growth of Latino communities in the U.S. will eventually turn into a foreign policy factor instead of simply an internal policy factor, and will affect U.S. relations with Latin America on the whole. The Latino tide will exert strong impact on Washington's policies and limit the power of its actions against the region's countries.

Most countries in the region will remain committed to the principle of supremacy of international law, the UN's universal role, the principles of nonproliferation of weapons of mass destruction, and to multipolarity in addressing acute international problems. An integral interpretation of international security problems (including social, economic and other untraditional elements) will continue to constitute the specificity of their approach.

If the spread of nuclear weapons in the world (in the Far East, Central Asia and the Middle East) greatly intensifies within the next ten years, a number of Latin American countries will consider creating their own

[1] Before 2006, Mercosur included Brazil, Argentina, Uruguay, Paraguay, and Chile and Bolivia as associated members.

nuclear arsenals, and Brazil will be the first among them. In any case, the region will display a growing interest in the construction of nuclear reactors of various types.

Except for rare exceptions, the aforementioned will create a favorable background for Latin America's contacts with Russia in the international arena.

Russia-Latin America Relations

The relations between Russia and Latin America began improving in the second half of the 1990s, after a catastrophic slide in the first half of that decade. After 2000, the volumes of trade and intensity of political contacts surpassed the Soviet-era levels and Russian diplomats began to single out the region as a 'separate direction of operations' with a growing potential for understanding and interaction in the international arena.

Latin Americans have so far been more active in bilateral trade with Russia than vice versa. The Russian business community has just begun to overcome its inertia. Largest Russian corporations – Gazprom, Rusal, Power Machines, Lukoil and KamAZ – have begun entering the Latin American markets. A reserve that has been now created may evolve into sizable projects in the coming decade.

Latin America will serve as an important reserve for the expansion of Russia's international operations in 2007-2017, and for the strengthening of its status as a global power. More importantly, cooperation with Latin American countries will have a compensatory function in the total balance of Russia's foreign policy should its positions in other directions weaken.

The low probability for conflicts between Russia and its Latin American partners offers a big advantage to this country. The problem of "shackled hands" is practically absent there, while the field for making initiatives is broad. Presently, Russia's lack of activity in the region is due to the slow pace of modernization of the Russian economy, and our approach to contacts with Latin America along a "leftover principle," which demands that we give whatever attention we can afford after contacts with our other partners.

Russia's relations with regional countries are on the ascent but they are way below international standards, especially considering the amount of experience that Latin American countries have gained in their relations with the U.S., EU and Asia-Pacific states in terms of form, methodology, and content. The following factors predetermine the key tasks that Russian political and economic diplomacy will have to confront in Latin America:

- Diversification of the institutional structure of cooperation with major Latin American partners, including additions to the legislative basis of cooperation, and its transition to modern standards for bilateral relations;
- Devising a mechanism of support for Russian exporters of equipment and engineering services;
- Implementation of steps in the field of information and politics that might improve Russia's image in the public mindset of Latin American nations;
- Expansion of multilateral cooperation, building bridges to integration groups inside the region, and joining the Inter-American Development Bank;
- In light of the abovementioned, Russia should attempt to fix its political and diplomatic presence in an observer role in a number of key organizations embracing the Western hemisphere, primarily in the Organization of American States; Russia should seek the same status in the Iberoamerican community;
- Raising relations with Brazil to the status of a strategic partnership in the next four to five years, while granting plausible political and economic content to the relationship, seems to be an imminent task;
- Trade and economic relations with especially promising partners should be transferred to the format of economic augmentability or free trade.

Conclusion

Trade relations. Russia's trade with Latin American countries will exceed $7 billion at the end of 2006. Brazil, its leading partner, accounts for 4 billion of that amount. The promotion of the current tendencies will make trade volumes of $20 billion to $25 billion a feasible prospect by 2017. Even partial solution the aforementioned political and economic tasks will help increase trade to $30 billion to $35 billion. The biggest opportunities will open up for the exporters of energy equipment.

Defense and related technologies. The next 10 years will see a cycle of weaponry arsenals refurbishing in Latin American armies. Russia has already treaded the Latin American market of defense products and there are grounds to believe that supplies of helicopters, artillery, anti-aircraft armaments, and electronic surveillance systems may form an important and relatively stable element of Russian exports to the region.

There are also grounds to believe that agreements on cooperation in space research will move to the phase of practical action in the next ten years, especially if one considers that Brazil offers tangible resources for mutually beneficial activity (the Equatorial Space Center at Alcantara).

Obviously, all of this will produce frictions with traditional suppliers. Russian diplomacy will have to measure the promotion of our exports with the risks of complicating relations with the U.S. and possibly other competitors, like France. It could be expedient for Russian suppliers to switch over to production cooperation with Latin American countries (primarily Brazil).

International political relations. The Cuban problem will remain the most sensitive point for Russian diplomacy, especially if the U.S. takes inadequate steps. Speaking of a possible evolutionary transition, Russia cannot simply wash its hands of this country due to its past involvement. This country must be prepared for intricate maneuvering to ensure a mild transition with the absence of clashes. At the same time, Russia should continue to intensify its prospects for working on the Cuban market.

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