CHAPTER 6

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The energy input particularly in the field of hydrocarbon resources in which Russia is quite rich, has been instrumental in significantly shaping the foreign policy of the country. If in the Soviet period the hydrocarbon resources were largely used to consolidate the relations of the Soviet Union with its neighbours in East Europe, allies like Communist Cuba and non-aligned India had to promote detente to attract western and Japanese interest in the Soviet economy. Under Putin, the scope of the use of oil and gas has been changed and widened as a non ideological means of ensuring the re-emergence of Russia as a great power. Consequently, the rich Russian hydrocarbon resources have become an important factor in the country’s relations with its immediate neighbours, the former Soviet republics, not to mention China, Japan, Korea and the European Union. The energy factor looms large in Russia’s relations even with the United States. The transport of Russian oil and gas as also of the oil produced in the former Soviet Republics of Kazakhstan and Azerbaijan and of gas in Turkmenistan to the global markets through pipelines has acquired a new geopolitical dimension often complicating their mutual relations.

Though eager to exploit Russia’s growing energy clout for achieving its foreign policy objectives to raise its global profile, Putin has been consistently acting as an ‘accommodationist’ vis-a-vis the United States. Putin’s Russia has acted with restraint in the face of new ‘Cold War’ unleashed by the hawks in the American administration. In fact, Putin has often chosen to discard the geopolitics- led foreign policy position taken under former Prime Minister Primakov’s guidance, aimed at Russia becoming a power pole in a multi-polar world by entering into alliances with Asian powers like China and India. Putin views a threat to Russia’s emergence as a great power not from the United States but from lack of modernisation and economic development. Thus, geo-
economics has taken precedence over geo-politics under Putin who has
defended the national interests of Russia primarily by economic means.

The belief that the ‘commanding heights’ in Russia’s energy sector should
remain with the state is central to Putin’s policy. This is precisely what brought
him into conflict with the oil baron Mikhail Khodorkovsky who was planning
to sell a major stake in Yukos to a United States based multinational oil
company. Such a move would have adversely affected the Russian state’s
competence to exert a dominant influence in Russia’s oil industry. Had this
deal matured, the Yukos rather than the Russian government would have
chosen the route for the East Siberian pipeline. It was known that the Yukos’
preference was to stretch a pipeline from their oilfields in Eastern Siberia to
Daqing in China rather than the route to Japan via Nakhodka favoured by the
Kremlin. Putin’s views on the key role of the state in the development of
natural resources of the country had been clearly expressed long before he was
nominated Prime Minister by President Yeltsin. In 1997, as a member of the
team of Anatoly Sobchak, Mayor of St. Petersburg, Putin defended his Ph.D.
dergree in economics in the Mining Institute at St. Petersburg. In an article
published in 1999 which was related to the theme of his dissertation, Putin
expressed the view that the Russian state should have a decisive voice in major
decisions about energy and natural resources. Putin subscribes to the view that
the Russian ownership of national resource base is critical to the economic
recovery of the country and to its re-emergence as a great power on the world
scene. He does not rely on global market forces to provide economic
opportunities and social support for the Russian people to make a successful
transition from communist rule to a modern economic and political system.

Putin’s creed and credo can be termed as “resource nationalism”. In his
opinion, the oil oligarchs who see the economy in global terms are least
bothered about the nationality of owners. To him, the Russian ownership of natural resources is critical for the recovery of the country and re-assumption of a dynamic international role by it. The very survival of Russia depends on its regaining the status of a great power. In his research paper published in 1999, Putin had forcefully argued that Russia could not simply be an exporter of raw materials as it needs development of domestic processing industry to transform itself into a leading economic power with a high standard of living for majority of its population.

Putin’s statist ideas emphasising the heightened role of the state in energy sector might have been influenced by the enormous Russian losses between 1990 and 1999 in terms of both the country’s GDP and its consumption - 45% of GDP and 50% of consumption - as a result of the practice of neo-liberal reforms leading to massive privatisation and opening of economy to the outside world in comparison with the American losses during the Great Depression-30% of GDP and 20% of consumption.

Putin successfully adhered to his line of state interests taking priority over individual or private enterprise in the oil, gas and other key industries. It would, however, not be correct to describe his policy as pure statism. Quintessentially, he is a neo-liberal even though he subscribes to elements of statism in the sector of oil and gas and other key industries. Putin’s resource nationalism is largely a reaction to frontier capitalism of the 1990s under Yeltsin. The western oil companies -BP and Shell - have been made to realise by Putin that they have to accommodate the “national champions” like Gazprom and Rosneft if they were to do business in Russia. The new Russian subsoil law is a clear manifestation of Putin’s “resource nationalism”. The political and financial stability brought about in Russia by Putin’s well thought - out policy of state control of energy and mineral resources of the country has produced some
good results. The foreign debts of Russian state have been paid off even before the scheduled date. However it is still a long way for Russia to gain a leading position in the world oil markets. Russian oil is delivered almost exclusively to the West European markets and it is not present in the Asia-Pacific region countries and the USA.

There is also an unseemly side of the picture as Stanislav Menshikov, a Russian economist working in the West has observed, "Putin’s Kremlin has begun to act like one more oligarchic financial industrial group presiding over and preying upon some of Russia’s valuable economic assets, alongside the other oligarchs. Under Putin, no industrial policy in which a state agency tries to upgrade the county’s position in the international division of labour has been pursued. There has been no expansion of public investment in the nation’s economic infrastructure apart from in the military and energy sectors, or in science and technology”. “Neither state capitalist, nor a development state model has so far been introduced in Putin’s Russia”, conclude Western scholars David Kotz and Fred Weir who further observe, “There is little evidence to suggest that the Russian state under Putin is moving in the direction of a developmental state. Putin’s Russia is an authoritarian centralised state with a continuing pursuit of the neo-liberal economic model. His minister of economic development and trade German Gref is a staunch neo-liberal who favours expansion of the private sector and enhancement of the freedom of enterprise. The state should get down to its basic function-law enforcement, the judiciary and administration. In January 2005 Putin got the Duma to pass ‘a new law on social benefits withdrawing the war veterans’, pensioners’ and the disabled citizens’ concessions for free public transport and subsidies for housing and medicines. The new law terminated these benefits replacing them with a paltry payment of USD 7 a month. This happened on the advice of his
liberal ministers Kudrin and Gref when the budget of Russia was flush with vast petroleum export revenues. The neo-liberal policy also led to the 2006 new housing legislation raising the tenants’ utility bills by 15 to 30%.

On 21 February 2005, the US President George Bush made a remark that “Russia’s future lies within the family of Europe and the Trans-Atlantic community.” Though admitting that democratic reforms cannot happen overnight, Bush exhorted the Russian government to follow democracy and rule of law. Putin seems to be taking the advice of Bush seriously. In his April 2005 State of the Nation Address, he declared that “Russia was a European power with a civilizing mission in Eurasia”. This represented a complete reversal of the Russian policy in the near abroad as outlined in the 1999 concept of security which contains Putin’s dictum that “Russia is a Euro-Asiatic country”. Putin’s famous statement that, “Russia is, was, and will always remain a European power” is often cited as indicative of Russia finally turning its back upon the Eurasians.

Putin’s abandonment of Eurasianism as an important direction of his foreign policy need not be interpreted as subservience to the West. True, George Bush and Brzezinskii would like Russia to forget about its historical interests in the former Soviet space in Eurasia and accept and reconcile with the maverick status of just another European great power, taking it in terms of civilisational identity only. However Putin is insistent that Russia must be accepted as an equal member of international community. In fact, the foreign policy does show the neo-Slavophile concerns about autonomy and uniqueness and is not oblivious of pragmatic Eurasianist notions. Russia may still be viewed as following a policy of pragmatic realpolitik. Russia’s leadership role in Commonwealth of Independent States (CIS) still remains in the centre of Putin’s foreign policy. Under Putin Russia has become a full fledged member
of the Central Asian Cooperation Organisation. Putin has also taken pains to consolidate the Collective Security Treaty Organisation of CIS countries under Russia’s leadership. While subscribing in general to the priority of geo-economics over geo-politics and attainment of Russia’s lost great power status through exercise of the country’s “soft power”, Putin has not been found lacking in firmness in defending Russia’s geo-political interests in the former Soviet space. His opposition to the western backing of Georgia’s aggressive onslaught against South Ossetia is a case in point. Putin has also taken active steps to pre-empt the Western powers from re-routing the supply of Central Asian and Caspian oil and gas by-passing the Russian territory.

For a number of reasons Russia’s ‘Near Abroad’ becomes important in the energy based foreign policy of Putin’s Russia. The region contains rich oil and gas deposits which have often been exaggerated by these countries to attract western investments. Some western sources have also extolled the size of these resources in order to justify their policy of checkmating Russia in its drive to control this second Middle East or Persian Gulf oil bonanza.

Kazakhstan which is the second largest country after Russia in the CIS family is as large as Western Europe. It is rich in it oil and gas deposits. Because of its importance as a country holding largest oil reserves in the Caspian region, Russia’s foreign policy under Putin has given maximum attention to this Republic. Putin visited Kazakhstan 15 times during his Presidency. The private Russian company LUKoil has an important stake in Kazakhstan’s oil. LUKoil under Putin’s supervision is paying great attention to the Russian part of the North Caspian

Kazakhstan has two different gas pipeline links to Russia. One links Karachaganak to Orenburg and the other, the Central Asian-Centre (CAC)
pipeline carries mostly Turkmen and some Uzbek gas to Russia. Russia has interest in the Central Asian gas flowing north through the CAC. Since the Karachaganak gas reserve are as large as of the major gas fields, in West Siberia, Putin has fixed his eyes on directing the Karachaganak gas flows for Russia’s Orenburg gas processing plant.

State control and tight grip over the oil and gas assets increases Kremlin’s options to use energy as a foreign policy tool. Under Putin, the strategic sectors of hydrocarbon resources and the big corporations that dominate these sector-Gazprom, Rosneft and Lukoil – constitute one of the most important of the Russian state. Russian energy firms occupy prominent place among the ‘national champion’ of the Russian economy: the state –controlled, state-owned or privately owned corporations which have become tools of the Kremlin’s strategic agenda under Putin’s presidency. Moscow has started exercising economic and political influence over countries that depend on Russia’s rich energy resources through these energy giants. Moscow has been using its neighbour’s energy dependency as a foreign policy tool to pressurise those states who would not accept policies favourable for Russia’s national interest. Accordingly Kremlin gives a high priority to secure control of Central Asian, Caspian and North African supplies and transit. As the core of the Kremlin’s extensive network is the old Soviet oil and gas infrastructure that was specifically created to integrate the periphery (Central Asia and Eastern Europe) with the centre (Russia), this crucial infrastructure which was created with lot of intensive efforts and with huge investments over a very long time has now well- placed Russia geographically and politically. The Kremlin has been trying its best to tighten its grip on its energy network with well thought plans for expansion. Kremlin is also aware of the competition and accordingly it is preventing any new- outside competition such as the proposed Nabucco