

## Sochi Surprise

### IMAGINING CHANGE IN MOSCOW'S CAUCASUS POLICY

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Let us imagine... at the opening ceremony of the 2014 Winter Olympics in Sochi, the United Nations Secretary General announces a new peace deal for the Caucasus, surprising everyone. The details are that the governments of Russia and Georgia agree on a visionary and innovative Georgia-EU Pooled Sovereignty Framework for Abkhazia and South Ossetia, with special recognition of the rights of Russian citizens in the territories. A cross-border free trade zone is enacted between Russia and Georgia. It turns out that Gazprom had offered a 30 percent discount on natural gas to Germany, France, and Italy for a three-year time period in exchange for getting the EU to approve the deal in time for the Olympics. Amid the euphoria, a YouTube video appears of Russia's leader, Vladimir Putin<sup>1</sup>, making a toast with Saperavi, a Georgian wine, and singing a rendition of "Georgia on My Mind." A U.S. government spokesperson compares the mood to Gorbachev's declaration of the "Sinatra Doctrine," which heralded the Cold War's demise.

If that's not enough, let's imagine that at the Olympics, Putin unveils a new Historical Atonement Monument at the Krasnaya Polyana Ski Resort – an apology set in stone for Russia's "acts of genocide" during the Caucasus wars of the 19<sup>th</sup> century, Stalin's Great Terror, mass deportations, indiscriminate killings in Chechen wars, and abuses of power committed during counter-terrorist operations in the early 2000s. Moreover, the Kremlin announces that a Truth and Reconciliation Commission will investigate all abuses of power and human right violations in the Caucasus since Soviet collapse. The worldwide media praises Russia, the International Olympic Committee makes Sochi the first "Olympic Peace City," and the international blogosphere lauds Putin as the front-runner for the Nobel Peace Prize.

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<sup>1</sup> For the purposes of this memo, Russia's current political institutions are held constant, and "Putin" is often used in the scenarios as a proxy for this system regardless of who becomes Russia's president in 2012. This memo also avoids substituting Russia's 2012 election analysis for Russia's Caucasus policy analysis.

## **Analytical Value of Imagining the Impossible**

Based on prevalent thinking and current media reports, the imaginative scenarios outlined here appear unattainable. Russia is likely to assert its great power status and isolate the Olympic games from security challenges, which Russian officials have said may come from Georgia, radical Islamists, and/or North Caucasus nationalists. Security will be tight, with complete area coverage by surveillance cameras and perimeter patrols – and they may even use large, sophisticated machines that can scan whole delivery trucks for explosives. The most likely scenario, therefore, is “Fortress Sochi” (see Figure 1).

A crucial point here is to correct the human proclivity of predicting through extrapolation – along the line of thinking that “current trends will continue until they change.” This generally applies to expert assessments of the situation in the North Caucasus and between Russia and Georgia. For example, the *Strategic Conflict Assessment, North Caucasus* (2009), funded by Britain’s Foreign Office, examined complex structural and behavioral correlates of conflict in the region and concluded that “the status quo” was the likeliest future scenario, ranking it as “highly probable.” They gave a “probable” to the “continuation of active peace reconstruction efforts” – an extrapolation of a major trend, and a “less likely” or “unlikely” for a substantial worsening of the situation – a breaking with the prevalent current trend. Their outlook did not even consider a rapid improvement.

“Surprise analysis” can add value to “trend analysis” by creating a vantage point in the imagined future with which to evaluate likely trend-changers by looking at the present as if one were a seasoned “Monday morning quarterback.” The Shell Oil Company’s 1984 report “Greening of Russia,” for example, imagined Gorbachev’s perestroika. Daniel Yergin and Thane Gustafson’s “Russia 2010” imagined the rise of state-controlled capitalism in Russia at a time when most analysts predicted something very different. This memo follows this approach, devising scenarios that appear to be *most* at odds with current trends. It takes the opposite of Moscow’s present policy positions on Georgia, Circassian genocide claims, and the Chechen wars. It lays bare a positive outcome of the kind that would be hard to achieve even if a “Sochi Surprise” were Moscow’s stated goal.

## **Pathways to the Sochi Surprise**

We must identify trajectories that may lead to the postulated outcomes and assess what conditions and actors may motivate them. I take as the point of departure the following key building blocks:

- Russia as an important actor, but one that is geographically and sectorally limited (with a semi-peripheral position in world politics and the global economy).
- Energy and military-industrial sectors as key economic drivers.
- Top-heavy, executive branch-dominant, high transaction-cost government.

- An ageing, well-educated, increasingly ethnically diverse population, in a society traumatized by the Soviet state's collapse, but increasingly post-Iron Curtain and outward-looking.

In this setup, the key actors/prime movers are leaders of the executive branch of government, with a dominant role played by the prime minister, leaders of state-allied businesses in key industrial sectors (oil, gas, military-related industries), and the *siloviki* (holders of key positions in the police, the former KGB, the military, and related agencies). The party and the electoral systems primarily serve as an incentive for the key actors to buy into the system through the parties of power, be it United Russia or the newly-manufactured National Front. Given these building blocks and actors, I posit two pathways to reach the Sochi Surprise: **Perestroika-2**, which assumes that Russia's leaders act from a position of weakness, and **Global Bear**, which assumes that Russia's leaders act from a position of strength.

### **Perestroika-2**

Under this scenario, the Sochi Surprise comes about because Russia's rulers face a concatenation of unfavorable trends in global energy markets and fall behind in innovation in lead sectors of the global economy. They decide to mitigate or avoid major socioeconomic challenges – particularly intra-elite fractionalization – by integrating with Euro-Atlantic institutions and liberalizing domestic political institutions. The behavioral foundation for this scenario may be summarized as: "If you can't beat them, join them." This pathway is tempting to entertain because it replays processes Russia experienced in relatively recent political transformations under Gorbachev and Yeltsin.

Perestroika-2 is only plausible given two conditions. First, the Kremlin must come to believe that global energy prices are not merely declining, but racing to the bottom. Second, the ruling coalition behind Putin must reach a new consensus that they have to change foreign policy and domestic institutions to better fit the expectations of key lender states in the West (while retaining their suspicion of Chinese intentions toward Siberia and the Russian Far East).

As an illustration, let's say the electric Nissan Leaf automobile proves to be a global success. New oil deposits in Southeast Asia, Latin America, and in the Arctic regions of Canada show reserves exceeding those of Saudi Arabia. Meanwhile, major oil exporters keep selling more oil to offset the cost of suppressing or rebuilding after popular uprisings in the Arab world, which continue longer than anticipated. Gazprom faces rapidly escalating costs of getting oil out of Russia's Arctic territories due to melting permafrost and flooding. In North America, significant new natural gas deposits in the Arctic are tapped. In Europe, shale gas production increases. Germany develops generators using tidal flows. New worldclass gas deposits in the Sahara now stand to replace Russian gas supplied to Europe and offer a major source of liquefied natural gas for India and China. Heavy borrowing from Western banks by Russia's

state-allied businesses, when oil prices were high, makes Russia's key elite players increasingly dependent on Western institutions.

Putin himself may side with the Westernizers. On a visit to Japan, just say, he drives the updated version of the Nissan Leaf and is impressed with the noiseless startup, smooth handling, absence of exhaust, and solar charged instruments. Still unable to recover from the profound feeling of discomfort after driving the "new" Lada (and failing to start a Yo-Mobile), Putin comprehends that Russia will never catch up with the West in his lifetime, so he decides to integrate with key Western states – perhaps by using Georgia as a lever.

In reality, Russia's ruling coalition has changed since Putin's arrival in power in 1999. Its members are more cosmopolitan and well traveled. They have investments and own significant properties in the West. Their children are educated in the West. Their families reside there (Putin's own daughters are a case in point). These elites want better, more predictable, and durable relations with the West. Putin either has to retire as the "Deng Xiaoping of Russia" or change state policy to embrace new priorities. Sochi Surprise can be a tremendous start, giving Putin a chance to go down in history as a great peacemaker.

### **Global Bear**

This scenario may emerge if Russia experiences a series of fortunate developments in the coming years. The perceptual driving logic of this pathway to the Sochi Surprise may be termed as "killing with kindness." The grand Caucasus peace deal, in other words, will not be so much an act of goodwill and benevolence as an act of benign neglect. It results from the Kremlin downgrading the geopolitical significance of the Caucasus region, with Europe increasingly becoming an export market and business partner for a rapidly modernizing and diversifying Russian economy. This scenario differs from "Russia as a great power" scenario because it envisions Russia as developing a global rather than a regional/neighborhood outlook in foreign affairs. The far abroad, especially the Pacific Rim, gets precedence over the near abroad.

The first crucial ingredient of this scenario is that oil and gas prices not only stay high, but they become less volatile. Fears about the resurgence of the Arab Spring and its spread to Saudi Arabia, as well as failure to discover significant new deposits, ensures stable high demand for Russian oil. This reduces the risk of investment in costly pipeline projects for oil shipments from Siberian deposits to China and the Pacific Rim. The 2012 APEC summit heralds Russia as the rising new Asian (Energy) Tiger. As a result, Moscow no longer views the Eurasian corridor as important to its global ambitions.

Meanwhile, increasing foreign investment helps diversify the Russian economy and propel new competitive high-tech industries, including nanotechnology. The Russian economy becomes more energy efficient, making more oil and gas available for export. Russia develops new missiles capable of penetrating U.S. anti-missile systems in Central Europe, produces effective anti-drone weaponry, and clones Mistral warship technology. Consequently, Moscow sees Georgia's Western orientation as less of a

security threat. While this may not induce the Sochi Surprise all on its own, it calms down threat perceptions in the Kremlin.

The return of Putin as Russia's president in 2012 helps this scenario. With enough reputational capital among Russian security hawks, together with Russia's projected new capabilities, Putin can afford to be magnanimous toward Georgia and the North Caucasus (particularly since Putin also has a strong reputation for successfully double-crossing outsiders, as in the case of the BP-Rosneft deal, or as might be the case with the new Right Cause party, led by billionaire Mikhail Prokhorov). Besides, Putin's magnanimity resonates with the younger cosmopolitan members of the ruling coalition, who regard preoccupations with the North Caucasus and Georgia as "sweating the small stuff." Putin has also learned that his public support no longer depends on his legacy as the initiator of the second Chechen war. According to Russia's Institute of Sociology, only four percent of respondents in a 2011 poll felt that the Chechen War of 1999-2001 (that propelled Putin to the presidency) was a good idea – compared to 56 percent in 2001. Yet, the view that Putin's 2000 election as president was a good thing rose from 73 percent of respondents in 2001 to 82 percent in 2011 (*Rossiiskaya Gazeta*, June 30, 2011).

Among other contributing developments: the continuing rise of China's economic and military power relative to the EU and the United States; the U.S. debt crisis and failure to get out of Iraq and Afghanistan completely; the election of a business-oriented president in Georgia who keeps an open mind to the EU concept of pooled sovereignty; a Russia-EU visa-free agreement; Ukraine's support for Russia's naval expansion in the Black Sea; and Russia's spies in Georgia providing credible information that Tbilisi puts no resources into destabilizing the North Caucasus or supporting terrorist acts in Sochi.

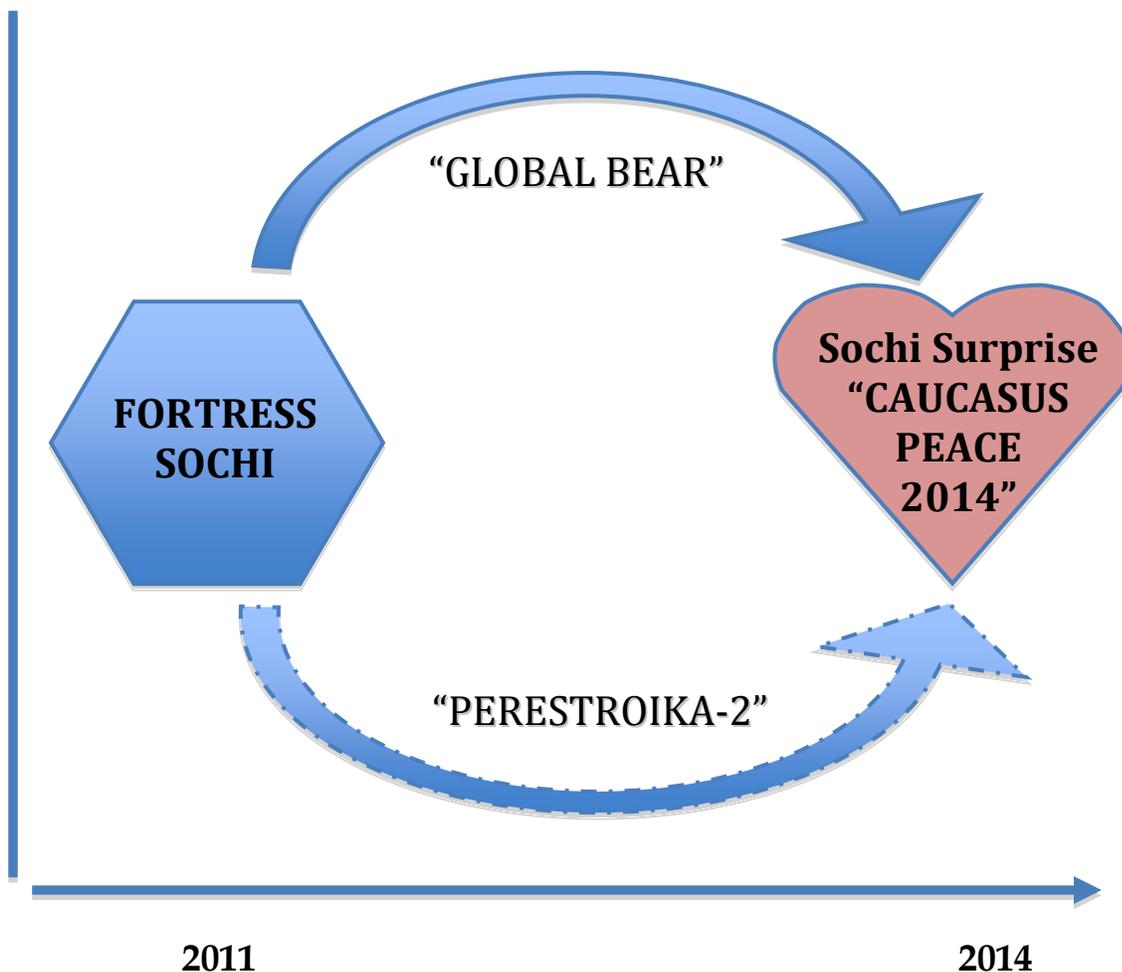
### **Comparing the Scenarios: Likelihoods and Lessons**

Both scenarios are highly unlikely *per se*, but they contain valuable insights concerning Russia's foreign policy drivers. One non-trivial and seemingly counter-intuitive conclusion is that a strong and globally ambitious Russia may be just as – or more – amenable to working out innovative pathbreaking settlements with Georgia and the North Caucasus' ethnic leaders than a weak and vulnerable Russia. Perhaps more importantly, however, this examination helps tease out indicators of Russia's policy changes in the Caucasus and beyond. As we have seen, some indicators – such as oil price – change in one direction (they increase) in the Global Bear scenario and in the opposite direction (they decline) in the Perestroika-2 scenario. Such indicators are thus likely to be indeterminate, because regardless of how they change, the outcome (Sochi Surprise) remains the same. Indicators that stay constant in both scenarios are more likely to predict changes because they matter regardless of other factors. Specifically:

- Energy price is less indicative of change and price volatility is more indicative of change than they appear.
- The U.S. economic position may be less indicative than one would assume.

- The lingering traumas and insecurities of the Soviet collapse and its aftermath in the Yeltsin era are important.
- Elite understanding that Putin’s public support is now decoupled from views on the Chechen wars is likely to be a strong indicator.
- Hawkish reputational capital – such as Putin’s – among the *siloviki* is likely to be necessary for any Russian leader to change policy in the direction of the Sochi Surprise.
- Wariness of China’s rise is a strong putative indicator.
- The emergence of elites seeing globalization and interdependence as a must for Russia emerges as the game changer.

**Figure 1. Russia’s Putative Pathways to the “Caucasus Peace” Scenario for Sochi 2014**



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