

A Big Fish in a Small Pond - Russia's Security Interests in The Baltic Sea

Riina Kaljurand, Researcher of the ICDS

April 09, 2012

A Big Fish in a Small Pond - Russia's Security Interests in the Baltic Sea

Riina Kaljurand, Researcher of the ICDS

April 09, 2012

Introduction

As the main gateway between Russia and Europe and the borderline between two security communities, the Baltic Sea region plays a strategic role in EU-Russia as well as NATO-Russia relations. Its stability, safety and security are therefore of crucial importance not only for neighbouring regions and countries, but for the whole of Russia and the EU. During the last decade, Russia has been very active in the region, seeking to regain her lost influence in economic, political and military terms. The main question is whether Russia is going to continue the same course in heavily changed circumstances?

In the aftermath of Russia's presidential elections on the 4th of March 2012, the question of Russia's future international standing is highly relevant once again. Mr Putin has been elected President of Russia for a third term, but it is the first time that he cannot be certain about the length of the term. Russia is in need of very serious political, structural and economic reforms in order to become a fully-fledged great power. Today's Russia possesses a globalist world view but only regional capabilities. Hence, the success and credibility of Russia's global or regional manoeuvres will depend more than ever on its reforms at home.

Some analysts argue that Moscow no longer has the resources or the will to restore its lost empire and seeks constructive relations with the West, commenting that if Russia continues on an imperialist track it will compromise its internal development.¹ Others believe that despite the economic crisis, internal and external challenges, Russia will continue to pursue its contradictory foreign and security policy objectives, increase pressure on the West and step up its activities in the so called sphere of privileged interests in particular.²

Against this background, this paper will argue that Russia's rhetoric towards the Baltic Sea region³ will remain assertive, due to strong US and NATO presence. However, Russia's foreign and security policy will become more pragmatic as Russia cannot jeopardise its calm western front, the main ally in its modernisation. The room for manoeuvre will depend on a simple cost-benefit calculation – too high external costs may result in even higher internal

¹ D. Trenin, 2011: „Russian Policies toward the Nordic- Baltic Region“in „Nordic Baltic Security in the 21st Century: The Regional Agenda and the Global Role“ by R. Nurick and M. Nordenman (eds.), Atlantic Council.

F. Lukyanov, 2012: „Why I sympathise with Vladimir Putin“ <http://eng.globalaffairs.ru/redcol/Why-I-Sympathize-With-Vladimir-Putin-15485> (accessed, 15.03.2012)

² J. Bugajski, 2012; „Day after Day: Putin's Post-election Agenda“, <http://www.day.kiev.ua/223354>

M. Kaczmarek, 2009: „Russia's Revisionist Policy towards the West“, Centre for Eastern Studies

³ The paper addresses Russia's policies towards the Nordic countries, the Baltic countries and Poland. Russia treats Germany as a strategic partner and a major continental power, which places it in a different category from the other countries of the region.

costs. Russian foreign and security policy is strongly dependent on external factors that are beyond Moscow's control. Failure at home could affect Russia negatively enough to temper its plans to expand its influence abroad.

Russia's assertive policies in the Baltic Sea region

Roots of Russia's assertive behaviour

The developments of the period from 1991 to 2004 left Russia's immediate neighbours and the Western community in general, with the impression that - despite the debates about NATO enlargement - Russia was still looking for a constructive relationship with its neighbours and the West. It was then that decisive efforts were made to bring Russia's relations with the European Union as well as the US to a markedly new level.⁴ However, partly due to the EU's failure to engage Russia, Russia adopted a much harsher attitude towards the West after the enlargement of NATO and the EU to the Baltics in 2004.

The period of 2004-2008 was dominated by Russian imperialist rhetoric in international relations. This period coincides with Russia's gradual economic reconstruction, political stabilisation, and the start of development of its military potential. It also coincides with president Putin's second term in power. Inside Russia, the KGB clan had managed to consolidate its power and growing oil prices helped to boost the Russian economy, which considerably increased the self-confidence of the political elite, at the same time boosting Russia's nationalist standpoints.

Russia's assertive behaviour in foreign policy must be understood in terms of its aspirations to change the power balance and to persuade Western states to recognise its special position in Europe and in the world. Russia thus lamented about the US hegemony and declared the West its geopolitical rival. Moscow sought joint decision making rights on matters concerning the political, economic and military order in Europe, and a say in global matters, demanding a recognition of (what it believed were) its legitimate rights over its special interests in the post-Soviet space.⁵ Russia has pursued assertive policies through political, economic and legal, but also military means. Numerous economic sanctions and energy cut-offs have been used as means of political pressure in the post-Soviet space, including in the Baltic states. The period culminated in a military conflict with Georgia in 2008.

Lost positions to be restored

In order to get a clearer perspective on Russia's ambitions in the Baltic Sea region, it is worth taking a look back at what Russia has lost both in geostrategic terms and regionally since the end of the Cold War.

The end of the Cold War, the collapse of the Soviet Union and the restoration of the independence of the Baltic states meant a strategic change in Russia's positions in the Baltic Sea. Accompanied by the end of the Warsaw Pact, Russia lost both military and political

⁴ I. Ivanov, 2011: What Diplomacy Does Russia Need in the 21st Century?, in Russia in Global Affairs <http://eng.globalaffairs.ru/number/What-Diplomacy-Does-Russia-Need-in-the-21st-Century-15420>

⁵ M. Kaczmarek, 2009: "Russia's Revisionist Policy towards the West", Centre for Eastern Studies

control of the region. The Baltic Sea Fleet shrank significantly due to the economic crisis in the 1990s. Russia also lost direct control of trade routes and income flows crucial to the national economy⁶; a significant part of Russia's exports had reached the West via the ports of the Baltic countries. The lack of strategically important infrastructure in the Baltic Sea left the Baltic Sea Fleet heading towards obsolescence and with the limited role of defending Kaliningrad.⁷ The accession of the Baltic states and Poland to NATO and the EU brought Russia's perceived strategic enemy, NATO, right to its frontier. Russia saw a geopolitical shift in NATO's eastern enlargement. The Baltic Sea had become dominated by NATO and the former hegemon was reduced to a small player with just 300 km of coastline.⁸

Nevertheless, Russia has always referred to the lost transport and military infrastructure in the Baltic Sea as a "temporary interruption" clearly indicating an intent to restore its position in the future.

How to win friends and influence enemies

Putin's rhetoric and policies towards the West started to bear their first real fruits after the entrance of President Medvedev to Russia's political arena. At the same time, Putin's ambitions were also gradually introduced in strategic planning documents: the 2008 Foreign Policy Concept, 2009 National Security Strategy, and 2010 Military Doctrine. The Russia-Georgia War was a clear warning to everyone who did not take Russia seriously. Although, Russia's military action in Georgia was a setback in military terms revealing the flaws of its military capabilities, it had a sobering effect on the West and its partners, provoking widespread international condemnation, spreading panic among foreign investors, and leaving the East European and Baltic members of NATO calling for protection from a "resurgent Russia."

However, Russia's foreign and security policy under the Medvedev - Putin tandem carried a mixed message. On the one hand, it was necessary for Russia to continue to leave the impression of flexing its muscle towards the West and to justify its position as a great power. On the other hand, due to the economic crisis and emerging external concerns (i.e. the rise of China, the opening up of the Arctic) it became clear that Russia badly needed allies in the West, especially in the EU, if it was to secure its economic interests and promote a modernisation agenda that would bring more European investment.

Compared to Putin, Medvedev gave the impression of being a pro-modernisation and pro-change politician. During his presidency, there were several windows of opportunity to improve relations between Russia and the West. The 'reset' policy can be considered a success in normalising US-Russia relations. Russia's rapprochement with Poland can be seen as another positive change. The NATO Bucharest summit in 2008 ruled out the possibility of

⁶ Most of the income flows were comprised of the transit fees Russia had to pay to the Baltic states.

⁷ K. Pynnöniemi, 2012: „Russia, Infrastructure, and the Baltic“, www.balticworld.com (accessed 03.03.2012)

⁸ 200 km on the Gulf of Finland and 100 km on the Baltic Sea Proper (Kaliningrad)

further enlargement in the immediate future, thus becoming another stabilising factor in Russia's relations with the West at that time.⁹

At the same time, Russia continued its military build-up in the Baltic Sea region, recognised the Georgian enclaves of Abkhazia and South-Ossetia and founded a Customs Union with Belarus and Kazakhstan, undermining much of the progress it had achieved in the Western direction. The difference in personal styles between Medvedev and Putin thus did not really result in policy difference because Putin, although formally prime minister, remained in command of Russia's foreign policy.¹⁰

The Baltic Sea region: different approach to different countries

The contradictory nature of Russia's foreign and security policy during recent years is clearly observable in the Baltic Sea region. The Partnership for Modernisation with Europe has turned out to be less effective due to financial problems. However, Russia has signed complementary bilateral modernisation agreements with all the Baltic Sea countries except Estonia. Due to their advanced economies and membership in the EU, Russia sees the Nordic states as an especially valuable modernisation resource.¹¹ Rapprochement in Polish-Russian relations also belongs to the category of "success". By neutralising and engaging one of its harsher critics, Russia aims to get closer to the EU and NATO. Meanwhile, the military build-up and activities along the borders of the Baltic states, and the extensive use of soft power measures in Estonia, Latvia and Lithuania indicates that Russia's assertiveness has a clear geographical focus.

The Nordic countries

Russia's relations with the Nordic countries have always been relatively unproblematic, but a further improvement was noticeable during Medvedev's term in power. While Finland has enjoyed relatively good relations with Russia during the past twenty years (being Russia's main trading partner in the region) both Sweden and Denmark have experienced difficulties at times. Denmark was blamed for giving protection to Chechen dissidents and relations with Sweden were chilly the critical statements made by Swedish Foreign Minister Carl Bildt about Russia's aggression in Georgia. Today, these differences have been settled, both because Russia has interpreted the Danish and Swedish approval of the Nord Stream gas pipeline as a sign of friendship, and because Russia needs their support in pursuing its interests in the EU and the Arctic. Good relations with Finland and Sweden would also help Russia get closer to a visa-free travel agreement with the EU.

The signing of the Maritime Border Agreement with Norway after forty years of disputes follows the same logic. Dominating probably most resource rich area in the Arctic, Russia

⁹ A. Moshes, 2012: „Russia's European policy under Medvedev: how sustainable is the new compromise?“, *International Affairs*, Volume 88, Number 1, January 2012.

¹⁰ Ibid.

¹¹ D. Trenin, 2011: „Russian Policies toward the Nordic- Baltic Region“ in „Nordic Baltic Security in the 21st Century: The Regional Agenda and the Global Role“ by R. Nurick and M. Nordenman (eds.), Atlantic Council.

needs access to modern technology in order to explore it. Norway, as a small state and one of the few littoral countries having the necessary technology makes a good partner.

Russia also benefits from good relations with the Nordic countries in terms of keeping open secure trade and energy routes to Europe and its main strategic partner Germany. For Russia, the Baltic Sea rim is very much about logistics. Russia's strategic choice since 1997 has been to avoid dependency on harbours on foreign soil and to promote its independence from transit countries.¹² During the past decade Russia has made major investments in infrastructure: new ports are being built at the end of the Gulf of Finland, gas pipelines have been placed on the Baltic Sea bed, and a new town is under construction near the Port of Ust-Luga.

Poland

After decades of thorny relations, Prime Minister Putin's initiative of a joint commemoration of the 70th anniversary of the Katyn massacre, in April 2010, was a significant step towards historical rapprochement between Poland and Russia. The Polish Presidential plane crash in Smolensk resulting in death of 96 people increased the emotional value of the act.

This rapprochement certainly provides a good platform for political dialogue aimed at solving other strategic issues related to energy, security and the future of Poland's eastern neighbourhood.¹³ Nevertheless, a good deal of conditionality has been written into the new state of relations. Both Poland and Russia seek to gain from the rapprochement in relation to third parties such as the EU and NATO. It is important to keep in mind that Poland's membership of the EU has proved to be much more consequential for its relations with Russia than its accession to NATO. Poland's membership of the EU has an impact on EU strategy related to many issues, energy being the most important of them.¹⁴

By consolidating its position in the Polish energy market, Russia seeks to strengthen its influence in the European energy space. The economic crisis revealed the shortcomings of Russia's economic model, and persuaded Russia to seek new opportunities in Europe and see Poland as a convenient intermediary. In Russia, Poland is perceived as an influential member of NATO and the EU and as a potential supporter of Moscow in the international policy sphere in exchange for discounts in the energy sector.¹⁵

Poland, on the other hand, is also interested in increasing its influence in the EU. After a successful EU Presidency, including the launch of initiatives with Germany and France through the Weimar triangle and the positive engagement of Russia, Poland has already cemented its position in the first league of EU member states. According to Polish Foreign Minister Radoslaw Sikorski, Polish Russian normalisation would not have got off the ground, if Russia had not learned that speaking to Brussels or Paris over the head of Warsaw would no

¹²¹² P. Sutela 2011: „Economics and Trade Around the Baltic Rim: Does Russia have a strategy?“ in „Nordic Baltic Security in the 21st Century: The Regional Agenda and the Global Role“ by R. Nurick and M. Nordenman (eds.), Atlantic Council.

¹³ A. Nowak, 2010: Polish-Russian/Russian Polish Rapprochement: A Long-awaited decisive move. Notes internacionales CIDOB, 23-24, December 2010

¹⁴ Ibid.

¹⁵ A. Bagdonas, 2011: Are Russian and Polish relations getting warmer? <http://www.geopolitika.lt/?artc=4449>

longer work.¹⁶ He might be right but without Germany's conscious political choice to include Poland in the game of the European big ones, the rise of Poland would not have been possible. Thus, playing the card of relations with Russia, Poland might also expect Moscow's support for its foreign policy.

The Baltic countries

No major changes can be detected in Russia's relations with the Baltic states during the Medvedev-Putin period in power. Russia's activity towards Estonia, Latvia and Lithuania has been and still is motivated partly by its wish to demonstrate its privileged interests in the Baltic states and partly to use the Baltic countries as an instrument to undermine the unity and policies of Euro-Atlantic institutions.

Relations between the Baltic countries and Russia grew worse after the enlargement but not because of enlargement of NATO and the EU in 2004. Russia came increasingly to rely on various political, economic and military means to gain influence in Estonia, Latvia and Lithuania. By creating asymmetric economic relations, Russian state-controlled or state-influenced companies have built a significant presence in vital parts of the economies of the Baltic countries. While the Baltic countries' energy sector is fully dependent on oil and gas imports from Russia, the financial sector, with more and bigger banks with Russian equity capital, also continues to be a concern especially in Latvia and Lithuania.¹⁷ The economic crisis in 2008 hit the Baltic states hard and Russia was planning to buy up national infrastructure assets in the three states.¹⁸ However, Estonia, Latvia and Lithuania handled the crisis relatively well and no major new Russian capital investment can be detected.

Russia has harshly criticised Estonia and Latvia in the international arena for discriminating against Russian minorities and has demanded lower barriers for acquiring citizenship. By adopting its compatriots' policy in 2008, Russia has created a legal (for Russia) tool of ethnic engineering in the Baltic countries.¹⁹ By sponsoring different interest groups Russia has deliberately created ethnic tensions. The Bronze soldier incident in Tallinn resulted in the freezing of the relationship between Estonia and Russia for two years.

Medvedev's invitation to Latvian President Zatlers to come on an official visit to Moscow in 2010, or Putin's proposal to Lithuanian President Grybauskaitė to meet in Helsinki during the meeting of the leaders of the Baltic Sea countries in the same year, may be seen as positive Russian attempts to revise its relations with the Baltic countries. Unfortunately, these have remained one-off events and one cannot really talk about a major political break-through in Russian-Baltic relations. Some stabilisation of the relationship can be observed but this is not due to more favourable Russian policies, but because of the increasing maturity of the Baltic

¹⁶ R. Sikorski, 2012: „Poland: fully engaged in Europe“, Speech on the forum in Paris, 22 March 2012

¹⁷ T. Malmlöf 2010: „Ryskt ekonomiskt inflytande i de baltiska staterna – säkerhetspolitiska konsekvenser“, FOI, Swedish Defence Research Agency, Division of Defence Analysis, Stockholm.

¹⁸ “Lavrov Doctrine” 2010: "Program for Effective Use of Foreign Policy in the Long-Term Development of Russia," <http://perevodika.ru/articles/13590.html> (accessed, 10.01.2012)

¹⁹ A. Kudors, 2010: “Russian World” —Russia's Soft Power Approach to Compatriots Policy“, Russian Analytical Digest 81/10.

societies. Business is done on a daily basis. Democracy has strengthened, as has the internal capacity to resist negative external influence (e.g. the Latvian referendum on Russian as a second state language failed; Estonian political parties have become more aware of the problems related to integration of Russian speaking minority as well as multiculturalism in general; more Russian speakers find their interests represented by Estonian political parties earlier labelled as Estonian-centric; Russian intelligence gathering attempts have been intercepted in all Baltic countries). The Baltic countries have become more integrated with European structures through the EU's policies, and NATO has finally developed the contingency plans for the region.

Russia's military build-up in the region

Russia's active military build-up along Baltic borders has been presented as a reaction to the possible US missile defence deployment in Poland and the development of NATO's contingency plans for the Baltic states. Even the most recent version of Russia's military doctrine, from 2010, refers to NATO enlargement as a threat to the Russian Federation. In 2009, Russia conducted the Zapad and Ladoga exercises, which were based on the scenario of a NATO attack against Russia.

Russia's military reform in 2010 merged the Moscow and Leningrad Military districts, Kaliningrad garrison, and Baltic and Northern fleets into a single regional command headquartered in St. Petersburg. Russia's military modernisation in the Baltic Sea region, which began in 2008, has three main aims: strengthening of existing units and the formation of new units in the area; deployment of new strategic weapon systems in the area; and strengthening the Baltic Fleet and increasing its combat readiness.

The existing units in the area (Kaliningrad and Luga) have been fully manned and a new motorised rifle brigade in Vladimirsky Lager, close to the Estonian border in the south, has been formed. Air defence capability has also been strengthened in the St. Petersburg region. The real effect of these changes will to a large extent depend on Russia's ability to carry out personnel reform in the army, including increasing the number of professionals, increasing their salaries and raising their morale.

Russia has already replaced its old weapon systems in Luga with "Iskander" missiles and has announced the possible deployment of "Iskander" systems in Kaliningrad in 2012. If this happens, Russia may pose a threat to all strategic transportation infrastructure and command centres in the Polish-Baltic region.

A proper military upgrade of the Baltic Fleet would enable Russia to seriously hamper any NATO maritime operations aimed at bringing additional forces to the area. However, a reform of the Baltic Fleet is dependent on Russia's ability to fully implement its comprehensive acquisition plan.²⁰

²⁰ K. Kaas 2012: Vene armeereform 2008-2011, ICDS working paper.

What does the new old President of Russia say about the future?

It is far too early to say precisely what Putin's foreign and security policy will be like, but it is not unreasonable to assume that it could largely follow the path undertaken by the Medvedev-Putin tandem. The strategic focus of Russia's efforts will be Eurasia, both in terms of building the Eurasian Union²¹ and in paying more attention to Asia in general, especially China. The West may continue being psychological focus and enemy figure. The change of rhetoric adopted by Medvedev was merely an attempt to find more efficient ways to implement old strategic goals.²²

Putin's pre-election statements on foreign and security policy, presented in the form of newspaper articles in leading Russian newspapers, again reflected a deep rhetorical polarisation between Russia and the US. Once again, Putin talked about the need to change the world order. Putin's assertive foreign policy plays well with the Russian electorate who vote for him to keep stability in the country and share his vision of international relations. To restore his legitimacy, Putin has again used the card of the external enemy. Russia needs to be protected because the security threats to it have increased from all directions.

Putin clearly states that the most important goal of Russian security policy is to be strong. "We should not tempt anyone by allowing ourselves to be weak."²³ While calling for extensive internal reforms, especially in the areas of economy, science and technology, and better co-operation with the West, Putin clearly prioritises investment in defence reform. Strengthening Russia's international position and the development of its economy or institutions can only be carried out if Russia is able to calculate the risks of possible conflicts, secure military technological independence, and prepare a proper military response capability.²⁴ Protecting the rights of compatriots outside Russia and strengthening soft power measures of by financing interest groups and organisations which support Russian culture and language are also issues close to the new-old President's heart.²⁵

Putin raises four main regional security concerns for which military involvement cannot be excluded. In the Middle-East, Russia is concerned about Syria, where the conflict may further escalate and result in an attack against Iran. Conflict between Azerbaijan and Armenia for the Nagorno Karabakh region cannot be ruled out and the same goes for a potential new conflict between Russian allies Abkhazia and South-Ossetia, and Georgia.

Secondly, the possible closure of the NATO mission in Afghanistan may cause unrest and an increase in the activity of religious extremist groups in Tajikistan, Kyrgyzstan and Uzbekistan. Besides, the U.S. has been building military bases in these states without a clear-cut mandate, and the objectives and duration of the bases are a cause for concern.

²¹ Eurasian Union will comprise Russia and the CIS states.

²² M. Kaczmarek in A. Moshes 2012: „Russia's European policy under Medvedev: how sustainable is the new compromise?“, International Affairs, Volume 88, Number 1, January 2012.

²³ V. Putin, 2012: „Being strong: national security guarantees for Russia.“, Article by Prime Minister V. Putin in Rossiiskaya Gazeta, 20.02.2012, <http://premier.gov.ru/eng/events/news/18185/>

²⁴ Ibid.

²⁵ V. Putin, 2012: „Russia and the changing world.“, Article by Prime Minister V. Putin in Moskovskiy Novosti. 27.02.2012, <http://premier.gov.ru/eng/events/news/18252/>

The third potential area of conflict is the resource-rich north, where Russia will have to protect its interests. The rebuilding of a blue-water navy in Russia's North is envisioned during 2012.

Finally, the deployment of U.S. anti-ballistic missiles in Europe affects Russia's strategic nuclear deterrence capability and upsets the military-political balance. Putin points out that Russia needs to strengthen its air and space defence system to respond to the U.S. and NATO missile defence policies. Putin accuses NATO and the U.S. of a bloc-based mentality and the U.S. of a quest for absolute invulnerability, which can only mean absolute vulnerability for all others.

Based on Putin's public statements, any major change in Russia's foreign and security policy should not be expected. Even if more focus and action is needed in Russia's south, the rhetoric towards the West has remained as assertive as earlier. However, as Fyodor Lukyanov rightly points out, Putin's rhetoric this time is defensive rather than offensive.²⁶

A changed security playground for Putin – constraints on Russia's assertiveness

During his third term in power, President Putin will rule a very different Russia in a very different geopolitical situation. The decisions made during the boom years of 2000-2008 and during President Medvedev's term in power from 2008-2012, have led Russia to a complicated internal and external situation, which will heavily limit its room for manoeuvre both at home and abroad. The Russian Government has mismanaged its economic potential by avoiding reform of its energy dependent economy. Russia has been less successful than expected in its relations with its neighbours and the West by trying to increase its influence and seek access to modern markets using means typical of an imperialist power. Dmitri Trenin sums it up well "...growth without development, capitalism without democracy and great-power policies without international appeal – is unsustainable".²⁷

Internal constraints

Today's Russia is facing very serious internal challenges in terms of the potential disintegration of the country, a decreasing birth rate, the emigration of young and educated people, the breakdown of its technological and social infrastructure, an unsustainable economy, flourishing corruption and administrative inefficiency. Emerging military tensions and the potential collapse of the secular power in northern Caucasus could seriously undermine the Russian political system.

The rise of civil society or, at least, a deep dissatisfaction with the current political situation may be a promising sign, but to fulfil its expectations will be the most difficult task for the Russian government. The increase in anti-government protests shows that a majority of the population is now tired of an authoritarian regime where political competition is limited, if

²⁶ F. Lukyanov 2012: „Vladimir Putin in a World of Risks and Danger.“, Russia in Global Affairs, <http://eng.globalaffairs.ru/redcol/Vladimir-Putin-in-a-World-of-Risks-and-Danger-15482>

²⁷ D. Trenin, 2011: „Post Imperium: a Eurasian story“, Carnegie Endowment for International Peace, United Book Press, pp. 236.

non-existent, and corruption is rampant. Many sociologists fear that the situation may result in further escalation of the emigration of young and educated people.

Russia lost its reform momentum in 2003, when a more benign global environment and higher oil prices removed the necessity for change and reform. This “reform pause” contributed to Russia’s stalled growth of the past three years, as well as the fragility of its economy that led to the crash in 2009. Analysts argue that Russia’s sharp increase in wealth and shift to more primary resource exports has also meant a loss of competitiveness - based merely on productivity and demographic trends Russia’s potential for growth is expected to slow sharply in the coming years.²⁸ The system invests huge amounts of money in geopolitical infrastructure such as pipelines in the hope of increasing future revenues. At the same time it behaves as if it were a temporary owner of an enterprise, extracting maximum benefit now with full disregard of the future.²⁹ Because the necessary investments were not made in time, the decay of the technological infrastructure will continue for decades to come. Due to its instable business environment, capital is again leaving Russia.

Another problem is that the system is over-centralised and over-bureaucratized, and thus incapable of prompt and effective response to crises. As a result, local problems can easily escalate into a system-wide crisis.³⁰ Putin is considered a pragmatic leader who has conducted reforms in the past and at times of stress for the Russian economy. However, the timeline required for the necessary reforms to take effect will be lengthy. The key is to adjust fiscal policy and to efficiently allocate the budget. If Russia continues to prioritise military reforms instead of more comprehensive economic, political, structural and social reforms, the country will risk an even more serious internal disintegration in the future, and the next two to three years might also be lost from the structural point of view.

With rising Islamist radicalism in the north Caucasus, the establishment of Sharia law, young men turning to militancy, flourishing corruption, and the departure of ethnic Russians, de-modernisation and lawlessness is settling in. The conflict has built up over many decades and the situation has reached such a level that it could explode at any moment. A serious strategy is needed, but Moscow’s reactive politics results in tactical rather than strategic solutions, further aggravating existing problems.

According to analysts, the military reform that started in 2008 has ended in disaster. The reform was intended to create a more modern, combat-ready and mobile fighting force, but the new “ready for action” brigades are swiftly turning into the same “cadre units” with officers and stockpiles of mostly outdated weapons, but not enough soldiers to man them.

²⁸ N. Gurushina, N. Roubini and R. Ziemba, 2012: “Trip Report: Russian Spring or Structural Permafrost?”, Economic Analysis, Roubini Global Economics Feb 14, 2012, <http://www.roubini.com/>

²⁹ N. Petrov, 2012: “Russia’s uncertain future: internal dynamics and possible trajectories”, in „ The Future of Russia: Modernization or Decline?“, by A. Balcer and N. Petrov (eds.), pp75.

http://carnegieendowment.org/files/demos_www_calosc.pdf

³⁰ Ibid.

Such brigades cannot go into action as coherent units, but may form small improvised battalion-size combat groups into which available manpower is pooled.³¹

External constraints

Russia is surrounded by countries and their alliances and unions that are more affluent and dynamic than Russia itself, as indicated by the eastward enlargement of the EU and NATO; the rise of China, India and South Korea; the demographic and political dynamics of Turkey and Iran; risks connected to Pakistan and Afghanistan; and the new transportation links to the east and west of the Caspian. The country risks becoming peripheral on both continents.³²

The EU financial crisis is creating an uncertain situation for Russia's economic stability, endangering its modernisation and privatisation plans. The continuing chaos may also jeopardise Russia's strategies to solidify its power in Eurasia as well as take advantage of the situation in Europe and pick up strategic assets in central Europe and the Baltic states.

The major challenge for Russia today, though, is China, both in a positive and negative sense. China, now the second largest economy in the world, holds out a number of opportunities, economic as well as political: as a market for Russian raw materials, a locomotive of economic development in the Russian far east and a fellow non-Western partner on the world stage. At the same time, however, China is increasingly aware of its own expanding sphere of interests and presents Russia with major challenges, particularly in Siberia. China is also building up its military capabilities in order to match its growing strategic interests. Russia is yet to respond to growing Chinese power in its vicinity, and will be hard-pressed to do so in the light of its economic and military difficulties. Although China may seem a desirable cooperation partner for Russia vis-à-vis Western powers, it is emerging as a competitor in the neighbourhood of Russia's sparsely populated and economically rather weak regions.

Another challenge for Russia is the emergence of the Arctic region as an area of international contention, prompted by global climate change and the importance of energy with which the Arctic is lavishly supplied. The region has not only become a focus for the littoral states of the region, but has also attracted the interests of NATO, the EU and China. The tendency to invoke military and security issues and instruments over this region continues rapidly. Due to its environmental harshness and complicated territorial status, co-operation among all the parties will be a huge challenge.

When it comes to the Baltic Sea, the region has profited a great deal from Russia's military attack on Georgia in 2008. As a consequence of this, NATO finally developed contingency plans for the defence of the Baltic states and regional defence and security co-operation was boosted. In other words, the Baltic Sea region as a whole has become more integrated and the Baltic states have become internally more stable, more aware of and resistant to Russia's "soft" security measures".

³¹ P. Felgenhauer, 2012: "Draconian Legislation Rushed in to Boost the Draft for the Russian Military", Eurasia Daily Monitor Volume: 9 Issue: 63; <http://www.jamestown.org>

³² D. Trenin, 2011: „Post Imperium: a Eurasian story“, Carnegie Endowment for International Peace, United Book Press, pp.16-17.

Conclusions

The discrepancy between President Putin's foreign and security policy ambitions and Russia's actual capabilities to pursue them will obviously increase. Russia's domestic backwardness and lack of power is becoming a major problem for its international position, not only in relation to the West but more importantly to the south, far east and high north, particularly in the light of other structural changes in the emerging and developed markets.

In order to remain a global actor, reach out to Asian markets or even to play the role of a bridge between the West and the rest, Russia needs to increase its competitiveness and innovativeness and fight its flourishing corruption. In other words, the country has to undertake a comprehensive modernisation. This will be no easy task as the Russian leadership cannot afford a deepening of the nation's economic problems (be it due to inaction or as a side-effect of reforms) while the emerging external challenges will offer no respite. President Putin has to be very careful in defining his further policy course and in designing the rhetoric to accompany it. The space between the internal and external constraints which determines Russia's room for manoeuvre on the global and regional arena seems to be just large enough to maintain the status quo.

Where does this leave the Baltic Sea region? Russia's interests towards the Baltic Sea will follow the vision formulated by the Medvedev-Putin tandem. While good relations will be sought with the Nordic countries and Poland in order to find support in relations with the EU, the Baltic countries may continue to be cast in the role of bargaining chips with NATO. The Baltic Sea will mainly become an arena for political bargaining over issues concerning the deployment of the US Missile Defence Systems in Europe, the future of the Arctic region and the energy package for Europe.

Despite the on-going military build-up along the Baltic states' borders, a military conflict with the West in the Baltic Sea region is unlikely, as the costs of such a conflict would be very high in comparison with the potential gains. Similar considerations could be applied to a potential political confrontation between Russia and the West akin to the Cold War. Against the background of more urgent potential military engagements in other areas, the West, historically the most important and threatening strategic direction for Russia, is becoming increasingly secure and developing into an interface with the most developed region in Russia's neighbourhood. Thus, the controversies with the West are becoming more political, while the real military dangers lie to the south. In refocusing its global ambitions towards stronger relations with the CIS through the Eurasian Union, Russia seems to have started to accept that the policies of the Baltic states have become less susceptible to Russian influence. This does not mean, however, that Russia will find sufficient incentive to scale down its assertiveness towards the Baltic states.

The greatest "known unknown" in the present strategic setting is Russia's future internal development. While during his first term Putin was perceived as a president who managed to stabilise Russia and introduce a certain level of welfare, in 2012 the cost of these improvements – authoritarian rule, corruption, and a disregard of what people think and feel – does not seem to match the benefits.