

RUSSIA 2017:

THREE SCENARIOS



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THREE SCENARIOS

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TO THE READER

The Russia 2017 report paints three different scenarios in an effort to outline the future development of that country. An extensive network and steering group under the leadership of Representative Esko-Juhani Tennilä carried out the work, and our warmest thanks are due to him and the entire group.

Shaping scenarios for the future of Russia is a somewhat new departure in the work of the Committee for the Future. Until now, the Committee has concentrated on functional themes, but in this report it examines the development of a neighbour, Russia, that is of key importance from the perspective of Finland's future. Its importance for us is growing all the time. The St. Petersburg region is especially important for Finland. It is a hub for economic interaction as well as for political, social and cultural cooperation.

Russia must be seen as a totality. Our policy on relations with that country must be built on a broad front, and not through foreign policy alone. Finland's relations with Russia must be at the top of our political and economic agenda. With this report, the aim is to provide some pointers in the right direction and to highlight the issues that are important in this regard. It lays a foundation for improving our understanding of the social and economic transformation that is taking place in Russia, and suggests ways to use these developing trends to our advantage and set goals for our policy in relation to Russia.

Finland must intensify her cooperation with Russia in education, science, research and culture. To strengthen our expertise in relation to Russia we also need livelier exchanges of researchers and students than we have had up to now. Forms of cooperation must likewise be sought in the field of labour.

The Committee for the Future's Russia scenarios will contribute to the basis on which our national leaders formulate their policies on Russia. The diaries, memoirs and speeches of President J. K. Paasikivi - the greatest expert on Russia and greatest foreign policy leader that 20th century Finland produced - are full of profound scenarios for the development of Russia. He based them on knowledge of history and sharp-eyed analysis of trends in world politics. Paasikivi's starting points were the rights of small peoples and justice between peoples. These principles still endure.

Jyrki Katainen

Chair, Committee for the Future
The Finnish Parliament

FOREWORD

A good future for Russia is important for Finland as well

Even if everything else changes, geography remains the same. This Paasikivian premise is valid and Russia will continue to be our neighbour. Its destiny has always influenced ours, and always will.

Images created during the final years of the Soviet Union and the chaos into which Russia descended in the 1990s still seem to tinge discussion of Russia in Finland. The often sensational daily reporting of events in the media may also prevent us seeing the wood for the trees. Systematic monitoring of our eastern neighbour's affairs has become a less common practice among Finnish decision makers as well, and thus the news that Russia had become Finland's biggest trade partner seems to have come as something of a surprise even to some of them.

The Committee for the Future wanted to begin by deepening its own members' knowledge of our neighbouring country's development and formed a Russia Steering Group. As hearings arranged to consult experts proceeded, the objective that took shape was that of producing material on Russia's present state and future prospects, for use both by the Parliament and more broadly as well. For this purpose, trips to Kostamushka, St. Petersburg and Moscow were made in 2005.

In spring 2006, for the purpose of drafting a report, a small group of Finnish experts was brought together to support us in our work. We asked the experts to present their views on the state and future prospects of Russia in writing as well. Accordingly, the framework material of the report comes from the written contributions that we received from the experts and the numerous meetings held at the Finnish Parliament to consider them.

On the basis of the experts' written contributions and the occasionally very heated discussions to which they gave rise, as well as the second seminar arranged in Moscow in autumn 2006, the report was compiled and edited by Osmo Kuusi, Hanna Smith and Paula Tiihonen. It is obvious that after their editing the tones and the emphases in the report do not correspond exactly to all of those expressed by the experts on Russia. However, our intention is to prompt discussion and therefore we did not want to keep on "fine-tuning" indefinitely.

Stability and economic growth in Russia as well as an improvement in the standard of living of the people there is also in Finland's interest. That is why we must continue to try to improve cooperation and expand it into new sectors. The Committee for the Future has deliberated on part II of the report, containing conclusions and proposals, which adds to the significance of the proposals.

I would like to extend heartfelt thanks to the experts on Russia who contributed to the work and the editors of the report. I want to extend a very special word of thanks to Osmo Kuusi, who as a futures researcher performed a heroic task and formulated three scenarios for Russia's future to serve as the basis for further discussion.

The following experts contributed to the report: Representatives Mikko Elo, Hanna-Leena Hemming, Kyösti Karjula, Jyrki Kasvi, Matti Kauppila, Marjo Matikainen-Kallström, Simo Rundgren, Päivi Räsänen, Esko-Juhani Tennilä, Astrid Thors, Unto Valpas, Pekka Vilkuna, Harry Wallin as well as Committee Counsel Paula Tiihonen, Senior Counsellor of International Affairs Jaakko Hissa, Researcher Ulrica Gabrielsson, Journalist Antero Eerola, Editor-in-chief Heikki Hakala, Programme Director Maaret Heiskari, Researcher Janne Helin, Docent Alpo Juntunen, Development Director Markku Kivinen, Agent Pekka Koivisto, Special Researcher Osmo Kuusi, Research Director Juha Martelius, Major Juha Mäkelä, Special Researcher Kari Möttölä, Researcher Jouko Rautava, Senior Adviser Seppo Remes, Researcher Hanna Smith, Research Director Pekka Sutela, Vice President Pekka Takala, Ambassador Heikki Talvitie and Senior Adviser Stefan Widomski.

Helsinki, 19.1.2007

Esko-Juhani Tennilä

Chair, Russia Discussion Group

Committee for the Future The Finnish Parliament

A WORD FROM THE EDITORS

The starting point that has often been adopted in the work of the Committee for the Future is that getting politicians, researchers, civil servants, business leaders, journalists and others who do futures work around the same table can be a good way to promote the common and general good. That was the case this time as well. Our initial thinking with respect to assessing the development of Russia was that we would learn things about Russia together. We began with the economy, and soon noticed that there is no economy without politics. Security matters had to be looked at. At some stage our interest was awakened in how policy on Russia has in general been approached in Finland.

We gradually came to the realisation that things needed to be written down. We began to talk of shared views, but at the same time to put forward different positions. In a group of over 20 people, the way they in which the world is understood will never be the same. Eventually, however, the goal we set ourselves was to write the main scenarios for the future of Russia from a Finnish standpoint. There was a good awareness in the group of the internationally recognised general limits of collective writing, and it follows from this that the text does not necessarily correspond to the exact position of any member or their background organisation.

The participants in the work and especially the chroniclers of the discussion had some difficulty describing the present situation, noting that on many points it would be better to leave the matter for different forums to deal with. By contrast, the participants were positively surprised where the three actual scenarios were concerned. We succeeded in shaping scenarios for Russia's development. This had seldom been done in western countries – at least not in political forums.

All in all, if the Committee for the Future has succeeded in this valuable task, the last one that it set itself for the current parliamentary term, we may yet have managed to turn on its head the old Finnish folk saying about the hopeful who dreamed of turning a piece of cloth into an overcoat and ended up with a tinder bag.

Osmo Kuusi Hanna Smith Paula Tiihonen

I RUSSIA SCENARIOS

1. WHY IS IT IMPORTANT FOR FINNS TO PONDER THE FUTURE OF RUSSIA?

The Finnish Parliament's Committee for the Future has chosen Russia as one of the subjects of its societal futures assessment. Russia is important for the future of Finland.

When a country has a great power as a neighbour, even though its great power status varies in degree and character in different periods, the smaller country's interest requires it to give thought and attention to its big neighbour's development. The leaders – present and future – of a small country in particular must be sufficiently well informed about their great-power neighbour. They must be prepared for good and bad times.

History is an essential part of Finland's relations with Russia, but it must not determine future policy. The Committee for the Future examines the development of Russia from the perspective of futures research and formulation of policy on the future. The year 2017, the centenary of the Russian Revolution, has been chosen because it will be a significant year for both Finland and Russia.

Policies on the future have always engaged our political leaders' minds. Russia has been and will remain at the core of their thinking.

The task that the Committee for the Future performs when it deliberates the theme of Russia can be compared to consideration of questions like globalisation and new technology. They, just like Russia's development, are all future phenomena, which the Committee has seen as permeating various sectors and levels of Finnish society. The Finns, or at least Finnish leaders, must be aware of the alternative courses that the development of Russia can follow.

The approach and tone of examination of such matters are a matter of choice. It is always easy to build up threat images. Outlining good opportunities is a lot more difficult. Thus it is also quite appropriate in this work to record – and even repeat – the steps towards a good future.

2. RUSSIA'S MAJOR CHALLENGES ON THE BASIS OF PAST DEVELOPMENTS AND CURRENT CONDITIONS

Vast Russia

Russia can do nothing about its geography – it is an indisputable fact. In Russia's history, the country's size has been a source of both riches and problems. Natural resources make Russia a world power. It is, however, difficult for Russia to exploit its natural resources and keep the vast country functional. Transport connections are problematic and the climatic conditions difficult.

In 2000, as an element of a policy of administrative centralisation, Russia was divided into seven large federal districts - the Central, North-Western, Southern, Volga, Urals, Siberian, and Far Eastern. Below the federal districts, the Russian Federation is divided into 88 subjects of the federation (subyekty federatsii), commonly known as the "regions" (regiony). 49 of these carry the official name oblast (in English also often translated as "region"); 21 are republics (respublika); 9 are autonomous districts (avtonomny okrug); six are territories (krai); two – Moscow and St. Petersburg – are federal cities (gorod federal'no znacheniya), and one is an autonomous region (avtonomnaya oblast) (<http://www.russiaprofile.org/resources/territory/index.wbp>). The distribution of population among the regions is extremely uneven. Of the federal districts, two - the Siberian and Far Eastern - cover 65 % of the whole Russian Federation's area, but contain less than 20 % of the population. About 26 % of Russia's entire population lives in the Central Federal District which, however, covers only 4 % of the country's total area.

Russia has always been a multicultural society. Over a hundred nationalities and numerous religions have lived there side by side. In the Soviet Union, the number of ethnic Russians represented about 50 % of the whole country's population. In terms of its recent history, Russia has had an exceptionally large majority of Russians since the Soviet Union's break-up: ethnic Russians account for about 85 % of the population. Russia continues

to be multicultural, however. The biggest minority groups are the Tatars, Ukrainians, Bashkirs and Chuvash, Belorussians and Moldovans. The biggest religious minority is the Muslims, who represent close to 20 % of the population. The tradition of multiculturalism is one reason that newcomers continue to arrive, especially from former

Soviet countries. People have begun to seek entry into Russia from China as well. Since 2000, however, Russia's immigration policy has been strict. Suspicion directed at ethnic minorities and the current administration's policies emphasising security threats have tightened the policy further.

Figure 1. The Russian Federation's seven federal districts.



Grey = Central
 Light blue = North-Western
 Turquoise = Southern
 Red = Far Eastern

Blue = Volga
 Dark blue = Urals
 Beige = Siberian

Political life

Structurally, Russia is a federation. According to the constitution, a president, who is to be chosen by direct election every four years, leads the country and who appoints a government. Passage of government bills requires the approval of the Federal Assembly's (parliament's) 450-member lower house, or State Duma, and upper house, or Federation Council, which is composed of representatives of the federation's 88 primary political subdivisions. Like the United States or France, Russia, with its centralised administrative practices and culture, is a strongly presidential country.

The system of political parties in Russia is still developing. After the fall of communism in the 1990s political parties, to the average Russian, represented confusion. Dozens of groups, each one stranger than the last, formed parties. In the 1993 elections, 13 parties fielded candidates; in 1995 there were 43. The 1999 elections involved 26 parties, the 2003 elections 23. At each election, the collection included new parties and old parties disappeared. ¹

In the Duma, the Federal Assembly's 450-member lower house, the following parties are currently represented: United Russia, 222 seats; the Communist Party of the Russian Federation, 51

¹By comparison, 19 registered parties are taking part in Finland's 2007 parliamentary elections (information as of 1 November 2006). Thirty-three registered parties participated in Sweden's 2006 parliamentary elections.

seats; A Just Russia (formerly Rodina), 37 seats; the Liberal Democratic Party of Russia, 37 seats; the People's Party of the Russian Federation, 16 seats; Yabloko (the Russian Democratic Party), 4 seats; the Union of Right Forces, 3 seats; and the Agrarian Party of Russia, 3 seats. Other small parties and independents hold a total of 77 seats.

A sustainable democracy depends on citizens' activity organised in the form of parties, the trade union movement, and collective activity in general. Russia lacks a strong tradition of citizen participation in, and influence on, the management of political matters. The institutions of political life and democracy have been established. As everywhere, democracy acquires content when its other side - freedom - also becomes a reality.

There are some signs of the civil society growing stronger. Organised interest groups are functioning and civic organisations have been established. The trade union movement would appear to be on the rise. Forty-three national trade unions, 78 regional trade organisations, 5 cooperating organisations and about 300 000 local trade unions belong to Russia's central trade union organisation, the Federation of Independent Trade Unions of Russia. There are about 29 million individual members.

Justice

According to its statutes, Russia considers itself to be a law-governed state. The country's constitution guarantees freedom of the individual and fundamental rights, as well as the democratic foundation of human rights and the system of justice. The constitution also affirms Russia's commitment to the generally accepted international norms and principles of a state founded on laws. Since 1996 Russia has been a member of the Council of Europe. Russia has signed the European Convention on Human Rights. A new penal code came into force in 2002.

In 2005 the Council of Europe published a report on Russia's status. According to the report, the justice system in Russia had witnessed many positive changes in the preceding decade. The

courts' corruption, limited independence, and ineffectiveness, and the lack of independence on the part of judges continue to be viewed as major weaknesses, however.²

In a functioning democracy, institutions have a meaning that goes beyond formal laws and official state organisations. Democracy and good governance also encompass such things as stability and the assurance of justice, a respect for the law, fairness, public access and openness, official ethics, confidence in the political-administrative system, and fostering the common and public good. Through the various phases of Russian history, laws have changed rapidly, and it has been too easy to place oneself above them. In practice, completely ordinary citizens have also been able to circumvent the law by paying off the authorities. Many politically important trials have resulted from negotiations between a political party and the court. On the other hand, a sense of justice and the demand for just treatment are very important in Russia, and are reflected in both domestic and foreign policy.

For many structural reasons, corruption is an old joke in Russia. Peter the Great tried to eliminate corruption in Russia by means of the death penalty. Immediately after the Russian Revolution, an intense anti-corruption campaign led by Lenin was launched. In spite of the severe penalties and numerous attempts, however, no one has succeeded in uprooting corruption. In the 2000s it has grown even though the battle against it has been a prominent part of the government's programme. For years the World Bank has employed its own methods in taking part in this work, which requires a long-term approach.

In the field of communication, the issue of freedom has been to the fore, especially during Putin's second presidential term, and has been the subject of criticism. The state's role in controlling freedom of speech started to get stronger in the summer of 1999, when President Yeltsin created a new Ministry of the Press. The new ministry's primary purpose was to boost state shares in the media. The most important sections of the media have indeed moved from the control of oligarchs

² Council of Europe, *Honouring of Obligations and Commitments by the Russian Federation: Report*, Doc. 10568, 3 June 2005, p. 33.

to state control. In Russia, the citizenry's main source of political information is television, which has had a crucial impact on the results of several elections. In addition to increasing the state's share of ownership, attention has been directed to trying to limit the amount of information coming from the outside. Journalism, especially investigative financial journalism and reportage on the Chechnya situation, is experiencing real difficulties in Russia.

Despite the limitations and difficulties facing the media, Russia is not a country closed to information. The number of radio stations, periodicals and even television channels varies all the time: old media outlets fall and new ones take their place. The Internet functions as in the West, and its role in communication is growing. One can also follow foreign satellite channels freely.

From the standpoint of Russia's development as a state founded on law, how Russia's central administration comes to grips with the Northern Caucasus will be especially important. How will the still unstable situation in Chechnya be brought under control, and how will its reconstruction fare? According to international human rights organisations - Amnesty International and Human Rights Watch, among others - there is still plenty to do here. Human rights organisations have focused attention on the violence, arbitrary detentions and kidnappings in the Northern Caucasus. These conditions create insecurity for all of Russia. The federation's local and security authorities are committing abuses just as the armed Chechen opposition groups are. According to the Council of Europe report cited earlier, a sort of extralegal group has come into being in the Northern Caucasus and especially Chechnya. Official authorities who have committed abuses are not brought before the courts. In Russia the war against terrorism has also advanced legislation that limits freedom of speech and the individual's fundamental rights.

Russia has traditionally been governed by ukases and orders that come down from above. Now Russia has shifted to laws enacted by a popular legislature. The change has not been free of problems. In the modern age of democracy, calls for good governance and administration have intensified in recent decades everywhere in the world.

Citizens, businesses, investors and other interest groups are demanding the ongoing develop-

ment of the society, in addition to stable conditions ensured by laws. In the competitive global economy, states also compete in expertise, creativity, and innovativeness. Stable societal development presupposes that the foundations of power and its division between institutions and the people are clear. Just like political institutions, the institutions of justice - the laws, courts and judges - have been established in proper fashion in Russia. The justice system functions unreliably, however, and lacks regularised modes. The tradition of civil law is weak. The boundary between public and private law is vague. A legally distinct right of ownership is, however, an important precondition to an interest in investing.

Population and health

Since the dissolution of the Soviet Union, the population of the Russian Federation has decreased. In 1991 the population was 148 million; in 2002, 145 million. The decrease in population would have been even greater had it not been for simultaneous immigration from former Soviet republics.

The drop in Russia's population stems from two key causes in particular: the birth rate is low and the death rate is high. It is difficult to compare Russia with any other country. In the countries of the EU, people are also concerned about low birth rates. In the world's wealthy countries the birth rate is low, but so is the death rate, and thus the average age is high. High birth and death rates prevail in the world's least developed countries which, according to UN statistics, number about 60. Russia's mortality rate corresponds to those of the world's least developed countries, if we discount Russia's relatively low infant mortality, but the country's birth rate compares with that of the EU countries. Immigration is not nearly high enough to compensate for other developments that are pulling the population trend downwards.

The events associated with the break-up of the Soviet Union do not in themselves explain the worrisome population trend. For population to remain approximately the same, 2.2 live births per woman are necessary. In the Soviet Union that figure dropped below 2.2 as early as 1964, and it hasn't begun to come back up since. A high death rate is a distinctive feature of Russia. While the death rate has been in continuous decline in the

West and the industrialised countries, it has been on the rise in the Soviet Union and in Russia since 1992. Yevgeny Andreyev of the Russian Academy of Sciences' Demographic and Human Ecological Centre has estimated that, in the reduction of mortality, Russia lags 40 years behind the rest of Europe and the world's other industrialised countries.

Table 1. Life expectancy at birth, in years, computed on the basis of mortality in different age groups.

Year	Entire population	Men	Women
1992	67.8	61.9	73.7
1995	64.5	58.1	71.6
2000	65.3	59.0	72.3
2001	65.2	58.9	72.2
2002	65.0	58.7	71.9
2003	64.9	58.6	71.8
2004	65.3	58.9	72.3
2006 (estimate)	67.1	60.5	74.1

Source: Federal State Statistics Service (www.gks.ru/wps/portal); CIA World Factbook (<https://www.cia.gov/cia/publications/factbook/>).

A key reason for the high mortality figures is the use of alcohol. In particular, the consumption of cleaning compounds, anti-freezing agents and other substitute products containing very high levels of alcohol is a problem. Such products are sold in large packages in shops whose selection of products is otherwise scant. In the countryside especially, drinkers nowadays either produce alcohol themselves or consume substitute products. Studies indicate that the substitutes' contribution to the death rate's increase is substantially greater than that of alcoholic beverages. In 1996 more than 35 000 people died of direct alcohol poisoning. In October 2006, in the Pskov area and 14 communities in Siberia, an emergency was declared because of alcohol poisonings.

During the Gorbachev era, special attention was paid to alcohol policy. Mortality among Russian men dropped in the latter part of the 1980s, but as early as 1994, 50 % more 15- to 64-year-

old men died than in 1986. The reason was the increased use of substitute "beverages" in addition to the relaxation of restrictions on the sale of alcoholic beverages. Increases in the price of alcoholic beverages have in fact added to the problem. In 2006 a law was enacted on the taxation of, and right to sell, wine and beer. Within a few months after the new regulations came into force, shop shelves had filled up with cheap, low-quality vodka. Getting beer and wine, by contrast, became difficult.

The consumption of alcohol is linked to suicides, traffic accidents and killings. Aside from alcohol, other lifestyle diseases and inadequate care of those diseases explain the mortality rate. In addition to alcohol, smoking and nutrition account for the high death rate from cardiovascular diseases. It is estimated that about half of Russia's population smokes. Nutritional habits provide a key explanation for Russia's third-place worldwide ranking in the number of diabetics. The inadequate care given diabetics renders the problem acute. The growth in the number of individuals with HIV/AIDS continues to pose a threat. According to new statistics, about 70 % of the disease's carriers in Western Europe are over 30, while in Russia 80 % of the carriers are under 30.

Awareness of the country's profound population crisis has permeated Russian society and political life. Since 2000, Russia's increasingly wealthy middle class has begun to devote more and more attention to healthy lifestyles. In Russia's centres of growth, healthy lifestyles already represent a strong trend.

Education

The Soviet Union bequeathed the new Russia the former's educational system - a positive bequest. Universal literacy was an early and indisputable achievement of Soviet rule. According to the 1897 census, only 21 % of the adult population (29 % of men and 13 % of women) could read. In some parts of central Asia, literate individuals accounted for only a few per cent. According to the 1939 census, 87 % of the adult population was already literate.

In the 1960s and 1970s, the programme of special schools in the Soviet Union was expanded. Pupils especially gifted in sports or mathematics, among other things, were brought togeth-

er in these schools. The purpose was to fashion gifted children into an intellectual elite. The special schools covered about 3 % of the relevant age group. During the Brezhnev era, the Soviet Union's educational system degenerated generally and fell behind Western Europe in many fields. The great respect accorded education did however guarantee that the level of general education was high before the Soviet Union broke up. Almost everyone could read.

After the Soviet Union collapsed, schools found themselves facing serious financial difficulties. Many schools began providing instruction in shifts - two or even three shifts on the same day, under the same teacher's direction. Teachers' salaries were not paid. Educational standards suffered badly. Private schools were launched even before the Soviet Union broke up: in 1991 there were 85 private schools in the country.

The low birth rate that Russia has experienced in recent years has had a twofold impact on the educational system. On one hand, there have been more resources per child. On the other, and especially in the countryside, local schools have been shut down, trips to school have got longer, and teachers have been left unemployed. The charging of fees for education has increased dramatically, especially at institutions of higher learning. In 2002, 54 % of university students paid for their education; the figure was only 10 % in 1995. As of 2003 there were 392 private institutions of higher education.

In the 2000s Russia's central administration has stressed the importance of education, and attempts have been made to modernise Russia's school system. The Priority National Projects launched in 2006 will be examined later as an aspect of likely developments in the years immediately ahead. In advance of National Projects, the administration's programmes had already boosted investment in education. In 2000, 2.9 % of GNP went to education; in 2004 the figure was 3.7 %.³ In 2003 Russia became a party to the European Union's Bologna process, whose purpose is to standardise the participating countries' ed-

ucational systems. Education is one of those areas in which Russia-EU cooperation has worked very well. In 2006, the European University was founded in Moscow as a cooperative undertaking of the EU and Russia.

The Electronic Russia Programme, covering the years 2002-2010, attempts to bring Russian education into the age of the information society. In 2001 Russian schools had, on average, 1 computer for every 500 pupils. The comparable figure in OECD countries was 1 computer for every 10 to 15 pupils. After only a few years the situation improved so that Russia had 1 computer for every 113 pupils.

Looked at in terms of quantity of education, Russia's prospects for developing diversified and high-quality production appear very good. As of 2002, 44 % of working individuals had received a vocational education. When the percentage of employed 25- to 34-year-olds with a university-level education is used as a gauge, Russia is not behind the EU countries. In 2003 this figure was 20 % in Russia; in England, Sweden, Ireland and France, the proportion was only 1-2 % greater. At 15 %, Germany was clearly lagging behind. The potential for high-quality production looks even more positive given that the number of degree-holders in the natural sciences and technology, as a proportion of all degree-holders, is higher in Russia, at 40 %, than anywhere else in the world. The number of graduates in information technology has more than doubled since 2005 in Russia (OECD 2006, pp. 151-152).

Although the level of education can be viewed as an obvious strength for Russia - compared to other countries whose exports consist almost entirely of raw materials and energy - Russia thus far has not been able to exploit this advantage effectively in economic terms. Russia is among the world's leaders in terms of researchers moving abroad. The content of education also poses a problem. Russia's university system has not supported the acquisition of important skills in working life (OECD 2006, pp. 151-152).

Economy

³ <http://devdata.worldbank.org/edstats/SummaryEducationProfiles/CountryData/GetShowData.asp?Ctry=RUS,Russia>.

The traditional economy. In many respects Russia's economic development in recent years has been impressive. Russia's average annual economic growth of almost 7 % during the current decade represents a significant achievement. Rapid economic growth has led to an upturn in personal real income and has provided significant relief for the state's finances, which had reached an impasse in the preceding decade.

Table 2.

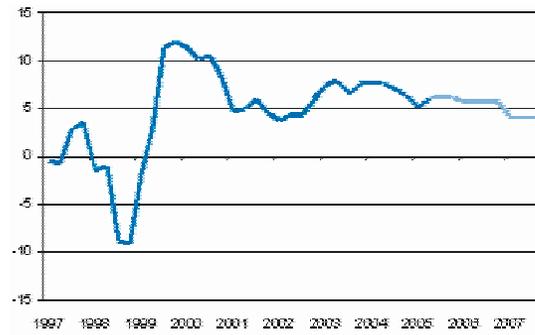
Yearly growth in production by sector, %.

Sector	2002	2003	2004	2005*
Industrial production	3,1	8,9	7,3	3,9
Mineral industry	6,8	8,7	6,5	1,0
Manufacturing industry	1,1	10,3	9,2	6,0
Electricity and water	4,8	3,3	0,1	1,4
Agriculture	1,5	1,3	3,1	0,4
Transport	5,9	7,7	6,4	2,6
Construction	3,9	12,8	10,1	8,3
Retail trade	9,3	8,8	12,5	11,8
* January-October				

Source: Rosstat

The roots of the current economic growth can be found in the August 1998 economic crisis, which resulted from a prolonged period of irresponsible financial policy (Figure 2). The drop in the world market price of oil - an outgrowth of the previous year's Asian crisis - contributed to the timing of the crisis in Russia. In the aftermath of the August 1998 events, the rouble quickly lost about 70 % of its value. This created a significant competitive advantage, especially for domestic production competing with imports. The devaluation of the rouble also benefited the energy and raw-material sectors, since their export earnings, in roubles, grew tremendously in relation to expenditures likewise denominated in roubles.

Figure 2. Yearly change in Russia's total production, 1997-2007.*



*2005-2006 Bank of Finland's autumn 2005

projection

Source: Rosstat, BOFIT

In 2005, Russia's GNP rose by about 6 %. The rise in prices for petroleum and metals has played an especially significant role in supporting economic growth. According to many experts, oil and natural gas account for more than a fifth of Russia's total production, although according to Russia's official statistics their share is under 10 % of production. At the moment, the energy sector produces about 60 % of Russia's export revenues, and it is generally estimated that perhaps about 40 % of the federation's budget revenues come from the energy industry.

In terms of employment, however, manufacturing industry is significantly more important than energy production, mining operations, and energy distribution. In 2004, mineral and energy production and distribution employed 3.8 % of the employed work force in Russia. The manufacturing industry's share was 17.7 % (OECD 2006, p. 79). In addition to the dependence on energy, the huge differentials between different parts of the country pose a great challenge to the economy. The Far Eastern Federal District makes up more than a third of Russia's area, but in 2002 only 6.7 million people, or a bit more than 4 % of the population, lived there. In 2004 this region produced 4.7 % of overall GNP, but its raw-material reserves are of truly crucial importance from the standpoint of Russia's future. At the other extreme is the Central Federal District, which includes Moscow. It represents 3.8 % of the country's area but 26.2 % of the population, and in 2004 accounted for 31.5 % of GNP. In terms of

GNP share, the poorest area is the Southern Federal District, which includes Chechnya: in 2002 it contained 15.8 % of the population but produced only 7.5 % of GNP.

It is unlikely that Russia will be able to increase its oil deliveries abroad much. Gas, by contrast, presents growing opportunities. It has been estimated that, in 2006, Russia would produce 594 billion cubic metres (bcm) of gas and would export 151 bcm of this total to countries outside the CIS and 52 bcm to the CIS countries.⁴ Russia sells gas to 32 countries. Gas from Russia now accounts for about 25 % of all gas consumed in the EU.

Russia's gas reserves are computed as totalling 28 000 bcm. In addition, there are huge gas reserves which are difficult to exploit. Above all, there are methane clathrate deposits. Methane clathrate deposits are found in the cold depths of the sea and on the continental slope of continental shelves, where the temperature at the bottom of the water is under 20C, and the land surface temperature is under 00C. The U.S. Geological Survey has estimated that twice as much carbon has attached itself to methane clathrate deposits as to all known deposits of other fossil-fuel raw materials. Siberia has an abundance of methane clathrate in sandstone at a depth of less than 800 metres.

Bringing the Barents Sea's substantial gas reserves into use, to say nothing of methane clathrate deposits, will require very large-scale investment. On the basis of Gazprom's current plans, investments leading to the exploitation of the Barents Sea's Stockmann area will be launched after 2010.

In 2003 Russia used 3.1 times as much energy per unit of GNP than the average for the EU (OECD 2006, p. 154). Part of the explanation lies in the country's northern location - Russia is the world's coldest country - and it was a conscious policy, during the Soviet era, to settle the country's northerly areas. On the other hand, energy is wasted because of its low price. It has been estimated that a Russian production facility requiring a lot of energy uses about 30 % more energy on average than a comparable production facility in the West. Households could conserve a lot of energy if houses were better insulated.

In economic terms, reducing wasteful utilisation of gas and selling that gas abroad clearly represents the most sensible short-term strategy. The gas price in Russia is €45 per gas unit; in Western Europe a price of €400 can be obtained. CIS countries have been receiving gas at less than half the price paid in Western Europe. In part the price differentials are explained by higher shipment costs for gas, the loss of gas during transfer, and either charges assessed by intermediate countries such as the Ukraine and Poland, or the discount they receive for their gas by way of compensation. In order to ensure gas deliveries and reduce dependence on intermediate countries, Gazprom is dividing deliveries among many alternative routes. The most important of the new routes is the planned Baltic gas pipeline.

Within Russia, Gazprom is planning to reduce the use of gas for electrical production, which is less profitable. About 60 % of Gazprom's gas deliveries to Russia are used to make electricity; according to the plan, this share will be reduced in two years by 12 %. If the plan is implemented, Russia's electrical production, which is already problematic, may, in the absence of energy conservation measures, run into growing problems. The problems will appear during peak consumption periods in particular (such as periods of freezing temperatures). This is also important for ensuring the delivery of electricity from Russia to Finland, for example.

Russia is investing heavily in producing additional electricity with nuclear power. In September 2006 Rosatom announced its objective of producing 23 % of Russia's electricity with nuclear power by 2020. In 2005 the figure was 16 %. Taking into account the age of Russia's existing nuclear power stations, this will require the completion of two to three new 1200 MW nuclear power plants annually, or about 30 such plants in all. Even if the objective is realised, a temporary period of electricity scarcity lies ahead. Building a nuclear power plant takes about five years.

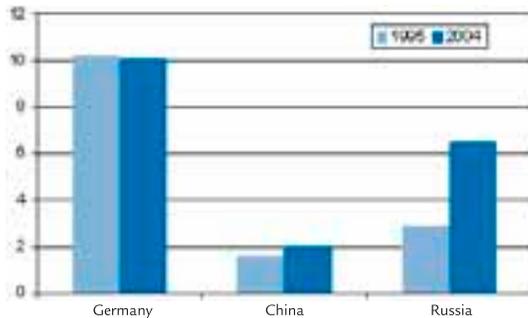
In addition to a surplus in the balance of current accounts, Russia's budgetary economy has been able to enjoy princely oil revenues. Finance

⁴ Presentation by Sergei Kuprianov, head information officer for Gazprom, at Finland's embassy in Moscow, 16 November 2006.

policy has thus far reflected discipline, however, and budget expenditures have not been boosted to keep pace with the rise in revenues. The federation's revenues and expenditures represented about 15 % of total production at the beginning of the decade; last year revenues represented 24 % and expenditures about 17 % of total production. By international standards, the budget surplus this creates is of the highest order. Opposition parties in Russia have accused the Putin administration of not having employed the budget surplus of almost €20 billion effectively for the good of Russia's economy, having instead invested the money largely in foreign securities. By contrast, the OECD, in its 2006 economic review, expressed appreciation for Russia's strict budgetary discipline (OECD 2006).⁵

Despite fast growth in recent years, Russia has been able to increase its share of world trade only marginally (Figure 3). Although it is a key supplier of energy and raw materials to Europe and China, it has had a hard time attracting investments and competing with other products, situated as it is between two different economic giants. In comparison with Russia, the growth of the market for Chinese goods has been overwhelming. Chinese labour is much cheaper and China is already ahead, in many respects, in technical expertise. For its part, Europe represents the forefront of high productivity and technical expertise, in addition to big markets.

Figure 3. German, Russian and Chinese market shares in world exports of goods, %.



Source: Minfin, BOFIT

The Internet and the new economy. The forces that revitalise an economy are often difficult to discern. Today this applies especially to the Internet as a force for economic renewal. Since 2000, Russia's leaders have made the modernisation of Russia the most important objective. The Internet has become a symbol of renewal. To succeed, a politician must be visible on the net. Having one's own website generates the image of a person who is in tune with the times. Admittedly, supporters of the dominant parties - United Russia and the Communists - remain a minority among the net's users. It is still difficult to practise politics on the Internet; nevertheless, the parties and all the candidates in the presidential election do invest heavily in the net.

The Internet has been of especially great significance in building links abroad. Russia began to acquire electronic connections to worldwide data networks at the end of the 1980s. In December 1993 Runet was officially registered and opened a Russian-language space on the global Internet. A new era in Russia's development as an information society began in 2002, when the national programme Electronic Russia was launched. The programme will continue until 2010. One can conclude from Table 3 that the Internet has spread rapidly in Russia since 2002. Among the countries in the table, only Ukraine compares to Russia in percentage growth in the number of users. People see the Internet as an effective, diversified and egalitarian tool for both interaction and finding information. The mobile Internet in particular is developing rapidly in Russia because it offers an effective way to interact in a sparsely populated country of great distances.

⁵ Reports from opposition party representatives during a visit by the Committee for the Future to the Duma, 16-17 November 2006; www.world-nuclear.org

Table 3. Estimate of Internet users per 10 000 residents in different countries, 1993–2004.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Russia	1,3	5,4	14,9	20,3	47,5	81,5	102	197	293	409	683	1 110
Ukraine	0,1	1,3	4,3	9,8	19,6	29,5	40	69	119	187	525	779
Estonia	29,7	113	270	340	549	1 034	1387	2 721	3 005	3 277	4 441	5 122
Czech Rep.	58,1	126	145	194	291	389	682	973	1 467	2 549	3 039	4 997
China	..	0,1	0,5	1,3	3,2	16,7	70,3	174	257	460	615	723
Brazil	2,64	3,90	10,9	47	82	151	208	294	466	822	1 020	1 218
UK	51,5	102,7	87,9	408	732	1357	2 101	2 644	3 296	4 231	5 782	6 288
Germany	46,1	92,0	183,3	305	609	914	1 753	3 015		3 392	3 998	4 267
Finland	256	490	1 371	1 676	1 943	2 855	3 227	3 723	4 302	4 857		6 300

The media use the Internet widely as a source of information, and the net is an increasingly important channel for the unrestricted transmission of information in Russia. It has been estimated that about a third of Internet users in Russia are representatives of the media, advertising sector, or finance sector. Russia now has a certain sort of information elite that uses the net as both a source of information and a tool. Through newspapers and magazines, information obtained on the net also reaches the broader public.

There has been much discussion of whether Internet freedom is threatened in Russia. Are there signs that Russia, after the Chinese model, is restraining Internet access? In its public statements, Russia's political leadership has clearly rejected legislation and limitations on use that are directed at Internet content or operations. Because the Internet has spread in Russia as a grass-roots activity, intervening in the Internet is technically difficult and expensive. Russia's authorities have, however, issued warnings about phenomena that have entrenched themselves on the net – pornography, propaganda from extremist elements, and material that is racist and encourages violence. Authorities in Finland and the other EU countries share the concern.

The global economy relies on modern information technology. Because of the huge size of the country, Russia's future development depends in a special way on information and communications technology. In overcoming the great distances, and in other respects too, the developing information and communications technology is opening up truly important and challenging prospects for Russia.

In the scenarios to be presented below, economic diversification from the production of energy and raw materials to highly processed products and services is recognised as the most central question from the standpoint of Russia's future. To be able to succeed in the foreign trade for services and highly processed products, Russia must be able, in many sectors, to take its place alongside international producers at their level of technology (cf. OECD 2006).

In addition to direct personal contacts, both the new information and communications technology, especially the Internet, represent an important route to the acquisition and transmission of expertise, as well as the development of innovations. English is overwhelmingly the most important language of international Internet interaction. Used as it is in many ways, English can be characterised as a sort of modern Esperanto. Russian young people are already very eager users of the English-language Internet. Russian interest in obtaining English-language material on particular subjects from the Internet can be considered as representing a kind of weak signal of the fields in which Russians might in future reach the forefront of technology.

The Google trend service (www.google.com/trends) examines the relative usage of English search words in Google searches on the basis of the city, the country, and the searchers' language group. The basis for the relative frequency is the share, relative to all searches, in the area or language group in question, of searches related to a word or word group. Since the search words are in English, the relative proportions naturally favour those who use English as their mother

tongue. This, however, applies less to special concepts utilised in international interaction. Table 4 depicts a few English-language concepts or concept pairs in whose usage Russians have been especially active. The table was compiled by testing about 100 words or word pairs that are related primarily to production or various technologies, and that can be assumed to interest Russians.

Table 4 Russian relative usage of English search words in Google searches

	Russian-language area's placement in Google searches (1st-10th rank)	Russia's placement as user country in Google searches (1st-10th rank)
Russian culture	1	1
Russian literature	1	2
Gas production	1	-
Nuclear research	1	-
Fullerene	2	3
Metallurgy	2	9
Oil production	2	-
Robotics	4	3
Nanotube	4	8
Nuclear fuel	-	8

It is not surprising that, in their main export sectors (gas, oil, nuclear power), Russian-language communicate actively in English. The fact that the Russians, relatively speaking, use the search words Russian culture and Russian literature on the Internet more than anyone else in the world suggests that the Russians are also ready to discuss their culture in English. This is an important signal from the standpoint of the development of Russian tourism, among other things. From the perspective of the diversification of the economy, it is interesting that Russians are actively seeking information in English on metallurgy and the latest advances in materials technology and nanotechnology (fullerene, nanotube). The potential of robotics also appears to be an object of special interest. By contrast, some sectors that are highly developed in Russia appear to have remained outside the sphere of active English-language information searches. Russia's space technology is known to be of high quality internationally. Russia is also considered a manu-

facturer of highly advanced aeroplanes and especially helicopters. In these areas no English words were found that the Russians are using abundantly in comparative international terms. For example, Russia as a language area did not make it into the top ten language areas for use of the word helicopter.

Foreign policy and external relations

Generally. The break-up of the Soviet Union and its consequences came as a surprise to the West just as it did to Russians. The new features in the environment in which foreign policy operated included the following in particular:

- A radical change in what influenced foreign policy. More parties had an impact on foreign policy than ever before in Russia's history. The Duma, the media and representatives of various economic interests acquired significant influence on the formulation of foreign policy.
- In connection with its significantly increased influence on the formulation of foreign policy, public opinion assumed a greater role in the general political discussion.
- As Russia opened itself up to the outside world, direct personal connections abroad increased substantially. Private individuals, organisations and businesses began to attend to many more

economic relationships with foreign countries, as well as scientific and cultural cooperation.

- “Independent” activity on the part of Russia’s regions raised challenges to the central administration’s weak attempts to create a uniform foreign policy.

Even in the new operating environment, however, the idea of Russia as a great power remained. People in Russia continued to take the position that it wielded influence in both international politics and in relations with individual countries.

Russia’s foreign policy thus far can be divided roughly into three periods. In the first half of the 1990s, Russia’s foreign policy was very Western. The Russians possessed great expectations in relation to the West. Generous aid for revitalising the economy and society was expected and received from the West. It was even given to understand that Russia would be interested in integrating itself into Western structures such as NATO and the EU. A growing suspicion towards the West characterised the second half of the 1990s. NATO’s 1997 expansion especially embittered the Russians. Talk about the West as the cold war’s victor awakened the Russians to the observation that the West was not treating Russia as an equal partner. In 2000 Russia adopted a new foreign policy, which can be characterised as a pragmatic, multidirectional great-power policy. Russia’s self-esteem has grown with the strengthening of the economy and the increasing importance of Russia’s energy reserves.

Russia continues to emphasise multilateral collaboration, but in such a way that Russia occupies a strong position. The UN is the international organisation that Russia values most. In Europe Russia considers the Council of Europe an important organisation. With the OSCE, Russia has had more disagreements than before about how the organisation should be developed. On the other hand, the importance of the Shanghai Cooperation Organisation has grown. Russia also functions as an observer-member in the Organisation of Islamic Countries. Multilateral cooperation has increased in other sectors as well.

Russia and the former Soviet Union’s territory. For Russia’s foreign policy, the countries of the former Soviet Union have posed a challenge, for which Russia has not found any clear policy. The

familiar terminology of the cold war era - sphere-of-interest policy, zero-sum game and balance of power - remain in use.

In the 1990s Russia placed the CIS member countries at the centre of its foreign policy. Talk was abundant, but practical action was limited. The West did not intervene in the CIS area’s development, either. Not until the 2000s did Russia and the West begin to be genuinely interested in the CIS countries. The growing importance of energy in world policy has given the region more strategic meaning, as has the war against terrorism. Meanwhile, the CIS countries have been acting increasingly independently, opening the door for other players in the region as well.

Russia and the EU. The European Union is Russia’s biggest trading partner. Cooperation between the two has not been without its twists and turns, but both parties do like to emphasise the importance of working together and the fact that Russia and the European Union belong together in historical, cultural, and geographic terms. The Partnership and Cooperation Agreement, signed in 1994, constitutes the cornerstone of Russian-EU collaboration. The agreement took effect in 1997 for a term of 10 years, but will continue in force after then if neither party withdraws from it. Negotiations for a new agreement are under way, however. The EU promulgated its own common Russian strategy in June 1999, and Russia responded by creating its own intermediate-term EU strategy in October 1999. The strategies illustrate well the differences in viewpoint that exist between Russia and the EU.

The EU’s strategy emphasised shared values and norms, while Russia’s strategy stressed the economy and security. The relationship between Russia and the EU has been full of ups and downs, periods of stagnation, and slow progress. The number of shared interests is large, but major differences of opinion exist as to how to act and according to what prioritisation of issues. The framework of the Northern Dimension has offered one model of how it has been possible, on a concrete level, to carry out regional and sectoral EU-Russian collaboration (in environmental issues) that transcends frontiers. Another good example of functional collaboration has been cooperation in the area of education. Energy and the independent states on the territory of the former Soviet Union present the most significant issues

that continue to give rise to friction.

Russia and China and India. Russia has begun to create closer relationships with the rising global powers of China and India, especially since 2000. As early as Primakov's tenure as foreign minister - from 1996 to 1999 - there was talk of a change in emphasis for Russia's foreign policy. That involved, however, adding in new elements rather than a complete change of direction. Less attention was paid to China and India in the early 1990s. Russia has joined China in supporting India's permanent membership of the UN Security Council.

China's burgeoning economy, and particularly its need for energy, have increased interaction between Russia and China. The joint military exercises carried out in 2005 caught the attention of the world. 2006 was Russia's year in China, and 2007, in turn, will be China's year in Russia. Cooperation between China and Russia has become closer through the Shanghai Cooperation Organisation. China is also an important buyer of Russian weapons. In world policy, especially in the UN Security Council, cooperation between China and Russia furthers the advancement of both parties' own interests and provides a counterbalance to the leading position of the United States.

Russia and India are also strategic partners. A declaration of strategic partnership was signed in 2000 during Putin's first visit to India. His 2004 visit to India brought Russia and India even closer together. The cooling of relations between the United States and India has also affected the Russia-India relationship. Energy and defence are central areas of cooperation between India and Russia, as they are between China and Russia. Russia is selling India a significant quantity of weapons. Nuclear energy and the growing tourist traffic between the countries are also worth mentioning as areas of cooperation.

Russia and the United States. Historically, Russia and the United States have kept their distance from each other. Areas of cooperation have always been sought, but the relationship has for the most part been pragmatic and interest-based. In its for-

ign policy, Russia often strives to copy the United States' foreign-policy behaviour, while emphasising its own style and different approach.

Trade between the countries has thus far been minor. U.S. firms nevertheless increased their investments in Russia by almost 50 % in 2005. The bulk of new investments have been targeted outside the energy sector.⁷ Russia is particularly interested in U.S. technology, but the United States sees Russia's potential in technology development as well. The aircraft and automobile industries are also sectors that interest American firms in Russia. Collaboration is already taking place in the energy sector and, if Russia intends to become a producer of liquefied gas in the future, the United States will be its primary market area. The United States and Russia are working together over the issues of nuclear energy and nuclear weapons, but differences of opinion also exist between the countries in these fields. The war against terrorism, which both countries have declared they are waging, has been both a unifying and a dividing factor. It has not engendered close cooperation or brought the countries closer together, but it has provided the foundation for a strategic partnership between the countries.

Finland and Russia. Relations between Finland and Russia have always stood on a firm foundation. There are 73 basic agreements regulating cooperation between the states, covering all spheres of life. In the 2000s especially, levels of trade have grown extremely rapidly, and Russia has become Finland's most important trading partner. From January to September 2006, 10 % of Finland's exports went to Russia, while 14.6 % of Finnish imports came from Russia. Finland is Russia's 12th -most important trading partner. In addition to bureaucracy, it is the growth in trade and transit shipments that is creating familiar frontier-crossing problems, with vast queues of lorries at the border.

In 2005, the Finns made about 300 000 pleasure and business trips to Russia, while Russians spent 500 000 nights in Finland.

⁷ Interview with William J. Burns, U.S. ambassador to Russia, *Ekspert* magazine, 11 December 2006.

Defence

The plan approved by the Putin administration has established seven main missions, as follows:

- prevention of a major war
- participation in a regional war
- participation in a frontier skirmish
- protection of economic interests
- protection of important transport links
- the war against terrorism
- alliance obligations.

A strong military and, especially, strategic nuclear weapons guarantee the prestige that goes with Russia's superpower status and represent a trump card in foreign-policy negotiations, as well as an effective means of pressure, if needed. Decisions respecting use of the armed forces - such as anti-terrorism measures, preemptive strikes outside the country's borders, preparations for war, declaring a state of war, and the conduct of war - are taken in Russia's Security Council, under the president's leadership. In addition to the president, the minister of defence and the head of the general staff hold the most important positions in military affairs.

The experience that has already been accumulated over almost ten years in the war against terrorism in Central Asia's Tajikistan, as well as in Chechnya in the North Caucasus, has had a major impact on the tactics and training of Russia's armed forces. In that time, both troops and staff have been rotated, so that combat experience has been obtained by special forces, as well as by elite paratroop and marine units. Since 2002, operations in Chechnya have been under the command of the Russian Interior Ministry, although a large number of armed forces units continue to take part in military actions.

Russia's armed forces are divided into ground forces, the air force, the navy, and three independent forces under the general staff's direct command; these independent forces are the strategic missile forces, space personnel, and paratroopers. In the wake of the reforms of the 1990s, active-duty personnel total 960 000, with 2.4 million in the reserves.

For the Russian army, the 1990s were difficult because of a shortage of money. With the strengthening of the state's finances, the army's budget has increased, however. Russia's 2007 defence budget was \$30.7 billion, representing a growth of 20 % over the 2006 budget. The actual sum devoted to all military expenditures was

an estimated \$61.5 billion as early as 2004, computed in terms of PPP (purchasing power parity). Russia's weapons procurement appropriations for 2007 total about RUB 734.6 billion (€21.5 billion), representing a growth of 30 % over 2006.

Cooperation between Russia and NATO started in 1991, when Russia joined the North Atlantic Cooperative Council. Since then, Russia has taken part in numerous NATO peacekeeping operations. The cooperation was stepped up in 2002, when a separate NATO-Russia Council was established. The council's central concerns have included, among other things, to the question of defence against terrorism.

3. PROBABLE FEATURES OF RUSSIA'S FUTURE DEVELOPMENT

Economic and population trends

In 2017 Russia will still be the world's largest state, encompassing the entire northern part of the Eurasian land mass. The country's political and business elites will probably stress maritime east-west connections. In the country's internal economic and transport policy, care is being taken to preserve the economic link between east and west. In the years immediately ahead, the growth of Russia's economy is likely to remain strong, but will probably slow down somewhat. The rate of growth for the immediate future is generally estimated at 3-6 %. Reflecting productivity and structural trends since the 1998 crisis, this figure is clearly higher than estimates which were made only a few years ago. The exceptionally large differences in the economic forecasts reflect the extent of uncertainty.

The change in the real exchange rate of the rouble also has an impact on international comparisons made in foreign currencies. The rouble is likely to continue to get stronger in real terms for several years, but not at the same speed - almost 10 % - as has been seen in recent years. Russia's economy may well, then, grow at about 10 %, measured in foreign currency. For this reason it is very possible that in five years time Russia's economy will be about the eighth largest in the world - approximately the same size as Italy's. It is difficult to make predictions about economic growth further into the future, or about real exchange rates.

Russia's imports may grow even faster than this because, in addition to the growth in nation-

Figure 4. Russian population 1979-2026, in millions. Source: UN Population Programme.

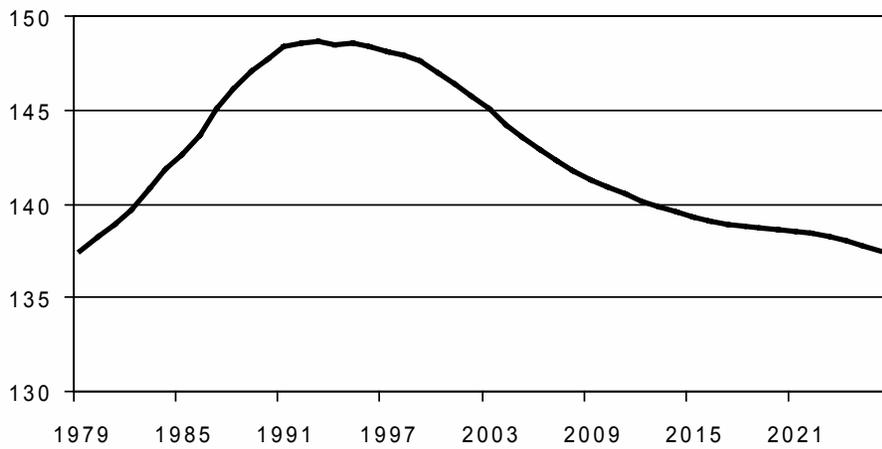
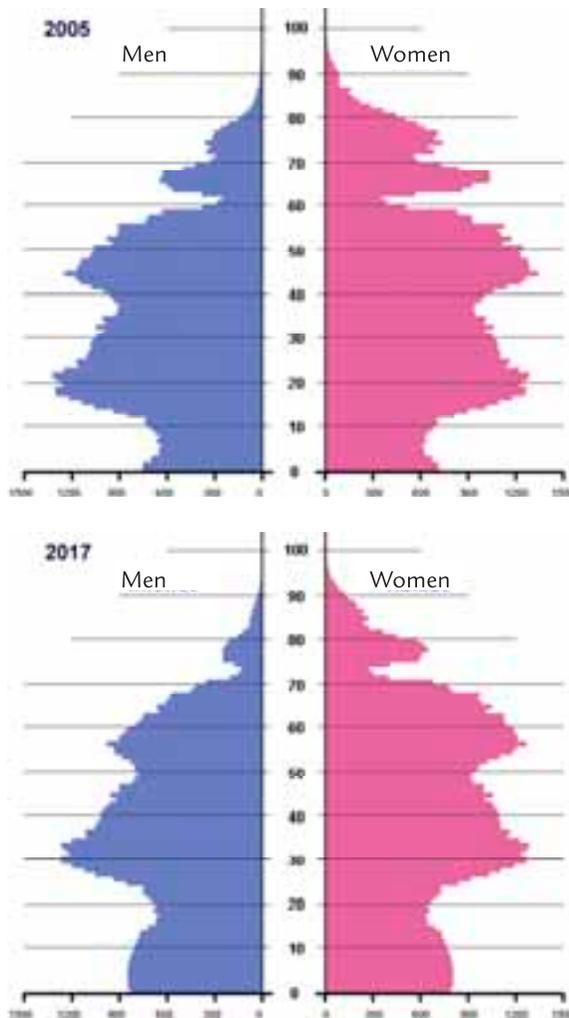


Figure 5. Russia' demographic pyramids 2005 and 2017



Source: Rosstat

al income and the strengthening of the rouble, a growth in the propensity to import – which will be discussed later – may have a further effect on imports. On the other hand, the strengthening of the rouble in real terms will interfere with the price-competitiveness of exports.

In the first years of the millennium, Russia's oil production grew at almost 10 % a year. According to official forecasts, however, production of both oil and gas may grow by only about 2 % annually in the years immediately ahead. If the trend of recent years continues, in 2017 Russia's energy production will be in decline. Since Russia's exports depend crucially on energy, the surplus in the balance of current accounts threatens to melt away in a few years. Domestic consumption of oil is growing and the growth in oil production is slowing, so that the trend in the volume of exports will turn downward if there is no substantial enhancement of domestic energy efficiency. Given the same conditions, export volumes of natural gas will also tend to decline. On the other hand, the continuing rise in world market prices for energy would probably compensate for a possible reduction in exports.

In order to remain a strong player in the world energy market, Russia has to increase energy efficiency and the added value of energy production. For Russia's export capacity to grow, the country will, above all, have to make its domestic energy utilisation significantly more efficient. Possible investment in new energy sources will not have made much impact in ten years time. By contrast, energy conservation would reap immediate dividends.

Some of the other factors influencing future developments can be assessed with high confidence; others are uncertain. Six problematic trends are highly probable.

1. The decrease in population will continue. Russia's population peaked in 1992 at a bit more than 148 million. The figure is now just over 143 million and, according to the forecast by Russia's Federal State Statistics Service (<http://gks.ru>), Russia will have 139 million people in 2017. Some sources predict even faster shrinkage: the UN's estimate of the 2017 population is about 135 million (<http://esa.un.org/unpp>). These predictions are especially sensitive to assessments of the cross-border mobility of the population. At the same time, the population will be-

come older, since it is assumed that the life expectancy of both genders will rise, while still remaining below the peak of the early 1980s.

2. The relatively large age groups born at the end of the 1980s give Russia a demographic grace period of about ten years. By 2017, the size of the age groups reaching working age will drop to less than half of what it is now. The pressure to adapt in the labour market, education and, for example, the armed forces will be substantial. Since, after ten years, the dependency ratio will weaken rapidly, current pension arrangements will not suffice in the absence of new measures. Russia's multicultural tradition means that, in future, the country will continue to remain a destination for immigrants from other CIS countries in particular. Further, Russia can try to coax the approximately 25 million Russians living outside the country into returning to Russia. Because of the demographic change and the strengthening of the rouble in real terms, the Russia of 2017 will no longer be a low-wage country. This will attract other immigrants - Chinese, for example - in addition to expatriate Russians.
3. The society's ability and desire to adapt will come under strain. Signs of this already exist. In the more distant future, the majority of children may well be born to Muslim families. Russia will be forced to reconsider its identity.
4. The profound divisions in Russian society will continue. Income and wealth differentials between population groups and regions will rank among the highest in the world. At the same time, however, the middle class will continue to grow. This will lead to a shift in the structure of consumption and investment, towards goods and services typically used by the middle class. The development of the financial system will help to sustain growth in both consumption and investment. Greater affluence is directly related to the demand for products produced outside Russia and so leads to a growth in imports. The rate of growth in imports - as determined by growth of national income, the strengthening of the rouble in real terms, and an increase in the propensity to import - will perhaps be two or three times the rate of growth of national income. The surplus in the balance of current accounts - now huge - is likely to melt away in a few years time, or in about ten years at most. Paying for the in-

creasing flow of imports promotes a new type of structure for exports. Diversification from natural resource-based products towards high value added products is a probable development. As long as the growth of imports continues, it also promotes the international connections of the growing middle class.

5. The population will continue to shift from outlying regions towards the big cities. This will diminish the need to maintain the infrastructure located in the outlying areas – an infrastructure inherited from the Soviet Union. On the other hand, this trend will pose increasingly difficult challenges for the ability of the largest cities to integrate the new population. Regional income differentials will grow. The fundamental regional development question is, what will happen to the industrial base that medium-large cities have inherited from the Soviet Union? Cities of this sort are often dependent on one or two production facilities.
6. The capital stock and infrastructure that the Soviet Union left behind will continue to deteriorate. This will often take place even though the rate of investment is gradually growing, and that growth is likely to continue. The rate of investment is, however, only a bit under 20 %, which is significantly lower than in other fast-growing economies. The transport network, the availability of energy, and utility technology may limit growth, at least regionally. In many places the condition of the environment will deteriorate further. On the other hand, a country that is developing relatively slowly can benefit from the latest technology, products and operating methods. In terms of its basic elements, the economy will thus become more disjointed. This also applies to intellectual capital. In 2017 Russia will probably be more of a class society than it is today.

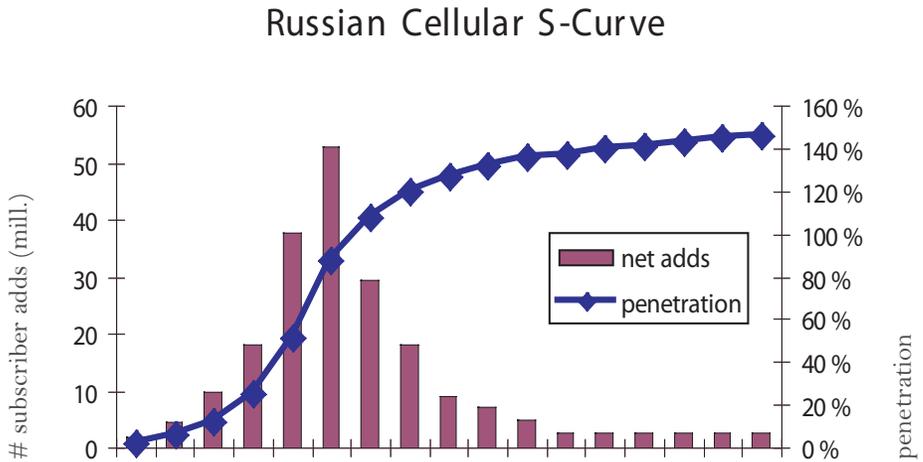
More positive trends are:

1. General awareness is on the rise. Russia's experts and political leaders are conscious of problematic trends. International experience indicates, however, that it will be difficult to exert an influence on many of these. For example, an active policy of importing labour would run up against social problems. Even if it fares well, revitalisation of the system of innovation will not produce the desired results quickly. It

is also evident that the elimination of inefficiency, despotism, and corruption will not happen overnight, however desirable that may be. Generally this can only be achieved with democratisation and the maturing of civil society.

2. Russia is among the “net winners” from climate change. For Russia, the net impact of climatic warming is likely to be positive, at least in the next few decades: Russia is in a strong position in negotiations on the global control of global warming. On average, agricultural conditions will improve, and the opening up of a northern maritime route will become more likely. The southern parts of the country will suffer, however, and the melting of permafrost may lead to unpredictable problems for the country's energy production and travel in northern areas. The warming of the northern regions will not, however, make much difference to the trend for the population to become concentrated in the more southerly areas.
3. Russia is actively developing the ICT sector, whose role in Russia's economic revitalisation has been referred to in the preceding chapter. In the Russian government's and policies for the future, emphasis has been put on the ICT sector as an area of strategic importance. It has been identified as an area of strategic importance for the next five years. The Russian government has already contributed \$2.6 billion to the 2002-2010 Electronic Russia Programme, with the particular objective of making Internet utilisation and new e-services (e-commerce, e-education, e-government) available for businesses and citizens. The ICT sector can promote the development of other sectors and create the conditions for a more egalitarian society. Mobile information technology enjoys a key position in Russia, given the very sparse population of its vast regions. Mobile technology can also provide citizens with increasingly equal opportunities for living and working outside the major centres of population. With this technology, as compared to fixed-network technology, Russia can rapidly extend coverage to wider areas. In addition, the transfer speeds of mobile technology will increase, which will allow for new services (the mobile Internet, etc.) As Figure 6 indicates, Russia surpassed 100 % cell-phone penetration in 2006; in other words, Russia now has more cell phones than citizens.

Figure 6. Trend in number of cell phones in Russia.



Source: Megafone and other Russian cell phone providers.

Priority National Projects advancing health, education, agriculture and housing

In the autumn of 2005, Russia’s Duma embarked on an important social policy initiative by deciding to spend approximately RUB 400 billion (about \$15 billion) on Priority National Projects over the next few years. Under these projects, the state is aiming to advance healthcare, education, agriculture and housing in Russia. According to a recent estimate, investments in the programme surpassed RUB 120 billion in 2006. According to an announcement by First Deputy Prime Minister Dmitry Medvedev, RUB 251 billion will be devoted to the programme in 2007 (Prime-Tass, 3 October 2006). Healthcare will receive an additional RUB 130 billion in investment, financing for housing an additional RUB 50 billion, education an added RUB 48 billion, and agriculture another RUB 23 billion.

The programmes represent a new direction in Russian policy, and are based on an approach to solving acute problems using the state’s exceptionally large oil and gas revenues. They indicate at least a temporary shift in the “American” ideology of earlier Russian governments, which emphasised the responsibility of local communities and the citizens themselves for social security. Welfare services were formerly left to the re-

gions, municipalities and citizens themselves, but now the state is again assuming responsibility for them. Funds have been used, or their use has been planned, for the following purposes:

- In the health project, funds have been utilised to equip existing health centres better and to build new health centres. Salaries for healthcare personnel have been raised dramatically. The minimum salary for physicians has been increased to RUB 10 000 (about \$400), nurses’ salaries to RUB 5000. In addition, funds have been earmarked for up-to-date technical equipment.
- Salaries for teachers of large classes have been raised by RUB 1000, and each of 3000 schools has been given a million roubles for the acquisition of teaching equipment. It is estimated that in 2008 as many as 20 000 schools will be able to use the Internet and distance learning programmes. In the schools and universities, special support is being given to gifted pupils. A stipend of RUB 60 000 has been pledged to each of 5000 schoolchildren and students who perform interesting and promising research work. The salaries of doctors working in universities are also being raised.

- The acquisition of homes by young families has been supported with a system of credits. In 2006-2007, the state will aid housing acquisition by more than 25 000 young professionals working in rural areas. According to Medvedev's estimate, 110 000 young families will be able to improve their housing conditions within 2 years with this subsidy.
- In agriculture, aid has been provided especially for investments related to energy consumption.

In the health sector, financial intervention by the state in services formerly managed by municipalities and regions is opening up new possibilities for national public health campaigns, among other things. In practice, however, the state's increasing assumption of responsibility for welfare services has suffered from fits and starts. Soon after a speech on the topic by Putin, Russia's Prime Minister Mikhail Fradkov signed a decree under which, from 1st January 2006, citizens would have to pay 100 % compensation for the municipal services they receive. This decree was promptly repealed, however.

The instability of policy provides one possible explanation for the great suspicion voiced by the citizenry in opinion surveys on policy programmes. At the end of November 2005, an opinion research institute asked a sample of 2100 individuals representing the entire country and its various age, gender, and educational cohorts

whether they believed that health, education, agriculture and housing, each considered separately, would improve in the next 3 years. In the case of each programme, at least 58 % expressed doubts about its implementation. The smallest number believed that agriculture would improve, with about 62% expressing doubts.

Some Western observers have predicted that Russia's administration will be forced to abandon "populist" programmes and return to its former liberal policies. However, since the programmes are very strongly tied to the name of President Putin, who initiated them, the pressure to implement them successfully is strong from the standpoint of maintaining the present administration's prestige. Seen from the Nordic or Finnish perspective, a controlled economy, in which the state takes firm responsibility for public health and education, does not appear as impossible as it does from the American vantage point.

The political system and the field of parties

It is difficult to assess whether Russia's political and party systems are developing in the direction of fundamentally greater stability. The essential question is, to what extent is the formation of parties taking place from below, based on the interests of the people, rather than from above, based on the interests of the state and the leaders who determine that interest?

Table 5 Parties represented in the Duma.

Party or coalition	Percentage of votes	Seats in Duma
United Russia	38 %	222
Communist Party of the Russian Federation	12,8 %	51
Liberal Democratic Party of Russia	11,7 %	37
Rodina (in coalition with Party of Russian Regions, People's Will, and United Socialist Party of Russia)	9,2 %	37
Yabloko (Russian Democratic Party)	4,4 %	4
Union of Right Forces	4,0 %	3
Agrarian Party of Russia	3,7 %	3
Coalition - Russian Pensioners' Party and Russian Social Justice Party	3,1 %	1
Coalition - Party of Russia's Rebirth and Russian Party of Life	1,9 %	1
People's Party of the Russian Federation	1,2 %	16
Others	10 %	75
Total	Voter turnout 54,7 %	450

Source: Russian Election Commission.

The 2007 Duma elections will represent a turning point that will reveal what shape the field of Russian political parties is assuming, and how the changes made in the political system during the present Duma's term will affect that field.

A number of changes have already been made in the Duma's voting procedures and the elections law. Single-mandate seats have been eliminated, and a candidate can only be returned from a party list. Representatives returned from the list of single-mandate candidates in the 2003 Duma elections occupied a crucial position in giving Russia's biggest party, United Russia, a two-thirds majority. A number of deputies who had been returned from single-representative electoral districts joined the party's group after the election. At the same time, however, these deputies, who had come to the party from single-mandate seats, weakened its credibility, as well as the image of a unified party: in the Duma, the power of Russia's largest party is founded on deputies who did not represent it in the 2003 elections.

In a second change, "against all" votes will no longer be accepted, as they have been. These have generally been perceived as the Russian opposition's real votes - as providing a picture of Russians' actual feelings about politics and the central administration. In an opinion survey conducted in June 2006, 54 % of respondents considered the opportunity to vote "against all" as necessary. As many as 83 % of respondents who also said they voted saw the opportunity as important. Of them, 31 % said they had availed themselves of that opportunity when voting. Administration representatives such as Boris Gryzlov, the Duma's speaker, have said that the reform's intent is to nurture the citizenry in a more responsible political life, rather than to suppress the opposition's voice.

In the next election, a third change in the elections statute will mandate a threshold of 7 % of votes, rather than the current 5 %, for a party to receive seats in the Duma. It has been predicted that this change will keep the liberals' Western-oriented parties out of the Duma. Russia has six Western-minded groupings or parties. In the 2007 elections, a big question will be whether the different groupings will be able to combine their forces. As discrete groupings, the liberals will not have a chance of reaching the vote threshold. Although the raising of the threshold to 7

% was criticised severely in conjunction with the reform of the electoral law, the vote threshold is, for example, 10 % in Turkey, which is seeking EU membership.

The fourth noteworthy change lowered the minimum number of parties which must be represented in the Duma from four to two.

Although Russia has a multiparty system, there is no prospect that that system will evolve in the direction of a parliamentary democracy in which the parties that have won the election form a government. Russia is stabilising as a system in which the president's authority is extremely strong - in which the government is responsible to the president above all. As in other countries led by a president in similar fashion, this arrangement, in Russia, is eating away at the parties' credibility in the eyes of voters.

The dominant party, United Russia, also stabilised its position and, after its 2003 electoral victory, emerged as a clear winner in regional elections held during the 2003-2007 term. Further, Russian society's political-administrative elite is clearly looking to join the party, which says it has reached 1 200 000 members. Although United Russia claims that it has turned the direction of society's development towards more stable conditions, major challenges still lie ahead. These include reforms that would increasingly ground Russia's economy on innovation and high technology, the elimination of corruption, and the resolution of the threat of a demographic catastrophe. At the same time, in the party's opinion, major social problems await solution.

The specific idea of sovereign democracy has also been developed within United Russia circles. In February 2006, Vladislav Surkov, President Putin's deputy chief of staff, introduced a state ideology concept that he also considered suitable as a party ideology. According to Surkov, Russia is committed to the universal values of democracy, but is implementing them on the basis of its own model - on the basis of Russia's history and identity. Russia wants to turn back foreign attempts at influence and reserves the right to defend its own national interests in the world. The idea of a Russia led by one powerful party occupies a central position in Surkov's ideology. The elements of the economy that are crucial to the state would be nationalised. Surkov's ideology has been characterised as nationalistic, collectivist, and focused

on the power of the centre. In June 2006, in the context of Russia's superpower status, there was also discussion within party circles to the effect that a state can only have one correct state ideology. However, Russia's 1993 constitution (Article 13) clearly forbids a single state-supporting, ruling ideology.

Because of the restrictions established by the constitution, Surkov's ideology of sovereign democracy is not adaptable as an official state ideology, but as United Russia's ideology it may become the state's de facto ideology. It has to be noted, however, that not everyone in Russia sees sovereign democracy as the answer to the country's political problems. There are also differing assessments of Putin's own viewpoint. He has neither condemned nor supported Surkov's concept directly. First Deputy Prime Minister Medvedev has criticised Surkov's concept and said that he would rather speak of democracy without adjectives.

The party known as a Just Russia, born in the autumn of 2006 as a fusion of Rodina, the Pensioners' Party and the Party of Life, aims to become a counterweight to the dominant party, United Russia. A Just Russia has also made it clear that it supports the president's policies, but it harshly criticises the rest of the power elite. A JustRussia advocates a centre-left policy that stresses social security and the right to a job. Rodina has also made attempts to work together with European centre-left parties - in practice, the Social Democrats.

The strongest element in the new party, Rodina, came into being before the 2003 Duma elections, with the presidential administration's assistance, in order to split off some votes from the Communists. It is natural, then, that a clear role has also been reserved for the new party in the corridors of power. Surkov has outlined a position for A Just Russia as a sort of left leg on which society can stand if the right leg gives way. A Just Russia's position as a project of the power elite is underscored by the fact that Sergei Mironov, the speaker of the Federal Assembly's upper house or Federation Council, was chosen as the party's chairman, just as United Russia's chairman is Boris Gryzlov, the Duma's speaker.

Rodina won surprising favour in the 2003 elections, and with that support its policies began to conflict more and more with those of the presi-

dent's administration. As a clear result, the party's leader at that time, Dmitry Rogozin, formerly a trusted ally of Putin's and chairman of the Duma's Foreign Affairs Committee, was forced to give up the party's chairmanship. Since Rogozin's resignation, however, the party has remained a strong player in Russia's political arena and its membership has swelled.

Throughout its existence, Vladimir Zhirinovskiy's Liberal Democratic Party has, at the end of the day, supported both President Yeltsin and President Putin. More and more, the Liberal Democrats have become one man's party and have had a hard time presenting themselves as an opposition force - if indeed they have ever been such. The party may however fill the place that, elsewhere in Europe, belongs to the xenophobic Far Right.

From the point of view of the authorities, opposition parties created from above always face the danger that they begin to live their own lives and can thus form a genuine challenge to the dominant party. However, as long as the Russian government is appointed directly by the president and is not based on party politics, even a popular opposition party poses no threat to the position of the power elite. In the best case it does, however, create balance, contributing to an atmosphere in which state institutions can also develop and, slowly but surely, the principles of a state founded on law become integrated into the state's practices.

The Communist Party of the Russian Federation continues to be the most important parliamentary opposition force challenging the political elite. The Communists enjoy a strong national organisation and broad support. They appeal above all to the populace's poorest element, to pensioners, rural residents and those who feel they lost the most when the Soviet Union collapsed. The Communists' extremely tough rhetoric about capitalism and the destruction of Russian civilisation has however lost its bite, since it lacks objective evidence in contemporary society.

The rightist-liberal opposition has in practice wiped itself off Russia's political map. In part, rightist liberals criticise the Putin administration in the same way as many Western countries: the media are censored, the market economy has become administrative, proper-

ty rights are being curtailed while nationalism and xenophobia raise their heads. The rightist opposition's cumbersome role is to continue defending the economic reforms of the 1990s, reforms that gave birth to a group of wealthy oligarchs even while a large proportion of the people sank into misery. This also destroys the rightist liberals' chances for success in the upcoming elections.

Russia's evolving democracy suffers from the same problem seen in all Western countries: in elections, citizens are turning their backs on political participation more and more clearly. Voter turnout in both Duma and regional elections has been extremely low. In the regional elections held in the autumn of 2006, well under half of all citizens exercised their right to vote. A great portion of Russians are more interested in raising their own standard of living and increasing the general predictability and stability of life than in deliberating the evolution of popular power. Political alienation gives those holding power the chance to take society in the direction they want.

Prospects for the armed forces

It appears that the budget for Russia's armed forces will grow throughout the period under examination. There is room for such growth, since oil and gas revenues are constantly swelling the state's coffers. In 2006, the armed forces' budget totalled about €21 billion, or 10 times Finland's defence budget. During the period under examination, annual growth in the armed forces' budget will likely continue at a rate of 3-5 %, depending on economic circumstances and the political trend.

The rearmament programme approved by Russia's government is aimed at the year 2015. The programme's objective is to create powerful armed forces that will be able to participate in one global war and wage one regional and several local wars simultaneously - the so-called 1 + 1 + N principle. The programme also seems to concentrate on the modernisation of cold-war period armaments, such as tanks, artillery, and air power. In the realm of conventional weaponry, Russia is not even trying to answer the challenges of the United States' high technology; rather, it appears to be focusing more on the incremental improvement and development of military technology. In the background

one can discern, among other things, preparations in the face of the conventional threat created by the armed forces of an increasingly powerful China.

In accordance with the programme, the total strength of the armed forces will stabilise at about a million soldiers during the period under examination. The preservation of conscription can be viewed as the most likely alternative. In conformity with the programme, mandatory military service will last a year and will be performed by about 300 000 conscripts annually (cf. 30 000 in Finland). Of the total force level, 140 000 troops will serve as the standing army. These standing preparedness forces will be ready to commence execution of their first mission within 24 hours.

Plans call for variable preparedness forces with a strength of 500 000; these troops would be ready to execute a mission in 7 to 10 days. In addition to the million-man army, Russia would have strategic reserves made up of citizens under 35 who have completed their military service. The planned strength of the strategic reserves is 3 to 4 million; their mission readiness would vary from 1 to 3 months.

In strategic nuclear weaponry, Russia's objective is to preserve parity with the United States. Bringing the nuclear weapons triad (land-based missiles, submarine-based missiles, and bombers) up to date will call for substantial investments, above all in new strategic nuclear submarines and modernisation of the air force's planes, using domestic resources. In conformity with the May 2002 Moscow Treaty (SORT), the successor to the START Treaty, the number of strategic nuclear warheads will fall to 1700-2200 by the end of 2012. Land-based (that is, silo- or vehicle-based) nuclear warheads would in this case number an estimated 800, warheads on submarines some 500, and those on the air force's strategic bombers about 400.

The Moscow accord does not cover intermediate-range ballistic or cruise missiles (i.e. those with a range of 500 to 5500 km), or short-range tactical nuclear weapons (with a range of under 500 km). The importance of short-range missiles as a holding force is being emphasised. It is likely that thousands of tactical nuclear warheads will be kept operative during the period under examination; efforts will likewise be made to improve their launch and transport platforms and accuracy. The vehicle-based SS-26 Iskander-M missile

systems could be mentioned as an example. Sixty SS-26s have been ordered within the framework of the rearmament programme. The Iskander missile is a new-generation precision weapon that can be used for delivering conventional and tactical nuclear warheads up to 400 km, and probably even farther when fitted with a light nuclear warhead.

On the basis of Chechnya, the role of the special forces and precision weapons in the war against terrorism is growing. If necessary, preemptive strikes outside the country's borders will also represent part of the new doctrine of the war against terrorism.

It appears most probable that Russia will continue to view the expansion of NATO with reservations, and will attempt by various methods to pressure countries within its sphere of interest to stay out of NATO. To counter NATO expansion, Russia is cultivating its own system of alliances. During the period under examination, NATO's plan to place parts of a missile defence system in proximity to the Russian frontier may add to military tension. In response, Russia may regroup its tactical nuclear weapons.

Rapid-response forces, for which troops from Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan have been pledged, will operate within the framework of the Commonwealth of Independent States. As an addition to these, joint military operations are being developed in the framework of the Shanghai Cooperation Organisation (Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan). The organisation's main missions include, among other things, the war against terrorism and the suppression of drug smuggling in frontier areas.

Military activity by Russia's armed forces is also likely to expand at the head of the Gulf of Finland, depending on general economic and political developments in Russia. The large oil terminals to be built at Primorsk and the submarine gas pipeline from Kondratyev to Greifswald, Germany, will augment the need for defensive functions.

During the period under examination, Finland will probably have to take a position on joint-operations exercises proposed by the Russians, which would take place on shore and in maritime areas, and whose objective would be to practise defences against terrorism, with the

aim of protecting strategic targets at the head of the Gulf of Finland. Comparable joint operations are already occurring, for example in maritime rescue and oil-pollution control exercises. Officials of both countries will in any event have to draft preparedness plans against the possibility that the aforementioned strategic targets will tempt radical groups to stage terrorist strikes in which worst possible case scenarios would be realised.

4. POSSIBLE DEVELOPMENTS OF RUSSIA

Introduction to scenarios

The previous section reviewed trends that seem very likely on the basis of past development. The economy was the main issue. Less was written about socio-political trends. These are dealt with further in the third part of the book, especially in Hanna Smith's articles. The articles highlight the importance of the year 2008 as the watershed point of the scenarios.

What are the most relevant variables for the alternative futures of Russia? As regards the economy, there seem to be two crucial sources of uncertainty: the energy sector, especially its export capacity; and diversification of the economy, again mainly in terms of the export capacity of products other than energy products.

Only 1.6% of the Russian workforce is working in the energy sector. The export of natural resources will not ensure adequate living standard for the country's still large population. The official energy statistics of the US government have projected that the world market price of crude oil will be \$62 per barrel in 2007 compared with \$60 in the previous year. It is possible that the price of oil will continue to rise. However, a recession in the world market might also result in a considerable decrease in the price of oil. Let us suppose that the world market price of oil will be 80 dollars per barrel. Even this high price level would bring in only some 1900 dollars annual income per Russian citizen.

In per capita terms, Russia's oil income is comparable to Kazakhstan's and Venezuela's, but much less than the incomes of Norway, Saudi Arabia and Kuwait, which have small populations. In this respect, Russia can never be just a petroleum economy if the standard of living is to be main-

tained near the current level. Either the Russian economy will need to produce much more jobs and products that are internationally competitive, or its standards of living are in danger. WTO membership, which now looks probable, will not make a difference.

The following six scenarios are derived from different combinations of energy export capacity and economic diversification trends:

DIVERSIFICATION			ENERGY EXPORT CAPACITY	
			+	-
	+	NEW	RESURRECTION	MODERNISATION
	+	OLD	INDUSTRIALISATION	OLD SOVIET MODEL
	-		NATURAL RESOURCE CURSE	DECAY

Energy export capacity can either increase (+) or decrease (-). The economy and exports are either diversified (+) or not (-). Diversification is possible based on either new products or on inherited Soviet sectors. The two basic dimensions seem to be highly independent of each other. Diversification would not prevent growth of energy production and exports. A real option is both the increase of export capacity and diversification (scenario 1 later). There are, however, many risks which have to be managed in this type of scenario: abundant natural resources might result in the so-called Dutch disease (real currency appreciation), deindustrialisation, large income differences, neglect of investment and undemocratic administration (natural resource curse).

Besides hydrocarbons and other natural resources, Russia has inherited from the Soviet Union a diversified industrial base and an educated workforce. In this respect, it differs from a typical petroleum state which is almost entirely dependent on oil income. These advantages provide an opportunity to avoid the natural resource curse, but they would not necessarily prevent it.

Which alternatives are especially worth assessing? The least likely is Industrialisation, in other words diversification of production based on the inherited old industry. Russian automobile and aerospace industries might develop new competitive export products. But to solve

employment problems with these products is an unlikely development.

In principle, remilitarisation of the economy is a possibility for diversification. We consider, however, that this is an unlikely alternative. The majority of Russian elites do not seem to be interested in going back to the old Soviet model. The role of the army may of course remain important, especially if it is boosted by rising nationalism. In special circumstances

(“Russia of the powerful elite” scenario later) additional income could be gained from arms exports. The problem is that long-term export success even in military technology requires high-tech skills and innovation.

Without successful diversification, the Russian economy in 2017 will be somewhere between the Natural Resource Curse and Decay. In such a situation, protectionism would increase as a means of maintaining employment.

We can conclude that there are three real alternatives for the Russian economy. They are the economic starting points of our three scenarios:

- Resurrection. Russia will be able to deliver more energy than now to its foreign customers and the share of products other than raw materials and energy in its exports will increase considerably;
- Modernisation with diversification of production and less energy export;
- Natural Resource Curse or Decay. Production will not diversify and energy deliveries to world markets remain near to the current level.

Which economic scenario will be realised obviously also depends on political and social developments within Russia. The combination of possible economic developments with the most compatible political and social developments leads to three scenarios.

Table 6 Main possibilities of economic, political and social development in Russia

Economic development	Energy export capacity +, diversification (“Resurrection”)	Energy export capacity -, diversification (“Modernisation”)	Energy export capacity same or less, no diversification (“Natural Resource Curse/Decay”)
Political and social development			
Planned diversification of economy and development from managed democracy into true democracy	1 INFLUENTIAL GLOBAL PLAYER		
Society of middle class and networks, tolerant constitutional state		2. MOSAIC RUSSIA	
Elite with power secures its own power. Not a constitutional state			3. POWER ELITE’S RUSSIA

The first two scenarios are based on effective diversification of the Russian economy and effective use of Russian innovativeness. However, the routes to innovation differ fundamentally in the scenarios. The route represented by the second scenario closely matches suggestions from the West. However, could Russian production diversify following the first scenario, too? Does the first scenario more effectively take into account the political and economic culture of Russia and its national traditions? Or would aiming towards the first scenario merely postpone the necessary opening of the Russian economy? Can the Russian economy diversify successfully only based on extensive foreign investments?

In 2006, the OECD Economic Survey of the Russian Federation (OECD 2006 p. 166-167) made recommendations for Russian innovation policy. Recommendations were made for five areas: favourable framework conditions for innovation; strengthening intellectual property rights; reforming of the state science sector; promoting private sector research and development; and specific innovation- promotion schemes (special economic areas and science parks, among other things). The most crucial recommendations can be summarised in the eight items in the table below. All OECD recommendations are essential for the Mosaic Russia scenario. However, some of them are not so important for the Influential Global Player scenario.

Brief descriptions of scenarios

The first scenario, INFLUENTIAL GLOBAL PLAYER, is seen as a positive development. In the scenario, the principles of a constitutional state are strengthened step by step through “managed democracy” and business life is diversified under the leadership of large companies. In this scenario, the large energy production companies that currently dominate Russian exports would diversify their operations into sectors that significantly increase employment. Political progress would be achieved by moving from managed democracy to a democracy that functions without being managed.

This scenario can be seen as comparable to developments in two countries that progressed in quite a short time from very authoritarian administrations to effective democracies. These countries are Japan and South Korea. Of course, the social starting point in Russia differs fundamentally from the initial phase in the democratisation of Japan and South Korea - both were occupied by the United States following the Second World War.

There is a common feature to the ways Japan and South Korea developed that in a way links them to Finland, as well. In both Japan and South Korea, diversification of the economy was based on conglomerates controlled by certain families. The families owned business clusters that expanded their operations into many sectors. In Korea, such a business conglomerate is called a chaebol. The corresponding Japanese business conglomerate is called a keiretsu. The two leading Korean

Table 7 Scenarios for diversification of the Russian economy combined with OECD recommendations for Russian innovation policy (OECD 2006)

OECD's recommendations	Scenario 1. Influential Global Player	Scenario 2. Mosaic Russia
1. Ensuring macroeconomic stability: evening up fluctuations in economic growth, low inflation	A vital starting point for the long-sighted successful development of innovations. Otherwise the risk of scenario 3 will increase.	Creates predictability for new entrepreneurship which is the engine for the economy
2. Institutional reforms to increase respect for laws, to ensure intellectual property rights (patents etc.) and in particular to decrease the burden of bureaucracy on small business	Scenario could occur, even if institutional reforms are delayed. Strong businesses that have government's support have the power to protect the rights/innovations of their subsidiaries.	Crucially important for the success of new entrepreneurs which diversify the economy
3. Facilitate technological cooperation and exchange by maintaining a high degree of openness to foreign direct investments	Transfer of international expertise and investments might be promoted by foreign partners and financiers. However, most crucial is the greatest possible freedom for subsidiaries' workforces to interact efficiently with foreign countries by using "English spoken with a Russian accent" as Esperanto language.	Openness of all sectors of the economy to foreign competition and cooperation is the key starting point of the scenario
4. Rectify the regulatory and infrastructure constraints that impede the growth of Russia's dynamic ICT sector in many regions	Not very important, focus more on further processing of energy and raw materials, and spin-off sectors from these sectors, such as energy saving in households	Highly important. The ICT sector is the key sector of the diversifying economy
5. Improve coordination between ministries and departments involved in innovation policy	Important for cooperation between government and companies in	Fully coordinated operations may be problematic, because entrepreneurship benefits from having financiers with different opinions
6. Ensure the involvement of the scientific community, the business community and civil society organisations in the determination of state priorities for funding R&D	National innovation policy finance projects in which big state-controlled companies, their new ventures, foreign experts and the Russian scientific community cooperate	Public innovation policy promotes different types of initiatives and diversified interaction between various parties representing many voices
7. Facilitate the development of private venture capital companies	Venture capital is channelled mainly through subsidiaries of large companies. They should have the possibility of independent and innovative decision making	Essential to support venture capitalists who evaluate new innovations as neutral and are open to new opportunities
8. Critical evaluation of special economic zones and technoparks. Proceed with caution in expanding such programmes.	Technoparks are suitable places for new venture subsidiaries. Attractiveness to foreign workforce is essential.	Special zones might create problems concerning equal treatment of companies in special areas and elsewhere

chaebols are well-known brands worldwide: Samsung and Hyundai. The Japanese keiretsus are at least as well known: Mitsubishi, Mitsui (including Fuji, Toshiba, and Toyota), Sumitomo (including Mazda), Fuyo (including Canon, Hitachi, Nissan, and Yamaha).

The role of certain Finnish families, especially

as developers of the Finnish forest products industry, can be considered comparable to chaebols and keiretsus. The Finnish forest products industry has played a key role in the development of the electronics industry, among other things.

Clearly, diversification based on large Russian energy companies cannot directly be modelled on

chaebols or keiretsus. In fact, chaebols and keiretsus differ from each other considerably in the way they operate (Chaebol - Wikipedia, the free encyclopedia):

- Chaebols are still to a large extent controlled by the founding families, whereas keiretsus are controlled by professional managers;
- Ownership of Chaebols is concentrated, whereas keiretsus have cross shareholdings in each other;
- Chaebols are protected from banks' ownership, whereas keiretsus operate in close cooperation with the owning banks.

The Russian energy sector requires very little employment to maintain its operations. However, construction of the energy sector infrastructure, and manufacture of the machines and equipment required in this sector employ many more. In a country of vast distances, one might imagine that labour-intensive offshoots such as communications or the manufacture of new types of vehicle could easily be created in the energy sector. An important starting point for the scenario is an increase in the willingness to invest. In recent years there have been signs of this. As the countries with the highest investment in Russia include Cyprus, one can conclude that rich Russians' confidence in the conditions of the country has increased.

Large Russian companies operating in the energy and raw materials markets in recent years have expanded their operations abroad in their core sectors, partly through corporate acquisitions. However, the idea of diversification into new sectors demanding high expertise is not unfamiliar. The energy giant Gazprom declares on its website (<http://www.gazprom.com>) that its strategy is based on the following principles:

- enhancing core business efficiency;
- diversifying and expanding business activities (new markets, transmission routes, products), including through high efficiency projects ensuring development of high value-added products;
- meeting the interests of all stockholders;
- streamlining corporate governance, increasing business transparency.

The starting points of the second scenario, MO-SAIC RUSSIA, are the interests and creativity of

the new middle class. In this scenario, the production structure will continue to change rapidly in Russian domestic markets. Above all, development of the service sector, which began in the 1980s, would remain strong. A large part of service sector growth has focused on the distribution of consumer products and providing consumer services for domestic markets. In this scenario, imports due to increasing consumption would not, as before, be settled through energy exports, but with services sold to international markets. Information and communications technology services and international tourism would play a key role.

This scenario cannot occur without significant opening up of Russia to the EU. The phrase MO-SAIC RUSSIA indicates that regional differences and differences between nationalities would be considered beneficial. Diversity and tolerance are appreciated values. Traditional Russian resourcefulness at the grass-roots level and creativeness would have been raised into a national strength. Even though legal formalities are strictly adhered to over major issues and international transactions, the authorities tolerate a flexible interpretation of laws and small-scale exchanges of services between acquaintances in the domestic markets.

This scenario requires that by 2017, Russia has become a democracy with many parties that respects individual rights and protects them effectively. The scenario can be combined with Russia negotiating in 2017 to become an EU member. However, it might be too bold an idea that Russia would be an EU member in 2017.

There are evident similarities between the first positive scenario and the third negative scenario. The starting point for the third scenario, POWER ELITE'S RUSSIA, is that a strong elite supported by large energy companies, the armed forces and the secret police holds power in Russia. The elite could maintain a high standard of living owing to the income from exports, even if the economic base is not diversified. The standard of living of a middle class person will very much depend on how loyally the person will serve those who belong to the elite. A large proportion of the population will live close to subsistence levels, supported by a barter economy.

The legal protection of citizens, and especially equal treatment in court and personal safety, will not be achieved. Power will be maintained by emphasising national values and national security. The

media will present any foreign interference in Russian matters as hostile and Russian problems will be explained as due to hostile interference (such as spying or sabotage). The elite will encourage intolerance of national minorities by directing citizens' dissatisfaction against them. The media will be controlled by the elite. Dissidents will be stifled.

There now follow the scenarios written from the viewpoint of the year 2017. As is typical for the scenario method, we assume that the writer is an "eye-witness" from the year 2017.

Scenario 1:
INFLUENTIAL GLOBAL PLAYER

*Scenario written by eye-witnesses
from the year 2017:*

After more than 10 years of uncertainty and searching, Russia's economy began to grow quickly with capital accumulated through high energy prices. Russia's investments, whose level at the beginning of the 2000s was less than 20 % of GNP, rose sharply after 2008. Large energy companies occupying a monopolistic position served as the economy's engine. The state's share of ownership in these companies is large, but in practice it is professional managers in Russia's political leadership, and their immediate circles, that exercise most control over the companies. Among other incentives, they are motivated by partial ownership of the companies.

Professional managers and investors have also emerged from those people who earlier invested their resources abroad. The key starting point for economic prosperity has been the innovative subsidiaries launched by the big energy companies. Russia's top state leadership and leading figures in the monopoly companies realised that diversification of production was crucially important from the standpoint of both the companies themselves and Russia's economy.

The energy companies' professionally competent management realised around 2008 that their ability to accumulate profits in the energy sector over the long term required an expansion of operations into areas tangential to the energy sector - such as energy technology equipment and vehicles. To be able to export more energy abroad, the companies had to do something about the wasteful consumption of energy in Russia and look for new energy sources.

Large companies started new ventures in ar-

reas tangential to the energy sector. For example, new firms are selling solutions and technologies with which energy can be conserved, such as home insulation and appliances and equipment that use less energy. Through their monopoly position, and because of their close relations with Russia's central government, in practice the companies have found it easy to pressurise and just force their customers to begin using the subsidiaries' energy-saving products.

The skilled managers of the new firms have realised that the development of competitive solutions requires foreign expertise. So they have hired many experts from the EU area. Many Finnish experts have been hired because Russian firms tend to consider that large European and US companies are risky partners. The Russian firms are afraid that large global players will take away the benefits of their innovations. Close cooperation between Finland and Russian firms in the field of education has also promoted the use of Finnish experts. Although Russia joined the World Trade Organization (WTO) in 2008, this did not get in the way of the firms' monopolistic operations. It has been difficult for the authorities overseeing the WTO agreement to demonstrate that discrimination against major competitors was being practised in favour of the companies, which were in principle independent of the state.

Russia's huge area and very diverse reserves of raw materials have provided excellent opportunities for new energy-technology innovations, both for the introduction of new energy sources and the more effective exploitation of old ones. As already mentioned, new developments have by no means been restricted solely to energy-related applications. One target of the expanded operations has been the forest products sector. Russia has become one of the world's centres of wood processing and the forestry industry. Russian firms control a large part of the world's forest resources. Russia is developing its own technology, learning from the technology in use in Western countries. The aviation industry has been another highly developed area. Russia is investing heavily in civilian applications of its military technology.

Russian creativity, the use of which had been largely rendered impossible over the long period of uncertainty, is now in use in the liberally funded research and development units of the big energy companies and their subsidiaries. Although

Russia otherwise continues to shun strong foreign influence, possibilities have opened up for researchers and developers in the new venture firms for an extremely diverse interaction with the international research and development community. It is understood that only completely free communication between experts can result in important innovations. In order to facilitate effective international interaction, everyone working in the R&D units has to be eager to communicate in “Esperanto English”.

The development units with their free communication appear gradually to be evolving into something which goes beyond just the driving force of innovation in the Russian national economy; they are also increasingly the places where Russia’s new leaders are to be found. It is no wonder that young Russians are now, in 2017, competing for these jobs just as young Japanese have competed for places in the product development units of keiretsu companies. It is also interesting that young people from abroad are very eager to work in these “innovation factories”.

Looking at individual energy sources, conventional oil is seen primarily as a transitional form of energy that is financing investments. Investments have been made especially in the transport infrastructure for oil and in making its supply more efficient. Gas serves as a source for financing investment, but is also a central target of investment. Gas poses a particular challenge for the development of superior new extraction technologies (for example with gas reserves in regions of permafrost). Russia continues to invest very heavily in nuclear power, although scepticism towards nuclear power has been expressed more and more boldly in recent years. Russia continues in pursuit of its aim to export electricity produced by nuclear power. Since the EU countries in particular remain critical towards the importation of electricity from Russia, in recent years investments have been made into opening uranium mines.

More and more criticism of traditional forms of energy is being expressed by the independent research institutions of the major energy companies. Dependence on these forms of energy is considered old-fashioned and an insult to Russian intelligence. Among other ideas, plans to transmit solar energy directly from space, using huge collecting membranes and lasers, are in fashion. More and more people are also asking the ques-

tion: Why produce new energy, when ingenious methods of conserving it exist?

Russia’s leaders have welcomed the new strategy of the energy companies for two reasons. First, the state leadership understood as early as the first years of the 2000s that Russia could peacefully maintain its influence in the world only through its exports of energy. Secondly, to avoid unemployment and to promote economic growth the diversification of Russia’s production was a necessity. In a society with the traditions of a planned economy, it was natural to use the big state controlled companies for these two purposes.

The modernisation and streamlining of education, as well as the promotion of student exchanges with EU countries are essential parts of the strategy being pursued. Besides the diversification of the energy sector, the influence of education has begun to show itself in various forms of entrepreneurial activity, for example offering IT services. Thus far, however, this increase in entrepreneurial activity has been quite modest and has been directed almost exclusively at the domestic market. In particular, the bureaucratic control of international interactions continues to hinder the supply of services internationally.

Recently the new generation has taken to questioning the authoritarian administration more and more, demanding broader freedoms of expression and enterprise. People have started to ask whether it is essential for Russia to stick to a managed democracy. More and more individuals are beginning to believe that augmenting genuine democracy will no longer lead to the sort of chaos that was experienced in the early 1990s. Others feel, however, that Russia continues to suffer from such great tensions - for example those based on huge income differentials - that it is not yet possible to tolerate a democracy that might challenge the strong state leadership that is acting on behalf of the nation’s interests. When Russia became a member of the WTO in 2008, it consented to changing the structures of its internal and external trade to fit in with the world economy by eliminating, among other things, laws and administrative regulations that discriminate against foreign entrepreneurs. In part these changes have remained dead letters, however.

The population trend has turned positive, providing a foundation for a resurgent Russian nationalism, which at times has been expressed in

conflicts with national minorities. For example, there is still a strong demand for transparency in the financial support given by foreign civic organisations to Russia's civic organisations. From the point of view of the exploitation of energy resources, a difficult problem has been the depopulation of large regions of the north and east. In the new Russia the old Soviet-style subvention policy is not in favour, even though the efficient utilisation of reserves of raw materials would still require some subvention. A big problem continues to be inequality between cities and the countryside, an inequality that results from decades of policy discriminating against rural areas and agriculture.

The country is more and more clearly divided into four types of area. First are the large centres of population. The most important of these are those centres in which the head offices of new conglomerates (energy firms and their subsidiaries/new ventures) are situated. The bulk of the conglomerates' research and product-development activity is concentrated in the large centres, and especially in those where there are educational institutions that provide high-quality schooling. Moscow has maintained its strong position because of the location there of the supreme state leadership. Second, the great majority of production activity and part of the research and development activity tangential to the energy sector are located in centres close to sources of raw materials. These centres continue to be afflicted, however, by a certain narrow-mindedness, which causes young people to move away, although improved data communications links (Internet connections) have eased the sense of isolation. Areas that emphasise a good quality of life- and personal services constitute a third group. Thus far these areas have been important primarily as places for holidaymaking. Fourth, there are outlying areas where a lot of old people live.

In spite of increased interaction, Russia still regards the European Union with a certain degree of suspicion. Despite the Union's solidification, Russia has preferred to maintain close relations with the Union's individual member countries. Most attention has been paid to neighbouring countries and the Union's big member countries.. Those countries' economic dependence on Russia's energy resources has furnished a firm foundation for Russia's objectives. Because Russia will not tolerate a unipolar world led by the

United States, it has at the same time supported the Union in order to separate it from its transatlantic link. This policy has been successful. Without united leadership, the conflict-ridden Union has provided a good field of operations for Russia's purposeful Europe policy.

Russia has increased energy-sector cooperation with China, but on the other hand China is perceived as a rival. Gas shipments to China began in 2011. The fact that the eastern Siberian pipeline has not been connected to China's oil pipeline network illustrates the suspicion that exists between China and Russia, however. Instead, Russia is selling oil to Japan and India, in addition to the EU.

The preservation of influence and economic interests in the area of the CIS has remained a primary objective, and Russia is not ready to cooperate on an equal footing with third parties in that area. For the same reason, Russia has shown no readiness to resolve frozen conflicts. On Russia's western frontier, political developments in Ukraine and Belarus have been an ongoing source of problems, since they are crossed by numerous oil and gas lines, on whose operation Russia's connections with Europe depend.

Russia's most difficult foreign and security policy problems have, however, been in the Caucasus and Central Asia. Prolonged armed conflicts in the Caucasus inflamed relations to the point that antagonisms erupted in 2012 into armed clashes that in turn led to unrest across society. The strengthening of Islam's international and demographic position is an ongoing concern for Russia's state leadership.

The budget for Russia's armed forces has grown throughout the period under review, especially in connection with the Caucasus conflict. There has been room for this, since, in spite of the major expenditure on investments, energy export earnings continue to swell the state's coffers. In 2006 the armed forces' budget was about 21 billion. In connection with the war in the Caucasus, the budget broke the 30 billion level somewhat earlier than had been planned in the 2006 rearmament programme.

In accordance with Russia's general strategic policy, one central objective of the armed forces is to support Russia's position of power in the energy market. In proximity to Finland's frontiers, the protection of infrastructure and oil and gas transport routes in the St. Petersburg area is be-

ing emphasised in the mission of Russia's armed forces, and is visible, further, as increasing military activity close to Finland's maritime and land frontiers. The big oil terminals built at Primorsk and the submarine gas pipeline from Kondratjevo to Greifswald, Germany, have added to defensive and reconnaissance operations carried out by submarines and patrol vessels.

*Scenario 2:
MOSAIC RUSSIA*

Scenario written by eye-witnesses from the year 2017:

In the first years of the new millennium, nationalism and even hatred between nationalities reappeared in Russia. Antagonism was directed especially against the Caucasian, national minorities in Russia, but also against others. The greatest single cause was the Chechnya question. When the new president took office in 2008, the possibility emerged of resolving the problems of the Caucasus in a new way. Each of the two parties to the war in Chechnya admitted to its excesses and errors. In order to get the situation unstuck, a retroactive pardon was declared for all the crimes that had happened in Chechnya, as well as unsolved crimes in Russia identified as being linked to Chechnya. Among other things, these included the bombings of apartment blocks that had restarted the Chechen war. The name of this scenario, MOSAIC RUSSIA, refers to the colourful mosaic of regions, nationalities and lifestyles. Now, in 2017, we see this diversity as positive, and tolerance has increased markedly in every way. The fact that the Islamic population is growing constantly because of a high birth rate gives rise to tensions, however.

The seeds of a new economic upturn were planted during the Putin presidency. Wages rose throughout his tenure on the strength of wealth generated by high energy prices. The expansion of the middle class in the metropolises engendered consumer demand and a growth in trade. The administration succeeded in ensuring political continuity and economic stability beyond the 2008 elections by concentrating on those issues that affected the daily life of the ordinary Russian most urgently. The implementation of reforms in agriculture, housing, education and health care, admittedly, was for the most part passed on to the new administration.

A well-educated and increasingly affluent mid-

dle class has adopted a leading role in Russia's renewal. The traditional power-holders' grip loosened when the revenue received by Russia for the export of energy declined markedly. The main reason for the energy sector's recession was the exclusion of foreign players from Russia's energy industry beginning in 2006. That led to inadequate and ineffectual investments in energy production. In particular, conservation of energy was badly neglected. A temporary drop in the price of energy brought the crisis to a head just before the 2008 elections. Not until 2012 was Russia's energy sector reopened to international firms.

Russia's stable conditions and its entry into the WTO treaty in 2008 have in recent years started a genuine foreign investment boom in raw-material and energy production, and in energy conservation. Concern has again arisen in Russia as to whether its national energy and raw-material reserves will wind up under the control of international companies.

As noted, beginning in 2008 an innovative and increasingly wealthy middle class emerged as the country's saviours. Matters were helped by the arrival in the labour market, around 2008, of the large body of young people born at the end of the 1980s. That age group's innovativeness was deployed effectively. The general increase in tolerance allowed for opening up to foreign markets in a new way. Now, in 2017, Russia is negotiating to become a member of the EU. Although entry into the EU is very unlikely, Russia has already become integrated into the world economy and functions according to the principles of the global market economy.

Russia's middle class in particular has been able to accumulate wealth with through selling services on the international market. Information and communication technology services have occupied a key position. With state investment directed towards the ICT sector, vigorous centres of ICT expertise have appeared, especially near to major population centres and universities. Start-up companies are being supported through a variety of funding mechanisms. Tax-free zones have been formed. In addition to the ICT sector, the centres of expertise have also acted as engines for the development of the rest of the high-tech sector. Several international companies are getting their research –and development work – and, still, assembly operations – performed in Russia, both for Russia's own needs and for third-par-

ty countries. In the aviation sector, the Russians have recently been able to produce amazing innovations.

Special attention has been directed towards basic education. Its level has been boosted constantly, while at the same time attention continues to be focused on the especially gifted. Russia continues to have an abundance of highly educated individuals capable of leading demanding and large projects.

The demands of the Russian state itself are boosting the development of the ICT sector, and thus the development of other business sectors as well. Launched at the turn of the century, eRussia represented the first step in this direction.

In addition to ICT and high-tech, another sector that has grown vigorously is tourism and related train technology. Russia has developed into a rail tourist's wonderland. This country of great distances has invested heavily in trains: Russian Regional Jet is already beating out ATR, Bombardier and Embraer. The significant increase in international tourism has also brought new wealth to Russia's remote regions.

Traditional, grassroots-level Russian resourcefulness and creativity have become a national strength. Although legal modes of operation are strictly followed in major issues and in international interaction, public authorities have a "flexible" interpretation of the laws and the exchange of favours between friends that occur in the domestic market. The new entrepreneurial class has been able to build its own identity as a player in society at large. Its various organisations function effectively in lobbying legislators, regulators, and various parties in the state apparatus.

It is precisely Russia's distinctive business culture that has made negotiations with the EU difficult. Russia and the European Union have, however, already agreed on the almost-free movement of labour, and on a mutual exemption from visas. Russia has defined clear rules of conduct concerning its forest resources and concluded an investment protection agreement with the European Union. Europe's main energy sector player has also become one of the world's centres for the forest products industry and wood processing: it controls a large portion of the world's forest resources and possesses the latest Western technologies. Since 2010, all of the world's leading paper and pulp manufacturers have established themselves in Russia, engendering competition which

has also led to the rapid development of the sector. A market-based Russian subcontracting, service, and infrastructure network has come into being in the sector, but, with corporate acquisitions and mergers, global players have taken over the largest Russian forest products firms.

Thanks to vigorous investment at the beginning of the 2000s, Russia's internal logistics and transport infrastructure have improved markedly. Russia's position as a corridor between Asia and Europe has opened up and continues to gain strength. Russia has also created the functional political relations and operational prerequisites needed for opening a new north-south transport corridor from a new economic power - India - through Iran and Russia to central and northern Europe. Russia has invested heavily in logistical infrastructure and harbour projects at the head of the Gulf of Finland. Russia has assumed logistical leadership in the Baltic Sea by acquiring Estonia's and Finland's leading logistics enterprises and shares of their main harbours. It has also assumed a leading position in the railways, by transporting goods between Russia and Finland, between Russia and Estonia, and in transit across Russia. In addition, Russia is taking part, along with other countries, in the direction and oversight of the traffic of Baltic goods, and in preventing harmful environmental side-effects.

Pressures for the implementation of social reforms, as well as reforms pointing in the direction of democracy and a state founded on laws, grew at once in the wake of the 2008 elections. By now, in 2017, Russia has developed into a multiparty democracy - albeit one with a special Russian flavour - that respects individual freedoms and protects them effectively.

The main point of departure for the new administration's social policy has been Russia's worrying population trend. Even before the new administration took over in 2008, long-term plans had been drafted to resolve the problems of Russia's population trend. As a result of the rise in the population's educational level and the increase in wealth, the population's health status and the conditions under which families live have clearly started to improve. The consumption of alcohol has begun to decrease substantially, especially in the large population centres. These trends have led to a drop in the death rate and a rise in the birth rate. As a consequence, the population

has started to increase.

The rise of the middle class and the improvement in the state's finances have provided a basis for a new social policy that supports population growth and strives to reduce social differentials that had become huge. The educated labour force moves freely in the domestic market and, increasingly, in foreign markets, according to demand and the most attractive employment prospects. This has led to a dizzying increase in pay for those employees for whom there is a high demand. Those who work in declining sectors or regions have, by contrast, been living very modestly.

The welfare-state model of European social democracy has not been adopted as the foundation of social policy. The American model of a support and insurance system founded on the individual's personal sense of enterprise has been better suited to a mosaic society composed of many elements. Public health constitutes an exception, however. On the basis of its own experiences and those of neighbouring countries such as Finland, Russia has decided to invest heavily in public health promotion directed at the entire population. In recent years, based on the vigorous development of information technology, electronic health care (for example, electronic patient records accessible via the Internet) has developed very rapidly in Russia.

From the standpoint of social policy, the differentials between geographic areas have been especially problematic. The developmental paths followed by Russia's regions have diverged sharply from one another. Some regions have got to ride the wave of industrial and commercial development by specialising, or by virtue of their natural riches. Big cities such as Moscow, St. Petersburg and Novosibirsk have benefited from the concentration of expertise in the ICT sector. In addition, St. Petersburg's environs have witnessed the development of a "Russian Detroit" - that is, a centre for the foreign automobile industry - that has been able to bring with it and/or create a local network of subcontractors, as well as the prerequisites for the commencement of automobile and parts shipments from Russia to other countries.

The concentration of Russia's population in the major cities has led to growing problems in smaller communities. Some areas have become impoverished and miserable because of geographic isolation, the disappearance of a primary source of

livelihood, a population flight, and the absence of investment, natural resources, and political will. Migration from former Soviet republics has eased the availability of labour in the country's frontier areas. Immigration from the former Soviet republics dried up, however, before 2010. By that time, those who had been left outside Russia's borders when the Soviet imperium broke up, and who wanted to move back, had already resettled themselves in Russia. Now, in 2017, the frontiers of Russia and the new republics have become stable and border controls are able to prevent most illegal immigration.

Keeping pace with the Barents gas project, the Murmansk area has developed into the northern Kola region's centre, and the importance of the city's harbour is growing as a support base for goods shipped via the Arctic Ocean. After initial difficulties, British companies continue to exploit the Sakhalin oil deposits. Exploitation of new oil and gas fields in the Omsk region has commenced. This has made Omsk western Siberia's industrial and commercial centre, and at the same time has led to a new divide between Europe and Asia. Russia's cooperation and relations with the Omsk region's neighbour - the oil state of Kazakhstan - are getting closer and receiving more attention. The Sakhalin, Barents and Omsk projects have shifted the focus of Russia's energy production development away from the areas exploited at the beginning of the 2000s, and have boosted the political and commercial interest of foreign players in investing in the areas' further development and the realising the financial gains to be made there.

The army's role in society has clearly decreased. In the fashion of other major powers, the army has taken on the role of "policing" the world's various trouble spots. In those tasks Russia is acting in ever-closer cooperation with NATO. In 2012 Russia stopped maintaining its army on the basis of conscription. The armed forces - substantially smaller than before - are associated especially with peacekeeping operations, both on Russia's southern frontier in the Caucasus and central Asia, and, at the behest of the U.N., in various other parts of the world.

Scenario 3: POWER ELITE'S RUSSIA

Introduction

Is this sort of scenario even possible? In this scenario, Russia is governed by fear. Over the centuries, the

Russian people have become accustomed to government through fear and repression - the Mongols' might in 14th-century Russia; the Russia of Ivan the Terrible; Peter the Great, who built St. Petersburg with slave labour; and the Russia of Stalin's persecutions. It is hardly possible that the future will hold anything comparable to these periods, although the Russian way of life would appear to include a tendency to honour those who, like Ivan the Terrible, Peter the Great, and Stalin, have fashioned an order of iron.

The scenario may represent just about no one's goal. Even for those who belong to the elite, it is not a very positive vision for the future. How could Russia nevertheless wind up with government by fear? Such may transpire if the values of mistrust, authoritarianism and an admiration for ruthless force gain the upper hand, and especially if those who hold power are also afraid.

The atmosphere of mistrust is associated with relations both within and outside Russia. In addition to interpersonal relations, in Russia mistrust may also be directed towards institutions - the justice system, the integrity of elections, the venality of officials, and the dependability of agreements between business enterprises. In an atmosphere of mistrust, the notion normally prevails that only a stupid person is honest.

Many signs of mistrust are to be found in Russia's stance towards foreigners. Foreign players are perceived as being antagonistic towards Russia, and even as the causes of Russia's problems. Particular suspicions exist of a conspiracy operating under a cloak of humanitarian values - a conspiracy that threatens Russia's state sovereignty and territorial integrity. The extension of this way of thinking to the rules governing civic organisations operating from abroad - prohibiting the activity they finance in Russia - is certainly a trend that parallels the scenario and feeds fear and mistrust.

Authoritarian values and values that idealise power advance the scenario. If an uncritical loyalty to leaders and absolute obedience to their commands are considered a value, the prerequisites are created for a course of events such as this scenario. ORDER, fashioned with a heavy hand, may be the key word that sweeps events along in the direction of this scenario.

From the standpoint of avoiding this ominous scenario, it is important that Russia's state leadership also be aware of the problem of trust. In

2006 President Putin noted that - what has become a characteristic feature of our country's political life, [is] low levels of public trust in some of the institutions of state power and in big business. The reasons for this situation are understandable. The changes of the early 1990s were a time of great hope for millions of people, but neither the authorities nor business fulfilled these hopes. Moreover, some members of these groups pursued their own personal enrichment in a way that had never been seen before in our country's history, at the expense of the majority of our citizens and in disregard for the norms of law and morality. "In the working out of a great national program which seeks the primary good of the greater number, it is true that the toes of some people are being stepped on and are going to be stepped on. But these toes belong to the comparative few who seek to retain or to gain position or riches or both by some short cut which is harmful to the greater good." These are fine words and it is a pity that it was not I who thought them up. It was Franklin Delano Roosevelt, the President of the United States of America, in 1934.

The scenario story of an eye-witness in 2017

Now, in 2017, the power-holding elite is composed mostly of those who control the secret police, the army, and the big energy companies. In addition to them, the elite includes those who work in the key positions of public administration. The economic conditions for the elite's retention of power originate, above all, in the export of energy. The elite is able to maintain a high standard of living on the strength of the export revenues, although, since 2006, the foundations of the economy have not diversified. The living standard and other living conditions enjoyed by the middle class depend largely on how loyally they serve those in the elite. A great portion of the population lives modestly, with some obtaining their primary subsistence from the land or the barter economy.

The average citizen can live quite safely if he or she avoids involvement in matters that the power apparatus considers dangerous. In addition, the average citizen naturally has to show members of the elite a humble respect and a willingness to serve. Personal security is in fact in much greater jeopardy for members of the power elite. In an

atmosphere of mistrust, there is no way to take power except to inherit or seize it from someone else. Skilful individuals are seen more as a threat to one's own power than as a resource.

An antagonistic nationalism plays a central role in the scenario. The elite has transformed criticism of itself into hatred towards other peoples both within and outside the country. It consoles those living in poverty that they can proudly say they are Russian and disparage others. Officials actively feed suspicions that foreign civic organisations are threatening order and Russianness. Wars in the southern Caucasus and elsewhere are being utilised in a patriotic spirit, defending the Russian populace. Through secret police operations, attempts are being made to keep Central Asia and Ukraine within the Russian sphere of influence. A close confederation has been developed with Belarus.

The key prerequisites for today's POWER ELITE'S RUSSIA are the centralisation of power and the effective control of the media and civic organisations. The Internet has also been brought under close surveillance. Today, in 2017, the rule of law is lacking. In particular, equal treatment under the law and in terms of personal security are no longer realised at all.

Today, Russia no longer has a genuine, functional opposition, and corruption extends its reach to the highest levels of the state machinery. Widespread corruption and the cringing behaviour of the power elite have not promoted internationally competitive goods and services based on ICT or other new technologies. Few innovations have been made in the atmosphere of mistrust and fear. Russia is being forced to resort to the acquisition of foreign technology in order to safeguard its foreign-currency revenues, which are primarily based on the export of energy.

In the development and activity of the armed forces, attempts are being made to create the image of a still-strong superpower. Limited resources constitute a difficult constraint, however. To some extent, investment in the export of military supplies makes it possible to compensate for the lack of funds. The authoritarian atmosphere has not, however, been especially conducive to innovations, even in this area. Still, Russia can continue to boast of its very effec-

tive combat helicopters, which many countries are interested in.

At the level of rhetoric, at least, superpower relations have returned to a sort of arms race and mutual mistrust reminiscent of the cold war. Russia's armed forces justify their strong position by referring to nightmare scenarios concerning the threat of the United States, NATO, China and Islamic fundamentalism.

Russia takes a rigidly negative view of NATO's expansion, and attempts by different methods to pressure countries within its sphere of interest to stay out of NATO. As a counter-force to NATO expansion, Russia is cultivating its own network of alliances. The most faithful ally is Belarus, whose armed forces, numbering 85 000, immediately strengthen Russia's forces in any conflict situation in the western strategic direction. With cheap deliveries of gas, Russia has also been able to entice some CIS countries into active anti-NATO activity.

Examined from the standpoint of military operations, Finland and Sweden, as well as the Baltic countries, fall within the defensive zone of St. Petersburg's and Moscow's air defences. Strategic targets in need of protection in Finland's vicinity include St. Petersburg, as well as Murmansk and the entire Kola region. Since 2006, Russia's armed forces have stepped up defensive and reconnaissance operations with submarines and patrol vessels in the Baltic. The Baltic fleet has been reinforced even somewhat more than was proposed in the rearmament programme approved in the first decade of the 2000s. In accordance with the programme, the Baltic fleet has received ten new frigates, as well as new diesel submarines. The northern fleet has acquired five new nuclear submarines.

The conscription-based army is perceived as having an important role in tying the citizenry to the system of power. The total strength of the armed forces that can be mobilised at short notice has stabilised at over one million soldiers. In addition, the strategic reserve consists of over four million soldiers who have completed their mandatory service. In strategic nuclear weaponry, Russia's goal has been to preserve parity with the United States. This has been difficult, however, because of the weakness of Russia's economic foundations. The EU countries have accused Russia of having sold nuclear weapons technology abroad in recent years.

II SOME CONCLUSIONS AND PROPOSALS FOR FINLAND

Proposals examined by the Committee for the Future

Economic cooperation between Finland and Russia has reached large dimensions. Yet many opportunities remain unused. The Committee for the Future agrees with the proposals of the Russia expert group that helped in drafting the report concerning the expansion and consolidation of cooperation. The Committee regards these proposals as being of great importance. Attention should be paid to, among others, the following matters:

1. FINNISH EXPERTISE IN RELATION TO RUSSIA

What expertise on Russia involves is knowing our neighbouring country and understanding the lives and thinking of its people as well as a command of the Russian language.

In spring 2004 only 125 students in the entire country had long-syllabus Russian as one of their subjects when they sat their matriculation exams. Only 39 of them had Finnish as their mother tongue. The Russian speakers who live in Finland are an important, but quite poorly used resource. They number about 40,000 and more than half of them are Russian citizens.

Young Finnish people should be encouraged to study Russian and get to know Russians and Russian culture. Exchanges of students and practical trainees offer excellent opportunities for this.

The Centre for International Mobility CIMO has been doing outstanding work to promote exchanges of students and practical trainees between Finland and Russia. The organisation's international trainee programmes offer trainee places in their own sectors to students or young people who have recently completed their studies. The duration of training periods ranges from a few months to a year and a half. Finnish students in the travel, social sciences and social affairs sectors have undergone practical training at places belonging to their own sector in Rus-

sia, as have a number of students in the trade and administrative sectors as well as students of technical subjects. CIMO is also the coordinator in Finland of the Russian state scholarship programme, with the aid of which about 30 Finnish undergraduate or postgraduate students each academic year are awarded scholarships to study at a Russian university. The amount of the grant is nominal, but the Russian authorities arrange a place to study and the grant recipient is exempted from the course fees charged to foreigners. Some scholarship recipients complete all of their studies in Russia. One practical barrier to studying in Russia has been the great difference in standards between student housing in Russia and Finland.

It has been much easier to get Russians to study and undertake practical training in Finland than for Finns in Russia. Further study Russian-speaking postgraduates or young researchers as well as R&D cooperation at Finnish universities have been funded through CIMO's scholarship programme. Several dozen scholarships for study periods of 3-12 months have been granted to Russian postgraduates each year. A few tens of practical training places for Russians have been arranged in Finland each year and the numbers are growing. Most of those coming here have come from the natural resources sector or else are, students of Finnish. The number of practical trainees in the technical sector has been increasing in recent times.

Proposed measures:

1. Long-term development of expertise on Russia must be vigorously increased in Finland at all levels. It is necessary to give Russia more prominence than at present in courses on internationalism taught by schools. The Russian language must be made a genuine alternative at schools.
2. By means of a special appropriation in the State budget it must be ensured that at least in the largest population centres it is possible to re-

- ceive – irrespective of the sizes of study groups – long-syllabus teaching in Russian. Immersion courses in Russian and Russian culture that inspire young people to study these subjects must be used in teaching pupils in their early teens.
3. In order to strengthen expertise in relation to Russia, university-level teaching in various spheres of this expertise must be increased.
 4. Exchanges of students and practical trainees between Finland and Russia must be developed by continuing and expanding the excellent work being done by the Centre for International Mobility CIMO.
 5. So that different students – including those at schools of economics and business administration – would be willing to include a stint of, for example, six months in Russia in their studies, basic prerequisites for study such as student accommodation in Russia must be brought closer to the Finnish standard. One possibility is to use Finnish resources to build a student hostel in Moscow or St. Petersburg. Other people arriving on student exchanges would also be able to use the hostel.
 6. There are 40,000 people whose mother tongue is Russian in Finland and their expertise is clearly underused both in Finnish business life and public administration. Urgent measures must be taken to add effectiveness to the teaching of Finnish to Russian-speakers living in Finland and to have the qualifications that they have received in Russia recognised here, either as they are or after additional training.

2. COOPERATION TO DIVERSIFY THE RUSSIAN EXPORT SECTOR

The possibilities of Russia’s future development are outlined in the report in the form of scenarios. There is a special focus in the report on an examination of alternative paths of development, which could lead to lessening the Russian economy’s dependence on energy and raw materials production and exports. It would seem that affluence through diversification of the economy would also lead to the advance of a strengthening democracy in Russia. This could serve to ward off the threatening development that is described in the scenario POWER ELITE’S RUSSIA.

Two alternative paths to economic diversifi-

cation are identified in the report. They are described in the scenarios “INFLUENTIAL GLOBAL PLAYER” and “MOSAIC RUSSIA”. Both scenarios imply that Russia will reach the “technological level of leading global producers” in many new sectors of production, in close interaction between Russians and the best foreign experts in the new sectors. Achieving a high technological level is a prerequisite for the sector’s export success. This will not be possible unless Russian developers of new success sectors also belong to an international community of people that use the same language.

In principle, Finland is in an excellent position to contribute to Russia’s economic diversification in a way that benefits both countries. Already in the days of the Soviet Union, Finland acted as an important channel for the mediation of western technology to her eastern neighbour. When Nokia began its operations in the electronics sector with early applications of digital technology in the late 1960s, its overwhelmingly most important export market was the Soviet Union. In 1972, no less than 90% of exports by the company’s electronics division went to the Soviet Union (Häikiö 2001, p. 121).

Our lack of a “we know best” attitude and our ability to understand the Russian mentality make us Finns suitable cooperation partners for Russians. It is even said that a Finn with no command of the Russian language understands Russians better than an American who speaks the language.

Naturally, even the Finns themselves have no more than a very limited grasp of the skills with which Russia can achieve an advanced technological level. However, a role that the Finns can play is that of link-builder and go-between both at the EU level and between experts from other countries and the Russians.

Proposed measures:

1. The Technical Research Centre of Finland (VTT) possesses quite a high level of expertise in all of the key sectors of technological development. When Russia attempts to engage in international interaction in various sectors of technology VTT is exceptionally well equipped to assess and mediate Russia’s technological strengths to the international community. With the support and guidance of the Finnish and Russian governments, a joint project in-

volving the largest Russian companies, the Russian Academy of Sciences and VTT and with the objective of diversifying the Russian economy should be launched.

2. As a part of the VTT project or independently of it and with considerable financial support from both states, a high-level International School for Innovation intended mainly for Finnish and Russian students and young researchers should be launched. Most of the teaching there would concentrate on technological and social innovations. The teaching language should be English. However, the Finnish and other students with no command of Russian should learn the basics of the language. The school could be based in St. Petersburg as well as, for example, Espoo or Lappeenranta. To add to its attractiveness, students should be guaranteed a standard of housing corresponding to the normal standard of student accommodation in Finland and social welfare benefits in both Finland and St. Petersburg.

3. ENSURING THE INVOLVEMENT OF SMEs

Big companies operating in Russia have their own means of arranging credits and finding the experts they need. It is more difficult for small companies trying to penetrate the Russian market. There is a need to strengthen the organisations that help companies wishing to operate in Russia (TE centres, Finpro, Finnvera Finnfund).

The expertise of the TE (Employment and Economic Development) centres also has a very important role in distributing information on Russia to companies in their areas. Currently playing a key role is the South-eastern Finland TE centre, which specialises in providing Russia-related services and to which the other TE centres refer their clients who are interested in the Russian market. However, there is a need to strengthen the Russia-related expertise of all of the TE centres.

On the public side, the only body currently looking after capital investments in companies oriented towards operations in Russia is Finnfund. Therefore there is a need to consider the establishment of a new Russia fund that would concentrate on Finnish SMEs.

It is important that support measures be increasingly aimed at small Finnish companies try-

ing to establish operations outside the Moscow and St. Petersburg markets with their tough competitive environment.

Proposed measures:

1. Training in the fundamentals of trade with Russia and an info package on expert services in relation to Russia to be arranged for the export officers at the TE centres.
2. Consideration to be given to establishing a new Russia fund to facilitate access by SMEs to the Russian market.

4. PARTICIPATION IN RUSSIAN HEALTH, EDUCATION, AGRICULTURE AND HOUSING PROGRAMMES

A very common operational principle when seeking forms of cooperation in welfare services between Finland and Russia is to present initiatives that support policy programmes launched by the Russians themselves.

The Duma made an important social policy opening in autumn 2005 when it decided to launch a programme, spanning the next few years, involving spending of over 400 billion roubles or about \$15 billion with the objective of promoting health care, education, agriculture and housing in Russia. The programmes and their goals are presented in greater detail in the second chapter of the report. Finland should actively offer its contribution to achieving the objectives set in the programmes whilst predicting the future areas of emphasis in the programmes.

With respect to the health care programme the following preparation for possible cooperation is proposed:

A natural next phase in the ongoing national health care programme in Russia is to turn attention to public health work with the aim of encouraging the population to adopt healthier lifestyles.

Good results have been achieved in Finland with regional projects to promote public health. Of these, the one that had overwhelmingly the most extensive impact and attracted most attention internationally was the North Karelia Project. Illustrative of the renown in which it is held is the fact that the National Public Health Institute bi-annually arranges an international visitors' week on the theme of the North Karelia project. The week includes planning and implementation, based on the experience gained from

the project, of population-level experimental international training programmes. So far, cooperation with Russia in the public health field has been confined to the adjacent regions of Murmansk and the Karelian Republic. In particular, projects have been carried out in the Pitkäranta area, including a several times repeated survey of the health-related behaviour of the adult population there. In Finland, too, there are both public and commercial, private actors in the health sector who could play a part in healthcare reforms in Russia.

Proposed measure:

1) Anticipating the rise of public health to the status of a central focus in Russia's health care policy programme, the National Public Health Institute should get ready to collaborate with Russian healthcare services to promote cooperation in relation to public health as well as to gain access for Finnish public and private actors in the health sector to various commercial health projects.

With respect to the education programme the following forms of cooperation are proposed:

2) It is interesting from the perspective of possible cooperation initiatives by Finland that the education programme includes also the creation of international-standard university centres as well as the establishment of business schools to train managers. There are also plans to open new universities in Siberia and southern Russia. Channelling support to especially innovative students is likewise very interesting from the perspective of cooperation initiatives by Finland.

The European Commission has launched the new Erasmus Mundus External Cooperation Window programme, in which the EU countries and 24 third countries are participating, to promote mobility of students and teachers. The third countries include Russia. The programme both supports the organisation of mobility activities by consortiums of universities and approves grants for mobile students and teachers. The minimum size of a university consortium is five European universities plus one in a third country.

3) Finnish universities should be active in building the consortia in question together with Russian universities. Indeed, cooperation of this kind has already been launched between the universi-

ties in Eastern Finland. The starting point that should be adopted in building links, especially between universities of technology should be relating cooperation to the sectors into which attempts are being made to diversify the Russian economy.

With respect to the housing programme the following forms of cooperation are proposed:

During the Soviet era Finnish companies participated actively in housing construction in Russia, for example in Kostamuksha.

Proposed measure:

4) The Ministry of Trade and Industry and the Ministry of the Environment should act as the initiators of company consortiums with the ability to carry out large-scale housing building and renovation projects funded by Russian banks. Special attention should be given in the projects to energy saving and other goals in accordance with sustainable development.

5. ADJACENT AREAS COOPERATION AND THE NORTHERN DIMENSION

It is especially important for Finland that cooperation with Adjacent Areas in Russia and communities and civil society organisations in these areas expands further. This cooperation has been promoted using funds appropriated for it in the State budget, but this appropriation is being reduced.

Arising from a Finnish initiative, the EU has adopted its Northern Dimension policy. Within its framework, it has been possible to agree on and jointly finance such projects as a wastewater treatment plant in St. Petersburg.

One of the policies agreed at the EU Northern Dimension summit between the EU, Russia, Norway and Iceland in autumn 2006 was a continuation and deepening of the Northern Dimension by creating a permanent steering group for it. It was agreed in the same time that in addition to the environmental, social affairs and health partnership, consideration should also be given to the establishment of a transport and logistics partnership. This is necessary, because transport links to the Murmansk region, which is growing in importance due to its gas resources, are still poor.

Proposed measures:

1. Finland to continue her own Adjacent Areas cooperation and assign resources for it.

2. Finland to work actively as a developer of the EU's Northern Dimension policy.
3. Finland to work resolutely for the establishment of a transport and logistics partnership within the framework of the EU's Northern Dimension policy.
4. The EU, Russia and Finland to seek further means of funding, for example, for improvement of the Russian stretches of road between Lapland and Murmansk, in addition to seeking a means of building a rail link from Salla to Murmansk.
5. Direct air services to several Russian cities to be increased.
6. Measures to facilitate and speed up border crossings to be continued and increased.
7. The fast broadband link to Kostamuksha that modern business, scientific and other cooperation requires to be put in place.

6. EXTENSIVE RUSSIA POLICY PROGRAMME

The examples given in the foregoing demonstrate that there is a need to broaden cooperation with Russia and that possibilities to do so exist. On the Finnish side, there is also the need to tighten the focus of activities, which presupposes a clearer grasp on the part of the government than is the case at present.

Proposed measure:

A Russia policy programme involving several sectors of administration and the leadership of which will be in the hands of the Prime Minister and the Prime Minister's Office to be included in the next programme for government.

III VIEWS ON RUSSIA POLICY AND RUSSIA

Politics and also futures policy is based on information and skills. The three Russia scenarios outlined above have been written from a foundation of general knowledge in such a way that all who participated in the work of the steering group have been able, at least to some extent, to put forward their views. Our aim in the scenario section was to arrive at a common view on the three scenarios. We have avoided the historical and statistical data that readers often find onerous. Nor is deliberation of the approaches underlying Finland's Russia policy, which is of course especially important in relations with neighbours, included in the scenarios. This section briefly outlines the backgrounds to the scenarios, the historical developments and premises on which our thinking is based, as well as some general doctrines of policy formulation. Naturally, the authors are responsible for their own texts.

1. GENERAL DOCTRINES AND OPERATIONAL MODELS IN POLICY ON RUSSIA (PAULA TIHONEN)

We know little about the future and it is not often wise to say anything certain about the little we know.⁸ Nevertheless, this does not justify absolving politics of responsibility for critically following events in the world, appraising various trends of development, seeking opportunities and preparing for various contingencies. It is not always necessary to record threatening images. They can be left in the background. By contrast, recording – even repeating – good opportunities is usually a positive idea. At its first meeting in 1993, our committee changed the preposition in its English name from the passive “of” to the positive “for” and became the Committee for the Future. What is involved now is likewise making a choice from this perspective. At its best, futures

policy consists of creating good options and seizing the right moment.

100 years of shared history and 100 years as neighbours are the foundation for the next 100 years

History, also shared, is an essential part of Finland's relations with Russia. Our shared history is especially important, because Finland was a part of the Russian Empire for over 100 years. As a grand duchy, Finland was governed separately from the administration of the empire, for which reason all of the institutional pillars required for existence as a state were built up in the country and the prerequisites for the intellectual formation of a nation were created. Because the Tsar, in his capacity as Grand Duke, ruled Finland under constitutional laws inherited from the Swedish era, old values relating to power and administration, the ancient rights of citizens, religion, the right of ownership and legislative traditions were carefully cherished. The country was able to prosper and nurture a national identity under the great power's umbrella and in part with its funds. The result is summed up in the monumental structures around the great square in Helsinki: the Senate, the University and the Lutheran Cathedral and immediately beside them the House of Nobility, the House of Estates, the Bank of Finland and the Supreme Court.

Finland did not become a grand duchy on the basis of its own free will, but rather as a result of European great power politics; the matter was decided by Tsar Alexander I of Russia and the French Emperor Napoleon at Tilsit in 1807. The agreement ended Finland's 700-year old union with Sweden, during which relations between Finland and Russia had been dominated by constant wars, conflicts and unrest. Relations acquired a completely opposite character in 1809,

⁸ *Illustrative of the exceptional difficulty of predicting the future is the fact that as late as 1991 a profound expert on Russian history, Professor Osmo Jussila, did not believe that the Baltic States would become independent: “Finland's attitude is irrelevant. The Baltic States will become independent only if the Soviet Army disintegrates” (US 10.2.1991) and that, after all, was inconceivable.*

but conflicts again began to cast a shadow over them from the 1880s onwards, because Russia embarked on a process of integration encompassing the entire Empire. That process threatened to destroy Finland's internal self-government. Deep conflicts and a struggle for power were the defining features of the period from the beginning of the 1880s to 1917.

Before the Second World War, relations between independent Finland and the Soviet Union were dominated by tensions. Their roots could be traced back, in Russia, to Finland's emergence as an independent state and, in Finland, to the traumas that had begun in the 1880s. In addition, the Soviet Union was the world's first socialist state and there were fears that it would spread its doctrines to Finland. The seeds of conflict lay in fertile ground.

It was only after 1917 that Finland's political leadership was fully empowered to independently determine the foreign policy doctrines and models it followed. However, that situation was not entirely new, because the political leadership of the Grand Duchy had always had to use the Empire as its reference point when formulating national policy. The 19th century provided a rich treasury of historical learning material, from the inexhaustible recesses of which the political leaders of independent Finland have learnt their policies and refined them to suit whatever situation arose. The leadership has always had to delve into the foundations of Finnish-Russian relations after major European crises that have altered Finland's situation. The Winter War was born of a secret agreement between the Soviet Union and Germany; at the conclusion of the Second World War, the leaders of the great powers left Finland within the Soviet sphere of interest. After the disintegration of the Soviet Union in 1991, Finland was able to begin the final stage of western integration, which culminated in accession to membership of the EU in 1995. Every major turning point in Finnish history has been a part of European great-power politics.

President Urho Kekkonen pointed out in his

book Tamminiemi that: "Finnish foreign policy characteristically considers the worst possible alternative in international politics... The task of diplomacy is to sense approaching danger before it is too close and to take measures which help to avoid this danger – preferably in such a way that as few people as possible notice that it has been done. The historian E.G. Palmén has tellingly pointed out that in order to save its position a small people must be able to produce clever initiatives to ward off dangers before they become too great."

History must not determine future policy, but it is important to understand its significance in relations between people. The more clearly the world opens up, as professional and other networks develop between a diverse variety of groups of people, alongside relations between states, and as at the same time foreign policy becomes an everyday matter, the greater the significance of history becomes.

*Formulating policy on Russia – are there lessons to be learned?*⁹

This work deals with the way the State of Finland is led in its most important sectors. The actual contents of policies are not dealt with here. There is no examination of either energy policy or questions of war and peace, but rather of the formulation of policy, its starting points and the ways in which it is made as well as how our political leaders have assessed the future. The objective is to obtain a general overview of how our leaders have examined Finland's Russia-related affairs. It may then be possible to draw conclusions as to whether there is a general model of thinking that would be applicable today and in the future and whether new perspectives should be found.

Philosophers, political researchers, and advisors to rulers have used the word statecraft to describe the art of managing a country's affairs. They take the view that a national leadership is responsible for foreign policy above all. The lead-

⁹ Based, especially where quotes are concerned, on the following sources: J.V. Snellman: *Valtio-opin luentosarjan käsikirjoitus, kevätlukausi 1863*, KT osa 19, Edita (2004), Paasikiven muistelmia sortovuosilta I, 4. WSOY (1957), Tuomo Polvinen: *J.K.Paasikivi WSOY* (2003) and Kekkonen, Urho: *Tamminiemi. Weilin&Göös* (1980).

ership's starting point is to safeguard the nation's future and maintain peace in addition to ensuring the stable development of people's living conditions. Ever since the Peace of Westphalia in 1648, states have acted individually and together, concluded alliances or formed international organisations, but naturally it is every state itself that has ultimately been responsible for its own sovereignty. This is called statecraft.

Statecraft is defined in K.R. Brotherus' classic manual, published in 1922, as the art of "recognising what goals correspond to a state's interest in a situation where conflicting interests and aspirations compete with each other within the state as well as in relations with other states. Statecraft is the ability to find the right means of implementing these goals."

Reason of State. Ever since the 16th century, the concept of state interest (*Raison d'État*) has been used to justify the politics practised. Democratically elected national leaders have sworn by the national interest just as fervently as dictators. In his memoirs dealing with the period of Russian repression in Finland, J.K. Paasikivi vigorously criticised the use of the phrase, describing it as a "horrible concept, which has been found suitable to defend anything". In his view, an unspeakable amount of evil and wrong has been committed in the name of the national interest, by the stronger party at the expense of the weaker, by big nations against small ones and within the state by bigger and stronger groups against the smaller and weaker. It is always national leaders who define what the national interest is at any given time. Also statesmen often misconceive what their country's national interest demands.

Although its role as a political forum may weaken, the state will continue to be at the centre point of politics concerning the nation's existence. This is firmly ensured both in constitutions and through international agreements. Resting on the doctrines developed by Machiavelli in the 16th century and the idea of national sovereignty adopted in the Peace of Westphalia, the state has undivided political power and responsibility for its own existence.

In relations between Finland and Russia, the tradition of *Raison d'État* having to be linked to the national interest has been the dominant doctrine, even though the courage to say this out loud was lacking in Finland during the Cold War.

A strong state. In Finnish political thinking – in philosophy, political science, economics, social policy as well as in ideologies, ideals and values – the state is seen as the foundation of the social order. The state is the leader of politics and the caretaker of public affairs. Responsibility for the public interest, the national interest and promoting continuity has resided strongly with the national leadership and officialdom. Parliamentaryism is young as a phenomenon in Finland. In fact, it was only when the revised Constitution entered into force in 2000 that parliamentaryism acquired a modern interpretation in which democratic participation by citizens is underscored.

Since the 1960s, what a strong state has meant in the Nordic countries has been increasingly clearly a polity with a broad range of tasks, one that took care of people's wellbeing in various sectors of life. Already in 1863 J.V. Snellman argued in his political science lectures that political activity is "a combination of knowing, wanting and power", in which the representatives of government power cannot represent merely will, i.e. it can not exist as legislative power without the knowledge, research and deliberation that government power represents. Initiative is a characteristic feature of governmental activities. This means that an opportunity must be considered and not just accepted. This principle of active politics has been confirmed in the 2000 Constitution as a characteristic of a good public servant as well.

Power politics. A struggle for power has been the dominant feature of politics throughout human history. The person regarded as the model for the European power politics of our time is Bismarck, who in 1850 told the Prussian Diet that: "The only healthy foundation for a great power – and in this it differs from a small state – is national egotism and not romanticism." In 1939 Paasikivi told the American magazine *Life* that if this idea is right, it is fortunate to be a member of a small nation, adding: "But it is not and can not be right. It is wrong." He later characterised Bismarck's statement as "frightful".

Enemy image. In the traditional way of thinking, recognising the enemy has been regarded as the most important task of politics. Carl Schmitt, who is regarded as one of the most prominent German legal theoreticians of the 20th century, characterised politics as state action at the core of which is defining friend/enemy. The most

important criterion of political existence is distinguishing between public friend and enemy and deciding who is the enemy. That decision is made by the state. Thus, to Schmitt, politics essentially means state action.¹⁰

The image of the enemy is also a historically familiar feature of the present-day world of religions. Unfortunately, features of a conscious search for an enemy can be identified in today's conflicts between Christians and Muslims.

The Cold War period was a difficult time for Finnish leaders, because when the war had ended established enemy images had to be re-defined in Finland. Finland eventually succeeded well in this. This was partly due to the fact that she kept the building of her identity in her own hands and did not get carried away by the enemy images of others.

Legalism. Finland is said to be a land of law and the Finnish people law-abiding. The relationship between Finland and Russia has been regarded as at times strongly legalistic in character. Ever since the constitutional orientation of Leo Meckelin, what has mattered most has been a belief in the Constitution, laws, the importance of international organisations, international law and the binding character of agreements. The view taken is that the security of small states does not lie in arms, but rather in the binding character of norms. Mannerheim did not believe in this line; instead, in the early decades of independence he demanded that the Government invest in weapons. Later Paasikivi, even though he was a jurist, pointed out that Moscow was not a court of law.

Realpolitik or moral politics? Every national leader – irrespective of whether the country they lead is big or small – has to reflect on the relationship between the national interest and the everyday reality of international politics. Although the provisions of international law and international ethical declarations ought to regulate international activities, it is obvious that the reality often fails to correspond to ideals. People observe that Realpolitik in its various forms steamrolls moral politics. The situation is especially difficult for the

leader of a small state, who sees that big states care little about their small neighbours.

President Urho Kekkonen, whose statements after the war have already been referred to, notes that “I am still of the opinion that for a small nation's security policy to succeed it must draw energy from a certain degree of national selfishness, the self-preservation instinct. In addition to this, a generous helping of self-confidence is needed. A nation should rely only on itself.” In his view “Correct conclusions can be drawn only on the precondition that one is aware of facts and accepts them. Of course, a foreign policy leadership can close its eyes for a while to some matter or other just because it does not fit into the pattern, but in the long run there is nothing to be gained from such a method. Facts have a gravity of their own and realise themselves in spite of baseless hopes and spontaneous partial blindness. When the destiny of the nation lies in the balance, those political leaders whose characters are not up to accepting facts bear a heavy responsibility.”

There is a constant conflict between politics and morality in western political culture. Its roots go back to the era when the Greco-Roman pagan political culture combined with the Judeo-Christian ethical world view. Opposite cultural heritages led to an ever-present dichotomy. The aim in politics is to achieve a tolerable synthesis between the national interest and moral demands.

Realism or idealism? The choice between idealism and realism is on a slightly different level and somewhat different in nuance than in the case of Realpolitik and moral politics. In the terminology of our own time and simplifying matters, the question is this: “Is Finnish foreign policy a matter of defending the status quo and pursuing national interests or should we become active defenders of idealism – championing, at the level of ideals, the combined national and global public interest as well as the public good in the way that Sweden's Olof Palme did?”

The ending of the Cold War and our EU membership have provided room for the ideals of both legalism and idealism. Expansion of the legal

¹⁰ Regarding Schmitt, see Kaarlo Tuori: *Carl Schmitt ja vastavallankumouksen teoria. Esipuhe teoksessa Carl Schmitt: Poliittinen teologia. Tutkijaliitto, Helsinki 1997, 7–11.*

foundation of the EU and the drafting of a constitution are based on a belief in a common European law. The idea, arising from Kantism, that allied democracies do not wage war on each other is strong in the EU, although not quite tenable. The idea that international problems are dealt with through institutions and legal provisions is likewise respected.

National, state or cosmopolitan idealism? Idealism can be attached to different kinds of foundations, such as national and state or international and universal goals and ideals. Thus one can arrive at the following kinds of idealist groups and models of idealist leaders that are quite opposite to each other: the state realists Paasikivi and Kissinger, state idealist freedom fighters in various countries, but also Stalin and Hitler, the cosmopolitan realists Blair and Ahtisaari or cosmopolitan idealists from the Bolsheviks to the Neo-conservatives like Wolfowitz as well as in some matters Halonen and Tuomioja.

Realism has been the dominant tendency in the Finnish political leadership. We have had no more than a few idealists, of whom the most important were Eljas Erkkö (Foreign Minister before the Winter War) and Kalevi Sorsa (Prime Minister in the 1970s and 80s). Perhaps because of the incumbent's leading position, cosmopolitan idealism may have been a new breeze in the 2006 presidential election. President Halonen said in November 2006: "Security and well-being are common issues in today's world. A more just world is also a more safe world. 'World improvement' is both just and in Finland's interest."¹¹

Geopolitics. Urho Kekkonen has pointed out: "The facts that must be accepted include geographical and historical factors. The realities which must always be considered also include the national interests of the major states. A small country must adapt its actions to the existence of these great power interests. The basic task of Finnish foreign policy is to reconcile the existence of our nation with the great power interests which dominate Finland's geopolitical environment."

Geography has a strong significance in politics and there is nothing to indicate that the situation is different in relations between Finland and Russia.

Loyalty and Finland's special position. The pursuit of Finnish interests on the premises of realism was a key principle underlying the efforts of the 19th century's first Finnish leaders. G.M. Armfelt, C.E. Mannerheim, R. Rehbinder and L.G. von Haartman were its most illustrious representatives. Towards the end of the 19th century, after the emergence of a doctrine concerning a Finnish state and a change in the direction of the country's political development, the doctrine of political realism was represented by, among others, the Fennomanes J.V. Snellman, Yrjö-Sakari Yrjö-Koskinen and J.R. Danielson-Kalmari. The question of loyalty was so important that it even influenced the shape that the pattern of political parties in Finland would take.

The problem of loyalty in Finland's relations rebounded concretely with the assassination of Bobrikov a hundred years ago. Expressed in the language of present day politics: was the Finnish official Eugen Schauman, who in 1904 shot the highest representative of state power in Finland, Governor General Bobrikov, on the steps of the Senate building as he arrived for work, a champion of his country's interests or a terrorist? Schauman took the view that the Governor General represented a government power that was oppressing the constitution of Finland, because the Tsar had violated his solemn affirmation and promise to govern Finland under constitutional laws.

The problem of loyalty disappeared after Finland had achieved independence in 1917. Mutual suspicion dominated relations in the period between the world wars. The great powers divided Europe into spheres of interest for the first time in 1939 and again in 1944. On both occasions Finland was a pawn without any say that was assigned to the Soviet sphere of interest. The question of loyalty returned to the agenda and arguments for it were sought in history. The polit-

¹¹ Ahtisaari Lecture at the University of Jyväskylä, 13.11.2006

ical leadership was caught between a rock and a hard place and arrived at positions on particular matters through loyalty, realism and understanding. Declining to accept Marshall Aid in the late 1940s, a cautious approach to European economic integration and remaining outside the Council of Europe as well as a hesitant attitude to the Baltic States' declarations of independence are examples of situations which were difficult to solve. Since the end of the Cold War and the disintegration of the Soviet Union, Finland has joined the EU. Loyalty has acquired new dimensions in the directions of Brussels and Moscow.

The idea of Finland having a special role or position has historically been one of the foundations of our national leadership's Russia policy. Finland's special position between East and West has also been defended during the period of independence. Finland has emphasised that she differs from the Baltic States, for example, because she was not a peripheral state of Russia, but rather a member of the historical family of Nordic countries. Further, as part of this special-position thinking, there is an emphasis on Finland being a country that does not participate in military alliances and has long traditions of neutrality.

The right of small nations – justice between states. In the memoirs that he wrote towards the end of his term, after the experiences of the war, Paasikivi emphasised the importance of humane values in politics in general, but especially in foreign policy. At that time he had one idea that transcended all others in foreign policies – Justice. He took the view that the future of small countries in particular would be guaranteed if the world's political leaders worked for justice and fairness.

The intellectual and moral strength of a nation. Aristotle and most of the political philosophers since his time have defined the task of the state as being to promote a good life for citizens and guarantee security. Paasikivi emphasised that the future of a nation depends largely on its intellectual and moral strength: there must be "a strong will to keep to its own essential character, its own way of life, values and ideals".

Universal morality. In Paasikivi's view, armed force is not enough to safeguard a nation's future over the long term, nor is its moral strength, especially where a small nation is concerned. What is needed is a universal system of morality, respected by all, that regulates the lives of states

and private citizens and does not distinguish between public and private morality. Paasikivi's memoirs end with the statement that "a general and common system of morality is so important that, to quote the church leader St. Augustine, 'if justice is thrust aside, then nations are like big groups of bandits'."

Indeed, towards the end of his life Paasikivi embraced a philosophy that can be recognised as having some points of similarity with President Tarja Halonen's ideas on globalisation. Paasikivi highlighted what Yrjö-Koskinen had written as early as 1865 about some kind of general order that "would protect the weaker against the despotism of the stronger". There is a need for an order to be established between nations, one that would exercise law and justice in places where power alone still predominates. Paasikivi was pleased with the foundation of the League of Nations and after the UN had been created in 1945 he regarded it as important, particularly from the point of view of small countries.

Cosmopolitan interest. The concept seems modern, but the background to the idea is old. J.V. Snellman pointed out in 1863: "It can be said that a nation's task is to act for the good of humankind. Therefore the cosmopolitan interest should guide actions. But an interest of that kind lacks a rational basis. No one can know what humankind wants – besides which, humankind as a totality still does not exist – it is unborn. The interests of humankind are included in the interests of every nation; in other words, the interest of each nation demands that how it relates to other nations be taken into account. Where the Christian nations are concerned, there is an awareness of this and the system of states is weaving a web around the world right now, so that the peoples of Europe are dependent on what happens in America, India, China, Japan and Australia. And vice versa. What all of these conditions demand of nations can be known by any man, or at least can be demanded of him. And patriotism provides an insight – cosmopolitanism as an interest is empty speculation."

Human wellbeing – humane choice. The choices that the state leadership makes in policy on Russia in a world of harsh Realpolitik are not self-evident from the perspective of human wellbeing. For example, ordinary citizens in both Finland and Russia wonder: "Is it better from the point of

view of people in Russia that it is safe to walk the streets with centralised power ensuring peaceful conditions than that everyone is guaranteed freedom of speech?" Many also reflect on the follow-up question: "For how long must we, in a democracy, give up our rights in the name of people's safety or wellbeing?"

After the fall of communism in Russia, a classical *Raison d'État* policy had to give way to the doctrines of market capitalism. The great power disintegrated and the state receded further into the background. Security was practically all it could guarantee the people. The leap from a broad socialist state that safeguarded everything in people's lives from the cradle to the grave to a narrow state was a huge one. Russia had no safety nets, voluntary sector or charities to help the poor like those in the Western countries that were serving as examples. The debate on social models continues. It seems, however, that with the arrival of the 21st century the Russian political leadership has made a choice over a big question: it has returned to a policy of pursuing the national interest.

Knowing oneself. With the advance of globalisation it has become increasingly obvious that the Finns must strengthen their knowledge of themselves as a part of Europe and as a part of the interaction between West and East. In quite the same way as Europe must appraise its relationship with Asia or the Islamic world with a new depth, the Finns must reflect on their relationship with their eastern neighbour. For too long we have remained in the trenches, declaring time and time again down through the decades that we did not come from the East, that we are not Asians, that we do not speak Russian. Research based on our genetic heritage shows that the Finns, like everyone else, can trace their origins to Africa and that most of our ancestors came here via the so-called Volga Bend and a minority from the West or the South. Nevertheless, the Finns of our time are an unusually homogeneous population and people in the socio-cultural as well as the ethnic sense.

In exactly the same way as Europe must recognise the diversity of its past in order for it to be able to manage the diversity of its future, Finland must openly and without preconceptions clarify its own identity. What follows from this where relations with Russia are concerned is, among other things, a need to see that what is involved is

more than just high-level foreign policy and that the State is not the only actor. The actors in all sectors and on all levels of life are people. What is involved is interaction between people, material and immaterial exchanges, knowledge, skills, culture and education.

Democracy and freedom. As long ago as the time of Swedish rule and later of autonomy within the Russian Empire, the Finns learned that democracy is something that is very slow to come into being and even when it has been implemented it demands constant looking after. It is a matter of "gardening" political institutions. Democracy as an institution is still fairly easily achievable, but its counterpart, freedom, is a considerably more difficult goal. Democracy does not work without freedom, nor is freedom possible without democracy.

Nations have gotten by without democracy and citizens' rights to liberty. Whether this will remain possible in our time and in the future is a highly relevant question. Even more relevant is the question of whether it is possible, without democracy, to take a place among the wealthy and developed countries or achieve permanent great power status? It may be that it is possible, but without stability and international legitimacy.

Revolution. At the turn of the 20th century Paasikivi discussed the future of Russia with leading Finnish constitutional politicians and, on the subject of various activists and their deeds, said to Yrjö-Koskinen: "We have to include the possibility of revolution in Russia in our calculations." Yrjö Koskinen replied: "I don't want to say that revolution in Russia is impossible. But when it may happen is unknown. There has been talk of revolution in Russia for decades. The Poles have been expecting it for 40 years. The Polish people is a great nation; they have endured. Our people is small: we wouldn't be able to endure that kind of struggle with Russia for decades. Therefore we must get through this time in one way or other until the system in Russia changes."

Paasikivi pointed out that the approval and support of the people is important to get things done in a democracy, but that unpleasant and unpopular things cannot be avoided in political life.

War, rebellion and insurrection will prove decisive moments in the future policies of both the countries directly involved and their neighbours. In political leadership, not only what has been done, but also what has been left undone is impor-

tant. Revolutions and revolutionary situations are moments of the hardest statecraft. Opportunities to act come and go. Finland's emergence as an independent state was possible only because the national leadership acted with determination, with Finland's long-term interests in mind, and swiftly once the Russian Revolution has broken out.

Although, generally speaking, the long post-war period of peace has lulled us into taking peaceful development for granted in western politics, weak signals indicating growing dissatisfaction on the part of the people and their desire to act proactively can be seen in various quarters. A structural and permanent threat to Europe including Finland is arising from demographic developments in the wealthy European countries and growing income differences. Whichever path Europe chooses – closing doors or opening them – not everything will happen peaceably. Hundreds of millions of young people, more of whom than ever before lack work and hope, are at the gates of Europe wanting to be a part of our continent's prosperity and to work here. Europe, Finland and Russia will be in the same boat to some extent when this pressure erupts.

Something that had never been experienced in the past happened in England in 2006 when a score or so of young British citizens were prepared to commit mass destruction on a terrifying and systematic scale. There is unrest beneath the surface in France. The people can rise or can be instigated to rise against those in power more quickly than has recently been the case (Hungary, September 2006). Modern information technology makes it possible to quickly mobilise masses of people to demonstrate, rebel or riot, taking a stance and acting at the same time. Citizens in democracies everywhere have started taking promises seriously, and if they are lied to or promises are not kept, they do not stand quietly and idly by.

A completely new phenomenon is that of "every boy's weapon of mass destruction" or SIMAD

(the concept of a single individual being massively destructive). In the open world of the Internet, now that science, technology and globalisation have opened many borders, terrible biological and IT weapons of mass destruction or at least information about them are fairly easily accessible to everyone.¹² The networks of evil are aware of this. Never before in history have substances, instruments and methods capable of causing massive destruction to people, the environment, the economy or infrastructure been within the grasp of the general public in the same way as now. States – once again alone or together – are defending themselves against completely new kinds of enemies. All in all, governance will be more painful and difficult than is now the case.

Final result: statecraft and statesmen

If we do not believe that a mechanical linear development will happen, we must try to collect information, analyse it and combine it with experiences gained, formulate some or other predictive conception and get a sense of what may happen in the future. Russia is important as a part of Europe, as Europe's eastern neighbour and as a member of the global community, but for the Finns above all as a big neighbour. It is important that Russia's relationship with Finland – both the content of policy and strategies – be pondered in Finland. However, the Finns' own thinking is even more important. Assessing the future in relation to Russia is difficult, but it is a task that present and future national leaders and politicians are obliged to perform.

Professor Isaiah Berlin, that great expert on politics and statesmanship, wrote in his article *Political Judgement*,¹³ that the world of politics has few universal laws that can be applied. Skills are decisive. He went on to explain that the way to recognise statesmen is that they do not primarily ask to what degree a certain situation is similar to or different from other situations in the history of humankind. Their merit is that they

¹² For more about the SIMAD phenomenon see: Jerome Glenn: *Some Future Threats to Democracy*. In: *Democracy and Futures* eds. Mika Mannermaa, Jim Dator, Paula Tiihonen. Helsinki 2006.

¹³ In: *The Sense of Reality, Studies in Ideas and their History* ed. Henry Hardy. Pimlico, London 1996, p. 45.

grasp the unique combination of characteristics that constitute the particular situation at hand, and no other. What they are said to be able to understand is the character of a certain change, a certain person, a unique situation, a unique atmosphere and the combination of political, economic and personal factors; and this ability is not something that can be learned.

2. RUSSIA UNDER THE RULE OF LAW (HANNA SMITH)

When the Soviet Union broke up it was generally assumed that a market economy would sweep away the past and bring in working laws and a judicial system. However, Russia has not advanced along the lines that were expected in the west. In terms of Russia's future, the concept of the rule of law is incomplete.

Democracy and the rule of law

Too little attention has been paid to the success of the principle of the rule of law in Russia, and generally it has lagged behind the concept of democracy. The model of the rule of law is, however, more easily defined than a democracy, and says more about the state and development of the country than speaking about democracy, its deficiencies and its shortcomings. There are many problematic points in the concept of democracy, particularly with regard to Russia.

When discussing western democracy the different concepts of democracy are often forgotten. It is important to remember two basic concepts when talking about differences in interpreting democracy. The Englishman John Locke and his followers believe that the individual is the starting point for political activity. The Frenchman, Jean Jacques Rousseau, who has been a particular favourite among the Russian elite throughout history, primarily emphasises the importance of the community. The Russian leadership has the same emphasis when talking of democracy, "For

us the sense of community is important. Collective thinking is favoured. It may be that individual centrality will become important at some point, through the market economy, but this will take time. This is one fundamental difference between Russian and western thinking."¹⁴ Both Locke and Rousseau regarded the preservation of social order as important and saw it as providing the basis for approval by the citizenry. In Russia it has always been important to create at least a picture of the leader's popularity and his relationship with the people. Russia's President Putin appears to be genuinely popular in Russia and his popularity grows at the same time as western criticism of Russia increases. In an opinion poll carried out at the end of November, 2006, 61% of the respondents had faith in the president, 26% said that they sometimes had faith in him and sometimes did not, and only 10% had lost faith in their country's leader.¹⁵ 54% thought that the president had performed well in his job, 35% thought he had performed satisfactorily and only 7% thought he had performed his duties poorly.¹⁶ President Putin's indisputable popularity in Russia gives his administration the legitimacy to carry out its mandate and shows that the way in which Russian politics are conducted, seen through the eyes of Russians, is accepted by the people.

It is the administrative machinery in Russia that arouses suspicion and is often seen as the cause of the country's problems. Rousseau criticized Locke for his individualism and argued that people have the ability to live together in harmony and even to achieve a social contract. The social contract and the lack of one in Russia has led, for example, to a citizens' forum (Obshestvennaja palata) being created in Russia, which would aim to create an atmosphere of trust between the administration and civil society.

According to Rousseau the general desire of the citizens exists, but the lawmakers must assist the executors of the law because "the communi-

¹⁴ Russian official, interview, Strasbourg, summer 2006

¹⁵ FOM. Corresponding numbers in 2003: 47% had faith in the president, 32% sometimes did and sometimes didn't have faith, 17% didn't have faith

¹⁶ FOM. Corresponding figures for 2002 – 2004 were: on average, performed his job well - 41%, satisfactorily - 41%, badly - 10%.

ty desires a good life, but is unable to see what that is". For this we need education and enlightenment. This concept is not unfamiliar in President Putin's administration. The vertical nature of power is frequently discussed, but its implementation is perhaps actually sought in Putin's Russia. However, it is very questionable whether it has been achieved and whether it will ever be fully achieved. Since the break up of the Soviet Union perhaps Russia has not turned into a so-called democratic state, but on the other hand the current state of Russia is also far removed from the totalitarianism of the Soviet era.

The most important elements of liberal democracy can be summarized as follows: human rights, the rule of law, representative government and a market economy. However, the concept of a constitutionally governed state does become vitally important because when this functions the other three follow in its wake. A constitutionally governed state has four foundation pillars: conformity to law, a balanced distribution of power, basic rights of the people, and the proper functioning of everything.

Russians and the law

Russians are very suspicious of the law. The law has been an easily changeable concept in Russian history, and the Russian elite has always been above the law. It has also been possible to circumvent the law through payment. The basic ethos of the Soviet Union was that the rights of the individual were state based and were delegated to the individual by the state.¹⁷ Many politically important trials have been resolved by discussions between the party and the court. When President Putin was acting president in January 2000 he underlined the importance of "the dictatorship of law"¹⁸ in Russia. One week later he announced, "the dictatorship of the law is the only dictator that we must obey. Freedom without law and order leads to helpless chaos and anarchy."¹⁹ Pu-

tin's "dictatorship of the law" refers particularly to two issues: regional administration, which often could not care less about the central government's directives, and the Russian legal system, which must be made to work in practice and not just on paper. In spite of the many reforms, the system, which Vladimir Pastukhov calls double-legalisation, is still in force, the official law and the unofficial law compete with each other in practice.²⁰

The sense of justice and the fate of justice are, however, very important concepts in Russia and they are reflected in both domestic and foreign policy, and the government has exploited these in seeking public support for its activity, through which it has even been able to justify "illegal acts". A good example is the Mikhail Khodorkovski case. In the west it was when Putin's Russia began to be examined through critical eyes and the development of democracy was criticized. Whereas in Russia the situation was seen as the government fighting against oligarchy. According to an opinion poll carried out in summer 2003 a majority - 59% of Russians were of the opinion that oligarchy brings Russia more harm than good and almost 50% of respondents equated oligarchy with crime. When sentence was passed at the Khodorkovski trial in summer 2005 the general opinion was that he had been treated in the same way as other oligarchs. 34% believed that there were other reasons behind the accusations than those that appeared on the list of charges, but about half of the respondents would have given the same or a longer sentence (48%).²¹ When justice is done, no one pays attention to the legality of it.

The Soviet tradition about the Russian concept of justice was that there was no trust in official justice or in officials. This situation is not unknown in today's Russia either. According to a survey carried out in January 2005 by the Levada Center, two thirds of the respondents believed that the Russian bureaucracy was corrupt.

¹⁷ Mark Sandle, (1998), *A short history of Soviet Socialism*, London: University College of London Press.

¹⁸ The concept has become known as the Putin concept, but the first to use the concept was Gorbachev in 1991, when the so-called "war of laws" was happening in the disintegrating Soviet Union. Yeltsin took advantage of the "war of laws" in his weakening of the Soviet Union's central administration and in reinforcing his own position.

¹⁹ *Interfax*, 30th January, 2000.

²⁰ Richard Sakwa, "Putin - Russia's Choice", Routledge, 2004, p. 109.

²¹ *FOMarchives*.

Opinion polls about police activity show that Russians still regard the police as a threat to the citizens rather than offering security. In an opinion poll carried out in 2004 to analyse Russians' opinions about judges, it was difficult to get an answer to the question "How do you see a typical Russian judge?" 42% could not answer or refused to answer. Of those who answered, 35% had a negative view of judges – of these 20% viewed a typical Russian judge as being corrupt, as a taker of bribes. 18% of the respondents had a more positive image than negative.²²

On paper, Russia is a country governed by the rule of law. Its current constitution dating from 1993 guarantees the rights of the individual and liberty, and a democratic basis for the judicial system and human rights. The constitution also strengthens Russia's commitment to generally accepted principles and international norms. In 2002 a new criminal code entered into force in Russia, which also brings trial by jury to Russia. Six months after the criminal code came into effect it was possible to see the effectiveness of the law – criminal cases opened by Procuracy decreased by 25%, the number of people in jail awaiting trial fell by 30%, and courts approved 15% fewer arrest warrants.²³ According to a report on the situation of Russia in 2005 by the Council of Europe, during the last decade the judicial system in Russia has experienced major changes. The major weakness is still the weak independence, corruption, and ineffectiveness of the courts, and the impartiality of the judges.²⁴

Council of Europe and Court of Human Rights

Russia has been a member of the Council of Europe since 1996, and has ratified the status of the Council of Europe in which it has also committed itself to open-ended law reform. Russia's membership was questioned at the time of the membership negotiations as Russia's legislation and practice, as well as the then ongoing first Chechen war, did not meet the Council of Europe's requirements for

its members. The expectations of Russia's membership were high. In Russia, membership of the Council of Europe was seen as the first step towards integration with the European Union, or even the first impetus towards membership of the European Union. From the EU side it was held that it would be good to get Russia on the inside of different organizations, rather than keeping it outside. The idea was good, but the opportunities it provided were lost. The Council of Europe and the European Union, which were in close cooperation regarding the question of Russian membership, had not considered their strategy over what would happen after membership was achieved. It would have been important at that time to consider how the strengthening of human rights in a post-totalitarian society would have best succeeded, and what role outsiders could have played in that process. What was the best way to proceed, particularly with regard to Russia?²⁵

In spite of these criticisms, the opportunities for having influence are better now that Russia is a member of the Council of Europe. The Council of Europe has a rare mandate to monitor the situation of Russia and it publishes Russia reports that provide a good and realistic picture of Russian development. Russia's membership has not brought the hoped for progress within the desired timeframe for the Russian justice and human rights situation, but it has helped absolutely in the case of many projects that have been important for Russian society. "Travelling through the provinces in Russia, I constantly hear from local organizations about how important they regard the role and work of the Council of Europe in Russia. In their own words, they couldn't manage without us."²⁶

It is also clear that in the case of Russia, the signing and ratification of the Council of Europe's regulations proceeded too quickly at the end of the 1990s. Russia was not ready to implement the agreement they had ratified. During Putin's term the signature and ratification process

²² 18.10.2004, Petrova A. "A Russian Judge: "Not a Positive Hero", FOM.

²³ Matthew J. Spence, "The Complexity of Success: the U.S. Role in Russian Rule of Law Reform". *Carnegie papers*, number 60, July 2005, p. 15.

²⁴ Council of Europe, "Honouring of obligations and commitments by the Russian Federation", Report, Doc.10568, 03/06/2005, p. 33.

²⁵ Andreas Gross (member of PACE, Council of Europe), Annual Conference, Norwegian Institute for International Affairs, 12–13.10.2006.

²⁶ Council of Europe official, Interview, Strasbourg 20.06.06.

has slowed down visibly, as have attempts to execute the implementation of agreements in practice in accordance with the commitments made. Russia has signed and ratified 49 of the Council of Europe's treaties, and signed but not ratified 18 during its decade of membership. 135 treaties are still as yet unsigned and not ratified. However, when looking at the statistics, more emphasis should be placed on those points that have been signed and ratified rather than focusing on the number of treaties. "The quality is more important than the quantity".²⁷

In 1998 Russia signed and ratified the European treaty on Human Rights. It took France 20 years to ratify the treaty. Following the ratification of the treaty Russian citizens have been able to appeal to the European Court of Human Rights. In his research Professor William D Jackson found that "During the first five years following Russia's ratification of the European Convention on Human Rights, the European Court of Human Rights received 8,000 applications from Russia. In 2002 the court received 4,004 applications. This was the second largest number. Poland was the first. This has been an explosive increase, which shows that Russian civil society has learned to use the European Court of Human Rights in their quest for justice."²⁸ Jackson's view is also supported by Russian statements: "Russia has a civil society and a high sense and feeling of justice, but does not yet have a developed culture in the sense of an organized western civil society, which would have undertaken a systematic criticism of the government and politicians, and which would have felt that the concept of legality would have been important in everyday life in Russia."²⁹

Although the level of trust in their own country's legal system and courts is low in Russia, belief in the idea of justice through the courts does, however, exist. In 2005, the European Court of Human Rights received 9,340 applications from Russia, which shows the explosive growth in ap-

plications. During 2005, 83 cases had come to a conclusion and 81 judgements had been condemnatory of Russia. Between November 1998 and December 2006 a total of 48,791 applications had been received from Russia, out of which a judgement was obtained in 205 cases. Almost all the judgements were condemnatory. So far Russia has paid the compensations ordered by the court, although the court has been harshly criticised in Russia.

In November 2006 the Parliamentary Assembly of the Council of Europe examined the functioning of the principle of the constitutionally governed state in its member states. Russia's biggest problem was seen as the long waiting times in inhuman conditions before court cases were heard, and the chronic lack of respect for the sentences of the court. Many cases also came before the European Court of Human Rights. The same assembly also criticized Italy and Ukraine. Countries that received negative feedback from the assembly for the misuse of power by the security bodies were Russia, Turkey, and Great Britain. Criticism of Russia has at times been extremely harsh in the Council of Europe, and the Parliamentary Assembly of the Council of Europe in particular has raised sensitive issues in Russia. The Council's reports on the situation in Russia have been amongst the most critical reports that any international organization has made – despite this Russia feels at home in the Council.³⁰

Freedom of speech in the media – the right to information

There has been much discussion in the west about freedom of expression in Russia, particularly during President Putin's second term as president. Freedom of speech is one of the crucial elements of the rule of law. In 2003, the international organization Freedom House carried out a year-long research into the state of free speech in Russia. The study found that freedom of speech in Russia had changed from "partially

²⁷ *Idem*

²⁸ William D. Jackson, "Russia and the Council of Europe – The Perils of Premature Admission", *Problems of Post-Communism*, vol.51, no.5, September/October 2004, pp.23–33, p. 23.

²⁹ *Interview*, Moscow, 07.06.06.

³⁰ Andreas Gross (member of PACE, Council of Europe), *Annual Conference*, Norwegian Institute for International Affairs, 12–13.10.2006, and *interview with Council of Europe official*, Strasbourg 20.06.06.

free” to “not free”. Many assessments of how freedom of speech has developed in the situation subsequent to the Soviet Union see the 1996 presidential election as the turning point towards a state-controlled press. The elections showed how important the role of the media is when the desire is to influence public opinion. The atmosphere in the 1990s can be summed up as a “decade of oligarchy”. This also applied to the media that was mostly owned by various large organizations; and businessmen such as Gusinski and Berezovski created their own media groups. The idea was that you could support the country’s political leadership through your own media, and then attack it if your own commercial interests so required. The state’s role in controlling freedom of speech began to strengthen already during the summer of 1999 when President Yeltsin created a new ministry, the Press Ministry. The main purpose of this new ministry was to strengthen the state’s share in the media. President Putin, elected in the 2000 elections, began a campaign to remove rich businessmen from the control of the media. Nowadays both Gusinski and Berezovski live abroad and do not want to return to Russia for fear of being arrested.

Today’s situation is that of the three largest national television stations, the state owns the Rossiya channel (RTR) outright, has a majority holding in Channel One (ORT), and the private NTV channel is owned by Gazprom, in which the state has a 38% holding. Gazprom media also owns the NTV+ satellite channel, the TNT regional TV channel, the Ekho Moskvyy radio channel, the Izvestia and Kommersant newspapers, and Itogy, a weekly current affairs magazine. The state also owns the Radio Majakki and Radio Rossiya radio stations. Similarly, the news agencies RIA and ITAR-TASS are owned by the state.

Perhaps a policy that is still more cause for concern than the increasing state ownership of the media is the aim to restrict the amount of information coming from outside. In 2005, there were

72 radio stations that transmitted programs from Voice of America and Radio Free Liberty. In July 2006 this number was 9.

Journalism, and particularly investigative economic journalism and reporting the situation in Chechnya, is a dangerous profession in Russia. An investigation covering the years 1992 – 2006 by the international organization, the ‘Committee to Protect Journalists’ listed the countries where most journalists had died carrying out their profession. At the top of the list was Iraq with 78, the second was Algeria with 60, Russia came third with 42 and Columbia was fourth with 37.³¹ The murder of Anna Politkovskaja was the 13th murder of a well-known journalist in Putin’s Russia. Perhaps a larger problem than the violence and murder itself in Russia is that for the cases concerned the guilty are hardly ever caught, or, in the need to find a guilty party, trials are held on the basis of weak, and sometimes non-existent evidence. The lack of openness in certain cases also makes them the subject of conspiracy theories. Unsolved issues create an atmosphere of suspicion and conjecture.

In spite of the difficulties and restrictions facing the media neither Russia as a country nor its people are closed to information. The number of Radio stations, newspapers and even television stations changes all the time, old stations disappear and new ones take their place. The share of the Internet as a provider of information is growing. President Putin describes the situation as follows: “I believe that you are of the same opinion, that in a country that has around 53,000 printed publications it would be impossible to control all even if we wanted to. Russia today has an estimated 3,000 television and radio organizations. Granted, we have our own problems. There are many local newspapers and many experts have said that our local newspapers give the best information. There were 147 registered newspapers in the Nizhnii Novgorod area last year. This is the prevailing trend in our country.”³²

³¹ Research undertaken 01.01.1992–15.08.2006. Only confirmed cases taken into account in research. Journalists who are lost or otherwise killed in accidents are not included. http://www.cpj.org/killed/killed_archives/stats.html.

³² Vladimir Putin, Speech at Opening Ceremony of the 59th World Newspaper Congress, June 5, 2006, State Kremlin Palace, Moscow.

However, as far as the future development of Russia is concerned, the crucial points are the extent to which the state is ready to take its control of the media and whether the state-owned media will be subject to censorship as in the former Soviet Union. The share of state ownership of the media is public knowledge.

Corruption

Corruption is one of Russia's oldest scourges. Peter the Great used strong measures to try to rid Russia of corruption. The punishment for receiving or offering bribes was the death penalty or lifelong deportation to slave labour, having had the nostrils removed and assets seized. Nicholas I tried to reduce the corruption that was weakening his government, by establishing a committee to fight against corruption. The task of this committee was to concentrate particularly on the problem caused by the relationship between low wages and corruption. In the mid 1800s, when trial by jury³³ became the practice in Russia, corruption in the judiciary increased even more. The taking of bribes increased personal incomes. This is also one of the biggest reasons for the high level of corruption in today's Russia. After the revolution an intense campaign against corruption was initiated in the Soviet Union. The punishment for getting caught was frequently the death penalty. Despite the severe punishments and countless attempts to curb it, corruption still lives on in Russia.

The situation in the northern Caucasus and corruption are often viewed as the two largest problems in today's Russia. These are preventing Russia's development as a constitutionally governed state and as a democratic country. According to a study carried out by INDEM, in everyday life in Russia in 2001, the key social functions where the giving of bribes was most common, and was also regarded as necessary for efficiency and getting a good service, were: health care services, dealing with the traffic police, construc-

tion and repair work, higher education (gaining entry, transfers, exams etc.), and social charges/paperwork. In 2005 the order was as follows: health care services, getting employment, issues relating to home ownership, and construction and repair work.³⁴ The study also showed that corruption has not decreased in Putin's Russia; however, social understanding of corruption and its effects has increased.

Elena Panfilova analysed the Russian situation as follows: "Believe it or not, I do think that it was wrong to use the American strategy of "shock therapy" and to implement privatisation without administrative reform. Now we are facing the consequences of this approach where the administration is weak, but is growing in size. We have three times more bureaucrats in Russia than they had in the whole Soviet Union! They are at every level of administration and they do see the opportunities of the market economy: opportunities of regulation, opportunities of influence and opportunities of corruption".³⁵

President Putin has actively tried to raise the issue of corruption and the fight against it as part of the government agenda. To some extent this has certainly increased people's knowledge and understanding of corruption, but it has not been able to get to grips with it effectively. Part of the reason is the way corruption is perceived by the citizens. In Russia you often get surprising answers when you ask about corruption. "Corruption keeps Russia democratic. It weakens the central government".³⁶ "In the west very little is understood about Russian corruption. We are able to get everyday issues sorted out effectively. It's our own safety net".³⁷ Elena Panfilova's viewpoint supports the Russian statements: "There is a very widespread and popular concept in Russia, that corruption saved the state. When the state collapsed at the beginning of the nineties, up to 1993 there was no service delivery in place, literally no heating, healthcare, education, anything. Corruption became our service delivery network

³³ *The use of a jury was reinstated in Russia in 2002, and should cover the whole country in 2007.*

³⁴ INDEM ("Information Science for Democracy") founded in 1990 is one of the first Russian NGOs, 2006, "Corruption process in Russia: level, structure, trends" http://www.indem.ru/en/publicat/2005diag_engV.htm

³⁵ *Interview with Mrs. Elena Panfilova, Director of Transparency International Russia, July 8, 2003, <http://www.globalpolicy.org/nations/laundry/regions/2003/0710russia.htm>.*

³⁶ *Interview in Moscow, 07.06.06.*

³⁷ *Interview in Moscow, 20.09.06.*

that worked”.³⁸ The general viewpoint still is that even if corruption stopped the state still wouldn’t function, so why give up corruption?

However, a positive aspect is that in Russian society the phenomenon of corruption is beginning to be increasingly understood. Demands for bribes are also easily relinquished when people ask for a receipt, or if the matter can be resolved without a bribe then attempts are made to do so. How the culture of corruption will develop in Russia is largely linked to the development of the whole society and the economy.

2008 a turning point?

When assessing the future of Russia, 2008 would appear to be an important “scenario junction”. The future development of Russia will be largely determined by the success of Russia’s economic development, and particularly by the success of the diversification process of the Russian economy, which will also usher in the development of the rule of law. Economic development and diversification calls for responsible economic policies, which recognize the pitfalls and dare to carry through unpopular decisions. Russia has a period of around 10 years for the population to find itself, during which time the Russian economy would have the opportunity to develop without, for example, coming up against problems with the population, and, if it succeeds, would be able to deal with the challenges 10 years along the line from a more secure base. The “gatekeeper” of economic policies, as in a constitutionally governed state, is the president. Russian politics are still based on central figures, in whose hands are several decisions, and interest groups who aim to take their own agendas forward. A great deal therefore depends on the president’s personal way of thinking and on which interest group gains a leading position. In Russia, perhaps more than in other countries, the importance and nature of the country’s leader have directly influenced the country’s de-

velopment. The role of the country’s leader has become of major importance, as the country’s different institutions have not developed into entities that function independently, and the size of the country has created difficult problems. The Duma and the party system will play a central role when considering the future political development of Russia. However, the Russian presidency plays a decisive role in terms of the economy and the practicalities of the rule of law. The kind of country that Russia has been during the different periods of its history has largely been dependent on who has led the country.

2008 is the next chance to elect a new president for Russia. Election campaigns and guessing games relating to the presidential elections have already been in full swing in Russia since 2006. There has been a good deal of speculation that Putin will change the constitution and continue as leader of Russia. He has, however, constantly and purposefully denied that he will touch the constitution. Putin’s assurances have not stopped speculation about how he might continue in politics. The general opinion is that a change in leader will bring about changes, but it will also bring uncertainty. The stability of Russian politics, which is partly based on an authoritarian style of leadership, has begun to gain new dimensions as the presidential elections approach. The economic and political murders of autumn 2006 are often linked to the competition to rule the Kremlin and even to a power struggle. When guessing the players in 2008, the following alternatives have been put forward, through which it is also possible to evaluate the reality and probability of the scenarios in this study.

Dmitri Medvedev, Russia’s first Deputy Prime Minister and head of the Presidential Administration. He was born in 1965 and since 2005 he has been seen as one of the strongest candidates to follow Putin. It is said that Medvedev is completely loyal to Putin. He belongs to the group of

³⁸ Interview with Mrs. Elena Panfilova, Director of Transparency International Russia, July 8, 2003, <http://www.globalpolicy.org/nations/laundry/regions/2003/0710russia.htm>.

“St Petersburg lawyers”. Medvedev is responsible for Russia’s national program and he is regarded as being among the supporters of liberal economic reforms. Medvedev is on the board of the Gazprom gas company.

Sergei Ivanov, Russian Minister of Defence. He has been working in this post since 2001. He is also Russia’s first Deputy Prime Minister together with Dmitri Medvedev. Ivanov was born in 1953. He has a very similar background to Putin; he is from St Petersburg and has had a career with the KGB. When President Yeltsin appointed Putin as Russian Prime Minister, Ivanov became the head of the Russian Security Council. The cooperation between Ivanov and Putin has continued ever since. Ivanov represents the political line in which matters of security are clearly raised as above all others. In his vision he emphasizes a unified and stable Russia. Ivanov’s appointment as defence minister has ensured that the President’s administration has not needed to fight for money with the army, nor for the army’s loyalty to the president as in Yeltsin’s time.

Vladimir Yakunin has been president of the Russian state railways since 2003. He was born in 1948. He moved into this post from being Minister of Transport. Like Ivanov and Medvedev, Yakunin is from St Petersburg. The railways have an important symbolic status in Russia. During Yakunin’s time the railways have flourished and have been greatly modernized.

Igor Sechin, the deputy head of the Presidential Administration. Sechin was born in 1960 and was also born in St Petersburg, like Medvedev, Ivanov and Yakunin. Yakunin worked with Putin in St Petersburg in 1991 – 1996. Since 2004 he has also worked as an aide to Putin. Sechin is said to be the leader of the so-called Siloviki group within the Russian government. He is seen as an opponent to Medvedev and as the FSB’s representative in the presidential administration. Sechin is also said to be behind the new party “A Just Russia”, which is an association of three parties. Sechin is not directly seen as Putin’s successor, but he is linked to the powers that are now preparing for the 2008 presidential elections, by ensuring the position of their own interest group. Sechin is also on the board of the Rosneft oil company.

It is thought that the most likely option is for a person who is currently unknown, as Putin was in 1999. Looking at the potential successors named

does, however, give a picture of what a possible successor to Putin might be like, and of the elite that steers today’s Russia. Gorbachev had to do a balancing act between two groups – the liberal economic elite, which strongly drove through economic reform, and the conservative security elite, which would not have wanted to relinquish the control they had during the Soviet era. Gorbachev was not able to find a balance and internal conflicts caused the crisis in the Soviet Union in August 1991, which precipitated the end of the Soviet Union. Yeltsin also fought against the discordant elite groups, which had very different views of how Russia should be run. At the beginning of the 1990s the powerful liberal economic reform group was in a strong position. When the economy didn’t rise as hoped in the new Russia, but rather, in the opinion of the citizens, plunged it into an even deeper crisis, the security elite turned this situation to their advantage. The purpose of the rise of Putin to power was to establish a continuity to Yeltsin’s policies, but with the influence of an increasingly stronger security elite. However, Putin created an inner circle of his “trusted” St Petersburg group around him. Putin succeeded for a long time in keeping the power struggle that was going on within the Kremlin under control, and in creating the image of a more unified Russia following the break up of the Soviet Union. The greatest challenge for Putin’s successor will be to unite the different interest groups into a unified front. As far as the concept of the rule of law is concerned it would be extremely important to have no internal conflicts. It would be important to have an open, but at the same time constructive opposition, to which civil society would also be committed.

The general opinion regarding the 2008 presidential election is that there will be no surprises and that Putin’s policies will continue. A new president is stronger than his predecessor, and can therefore exert more influence over the choice of his successor. Putin’s popularity among the people has also been higher than that of his predecessor. Putin’s successor must also ensure that he is able to gain the support of the people. Without this support social instability could increase and the end result would be unpredictable. There are a large number of opinions as to how power in Russia could change, all of which are regarded as possible, although almost all are also considered

unlikely. The alternatives put forward are:

1. A fully democratic change of power through elections. This has still never happened in Russia. Supporters of the Putin line are presumably strong and the election result has perhaps already been predicted, but if this alternative were to come about both the "Through energy expertise to influential global player" and the "Diversifying into Mosaic Russia" developmental trends would be possible. Although the creation of a democracy takes time, it is now possible to take large steps forward.

2. The Kremlin takes advantage of the rise of racism and ultra-nationalism in Russia, and postpones the elections for the time being. The Putin era continues without elections. This argument is supported by the increasing number of racist crimes and fights during Putin's second term. Peace still has not been achieved in Chechnya, and the situation creates an air of uncertainty. Therefore a continuation of Putin's presidency could take Russia towards a scenario of Russia having global influence through its energy expertise. A threat to this, however, might be "Russia under strong control".

3. The constitution would move towards parliamentarianism. The prime minister's position is strengthened, and he would become stronger than the president. Putin is appointed prime minister. Putin has stated on several occasions that he would not change the constitution. On the other hand he also believes that Russia is not yet ready for parliamentarianism, for a government based on political parties. Both of Putin's viewpoints, however, leave room for flexible interpretation. Perhaps after the 2007 Duma elections Russia, in Putin's opinion, will be ready for parliamentarianism. In this case the constitution can be changed. The change would not affect the president's term of office, only the president's power and the way the Russian government is formed. The alternative provides substance for all three Russian development scenarios.

4. Early elections would be held. The election would be held before Putin's popularity wanes, so that this would ensure that Putin's line continues. When power was transferred from Yeltsin to Putin, this method was adopted. The element of surprise is a very important tool in maintaining authoritarian power. In this case the most crucial factor is the question of Putin's succes-

sor. The role of the state leader as well as the policies of elites determine political development. This alternative has substance for both the "Global player" scenario and the "Strong control" development path.

5. A Ukraine-style uprising. If the struggle between the power elites accelerates so that governing the country suffers, this would be a possible alternative. It would be born out of the impatience of the people. The end result could be any of the three scenario alternatives.

6. The constitution would be changed so that the president could continue for a third term. If Putin accepts he would be elected for a third term as president. A continued period for Putin by this means would not hold out much hope for the positive development of Russia. The legitimacy and credibility of the president would suffer through this solution. Putin has denied the possibility of continuing both in his statements abroad to foreign journalists as well as to Russian citizens in the annual television programme where citizens put questions directly to the president. Putin's strongest card in legitimising his power is the trust and popularity he has among the people.

2008 will mark out the future development of Russia in the long term, no matter what the manner and result of the 2008 presidential election. There has been chaos and imbalance, as well as internal conflict in Russia for 15 years. For the development of Russia to find a line, which would enable economic diversification and the development of the rule of law, Putin's successor would need to be strong enough to unite Russia's discordant strengths. It could be that nothing changes, not even the president. In any case, however, Russia will take a new direction in its development.

Summary

The development of the rule of law is still in its infancy in Russia. The new post-Soviet generation has still not come to power, and today's holders of power are still mired in the procedures of the Soviet era. However, it must be emphasised that this does not mean that modern Russia is the Soviet Union or a tsarist system. Russia's problems throughout history have not just been its large size and regional differences, but also that the aim has been to exert top-down control over the so-called liberal individual values, human

rights, freedom of speech and the market economy, while the people are suspicious of orders that come from above. The central administration, the president and the government in Russia are not as strong as is generally thought, and the different interest groups try to maximize their own benefits. When the concept of Russian justice is combined with the concept of legality, the future of Russia will appear brighter than at the halfway stage of Putin's second term as president.

3. RUSSIAN FOREIGN POLICY (HANNA SMITH)

With the break-up of the Soviet Union almost all areas of society and administration descended into chaos, including foreign policy. In one night one country disappeared and was replaced by several others. However, the people in the administrative departments and in the government stayed the same. The break-up of the Soviet Union was seen in the West as a victory for democracy and the market economy. The West had won the cold war. The Soviet Union had been the world's second superpower. Historically it had been one of the major European countries. However, the birth of the new Russian Federation meant that once again Russia had to find its place in world politics. It was the heir to the Soviet Union. The Soviet Union's seat on the UN Security Council and the right to veto now belonged to Russia. The Soviet Union's weapons and nuclear arsenal belonged to Russia. The Russian Federation was still the world's largest nation in terms of surface area. Its natural resources were, and still are the greatest in the world. The status of the Soviet Union and Russia as a superpower has never been connected to its economy but literally to its "greatness". At the beginning of the 1990s there was a strong feeling in Russia that it had been humiliated. World politics hailed the triumph of democracy, and Russia was welcomed into the fold of democratic nations.

However, Russia did not manage on its own. Aid, in terms of both advice and money, was needed from the West. Nor was the state of domestic politics simple. There were many opinions as to the future form of the new state, and the possibility of revenge by the old elite was a realistic one. The Russian Federation's first foreign minister

was Andrei Kozyrev. He announced that Russia's foreign policy would differ from the foreign policy of Gorbachev's time, as the foreign policy of the Russian Federation would be based on democratic principles and national interests, and not on communist ideology and the interests of the international working class. During 1992-1993 Russia's foreign policy was very quiet and mostly followed western perspectives and policies.

From 1994 onwards a rise in Russia's own foreign policy was seen. The direction and priorities were not clear, but it was clear that Russia was finding its own approach. In Russia, for example, the OSCE was seen as an alternative to NATO. Regarding the Commonwealth of Independent States, Russia appeared to be the major power in the region although in practice there was no CIS policy or strategy from the Russian side. International events were largely reacted to on an ad hoc basis. Yevgeni Primakov's becoming foreign minister in 1996 was seen as a change in direction for Russian foreign policy. However, this was not a question of a change of direction, but more of the addition of directions. Primakov's areas of expertise were the Middle East and India. If, until 1996, the main focus of Russian foreign policy was the West, the EU and the United States, there was now a desire to add the rising eastern powers of China and India to the picture. The Middle East policy was a step towards Russia's main foreign policy aim to become one of the most important superpowers in world politics.

A new episode in Russian foreign policy began in 2000 when Vladimir Putin became president. The current Russian foreign policy concept was published in summer 2000. Foreign policy can be seen as having stabilized during Putin's presidency. Foreign policy returned to being a focused policy to serve the state, and foreign policy objectives and measures somehow became reconciled with each other. The more organized conditions between the state and society (organized synergy) contributed especially to this success. The economy, especially relating to energy, became the stick and carrot of foreign policy. Russian energy became the new negotiating tool in foreign policy. Russia is now regarded as an energy power. In security issues, Russia tries to create an image where Russia would be seen as a bringer of security and not as a threat. However, the creating of a "softer" image of Russia has not

been successful. Russia's unpredictability and lack of openness in foreign policy continue to create a very uncertain picture of Russia as a partner. The clearest objective of Russian foreign policy is a vision, in which Russia is seen as one of the most important superpowers in global politics and an unchallengeable power in the region.

There are four main factors in modern Russian foreign policy that explain its foreign policy behaviour.

The first is achieving superpower status. Superpower status supports Russia's position in global politics, which emphasizes the sovereignty of nations. According to the Russian view, outsiders do not have a mandate to intervene in the internal affairs of independent states unless it has been decided jointly within a multilateral frame of reference, in which all major powers must have their say. The UN and G8 are examples of such forums.

Multilateralism is the next determining factor. In the modern world a superpower is not able to act alone without some level of support from another country. The leaders behind Russia's foreign policy have often emphasized that Russia wants to act in multilateral cooperation. There are, however, several definitions of multilateralism in Russia, and the term is often used almost as a synonym for multipolarity. Multilateral cooperation brings Russia its much sought after sense of belonging with the others.

The third factor seems to be imperialist and post-empire thinking. Russia has been an empire almost throughout its entire history. For the first time in its history, the Russian Federation was a country with a population that was 85% ethnic Russian. In world history, when an empire breaks up, the "parent country" itself must, one way or another, come to terms with the new situation. The British Empire, through its strong economic relationships, language, education system and its regal symbols, has managed to maintain a position of respect in countries that were part of the empire. In Turkey, the remains of the Ottoman Empire still have their own areas of interest and the keenness to teach Turkish-based languages

extensively beyond the present borders. Even in Italy, the heart of the Roman Empire, an imperialist attitude can occasionally be seen. Imperialism takes many forms. Broadly speaking, imperialism can be divided into four main categories. Traditional strong imperialism is based on the occupation of another country and ruling it. There is the concept of so-called 'liberal imperialism', based on Robert Cooper's ideas, which relies on economic strength. Soft imperialism is achieved through culture and language. De facto imperialism is where the other country is not occupied, but other means are used for decision-making to be dictated by the "parent country".

The fourth feature appearing in Russia's foreign policy is the so-called resentment. The concept of resentment is often used to describe a situation where the ruling elite accuses foreign powers of trying to weaken it. It is often also based on suspicion that stems from insecurity about one's own identity, and a feeling of being looked down upon by others. Building a strong identity is seen as important and national unity as a crucial element. The Russian Sergei Markov has stated that "the Russian mentality is by nature defensive, and has been thus for hundreds of years. The myth that Russia is surrounded by enemies is widespread, and politicians use this to their advantage.³⁹" Resentment is a typical characteristic of a state governed by an elite, in which institutions have not developed. Good examples of resentment-type behaviour are the government's accusing Russian oligarchs living abroad of trying to weaken the current Russian government and create a detrimental image of it in the West, and claims that citizens' organizations, particularly those getting funding from abroad, are hotbeds of anti-government political activity. Georgians have been made the scapegoats for the growing hatred towards foreigners, and international terrorism is regarded as a threat to Russia's unity. Some major western firms have also been accused of trying to hijack Russia's important raw material resources for themselves. In his annual state of the nation address, President Putin has himself indirectly referred to powers be-

³⁹ Sebastian Smith, "Enemies at the gate: Russia's siege mentality in polls run-up." *AFP*, 17.10.2006, Moscow

yond Russia's borders that would like to see Russia weak. Ressentiment is a tendency that has existed in Russian foreign relationships almost throughout its long history, at times strong, and at times in the background.

Challenges facing Russian foreign policy in the future are its long-term strategy, the area of the former Soviet Union, the development of its domestic policies, and how global politics will evolve.

The long-term strategy, the foreign policy vision, is linked to the discussion about Russia's identity. The Russian foreign policy concept attempts to create an image of Russia as the bridge between East and West, between Europe and Asia, and of a Russia that is a superpower in global politics. Its main aim is to achieve superpower status but it is still uncertain as to how, when, and with whom they will try to accomplish this aim. The question also remains as to how Russia intends to fulfil its idea of being the bridge between Europe and Asia. Today's practice is "everyone is a partner, but no-one is an ally." The West, and Europe in particular, are still Russia's main priority, but difficulties with the West have increased discussion within Russia about the eastwards direction of its foreign policy, and concrete actions also reveal increased foreign policy activity in Asia.

The area of the former Soviet Union continues to present one of the most challenging foreign policy problems for the Russian leadership. Russia has held on too tightly to the status quo of the area. Inside the Kremlin it is hoped that nothing would change in the area, where each country is nevertheless in a state of change. Admitting this fact and taking it into account will be very crucial for the whole of Russian foreign policy. The former Soviet Union is precisely where imperialist thinking can still be seen to be alive in Russia. There are visible signs, however, that soft and liberal imperialism are the forms that will primarily be adopted. In the 1990s, the area did not seem to even belong properly within the sphere of foreign policy. Nowadays, there are also other players in the former Soviet Union, such as China, the United States and the EU. The ideological battle

between Russia and the rest of the world has disappeared, but the competition for the sphere of influence lives on.

The development of Russia's domestic policies since the break-up of the Soviet Union has also had a major influence on foreign policy. One key question is how sustainable and how capable of developing is the Russian super-presidency when it comes to turning the country into a respected and reliable superpower. Domestic policies have a strong influence on foreign policy, but to an even greater extent in countries where the institutions have not stabilised and a national identity is still being sought. The former Russian foreign minister Igor Ivanov has stated that in analysing foreign policy, the political and socio-economic perspectives at national level must be taken into account.⁴⁰ The state of Russian domestic policy has often been the factor that has made the development of Russian foreign relations more difficult.

In addition to its visions and directions for its own foreign and domestic policy, the way in which the rest of the world develops will also present a challenge for Russian foreign policy. How well the Russian attempt to create a multivectoral foreign policy and create for itself a position as a leading superpower in global politics will succeed also depends largely on external factors. What will the position of the United States as a leading superpower be following the Iraq war? How will the EU develop? And, in particular, how will China and India use their strong positions in global politics?

Russia and the European Union

The European Union is Russia's biggest trading partner. Russia has been, and is, a major European power, but is also on the outside at the same time. People speak of a common culture and geographical area between the European Union and Russia. As an international organization the European Union is unique, and this has made it difficult for Russia to formulate its own strategy and a uniform position towards the European Union. The European Union has also found it difficult to find a common policy towards Russia, partly

⁴⁰ Igor S. Ivanov, "The New Russian Diplomacy", *Brookings Institution Press, Washington D.C., 2002, s.19*

because the European Union has itself been in a major state of change following the break-up of the Soviet Union, and partly because Russia and the direction it will go in have been difficult to predict, and there have been as many opinions as there have been analysts.

With the break-up of the Soviet Union there was even talk in Russia about membership of the European Union. Negotiations for a cooperation agreement began in 1992 and the document was signed in summer 1994. However, the agreement did not come into effect before 1997, as the ratification process within the EU took a long time. Generally speaking, the first Chechen war was mentioned as one of the main reasons, but the main reason was probably an EU internal one, and very little to do with the events in Chechnya. The document (the Partnership and Cooperation Agreement – PCA) became the cornerstone of the relationship between Russia and the EU, and it will continue to be until a new agreement is negotiated or one of the parties terminates the agreement. The agreement defines the institutional frame of reference for the relationship. Each year two summit meetings are held between the heads of state of the EU and Russia, the aim of which is to specify a joint strategic line. Ministerial-level meetings take place in the Permanent Partnership Council. These meetings are held when necessary. The agreement also mentions committees, where meetings and discussions between experts and high-ranking officials could be held.

Since 2003, Russia has no longer been willing to participate in these meetings. Various so-called Troika meetings are often used as a means for political dialogue, and from 2005 onwards, human rights consultations have also been entered into with Russia. The PCA agreement also specifies cooperation with the European Parliament and the Russian Duma. There are also several sectoral and international agreements between the EU and Russia in many different areas, such as energy and nuclear safety. In the initial stages of the PCA, it was already found that the agreement negotiated from 1992 – 1994 neither fully met the expectations that both sides had, nor did it give an idea of the so-called strategic thinking of both sides. The Kosovo war in 1992 put a great strain on Russia's relations with both the EU and with the United States. During the German pres-

idency of the EU in summer 1999, the EU published "The Common Strategy of the EU on Russia", which Russia countered in autumn 1999 with its own document "Russia's middle term strategy towards the EU 2000-2010". These documents were very different from each other. The EU emphasised shared values and democratic development in Russia, whereas Russia talked of the economy and security. These documents did not bring about any great improvement or added value to the relationships. A positive aspect, however, was that it initiated the process of thinking about what the other party wanted.

Doubts concerning the effectiveness and purpose of the PCA already set in at the beginning of the 2000s. One reason was that the agreement would lose almost 2/3 of its worth if Russia became a member of the WTO. In order to strengthen the agreement, a summit meeting held in St Petersburg in summer 2003 agreed upon the creation of four common spaces: economic integration, freedom and justice, external security and research and education, to which culture was also linked. At the Moscow summit in 2005, agreement was reached on joint roadmaps, the purpose of which was to act as the means for implementing actions in the four areas. Another purpose of the roadmaps was to signpost the creation of a new cooperation agreement. The agreement, which came into effect in 1997, expires in 2007, but can be extended each year if necessary. At the Helsinki summit in November 2006 consensus was not reached on the EU negotiation mandate, which leaves the question for the future as to what kind of frame of reference there will be for cooperation between Russia and the EU. The necessity for a legally binding agreement between the EU and Russia has been in question with Russian membership of the WTO.

The relationship between Russia and the EU, both before and after the PCA years, has been anything but straightforward. From the break-up of the Soviet Union until 2006 the relationship could be identified by three distinct periods.

The first period could be given the name "Great expectations, idealism and conflict, 1992 – 1997". Following the break-up of the Soviet Union, the assumption was that Russia would integrate with Europe and membership of the EU was even hinted at. Russia appeared unconcernedly self-assured. Following from the fall of communism it

was supposed that Russia would expect a reward from the West and that a market economy would be a blessing. There was a sense of humiliation, which they tried to hide in the belief that Russia would soon be an equal, integral part of Europe. Russia was seen as the legitimate heir to the Soviet Union's superpower status. In Russia, it was thought that the importance of NATO would decrease and that the OSCE would become the new pan-European security organization. There was talk of a joint European home according to Gorbachev. Membership of the Council of Europe was seen as very important in Russia, and in some circles even as the first step towards EU membership. Russia was very keen to sign the cooperation agreement, and to join the different bodies. However, problems began to mount up on the home front. It was not easy to get the signed document ratified by the Duma. The first Chechen war cast its own shadow on relations between Russia and Europe.

In the EU and the West it was supposed that democracy would follow totalitarianism at a fast pace. The market economy would succeed through shock therapy, and there would be no going back. It was thought that it would be possible to advise and guide Russia along the right track. The approach, however, was cautious and slightly contradictory. In the 1996 presidential elections, despite a major election fraud, Yeltsin, the sitting president, gained support and at the same time a blind eye was turned to human rights abuses in Russia.

The second phase of relations between the EU and Russia could be called "Reality strikes – disappointments and difficulties, 1997 – 2004". The enlargement of NATO in 1997 was cold water down Russia's neck. It could be called the beginning of a new era in Russia's relationships both with the EU, and with the West. Although Russia was a member of the Council of Europe, the road towards EU membership was not clear. The EU had played an active role during negotiations for Russia's membership of the Council of Europe, but withdrew after membership had been granted. The Russian economic crisis of 1998 merely served to increase Russia's difficulties and raised doubts in the West concerning Russia's capability to develop. The economic aid coming from the West was criticized as being totally inadequate. The domestic situation in Russia was almost at

a standstill. There was no cooperation between the Duma and the president, and many reforms were put on hold. The Kosovo war in 1999 also raised questions over Russia's international influence. At the same time, the EU's internal development brought values and norms to the EU agenda. People still considered Russia unpredictable and the statements made by Primakov, the Russian foreign minister, created an atmosphere of doubt within the EU as to where Russia was going and what it wanted. The second Chechen war started in 1999, and the way in which Russia conducted its military operations caused widespread condemnation. The war itself also set off more focused and controlled policies in Russia. The start of the global war against terror in 2001 was seen as an opportunity. The war against terror, however, did not bring Russia any closer to the EU, nor did it help in the so-called integration process in Russia/EU relations.

From 2004 onwards, the improvement in relations between Russia and the EU could be described as the search for equilibrium. When Vladimir Putin began his second term of office there was talk of a different type of Russia from what it had been at the beginning of the 1990s, both good and bad. Russian development was not popular, and the country had become considerably more unpredictable. The EU looked for signs of the past – the old Russia from the Soviet Union era was well known. Russia clearly had a new self-confidence, which the advance of the economy and the country's energy reserves had brought with it. The differences of opinion between Russia and the EU were now clearer, and the expectations were more realistic. Russia's membership of the EU was off the agenda, although its GNP per capita was higher than, for example, the future EU members Romania and Bulgaria. With the enlargement of the EU the new member states – the former eastern bloc countries - brought a new challenge to the EU's Russia policy. However, the mutual dependence on energy strongly maintained the so-called strategic partnership, at the same time as Russia's energy policy among the CIS states also brought friction to Russia's relations with the EU. Areas where there was no political baggage and where there was mutual interest also continued to go ahead. One such area was education. Russia also demonstrated its interest in cooperation projects to promote regional

cooperation, such as the new programme for the Northern Dimension, in which Russia, together with Norway and Iceland would become an equal partner. The basic aim of Nordic cooperation is to promote dialogue and concrete cooperation, stability, prosperity and economic cooperation, economic integration, competitiveness, and sustainable development. The sectors for cooperation include the four common spaces agreed between Russia and the EU, economic integration, freedom and justice, external security (civil defence) and research and education. On top of these the Nordic Dimension also involves, as separate sectors, the environment, nuclear security and natural resources, and social welfare and healthcare

What does Russia look for and want from the EU in the future?

Illusions and idealism have disappeared from the relationship between the EU and Russia. This in itself is already a positive step, as there are better possibilities to achieve something through cooperation based on realistic viewpoints and expectations than through cooperation based on a frail foundation. The EU's external relations with its neighbouring areas, particularly eastwards, have been simplified by the fact that it has been possible to use the "carrot of membership" as the starting point for cooperation. As far as Russia is concerned, however, this has not held true despite Russia's periodic interest in membership of the EU. "Carrots" and the basis for cooperation must be built on assumptions other than Russia's EU membership.

Russia and Europe have had a long and historic relationship full of conflict. To Russia, Europe has always been attractive, yet at the same time frightening. In Russia the desire has been to adopt European liveliness and vigour, and at the same time keep European influence under control. Russia has tried to be a fully European state, being part of the "European home", yet remaining separated from it. In Europe, Russia has been viewed as a distant and exotic country, whose culture and set of values differ from those of Europe, but are, at the same time, captivating. Al-

ready during the time of Peter the Great it was said of Russia: "There were two dominant lines in the great leader's (Peter the Great) relationship with the West: the desire to learn and internalise everything that was seen as useful and practical, yet at the same time a conscious endeavour for an independent line, its own power, and a certain level of a sense of superiority".⁴¹

The Russian approach, familiar from history, has become very well-known in relations between the EU and Russia during Putin's time as president. At the same time as seeing similarities with history, it must also be remembered that historical similarities do not mean, that everything would occur in today's world in the way as it did before. "Heterogeneity is just as permanent in history as continuity".⁴² Despite all this, the Russian process of approaching Europe is still ongoing. Russia would appear to have three main objectives towards the EU: a common economic area, a visa-free border, and a limited possibility for participation in EU decision-making (NATO, for example). The EU has indeed displayed a positive attitude to the idea of a visa-free border and the formation of a common economic area. However, giving even a limited possibility of participating in EU decision-making to Russia could not be envisaged. The EU is a unique international organisation, it does not even have observer members.

While Russia is expressing its desire to integrate with the EU and Europe, it does not want rules to be dictated to it, nor any particular measures concerning how things should be done in Russia. A common viewpoint of what human rights are, for example, has not yet been achieved. Moreover, Russia and the EU member states have very different ideas regarding the way in which the state intervenes in civil society, and in the activity of the press. Because of the nature of the EU, Russia discusses human rights issues less aggressively in the Council of Europe than with the EU.

Although Europe and the European Union are by no means Russian foreign policy's only priorities, they are still amongst the most important.

⁴¹ Reinhard Wittram (1973) "Russia and Europe", Harcourt Brace Jonanovich, Inc.

⁴² Ruhl, 2004: 24

Following the break-up of the Soviet Union, it was thought in the United States that a new strategic partnership with the new democratic Russian Federation could now be built in place of the ideological power struggle. However, after a promising start at the beginning of the 1990s it was noticed that Russia was too weak and the internal problems inside Russia so great that Russia would not really be able to offer anything to the United States.

The 1993 Duma elections were a shock. The ultra-nationalist Vladimir Zhirinovskiy gained an electoral success that surprised the West. From 1994 onwards, United States policy could be described as selective engagement. When Yevgeni Primakov became foreign minister in 1996, multipolarity became the central concept of Russian foreign policy, which was generally interpreted as being an anti-United States policy. There were many dimensions to Primakov's thinking on multipolarity, but its influence on relations between Russia and the United States was permanent.

From 2000 onwards there was once again a new period in relations between Russia and the United States. Putin's starting point was largely based on Primakov's views, but with Igor Ivanov, the new foreign minister, a civilized approach was also introduced to the management of foreign policy. Russia began to resemble the country that the United States would have liked to see in 1992. A major question faced the George W. Bush Administration – whether relations would be revived, or drift onto a competitive footing. The war against terror seemed to offer the opportunity for extensive cooperation. However, a difficulty began to emerge in solving the problems of this very different approach. Although there was consensus on some basic areas and objectives, the measures and tools were very different. This became clear when the Iraq war began. Russia was still a problem country.

An area where there has been successful cooperation between the United States and Russia is weapons, particularly nuclear weapons - coopera-

tion in preventing proliferation, and cooperation on nuclear energy.

Russia and the United States continue to share several interests, but in an ever-increasing number of matters the countries are on opposite sides. The rise of Central Asia and the Caucasus as an important geopolitical region, and United States activity in the area of the former Soviet Union, have caused friction between the countries.

Russia and the other CIS countries

For Russian foreign policy, the countries of the former Soviet Union have been a challenge for which no balance or strategy has yet been found. Concepts that became familiar in the cold war, such as sphere of interest policies, the zero-sum game, and the balance of power, are still typical of the area.

The Soviet Union broke up according to an agreement between Russia, Belarus and Ukraine in 1991. The Commonwealth of Independent States (CIS) was set up to manage the "divorce". The community succeeded in managing the divorce, but no other organization came into existence. There are several conflicts on hold in the region - Abkhazia (Georgia), South Ossetia (Georgia), Transnistria (Moldova) and Nagorno-Karabakh (on the Armenia Azerbaijan border). The roots of these frozen conflicts lie in the nationality politics of the Soviet Union and the internal regional divisions.

During almost the whole of the 1990s Russia had the opportunity to develop its own CIS policy and begin to find a common approach with the other countries in the region. Apart from some bombastic statements, the policy had no content or practice. "One of the great misconceptions of the post-Soviet period is the myth that ...the Yeltsin administration viewed the CIS as Russia's number one foreign policy priority.... the administration identified early on a requirement to be seen to be giving attention to CIS-related issues, in particular those with a strong domestic resonance such as the rights

⁴³ This section is largely based on R. Craig Nation's (US Army War College) analysis of Russia-United States relations. Speech made on 16.11.2006, at the 38th National Convention, American Association for the Advancement of Slavic Studies, Washington DC.

of Russian-speakers in the other FSU states.”⁴⁴ Throughout the 1990s Russia had difficulties in its relations with Georgia and the Ukraine. Lukashenko, the president of Belarus promoted the union of Russia and Belarus with the idea that he could then become the president of the whole new state. Lukashenko even had a certain level of influence in Moscow right up to 1999. This already tells a great deal about Russia’s own internal conflicts. The only common line was that the CIS region was seen as Russia’s sphere of influence, but there was no consensus as to how to work with it, what the channels of cooperation would be, and more difficult questions. The western countries also kept their distance from the CIS region in the 1990s.

The settings of the 2000s changed this, however. President Putin’s administration noticed the increasing strategic significance of the former Soviet region, but also recognized the weaknesses of the CIS organization itself, and that Russia did not enjoy respect as the regional hegemonic power. The war against terror brought a US military presence to the CIS region in 2001. The enlargement of the EU led to a growth in importance to the EU of Moldova, Ukraine, and Belarus. The increasing need for energy in China brought Chinese players to Central Asia. Energy issues were also of interest to India, the United States and the EU. The Putin administration had to start some practical action. Major speeches were no longer enough. Russia left the CIS frame of reference with little notice and concentrated primarily on bilateral relations and on alliances within the CIS area. At the same time they started to adopt so-called liberal imperialism. Russian firms bought shares and acquired total ownerships in different CIS countries. Organisations within the CIS area include the collective security cooperation, the Eurasian economic community and a common economic area between the four largest CIS economies. The common economic area has not, however, furthered Ukraine’s cautious attitude because of the cooled relations between Belarus and Russia. There are also other organizations in the

CIS area to which Russia does not belong. Cultural imperialism has also become something new in Russia’s CIS policy, in which very popular Russian pop music is distributed in CIS countries, the broadcasting range of Russian radio stations has been extended, and an increasing number of Russian films are being made. There are large Russian minorities in the CIS countries.

Russia’s relationship with the countries of the former Soviet Union and with the former East European countries will be a big challenge for Russia. Without equilibrium in that area Russia will not be able to become a global superpower.

Russia, China and India

At the beginning of the 2000s in particular, Russia began to forge closer relations with the rising global powers of China and India. Already during Primakov’s time as foreign minister from 1996 – 1999 there was talk of a change in the focus of Russian foreign policy. However, this was more a question of adding additional elements to Russian foreign policy than a change of direction. Little attention had been paid to China and India at the beginning of the 1990s. Russia gave its support to both countries in their attempt to become permanent members of the UN Security Council and to be given the right of veto.

China has a 4,355 km long border with Russia. China’s rapidly growing economy and its need for energy in particular have increased dealings between Russia and China. The joint military exercises held in 2005 aroused a great deal of world attention, and Russia and China’s strategic partnership was viewed with mixed feelings. 2006 was Russia’s year in China, and, in turn, 2007 is China’s year in Russia. Cooperation between China and Russia has increased through the Shanghai cooperation organization. China is also a major buyer of Russian arms. In world politics, particularly in the UN Security Council, cooperation between China and Russia has helped both parties to advance their own interests and to counterbalance the leading position of the United States. One example worth men-

⁴⁴ Bobo Lo, *“Russian Foreign Policy in the Post-Soviet Era – reality, illusion and mythmaking”*, Palgrave 2002, p.72.

tioning is that China and Russia have a very similar attitude towards the Iraq question. Russia and China treat each other as equals. Equality has always been important in Russian foreign policy and this concept has been sought with the West.

Despite the increasing cooperation, the relationship between Russia and China is described as very pragmatic. As long as both can benefit from each other trade will take place. The last border issues between Russia and China were resolved in 2004, but there are still major questions relating to the border areas between the two. Environmental damage affects both sides of the border. The population imbalance, with around 5 million people in the sparsely populated Russian Far East, and around 130 million Chinese in the three provinces of the densely-populated northern China on Russia's border create concerns on both sides of the border at times. The more sceptical in Moscow are already talking of a Chinese occupation of Russia. Despite their cooperation, Russia and China are also competitors in Central Asia.

Energy plays a major role in the cooperation between China and Russia. How successful this partnership will be is a question for the future. The energy cooperation between the countries does not yet threaten Europe in any way. Most of the infrastructure that will be needed to transfer Russian energy to China is not yet built.

Russia and India are also strategic partners. A strategic partnership declaration was signed in 2000, during President Putin's first visit to India. Putin's visit to India in 2004 brought Russian and Indian relations even closer. The cooled relations between the United States and India have also had an influence on the matter. The most important areas of cooperation between India and Russia are energy and defence, as between Russia and China. Russia sells a significant amount of arms to India. It is worth highlighting in the sectors of cooperation between Russia and India cooperation on nuclear energy and the growing tourist traffic between the countries.

The cooperation between Russia and India has not aroused as much attention as that between China and Russia, but it is very important to both countries.

Summary

During President Putin's time in office Russian foreign policy has become a multivectoral foreign policy and its aims are clearer than previously. The main aim is to achieve international recognition for Russia's position as a superpower. However, there are still many challenges ahead for Russia and its foreign policy. The greatest foreign policy challenges are the former Soviet region, how Russia will get rid of its suspicion towards western politics, and how well their partnership projects with China, India and the United States will succeed. However, the greatest challenge is Russia's internal development, the success of its economic policies, and the progress of the rule of law. For the foreign policy to succeed and to achieve the status of a respected superpower, it requires a stable and unified domestic front and for the people to respect their own country.

4. ANTI-RUSSIANISM AND THE SHACKLES OF HISTORY (ANTERO EEROLA)

Finnish attitudes to Russia and the Russians have always been weighed down by an exceptional amount of historical ballast. At its worst, this has had an adverse effect on efforts to create normal everyday relations between the two neighbours.

An image of Russia as some kind of perpetual threat to Finland, which enslaved us and deprived us of our independence, still lies dormant in the Finns' collective, cultural memory. Although the image is indeterminate and untrue, it lives on and has its own promoters. In this Weltbild, the high points of Finnish-Russian interaction have been the Great Wrath, the Little Wrath, the War of Finland, the years of oppression, the Winter War, the Continuation War and most recently the Cold War and Finlandisation.

A strong school according to which the key purpose of Russia's existence, its existential character, is somehow to threaten Finland still features in the Finnish discourse on security policy. It is precisely the word "threat" that is always bandied about when Finns talk of Russia. It is interesting that the Finns' relationship with Russia has always been more passionate than vice versa. Whereas Russia has been seen, and for good reason, as a great power that has determined the fate of the entire nation at the key turning points in history, all that Finland has been to the Rus-

sians was, in the era of autonomy, just one of the many peoples in the empire and later just one of the neighbouring countries.

Nevertheless most Russians have some conception of or opinion about the Finns. A famous one is the poet Alexander Pushkin's characterisation of the Finns as "nature's sad stepson", who lowers his rotting nets into the uncharted waters of the Neva. Thus the Finn is something of an amusing figure, but perhaps not particularly interesting let alone dangerous. Another significant description of the Finns came from the Polish-born soldier and later journalist and publisher Faddei Bulgarin, who fought in the Russo-Swedish war of 1808-09 and praised especially the Finns' honesty and law-abiding character. Since his day, clichés to the effect that we are, in addition to being law-abiding, also industrious and clean, but at the same time mopers given to moroseness, slowness and drunkenness, have often been associated with the Finns' image in the eyes of the Russians. Thus the Finns have at least not caused much bother. Alexander II said that the Finns must not be touched, because they were the only people in the vast Russian Empire who had never given the Tsar a headache.

Nowadays most Russians know the expression "Fit Finnish guys" (*goryatshie finskie parni* in Russian), which the actor Ville Haapasalo, who is immensely popular in Russia, has made famous in his film roles. The definition is well-meant irony, the real meaning is precisely the opposite. The Finns are still taciturn mopers who inhabit a cold land.

Russophobia as White Finland's ideology

But from what source do the Finns' prickly and passionate, and earlier in history also hostile attitudes to Russia spring? The answer may lie in the Finns' task of building an identity of their own.

Building an identity for a nation, just as well as for an individual, always presupposes an image of difference. That "other" is generally the sum of the traits from which one would wish clearly to distance oneself. A tendency to search for dichotomies between our kind and others is especially strong in recently independent nations, which have to build their national existence, to seek their identity and an answer to the question of who we are.

The lumber for building the Finnish national identity has always been the relationship with Russia and Russianness. The qualities of Russianness have come to represent a great "different-

ness" that the Finns have wanted to avoid. That champion of Finnishness A.I. Arwidsson's declaration "We are not Swedes, we don't want to be Russians – so let us be Finns", contains the idea that we cannot become Swedes even if we wanted to, but Russians is something that we really do not want to be.

The most extreme of all the forms of rejection of Russianness is the ideology that has been described as *Ryssänviha*, literally "hatred of Russkis", the gloomy echo of which can still be discerned, muffled in the background, when the Finns reflect on their relationship with Russia. At the core of hatred of Russkis is the idea that the Russians as a people are contemptible and detestable in their traits and national character, but especially because of their aggressive expansionism, which threatens Finland.

At least two interpretations in relation to the roots of historical Russophobia in Finland have been presented. The initial premise in one interpretation is the existence of a kind of arch-enmity, in which the Finns and the Russians have been, down through history, perpetually and inalterably ranged against each other. Thus hostility is natural and enduring, something that always exists in relations between the neighbours. This basic configuration has dominated since, at the latest, the days of the Great Wrath in the early 18th century, a conflict during which the Russians "occupied and raped Finland". The "theory" of arch-enmity holds that relations between the two countries have been dominated for centuries by all kinds of oppression and warfare, in which Russia is the violent suppressor and Finland an innocent, virginal victim.

However, a more credible explanation for the background of antipathy to Russia can be found in much more recent history. According to this interpretation, the genesis of hatred of Russkis can be quite accurately dated to the time of the Finnish Civil War in 1917-18. Nor was anti-Russian sentiment a national antagonism, but more an ideological and political one, which was deliberately fostered and propagated. According to this interpretation, the idea of Russia being the arch-enemy did not come into being or get invented until the early years of independence, as part of the identity project of a right-wing, self-ideologising White Finland. One of the most important presentations of this idea is to be found in *Vihan veljistä valtiotalismiin* (From the Brothers of Hate to State

Socialism) which Professor-Emeritus Matti Klinge published as long as three decades ago.

In the background of the anti-Russian ideology was a desire to unite the nation and especially its non-socialist part. What mattered was to equate communism with Russianness.

Thus the struggle against the Reds and Redness was at the same time a war against Russianness. Therefore it was often natural for the Whites to call their Red opponents “red Russkis”.

Communism and Russianness had to be grouped together, because White Finland was incapable of conceiving that the party that had lost the civil war might rise in rebellion against the legal social order. It was partly for that reason that the image of the civil war that had to be built was one of a war of freedom, in which the Finns had fought their way to freedom from under the Russians’ heels. Because the civil war had been so shocking and bloody, there was a desire to dress it up as a struggle of western culture against the eastern arch-enemy.

In reality, most of the Russian forces in Finland were disarmed either without the use of armed force or after only brief clashes. Thus talk of a war of freedom – at least if by that is meant freedom from Russianness – stands on shaky grounds.

The Reds were Finns, it is true, but they had strayed from their right nature and Finnishness under Russian influence. Thus there was all the more reason to hate the real culprit, i.e. the “Russki”.

Indeed, communism was seen in White Finland as specifically a Russian weed, a kind of poison that had already managed to harm a part of the Finns. The task of White Finland was to prevent its spread, because in the final analysis it posed a threat to all of humankind. It was specifically the characteristics of the Russian people that had created Bolshevism.

To the ideologues of White Finland, Soviet Russia – and with it Russianness – were evil incarnate. The Russki was a dirty, treacherous, corrupt, bestial eastern barbarian, who had been threatening Finland from time immemorial. Thus the Russian character was, as it were, a mirror, which would reflect Finnishness as pure and bright, an outpost of western civilisation.

Many of the outstanding writers of their time, including V.A. Koskenniemi, Juhani Aho and Ilmari Kianto, participated in the campaign to foster hatred of Russkis. Although the activists, the

Jaeger movement and its officers as well as the Civil Guards were especially keen to get hatred of Russkis rooted in the Finns, propagators of the ideology of hate were also to be found in the Agrarian League. An especially fiery promoter of the ideology was one Santeri Alkio, whom the Agrarian League’s heirs nowadays prefer to remember in somewhat different connections.

Thus hatred of Russkis was originally born of political needs. What was being attempted by creating the image of an external threat was to glue back together a nation that had been rent in two by civil war. What anti-Russianism was in its most essential components was precisely anti-communism. Thus hatred of Russkis was developed into a downright national duty.

The AKS and the Brothers of Hate

However, it was only after the civil war that the ideological foundation for intense, classical hatred of Russkis was created. That happened with the emergence in the early 1920s of the AKS, or Academic Karelia Society, and the inner ring that was formed within the organisation and called itself the Brothers of Hate. In part the ideology included some imported elements, because the German race theories then in vogue were mixed up in it, according to which all eastern peoples, especially Slavs and Mongols, were racially inferior. The cult of hate of the European fascist movements, founded on the view that enormous creative power was bound up in feelings of hate, also played a role.

The key ideologue of hatred of Russkis was Elmo Kaila, the long-serving chairman of the AKS.

The odd idea to which the AKS and the Brothers of Hate subscribed was that the flipside of uncompromising love of one’s fatherland was an intense hatred of Russians. Kaila formulated the ideology at the meeting at which the Brothers of Hate was founded in the early 1920s. In his view, the fatherland could be saved from an enemy with overwhelming numerical superiority only through a sacred hatred, which must be incited and spread.

“If we do that, then it will not be very many years to the day when our people are guided by one thought, powerful, all-conquering, when the saying that the men of Härmä have that ‘you can only talk about the Russki if you grit your teeth’ has come true. Then Finland will be free”, Kaila proclaimed.

The hatred of Russia fomented by the AKS acquired clearer definition when the book “Ryssästä saa puhua vain hammasta purren” (you can only talk about the Russki if you grit your teeth) was published in 1922, with a re-print under the title “Herää Suomi” (Finland, awake!) some time later. Another important work was “Suursuomi on yhtä kuin isänmaa” (Greater Finland is the same thing as the fatherland), published in 1923. The hostile confrontation between Russia and the west was a key argument. It was explained that the fundamental reason for anti-Russianism was the fact that Russians “lack that basic characteristic of a civilised people – a sense of responsibility. That is why the Russki has never been able to build a state nor advance human culture”, wrote the Brothers of Hate.

In its ideology the AKS was considerably more important than its size would have warranted. Its influence lay in the fact that its activists later rose to prominent positions in society, in politics, the army, and the church as well as in the world of science and culture. They remained influential in Finnish society for decades after the war. Although political conjunctures changed, the attitudes of the AKS were not without influence even after the fanaticism of the student movement had abated.

In pre-war Finland anti-Russianism developed into a kind of criterion of patriotism. According to the professor of Russian history Timo Viha-vainen, the main activists in the AKS tried to turn national hatred directed at the Russians into an outright national religion, which would unite the people that the civil war had divided. Thus the identity of White Finland was built on a foundation of the dark ideology of jingoism. Indeed, it can be said that hatred of Russkis constitutes its own distinctive form of Finnish racism.

Antagonism to Russia and the Soviet Union became a central element of the political atmosphere in pre-war Finland. In addition, the hard war years provided objective grounds for the atmosphere. The history of the war years in Finland is well known enough for it to be unnecessary to go into it in any greater depth in this context.

St. Petersburg for a better life

Although an attempt was made in the pre-war political climate in Finland to build up Russophobia as the principal determinant of relations, the im-

age was not very plausible, at least in the light of Finland’s experience as a Grand Duchy of the Russian Empire. Relations between Russians and Finns had not been particularly hostile in that period. Matti Klinge regards it as “the most serious argument” that the Governor Generals of Finland did not report widespread anti-Russian sentiments, even though their tasks specifically included monitoring these moods.

Not even Governor-General Nikolai Bobrikov’s oppression of the Finns led to widespread demonstrations of sentiment against Russian churches, shops, street signs or culture. Only Bobrikov himself lost his life in what was the contemporary variant of a suicide terror attack carried out by a civil servant named Eugen Schauman. Nor during the unrest of 1905 were there any signs of anti-Russianism influencing large masses of people.

Something that does not reveal special antipathy towards Russians, either, is the fact that about 60,000 Finns emigrated to Russia in the period 1826-1917. As late as the second half of the last century, the Finns were the second-biggest group of foreigners after the Germans in St. Petersburg. Many Finns also remained in Russia as teachers, officers and officials.

In most cases, people who went to Russia did so in the hope of a better livelihood. Thus the presence close to Finland of a St. Petersburg that was wealthy and getting wealthier was by no means anything new. Nevertheless, life in a strange city was not always easy for Finns.

In his novel “Suomen Rahwaan olo Pietarissa - Toe’llinen tapaus” (The lives of the common Finnish people in St. Petersburg – a real case) a teacher at the Finnish church school, Thomas Friman, describes how his fictional Finnish character, Matti Kilkki, flees Finland’s poor conditions to go to St. Petersburg, because there “the better-off people give a little sliver of their surplus wealth to the poor”, unlike in poverty-ridden Finland. However, life was not easy, because even in St. Petersburg one had to work to earn money. Kilkki ended up a beggar. “There are not as many beggars from any other peoples in St. Petersburg as there are from Finland,” Friman wrote. Another matter that prompted disapproval was the clear over-representation of Finns among the city’s prostitutes.

Indeed, expressions of wonder at “the world’s deepest standard-of-living gulf” or “eastern pros-

titution” in contemporary comparisons between Finland and Russia are put into clear historical perspective when the phenomena are examined against the background of over a century ago.

Many Finns nevertheless succeeded in Russia, especially as artisans, silver- and goldsmiths and businessmen in other sectors, but also as servants and in other more proletarian jobs. In the 1910s Finland was also popular with the Russian tourists of those days. The Russians enjoyed such attractions as the spas and casinos that were to be found in various parts of Finland. They were established and expanded, mainly to cater for Russian tourists, in Lappeenranta, Savonlinna, Heinola and Hanko. The fact that about 85,000 Russians spent the New Year holiday 2006-07 in Finland indicates only a gradual return to the conditions that were normal in interaction between Finland and Russia a century ago. A high volume of travel across the border has always been a key bridge-builder between the Finns and the Russians.

Another factor conducive to mitigating anti-Russian feelings on the part of the Finns was the fact that their country’s status as a state developed in giant strides during the period that it was joined to Russia. Under Swedish rule, the Swedes had in practice denied that Finland was different and that the Finns had their own identity. As recently as the late 19th century many politicians and historians in Sweden took the view that Finland had no distinct and separate history nor a culture that was independent of Swedish culture.

When Finland was becoming part of the Russian Empire as a consequence of the Napoleonic Wars, the country was, as is well known, “exalted to the ranks of nations”. It became a constituent part of the Empire, but as an entity that was clearly distinct and separate from the other parts. The so-called Old Finland was annexed to the Finnish administrative totality, Finland got her own Senate, postage stamps and post office, central bank and currency. A Finnish flag and national anthem were also adopted and a national epic compiled. Towards the end of the period of autonomy Finland became the first country in the world to implement a universal and equal franchise, which applied to both men and women. When independence dawned, Finland’s structures of state were largely complete. Trade with Russia was another considerable benefit for the Finns.

Nor should it be forgotten that when Finland

finally appealed to foreign powers to recognise her independence, the western powers urged her to turn first to the Soviet Government. Its chairman Vladimir Ilyich Lenin accepted Finnish independence on New Year’s Eve 1917. Whether Lenin had the ulterior motive of later annexing Finland to Soviet Russia is speculation that was never tested. Finland remained independent.

Russia through political glasses

When Finnish policy towards the east had to be built on a completely new foundation after the war, the attitude to Russia also had to be changed. President Paasikivi’s idea was that the Soviet Union had legitimate, geopolitical security interests with regard to Finland. It had to be convinced that Finland did not threaten its security and would not allow Finnish territory to be used for aggressive actions against the Soviet Union. The policy based around anti-Russianism that had been pursued before the war had run aground. Therefore a new start had to be made on a foundation of good neighbourly relations.

The idea was that the Soviet Union’s confidence had to be gained by building friendly relations at the same time as excessive advances were resolutely rebuffed. Parallel to this, a dismantling of wartime enemy images had to begin. The members of the Agrarian League who in the 1920s had been active participants in efforts to foster hatred of Russkis made an especially big change of course when they joined the Finnish Soviet Friendship Society in large numbers after the war. It was understood that recognition of realities is the beginning of wisdom. In the post-war decades political expediency led to extensive Finnish-Soviet friendship activities, sprinkled with high-sounding phrases, which soon achieved a semi-state status.

Yet the Finns also felt a genuine interest in their eastern neighbours, as evidenced by the hundreds of thousands of them who visited the Soviet Union as ordinary tourists. The Finnish media, with the Finnish Broadcasting Company in the vanguard, contributed to creating an at least positive picture of the Soviet Union and defining how one related to the Soviet Union, while Kekkonen as the guarantor of our policy towards the east became the benchmark for political acceptability right across the spectrum of parties.

How deeply obeisance was made to the east,

with all the associated phenomena, is widely known. What is remembered much less well is how massively and systematically antipathy had been fostered before the war.

Russia has nearly always been seen through political glasses in this country – for better or for worse. In this respect as well, Finland's relationship with Russia differs from those of perhaps all other European countries. The political glasses were fashioned mainly in relation to communism. Indeed, a special feature of how Finland relates to Russia is that, in the years since we gained independence, it has always been relative in some respect to communism and the socialist world order. The Soviet Union has either been hated and feared or admired and supported ardently.

The new situation that the Finns now face is confusing for them. The socialist system is now only a memory, but Russia remains and will continue to do so. For the first time in history we find ourselves in a situation where all of the factors that disturbed bilateral relations have disappeared: we are not a part of Russia, Russia does not threaten Finland politically nor militarily and an ideology that is alien to the majority of Finns and challenges the entire western social order is not in power there. The need for vehement hatred or great admiration has gone. The problem is that it has been replaced by a kind of loose indifference and on the other hand a great need for understanding.

Will Russia be exalted to the ranks of nations?

The question is: will the Finns remain captivated by the shackles of their history?

Even if Russia were not to be regarded as a direct threat, the Finns still consider their neighbour to be a country that cannot be understood with normal reason, in the way that Germany or Sweden or Britain can be understood with normal reason. In Finnish eyes, Russia does not behave in the rational ways of the west, but has a special soul that one can only believe in. Russia is a mystery and a puzzle. To us Russia still seems – albeit on the wrong grounds – an alien, odd, distant and illogical country, with oppression and chaos alternating in its social system.

In order to understand Russia we need a variety of strategies, surveys and future reports, which are drafted by a small brotherhood whose members have been initiated into the occult art of Rus-

sia-related expertise. Why is there no talk of Sweden- or Germany-related expertise? Why are no scenarios for the future of the United Kingdom being feverishly drafted for the Parliament? Why are no panels of experts being put together to deliberate the USA's role in the world?

Naturally, there is a reason for analysis of Russia. What is probably among the biggest social and political transformations in history has happened right next door to Finland in the space of a brief period. Russia is looking for its place in the world at the same time as it is looking for its own identity. A question that is still being asked in Finland is whether Russia can be understood. The counter-question is: why not, just like the other countries in the world? The idea that Russia as a country or Russianness as a culture is something beyond western reason is absurd, alien to the truth. Normal interaction between people is the key to understanding Russia and Russianness.

It is a fact that relations between Finland and Russia have perhaps never before been as peaceful and practical, as downright good, as they are now. There is nothing to indicate that the situation will change in the future.

Could the Finns escape from the shackles of history and finally treat Russia as a normal everyday neighbour, a normal great power, without feeling great passions – either for or against? Could Russia also be, in our eyes, “exalted to the ranks of nations”? Could it even happen before 2017?

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5. THE FUTURE OF RUSSIA: CERTAINTIES AND UNCERTAINTIES (SEPPO REMES)

Comments

General assessment of scenarios

As a former scenario writer, I can only congratulate the Committee for the Future on its high quality work. In scenario methodology, the most essential thing is reduction, pruning away alternatives, memorableness, emphasising the fundamental things. Global Influence through Energy Expertise, A Diversifying Mosaic, and A Russia in the Grip of the Mighty - these are genuine alternatives regardless of whether decision-makers perceive them in these terms or not. At the same time, they are reductions that will never as such become reality. As tools of analysis they do however furnish an opportunity on the one hand to locate certain factors that are common to all the scenarios, and on the other to look for signposts and political tools associated with the realisation of each scenario.

I have been away from the Finnish discussion, living and working in Russia - as a Finn - for almost 15 years already. All too often I have been and continue to be bewildered, unfortunately, when I occasionally follow the Finnish news media's reportage on and discussion of Russia: the media's undisputed freedom of operation and the independence of journalists do not always produce superior, high-quality analysis - far from it, in fact. For this reason, reading the Committee for the Future's Russia scenarios was even more satisfying. The scenarios constitute a good, professional, superior, cool analysis that was a joy to read.

For someone who writes scenarios, the constant problem is when to put an end to further analysis. In my opinion, the authors have succeeded in this respect, too. From the standpoint of basic political understanding and the choice of tools for policy-making, the Committee for the Future's scenarios are adequately detailed. It will be good for researchers and others to continue the work from here.

Another typical problem is the (internal) consistency of scenarios. In this respect, too, the result warrants appreciation. I suppose occasional objects of criticism are to be found - on

the one hand quite objectively; on the other, we all want to let people know how well we ourselves understand the issues.

Critical comments on the scenarios

Certainties. The report lacks an explicit analysis of certainties. This is a pity, since it is specifically the definition of certainties that would furnish a foundation for policy recommendations. When we know something about Russia's future with certainty (which is, of course, to some extent relative), we can be prepared for that, and specifically that, and exclude the other alternatives (or, better yet, leave them for researchers to investigate, but outside of policy-making).

Russia is and will remain a Great Power, and will act as such: this I would identify as the first certainty. There is reason to capitalise Great Power - so as to make the emphasis fully visible. Finland is a small country, whose model of operations is to adapt. That is not Russia's operating model. And what is more important, it is needed as Russia's operating model. Russia wants to change, to exert an influence on the outside world, and to be emphatically independent in its internal matters. About few other things does a consensus so broad exist in Russia, at all levels of society and among the most diverse of political groups.

In the 1990s Russia went through one of world history's most painful transitions, but did not slide into chaos or catastrophes. It reached strategically correct decisions by fashioning a market economy and its institutions, by creating a democratic constitution and the structures of a democracy, by preserving the unity of the country. This can be viewed as nothing less than a heroic feat that saved both Russia and the West. Russia survived this transition on its own, without any fundamental assistance from the West. The elite in particular, but also the entire nation, remember this, and no one - I repeat, no one - is waiting for any sort of aid from the West in any situation, now or in the future. The West is assumed to be pursuing its own interests only: that in itself is considered not a "bad" thing, but a matter to be noted realistically, as obliging Russia to react in comparable fashion.

Russia's Great Power logic is thus the logic of pursuing the country's own interests, of course under the real conditions of globalisa-

tion. This is not however a matter of a zero-sum game in which the loss suffered by one's opponent always constitutes one's own gain; nor is it a matter of a "return to the Soviet Union." Perhaps the good old term national selfishness depicts the matter well.

Another measure of a Great Power is simply its size. Russia is incredibly large. Today it is already very capable of exploiting that vastness extremely well as regards natural resources - with the exception of the forests. In future that exploitation will be even better, even. In future Russia's human resources will be much better utilised, as well. In the worst of all the scenarios, this will take place primarily outside the country's borders; in the best scenario primarily inside the country. Even today, the Russians are "everywhere": as an eager traveller I haven't in years "succeeded" in taking a holiday anywhere in the world without bumping into Russians. Russia is a very common language in London. A notable abundance of Russians work in London's financial centres.

Russia's size also creates very special opportunities for the transport sector, and in connection with ecology. Exploitation of natural resources on a huge scale is a certainty that the rest of Europe must try to adapt to and affect with a decided activism, rather than trying to avoid, not to mention fearing. This is especially clear with regard to energy reserves. Active cooperation in place of negative politicisation and populism is called for.

From Russia's standpoint, Great Power status and thinking constitute a favourable factor. This may be self-evident. I claim that it can also be a favourable factor from the standpoint of Europe and other foreign countries. In today's world, a Great Power cannot isolate itself: it is forced to function in the outside world, and wants to do so. Russia is thus bound by a thousand ties, by treaties, to the outside world and first of all to Europe, at the levels of the economy, policy, the military, and civic society. The more it wishes to wield influence, the more it must also listen to others. Weakness and the isolation that represents the alternative would present, in combination with a powerful arsenal of weapons, a great threat because of the great risk of the unpredictability associated therewith.

In any event, the position and status of a Great

Power are a certainty which we cannot alter.

The second certainty, a negative one, is the breadth of corruption and bureaucracy, and a temperament that in many ways puts the brakes on change - a temperament that will have an impact in all the scenarios. Bureaucracy has grown in recent years and corruption has made new inroads, especially at the local level. It is incredibly difficult to take care of many matters of everyday life for which official permits are needed without bribery, whose sums have also increased. The problem is moral and ethical, but more important is its depressing, paralysing influence on the efficiency of activity in all sectors of society. I cannot prove this, but I believe that bureaucracy and corruption is eating up perhaps a third of the annual growth in Russia's national product. The problem is that this becomes "the country's habit," a sort of behavioural norm. At the same time, it spreads in various forms into interaction between private enterprises.

Bureaucracy has an impact in all the scenarios, and only in the Mosaic scenario are the negative features of bureaucracy brought incrementally under some sort of control, through the activation of the middle class and the citizenry generally. In the other scenarios, it is mainly a part of the highest-level bureaucracy that functions efficiently and genuinely tries to change the situation. On the other hand, bureaucracy effectively blocks the realisation of all manner of extreme scenarios: on the way to their "destinations", rigid commands change when their implementers interpret them according to their own very mundane interests.

In any event, the general inefficiency of Russian administration and the very extensive presence within the administration of elements of corruption will unfortunately remain certainties over, let us say, the next five to ten years. There is reason to remember this when we make recommendations and predict the likely outcomes of various joint undertakings. Cooperation will call for a long-term outlook and stubbornness.

Certainty factors also exist in connection with energy cooperation, but I will say more about them separately a bit later on.

Uncertainties. Thus we have arrived at the subject's most interesting aspect of all, about which one could talk and write almost endlessly. I will focus my comments on just a few of what, in my

opinion, are the most interesting factors.

Of great interest is the concept of “national champions”, according to which the big companies would assume the form of centres of national development, including innovative development. These would fund research and gradually create new technology products. In itself, the emergence of big national companies is an almost inevitable and very positive process. They may be state, semi-state, or private companies. A state enterprise will be a new nuclear power company or company group, which will also include the sector’s machine construction. The gas company Gazprom and the oil company Rosneft represent semi-state companies. The private enterprises include, among others, metals companies like Severstal, minerals companies such as Norilsk Nikkel, finance groups such as Alfa Group, and many others; in fact, the greatest portion of companies are private. The companies’ mergers and growth in size are inevitable under the conditions of tough international competition. The Russian state’s support for this process is very natural and in no way exceptional in the European or Asian tradition.

In all the scenarios, really, these companies will be the engines of growth for several years to come. Their core expertise is the most effective possible utilisation of existing resources and products: a few are already using very advanced foreign production equipment and working methods (SeverstalAvto, for example, in the automotive industry). It is probable that Russian machine construction will also recover either as parts of these big companies, or alongside them, at least in connection with the energy, minerals and metals industries.

These companies’ core expertise is at the same time their problem: only a very few have produced any new products or technologies - neither innovativeness, nor independent product development, nor the enhancement of quality is a priority. It also seems to me, in part intuitively, in part on the basis of my experience, my activity on the boards of Russian companies, that Russia does not yet possess a managerial generation that would include keeping up with the competition in quality and technology among its strengths. To some extent I take a sceptical view of the possibility that a new technological breakthrough would come from the sphere of the big compa-

nies - the national champions. They are too bureaucratic and authoritative. Further, their know-how is concentrated in “old” fields: the maximally efficient utilisation of resources usually cuts out product development. On the other hand, old technological development taking place in the framework of formerly Soviet product-development engineering offices (konstruktorskie byro) will almost certainly prove meaningful in the future as well. They will come back to life if they have money and if the universities and institutes enter into cooperation with them. The big companies, naturally, could provide that money.

On the other hand, the Russians are an incredibly inventive and innovative people. Innovativeness is an expertise in bringing together things that “cannot” be brought together: somehow by nature, a great number of Russians know how to do this. They are also eager to try everything and incredibly tough in their strivings. The more difficult the problem, the harder they try. Very authoritative parties have found the Russians exceptionally good at resolving “impossible” tasks. Another factor is good education. The basic prerequisites are thus above average for the creation of innovations.

Perhaps it is also worthwhile to recall the Russians’ long experience, often as a global pioneer, in the military and space industries. It may be possible to exploit that experience in creating new innovations.

The national champions can - and will - diversify, especially in the direction of machine construction. First, because Russia has traditions and experience in machine construction. Second, because there they can use their core expertise - that is, the efficient use of existing resources and the expansion of company size - so as to become competitive. The third reason is logical industrial integration. They will also internationalise: five years from now, some of them will be genuinely global companies. All this, over the medium term, constitutes perhaps the most important of all things that will happen in Russian industry and business activity: its impact will be great at the macro level, too.

It is also probable that companies will break off from them and operate in completely new sectors - mostly when increasingly wealthy company leaders have split off to become owners in their own companies (maybe at times in innova-

tive technology enterprises, too).

I believe that in Russia, too, innovations will mostly come into being, on the one hand, in small firms, purely on an entrepreneurial basis; and, on the other, in the framework of cooperation between universities and (major) firms, if that is not subordinated to the bureaucracy of large organisations. An ideal situation would perhaps exist if three factors could be combined - the financial backing and resources of the big companies, the young professional managers in the private sector, and the innovative atmosphere of the universities.

On the one hand, Russia has experience with the efficient centralisation of technological and scientific resources: it may be that one (!) megaproject of this sort would be productive under market-economy conditions, too. I do not believe, however, that new technologies and innovations that transform the economy can be created efficiently with political decisions as to the prioritisation of technological development - at least not in Russia. A banal economic instrument, such as, say, a boost in the price of energy, is often a more effective technique because it forces people to save energy, which inevitably creates new innovations in a particular sector.

Another interesting question is the importance of small enterprises within the Russian economy. They are already extremely meaningful in the service sector, and will be in future, too. A significant portion of them operate semi-legally in order to avoid the deadening bureaucracy. Often they are also afraid to grow, since their "visibility" will also grow and the bureaucratic "interest expense" will become too large. Typically they are also rather inefficient and weakly organised.

Earlier, bureaucracy was mentioned as one certainty, at least in the intermediate, five- to ten-year term. This bureaucracy will also inhibit small firms' emergence, and especially their growth. If one wants to reduce the terms of the question, the small enterprises do not really need anything except exceptionally simplified relations with the authorities and a heavy-handed cut in bureaucracy.

From the standpoint of the birth of a mosaic Russia, cutting bureaucracy, rooting out corruption, and pruning away the impediments to competition are the most important of all economic instruments.

The question of the possible impact of foreign investments and managerial and technological aid is also interesting. In principle Russia is such a wealthy country that it will indeed survive on its own, especially in respect of funding investments. Russia, like any country, needs interaction, however - technology, organisational know-how, an understanding of quality, management exchange, the intellectual exchange of experience. As a consequence of its former isolation, Russia may have a greater than normal need for this.

On the other hand, large-scale consultation with outsiders is hardly going to produce results. Even when advice is requested, it is requested in a sort of sparring way, not really because it might be followed. Quite often, Russians look for their own solutions in both economic and social policy. By contrast, the West's systematic tendencies in standards, quality, managerial expertise and many other matters are the elements that can be transferred as such to Russia.

The conclusion to be drawn from the foregoing is that it will be sensible and reasonably effective to support, by all means, exchanges of students, researchers, scientists, and experts; joint educational programmes; ongoing joint innovation education - let us name it, say, the International School for Innovation. That could give a new sort of spark to Finnish innovations, too. In addition, aid could be given to collaboration regarding the business world's educational needs, in this case thinking also of how that could make use of the Finnish economy. By contrast, I do not believe in broader economic or technological consultation; extremely well-focused subjects and maximally concrete projects constitute exceptions.

Methods. As a general assessment, the methodology deserves appreciation. One might have hoped for just one thing: an analysis (or account) of the transitions between the scenarios. A deliberation of how a Russia exercising global influence through energy might grow into a mosaic Russia would have been the most interesting of all. It would seem that building a mosaic Russia solely from the scenario's own points of departure might be impossible. By contrast, if Russia utilises its position of global influence in ener-

gy optimally, at least the economic prerequisites will truly be created for a diversifying, high-technology Russia.

The longer-term fate of a Russia in the grip of the mighty could have provided another, more thankless target of analysis, inasmuch as, according to my understanding, this scenario cannot have a longer term - or things in the world are in very bad shape. How, in other words, might a Russia in the grip of the mighty fall? What factors make the scenario highly unlikely?

Perhaps it is better, however, that researchers continue this analysis and that we do not attempt to find consensus in Parliament on the subjects in question.

Energy issues. I have been working in Russia, in the energy sector, for 14 years - for, or under the direction of, a Finnish energy company part of the time, and Russian energy companies part of the time. I was also closely involved in the early years of the EU-Russia energy dialogue, and more broadly in the economic discussion between the EU and Russia, including discussion within the WTO negotiation process. For that reason I cannot help but comment on energy matters. I am also quite perplexed about the discussion's tone, the prejudices, and the ignorance that exists widely in the EU countries in respect of matters related to Russia's energy sector.

Energy is one of the essential issues in all the scenarios. I would say, in pointed terms, that over the intermediate term every scenario is an energy scenario. Nothing changes fast, and today Russia's opportunities for diversifying its production, for example, are based on the cash flow generated by energy, and also - why not? - the political and economic stability created with the aid of that flow. It is self-evident that Russia must utilise its existing relative (energy) advantages maximally - that is what we also did, and do, in respect of the forest economy. In this context Russia still has a lot to do both inside and outside the country.

I am going to review a few of the most central questions: the oil industry's potential, the creation of a liberal electricity market and the reform of the electricity sector, and the importance of gas to Russia and Europe.

The oil industry. Russia is the world's second-largest

oil producer. If and when the eastern Siberian and Far Eastern oil fields start to be exploited extensively (in five to ten years), Russia may become the world's largest oil producer (especially since we don't know the actual extent of Saudi Arabia's reserves - the figures have not changed for 20 years, and have not been checked through independent expertise). According to estimates by Western geological companies working in Russia, the Russians' own estimates of the reserves have been under-dimensioned (as a result of old Soviet methods of estimation).

If that is the case, Russia may become the world's balancer of oil production within 10 years, replacing, or taking its place beside, Saudi Arabia. By boosting or reducing production, Russia will then be able to affect world market prices fundamentally. Against this background, the Russian state's grip on oil production has got tighter, and is apt to remain tight. Another economic reason is that the exploitation of new fields is likely to require state investments in infrastructure: the desire is that the benefits will also come more directly to the state. A third reason is naturally a lot more mundane: vast sums of money will be distributed or redistributed.

Although the state's motivation is understandable, I do not believe that activity via state companies represents the best way to distribute the benefits to the entire society there is a greater risk of suffering from inefficiency. If, however, a balance between private and state companies is preserved, the entire society will benefit. Then again, if indirect "nationalisation" is continued, we will drift away, bit by bit, from the Global Influence through Energy Expertise scenario. In this regard 2008 will be very important.

In all the scenarios, oil production will of course be an important source of revenue for both the entire national economy and the state budget. New oil pipelines will be built and existing ones will be expanded, the primary aim being to reduce the number of countries of transit. That is what all the other big oil-producing countries do, too. Oil is a commodity, but also a very political commodity. For that reason, keeping the pipelines on one's own territory represents completely rational and logical state policy. It is possible that the Primorsk harbour will be expanded further. So far as the oil industry is concerned, the scenarios do not really differ

from one another.

Europe will remain the biggest export destination in the future, as well, and I do not see any problems in respect of the future availability of Russian oil. There may be market problems with countries of transit from time to time, but oil will be available on the market – and the same sort of minor interruptions exist in almost all countries' exports, because of weather conditions, for example. The faster we get to comprehensive market pricing in oil shipments and sales, too, the better for everyone. Belarus got oil and oil products more cheaply than the Russians for a year; this sort of practice should have been eliminated a long time ago. The scenarios do not differ fundamentally from one another on the question of exports, either.

Liberalisation of the electricity market and complete reform of the electricity sector. I have naturally followed Russia's electricity market more closely than other energy sectors – from the RAO EES Board of Directors. Russia has changed radically, in part altering the operating logic of its electricity market. Legally differentiated national and interregional production companies, a national company for the basic network, and interregional distribution companies are taking the place of the one former, vertically integrated, giant company under which all the regional energy companies throughout Russia operated. Under the law, a distribution company may not engage in any other electricity-sector business activity; that is, the EU directive is in this respect already in force in Russia. Electricity production is being transferred entirely to private ownership (except for nuclear power, which is purely state-controlled, and a 50 % stake in hydroelectric power). The company for the basic network and a separate system operator responsible for electrical balance will remain under 75 % state ownership. As a final result of the reform, RAO EES will be wound up in June 2008.

It is essential that the competitive sector (production and sales) and natural monopolies (the basic network, distribution, the system operator) be differentiated from each other. At the same time, wholesale and retail prices for the sales and production of electricity will be deregulated. Prices for transmission and distribution will remain under the state's direct regulation, but so that ef-

iciency will be rewarded and a fair yield on investments will be guaranteed. In addition to the electricity market, capacity markets will come into being incrementally: spare capacity will be bought and sold in the market, and each producer and purchaser of electricity will be obligated, in its purchase-and-sale agreement, to reserve such capacity. The system operator will determine the need for spare capacity on a regional basis.

We are witnessing a situation in which what may be the world's most efficiently functioning electricity market, a clear regulatory system, and privately owned electrical companies, including by foreign-owned firms, are being created in Russia. The scheme is quite close to the Nordic Nord Pool system, but differs from that at least in the absolute requirement for segregating distribution and production among different companies, and in the creation of capacity markets that will soften price spikes in the market.

Price level is also essential. Between now and 2011-12, electricity prices will rise to perhaps 1.5 to 2.0 times their current level. At the same time, the domestic market price for gas will rise, incrementally, even faster. Arrangements are beginning to be adopted for so-called netback pricing, by which export prices will be transferred to the domestic market, reducing the costs of shipment. At the same time, households will remain within the sphere of needs-based subsidies for a long time yet.

Russia has not invested in the electricity sector in almost 20 years: now a need exists for giant investments. (This also explains the increase in price level.) RAO EES's "offspring" will construct a total of 30 000 MW of new capacity by 2010. According to the most recent assessments, new capacity totalling 191 000 MW will be constructed by 2020. This would mean a doubling of current capacity: the predicted growth in electrical consumption is more than 4-6 % yearly. Of the new investments, in the order of 30 000 MW will be hydroelectric and nuclear power, 37 000 MW gas power and a truly large figure of 93 000 MW coal power. Both the very basic growth in coal power's share and the growth in hydroelectric and nuclear power are fundamental. The relative portion of gas-powered generating plants will decrease.

The programme of investments between now and 2010 is very precise and will without doubt

be realised. An electricity shortage exists in several areas of Russia, and that can only be resolved through the investments in question; otherwise the shortage of electricity will become the most significant brake on economic growth. On the other hand, the longer-term investment programme seems clearly over-dimensioned, first because it does not take into account the economy's dynamics - that is, the fundamental impact of rising prices on the growth in energy conservation. The structure of the new investments, by contrast, is clear: Russia will conserve gas for export, giving European consumers priority over Russia's own. In addition, Russia possesses huge coal reserves that cannot be extensively exported because of quality problems. In other words, it is rational to increase their use in Russia. In the Russian market a gas price of only about \$70 per bcm makes the use of coal price-competitive. (For power plants, the current gas price averages \$45 per bcm; i.e., price parity will likely be achieved by 2009-2010.)

The Russian electricity sector's reforms and investments will promote the realisation of both the Energy and Mosaic scenarios significantly. From Europe's standpoint, it is essential that liberalised prices and electricity production subjected effectively to competition free up more natural gas for export abroad. Energy conservation that pushes prices upwards will have a parallel impact. Within Russia, the reform will solve what may be the greatest of all the infrastructure problems - the adequacy of electricity - effectively and dependably.

The gas industry. In Russia gas is a strategic resource that provides global status. In fact, Russia wields global influence through energy even though it may not want to. There is as such nothing special about the fact that the state wants to keep this resource under its strict control. On the other hand, utilisation of the resource with maximal efficiency is also to the state's advantage, and that will not necessarily come to pass if it is done solely by the state, using monopoly structures.

Within Russia, the price of gas, in accordance with the aforementioned netback pricing, will rise to a point very close to the world market price as early as 2012. This is obviously a faster speed than the EU's standard in connection with the WTO solution, and has been voluntarily determined by Russia itself. Likewise, within the coun-

try, a market for long-term gas contracts is being created. This market will fundamentally enhance the competitiveness of investments and the predictability of the electricity market. Furthermore, a smallish part of the gas is being released from price regulation this year: half of this amount is to come from independent producers, not Gazprom.

There is enough gas in Russia, and there will be for a long time. Admittedly, there will be a scarcity of gas in the domestic market for the next few years: in order for there to be sufficient gas for export in accordance with contracts, industrial fuel oil, which is four times more expensive, will be burned in power plants during periods of peak consumption.

Within Russia, a gas pipeline system as part of Gazprom is a justified but at the same time a very problematic solution. It is justified from the standpoint of the company's market value and synergy; it likewise gives the state easier tools of control. It is problematic because other producers' access to the pipelines remains for their most important competitor, Gazprom, to determine - by very non-transparent methods. Overall efficiency suffers, competition gets distorted. For Russia to be able to wield influence in energy globally, it must be able to guarantee international commitments through political decisions; it is at least as important, however, that the sector functions efficiently and stably, and that the ground rules be understandable to all. Much more gas will thus be left for export to Europe, and the state will obtain more tax revenues.

In the export of gas Russia has shifted - here more quickly, there more slowly - to pricing gas at a level that corresponds to Europe's price level. In this same connection, let it be noted that, in Europe, Russia is not a price-setter but a price-taker: the price is determined in the market on the marginal pricing principle, and European producers and LNG suppliers more expensive than Gazprom determine that price level. Now Russia has taken decisions to shift, inside Russia as well, to a price derived from the European price level. In a situation of this sort, it would be completely incomprehensible to continue gas sales to CIS countries, at the same time, at a subsidised price level! Russia in fact subsidised the CIS countries for more than 10 years, to the extent of perhaps about \$100 billion all told. It was high time to put

an end to this incomprehensibility. The change was not painless, since who now would want to give up free energy? It is so valuable that it is worthwhile to at least try to use every possible weapon of political populism. The change in fact was not fast, as is claimed, since - as noted earlier - the transitional period had already lasted 15 years. It might also be noted that an extreme price hike in Ukraine, for example, was not really reflected in any way in economic growth, which continues to be strong.

Like any energy company, Gazprom would like to integrate in the direction of its consumers and customers - downstream, as in distribution, storage and direct sales in Europe. On the other hand, European companies are trying to integrate in the direction of gas production - upstream, in Russia. There is an industrial logic, a synergy, in both endeavours.

Gazprom would like long-term contracts in future, as a foundation for its exports to Europe. One would assume that this would work to Europe's advantage, too: when there is no overproduction in the market, spot pricing can raise the price level a great deal. And Europe has a shortage of gas more than it has a surplus. Gazprom also wants new pipeline routes, such as Nord Stream, via the Baltic - which one would also presume to benefit Europe, since it would undeniably enhance delivery performance.

From the EU's standpoint, it would presumably be ideal if Russian gas producers competed among one another for the EU market. For the Russians it is hardly the ideal; nor are we going to see such a situation. Either Gazprom will remain an export monopoly or, in the most liberal model, it will be replaced by an export coordinator, in which case all the gas producers will be able to export relatively the same portion of their gas, but through a coordinated seller. The last model would be more efficient in economic terms, because it would create the same competitive prerequisites among all the gas producers within the country.

Gas and energy cooperation between the EU and Russia will be stable, secure, certain, dependable, and advantageous only if it is advantageous to both. In addition, nurturing bilateral dependence improves stability further. Russia needs a system of long-term agreements and the coordination of exports. The EU would need access, for

its companies, to certain parts of Russia's gas production. This will enhance delivery performance. Further, coordination and clear ground rules are needed in respect of pipeline transport and stores. In its current form, the Energy Charter is not however the answer to this question. This can be done either by Russia's own laws and gas-pipeline regulations or through international agreements. In short, Russian gas must be integrated into Europe and European gas companies must be integrated into Russia.

In both the Global Influence and Mosaic scenarios, Russia needs its energy and especially its gas. Russia has to increase gas exports, price the gas at the European level in all markets, and make Gazprom's operations more efficient. This will bring in substantial additional revenues, a large portion of which will indeed go to new investments in new fields and gas pipelines. Resources will remain for funding innovations, too, if the political desire for that exists.

Certainties in the energy sector. Quite a number of certainties in fact exist in the energy field. The growth in energy production is a certainty, in all sectors. The importance of gas, the growth in production, the growth in exports, giant new investments, the Europisation of pricing in all markets are certainties. The stability and growth of oil production is certain: the oil market has been functioning on market terms in Russia for a long time. The deregulation of the electricity market, the separation of natural monopolies from the competition, privatisation, the birth of new companies are certainties. The electricity market will also be opened up to foreign enterprises.

It is also a certainty that Russian gas companies will not compete gas against each other in the European market: the Energy Charter will not be ratified in its present form. A rise in export prices for gas in the CIS market is a certainty, too.

In terms of a scenario, the most essential thing of all may be that the energy sector will in any event constitute the foundation that supports the economy - in the Mosaic scenario, as well. In fact, alongside economic reforms, the sensible use of energy revenues is the only way to implement and finance the emergence of new, more innovative production. The En-

ergy scenario does not conflict with the Mosaic scenario; rather, they either follow or overlap each other.

Final comment

The Russia scenarios drawn up by the Committee for the Future furnish both a good basis for discussion and a fundamental understanding for taking rational decisions connected to Finland's Russia policy. The recommendations attached to the scenarios represent a continuation of the work that the Finnish National Fund for Research and Development published a year ago, and their spirit is very similar. Among the recommendations, I am without question most attracted to the proposal for the incorporation of a Russia policy programme within the next government programme.

What can and should Finland do? It seems to me that Finland must try to prioritise. If I could choose just two things, they would be more or less the following. Perhaps most important of all is to increase cooperation among students, young people, and researchers, and to increase collaboration in education and science - raise it to a whole new level. Second, to guarantee the generation of high-quality information on Russia, working more and more from inside Russia, and to maintain Russian-language skills in Finland. In all the scenarios, Russians will visit and settle in Finland more than in the past. This represents a great potential that we must learn to utilise in activity in Russia and innovative production in Finland, among other things. Perhaps the best outcome of all would be that Finnish young people become interested in Russia on their own terms; that they travel, form their own picture of Russia - a picture that can and may be very critical so long as it is not simply the reiteration of prejudices. If Finnish young people "don't go to Russia", we shall lose, in both the economic and cultural fields, the rather unique relative competitive advantage of living next to Russia.

I hope these scenarios interest people. I hope they aid in thinking about Russia rationally and with interest, in understanding the motives of its actions, even if they are not necessarily always accepted. Russia is different, but so what? That is why it is interesting. And only from differences does the new emerge, be it a question of technology or culture.

Statistics

DEMOGRAPHIC DATA FOR THE RUSSIAN FEDERATION

World Bank Basic Indicators for 2005	
Population, total (millions)	143.2
Population growth (annual %)	-0.5
Life expectancy at birth, female (years)	72.0
Life expectancy at birth, male (years)	58.8
Poverty headcount ratio at \$2 a day (% of population)	13.5
GDP (current US\$) (billions)	763.7
GDP growth (annual %)	6.4
GNI per capita, Atlas method (current US\$)	4 460.0
Inflation, consumer prices (annual %)	12.7
Foreign direct investment, net inflows (% of GDP)	2.1
Unemployment, total (% of total labor force)	8.6
Time required to start a business (days)	33.0
Internet users (per 1 000 people)	111.0

Source: World Bank

(<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/RUSSIANFEDERATIONEXTN/0,,contentMDK:21032960~menuPK:989684~pagePK:1497618~piPK:217854~theSitePK:305600,00.html>)

Resident Population

Year	Total Population	Urban	Rural	(% of total) Urban	(% of total) Rural
1989	147.0	108.0	39.0	73	27
1993	148.6	108.7	39.9	73	27
1996	148.3	108.3	40.0	73	27
2001	146.3	107.1	39.2	73	27
2002	145.6	106.7	38.9	73	27
2003	145.0	106.3	38.7	73	27
2004	144.2	105.8	38.4	73	27
2005	143.5	104.7	38.8	73	27
2006	142.8	104.1	38.7	73	27

Births and Deaths in Russia (x 1,000 people)

Year	Births	Deaths	Population decrease	Infant deaths under 1 year
1992	1587.6	1807.4	219.8	29.2
1995	1363.8	2203.8	840.0	24.8
2000	1266.8	2225.3	958.5	19.3
2001	1311.6	2254.9	943.3	19.1
2002	1397.0	2332.3	935.3	18.4
2003	1477.3	2365.8	888.5	18.1
2004	1502.5	2295.4	792.9	17.3
2005	1457.4	2303.9	846.5	16.1

Life Expectancy at Birth: International Comparisons (2003 unless stated)

Country	Men	Women
Russian Federation (2004)	58.9	72.3
Austria	76.0	81.8
Bangladesh	62.1	63.7
Estonia	65.6	77.0
Finland (2004)	75.3	82.2
France	75.9	83.0
Germany	75.7	81.5
Italy	76.9	83.1
Japan	78.4	85.4
Sweden	77.9	82.4
USA	74.6	80.0

Newspaper Ownership in Russia, 2006

Newspaper	Type	Circulation 2005	Owning Institution	Individual Owner
Argumenty i Fakty	Weekly	2,900,000	Promsviazbank	Sergei Pugachyov (Federation Council Member, close to Kremlin)
Moskovsky Komso-molets	Moscow Daily	800,000	Various	Pavel Gusev (editor-in-chief)
Komsomolskaya Pravda	Daily	686,000	Prof-Media (25% Norway's AEE group)	Vladimir Potanin (Businessman) Rumoured sale to GazpromMedia
Trud	Daily	613,000	Promsviazkapital	Sergei Pugachyov (Federation Council Member, close to Kremlin)
Rossiiskaya Gazeta	Daily	374,000	Russian Government	
Izvestia	Daily	209,000	GazpromMedia (June 2005)	
Novaya Gazeta	Twice weekly	106,000		Unclear. Critical of Government
Kommersant-Daily	Daily	94,000		Alisher Usmanov (2006 – Putin supporter)
Gazeta	Daily	73,000		Vladimir Lisin (Owner of Novolipelsk metallurgical plant)
Vedomosti	Business Daily	42,000	Independent Media Sanoma Magazines	
Moscow Times	English-language daily	35,000	Independent Media Sanoma Magazines	
Nezavisimaya Gazeta	Daily	27,000		Konstantin Remchakov (assistant to German Gref, Trade Minister)
Segodnya	Daily	?	GazpromMedia (2001)	
Vremya Novostei	Daily	?		Alexander Voloshin (Former Presidential Chief of Staff)
Moskovskiye Novosti	Moscow Daily	?		Arkady Gaidamak (October 2005. Close to Kremlin)

Estimated number of Internet users (000): International Comparisons

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
RUS	1.0	20	80	220	400	700	1200	1500	2900	4300	6000	10000	16000
UKR	..	0.4	7	22	50	100	150	200	350	600	900	2500	3750
EST	1.0	4.5	17	40	50	80	150	200	392	430	444	600	670
LTA	..	..	..	..	20	50	80	105	150	170	310	936	810
LTU	..	..	..	..	10	35	70	103	225	250	500	696	968
CZE	..	60	130	150	200	300	400	700	1000	1500	2600	3100	5100
CHN	..	2.0	14	60	160	400	2100	8900	22500	33700	59100	79500	94000
BRA	20	40	60	170	740	1310	2500	3500	5000	8000	14300	18000	22000
UK	150	300	600	1100	2400	4310	8000	12500	15800	19800	25000	34400	37600
DEU	350	375	750	1500	2500	5500	8100	17100	24800	..	28000	33000	35200
FIN	95	130	250	710	860	1000	1311	1667	1927	2235	2529	2560	3286

Source: International Telecommunication Union, World Telecommunications Indicators Database, 9th edition, 2005.

Number of Cellular Mobile Phone Subscribers per 100 people

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	% total tel sub.
RUS	0.06	0.15	0.35	0.5	0.92	2.22	5.28	12.1	24.9	51.6	65.3
UKR	0.03	0.06	0.11	0.2	0.43	1.62	4.42	7.66	13.7	28.5	53.1
BLR	0.06	0.06	0.08	0.1	0.22	0.49	1.39	4.67	11.3	22.7	41.4
MDA	-	0.02	0.05	0.2	0.39	3.17	5.13	9.35	13.2	18.5	47.7
ARM	-	0.01	0.16	0.2	0.23	0.46	0.67	1.88	3.10	5.35	25.9
AZE	0.08	0.22	0.52	0.9	2.34	5.44	9.38	9.75	12.8	17.4	58.7
GEO	-	0.04	0.55	1.1	1.88	3.88	6.06	10.2	14.5	16.6	55.2
KAZ	0.03	0.06	0.07	0.2	0.30	1.22	3.62	6.43	8.40	17.9	52.5
KGZ	-	-	-	-	0.06	0.18	0.54	1.06	2.75	5.17	38.7
TJK	-	-	0.01	-	0.01	0.02	0.03	0.21	0.73	2.14	35.5
TKM	-	-	0.05	1.0	0.09	0.17	0.17	0.17	0.19	1.01	11.8
UZB	0.02	0.04	0.07	1.0	0.17	0.22	0.25	0.74	1.25	2.05	24.1
EST	2.05	4.73	9.87	17.0	26.8	38.7	45.5	65.0	77.4	96.0	73.9
LTA	0.59	1.14	3.11	6.81	11.3	16.6	27.9	39.4	52.6	67.2	70.3
LTU	0.40	1.37	4.46	7.23	8.97	14.2	27.7	47.2	62.8	99.3	80.7
BGR	0.25	0.32	0.84		4.23	9.06	19.1	33.1	44.9	60.9	
CZE	0.47	1.94	5.11	1.52	18.9	42.3	68.0	84.4	95.2	106	63.4
HUN	2.59	4.63	6.94	9.4	16.2	30.8	49.8	67.9	78.5	86.4	75.9
POL	0.19	0.56	2.10	10.5	10.2	17.5	25.9	36.0	45.1	59.9	70.9
ROU	0.04	0.08	0.89	4.98	6.05	11.1	17.2	23.5	32.5	47.1	65.3
SVK	0.23	0.53	3.72	2.86	12.3	20.5	39.9	54.4	68.4	79.4	69.9
CHN	0.29	0.55	1.06	8.77	3.42	6.58	11.0	16.0	20.9	25.8	77.4
BRA	0.83	1.5	2.85	1.90	8.9	13.7	16.7	20.1	26.3	36.3	51.8
GBR	9.80	12.32	15.0	4.4	45.7	72.7	77.0	83.3	91.4	102	60.8
DEU	4.55	6.72	10.1		28.5	58.6	68.2	71.6	78.5	86.4	64.4
FIN	20.1	29.3	42.0	25.1	63.4	72.0	80.4	86.7	91.0	95.6	56.6
				17.0							67.8
				55.2							

Source: International Telecommunication Union, World Telecommunications Indicators Database, 9th edition, 2005.

Note: in 2004 the world leaders in mobile phones per 100 inhabitants were Luxembourg - 138, Hong Kong (China) - 119 and Sweden - 108. Leader for percentage of telephone subscribers as mobile phone users: Democratic Republic Congo - 99.5%!

Regional GDP in the Russian Federation, 1998-2004 (current prices, billions of roubles)

	1998	2000	2002	2004
Total	2 424	6 219	9 410	14 555
Central Federal District	712	2 052	3 181	4 587
North-West Federal District	250	611	940	1 475
Southern Federal District	195	473	738	1 086
Volga Federal District	467	1 125	1 604	2 415
Urals Federal District	339	937	1 424	2 614
Siberian Federal District	317	709	1 044	1 694
Far East Federal District	145	313	477	685

Source: Federal State Statistical Agency

Regions of the Russian Federation, population and administration 2002

	Territory, 1000 km ²	Population 1000 persons	No. of regions	No. of Towns	Urban regions	Urban settle- ments	Rural Admini- strations
Russian Federation, total regions	17075.4	145167	1866	1098	330	1842	24464
Central Federal District	650.7	38001	423	305	68	446	6136
North-West Federal District	1677.9	13974	155	146	38	176	1769
Southern Federal District	589.2	22907	256	135	51	132	3127
Volga Federal District	1038.0	31154	448	196	77	387	6996
Urals Federal District	1788.9	12374	116	114	25	174	1537
Siberian Federal District	5114.8	20063	325	132	59	291	3628
Far Eastern Federal District	6215.9	6692	143	70	12	236	1271

Source: All-Russia Census, 2002

The next diagram shows how the corruption market is divided by current authority branches.



Diagram of corruption market shared by three authorities' branches (legislative, executive, legal).



Source: Economist 20.10.2005

	Economy based on production of raw materials	Economy based on diversified production and services
Market-based	<p>1. Free Raw Materials</p> <p>ECONOMY: Large international and Russian companies dominate the raw materials market. Infrastructure is poorly developed except in sectors that support procurement and distribution of raw materials.</p> <p>MARKETS: The corporate sector sees a lot of opportunities for business in the raw materials sector and sophisticated retail operations in well developed regions. A kind of barter economy dominates in peripheral regions. Consumers' prosperity fluctuates in tempo with international raw materials prices.</p> <p>REGIONAL DEVELOPMENT: Regional development in Russia is highly disparate. Moscow, St. Petersburg and regions with abundant raw materials enjoy faster economic growth than other regions.</p> <p>INTERNATIONAL RELATIONS: Russia is a WTO member and has close trading relations with the EU.</p>	<p>2. New Economic Superpower</p> <p>ECONOMY: The economy is very dynamic and Russia has great weight in the world economy. The middle class is big and influential and labour is well trained and motivated.</p> <p>MARKETS: Russia is a developed modern market region with competitive products. Domestic output is extensive and there are large Russian retail chains. Consumption reflects growing affluence.</p> <p>REGIONAL DEVELOPMENT: Interaction between regions is increasing on all levels. The eastern regions are orientated towards Asia, the western towards Europe and the southern towards the Middle East, the Caucasus and Central Asia.</p> <p>INTERNATIONAL RELATIONS: Russia is a WTO member. Its economy is more transparent. It obtains loans on better conditions, because investment risks are lessening. Russia is advancing towards EU membership.</p>
Planning-based	<p>3. Second World</p> <p>ECONOMY: The state intervenes a lot in the economy. It oversees international and national economic activities in a controlling and bureaucratic manner.</p> <p>MARKETS: Big raw materials companies are owned by the state. Unemployment is high. Infrastructure is likewise state-owned and economic stagnation is the reality in many places. Some exports and production are subject to massive government regulation.</p> <p>REGIONAL DEVELOPMENT: Large cities are in a dominant position, because the economic elites live in them. There are major differences between regions. Material resources are favoured and others receive a relatively small share of investment.</p> <p>INTERNATIONAL RELATIONS: Russia is not a WTO member. Energy and raw materials dominate in exports. Foreign retail chains are represented only a little.</p>	<p>4. New Soviet</p> <p>ECONOMY: Russia is self-sufficient to a high degree, but its products are often not competitive in global markets. The availability of products depends on the planned economy's goals in relation to encouraging competition between domestic producers and products.</p> <p>MARKETS: The state intervenes extensively in the economy. Labour is well trained, but poorly paid. Innovators encounter a hostile environment.</p> <p>REGIONAL DEVELOPMENT: Regions compete on their comparative advantages. Political contacts are often more important than economic aspects.</p> <p>INTERNATIONAL RELATIONS: Russia is not a WTO member, which hinders exports. However, many foreign companies will launch production in Russia, with the precondition that appropriate legislation is in force. Some regions may offer special incentives for investment by foreign companies. Joint ventures are the most usual channel for foreign investment.</p>



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