

# DOMESTIC POWER RELATIONS AND RUSSIA'S FOREIGN POLICY

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**Abstract:** President Vladimir Putin's domination of Russia's politics, coupled with the apparent stability of the regime, have contributed to the relative neglect of domestic politics in explaining Russia's foreign policy. This article seeks to overcome this lapse and argues that the evolving distribution of political and economic power under the surface of Putin's leadership has been influencing the process and content of Russia's foreign policy-making to a significant extent. The concentration of material resources by a number of domestic actors limited Putin's room for maneuver and his flexibility in the area of foreign policy. The changes in the size and internal composition of Putin's winning coalition have been reflected in shifting patterns in Russia's international behavior. Domestic power struggles led to foreign policy outcomes inconsistent with the Kremlin's strategic designs. These effects are unpacked by investigating the case of Russia's policy toward Asia and its two most outstanding features: the rise of Sinocentrism and the failure to diversify energy exports to the Asian market.

*The link between domestic politics and how foreign policy aims are prioritized and put into operation is crucial, but it is perhaps the most difficult factor in the equation to analyze.<sup>1</sup>*

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<sup>1</sup> Derek Averre. 2008. "Russian Foreign Policy and the Global Political Environment." *Problems of Post-Communism* 55: 5: 33.

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The current Russian regime has been in place for nearly fifteen years, having survived occasional challenges at the ballot box, in the streets, and even a temporary succession in the presidential seat. President Vladimir Putin has secured his domination over the political scene by enforcing a “power vertical,” curtailing the autonomy of state institutions, and imposing the “virtualization” of public politics. This concentration of domestic power was initially acclaimed as leading to a centralization of foreign policy-making, which replaced the turmoil characteristic of Boris Yeltsin’s period in power. Initially, it was Putin who effectively shaped Russia’s international behavior.<sup>2</sup>

Putin’s dominance has not, however, removed pluralism and competition from Russian politics. Following Putin’s first term, a process of contestation governed by informal rules re-emerged in the factional arena, which has prevailed over public politics.<sup>3</sup> Constant bargaining among domestic actors over political influence, economic assets, and control over the means of violence has become a durable feature of the Putin era. Although these power struggles have not jeopardized either the system as a whole, or the position of Putin as the leader, they have limited the scope of Putin’s authority and the coherence of state policies.<sup>4</sup>

There has been little consensus among scholars regarding the extent to which domestic politics have influenced Russia’s foreign policy. Some see Moscow’s international behavior as isolated from the intensity of domestic political struggles. Others view foreign policy in utter disarray because of the nature of the political system in which it has been embedded. Interpretations located in-between these two positions have attributed a certain degree of influence to interest groups, bureaucratic structures and informal coalitions, such as the *siloviki* (a Russian term for politicians from the security and military services), but in general the key role of the Kremlin and the autonomy of Putin in foreign affairs have been acknowledged.

This article proposes to reconstruct the evolution of Russian politics by focusing on domestic power relations: shifting coalitions, changes in Putin’s entourage, and struggles for political influence and economic assets. Russia’s advance toward a non-democratic political system has marginalized the role of both general elections and autonomous institutions. Domestic power relations have emerged as the most intrinsic feature

<sup>2</sup> Bobo Lo. 2003. *Vladimir Putin and the Evolution of Russian Foreign Policy*. Oxford: Blackwell, 4.

<sup>3</sup> Richard Sakwa. 2011. *The Crisis of Russian Democracy. The Dual State, Factionalism and the Medvedev Succession*. Cambridge and New York: Cambridge University Press.

<sup>4</sup> Vadim Kononenko and Arkady Moshes, eds. 2011. *Russia as a Network State. What Works in Russia When State Institutions Do Not?* Basingstoke and New York: Palgrave Macmillan; Alena V Ledeneva. 2013. *Can Russia Modernise? Sistema, Power Networks and Informal Governance*. New York: Cambridge University Press.

of internal arrangements. Such an approach allows for tracing the role of domestic politics in Russia's foreign policy in a systematic way.

This article argues – by analyzing how domestic politics influenced Russia's policy towards Asia – that the evolution of domestic power relations has influenced changing patterns of Russia's international behavior. The growth of Putin's winning coalition has broadened the scope of Russia's international preferences. The domestic balance of power and power struggles within Putin's regime have shaped the implementation process, as a result of which the outcomes have significantly differed from the Kremlin's objectives. This approach enables us to relate political dynamics under the surface of Putin's leadership to the formation, content, and evolution of Russia's foreign policy.

In order to explain the role of domestic power relations in Russia's foreign policy, it is important to place this factor against the backdrop of developments taking place in the international system. The role of American primacy and the unipolar balance of power should not be disregarded. Russia's foreign policy is situated within this context. External power shifts force Russia to respond and to adjust. Russian policy is in many instances a direct and explicit response to the particular policy moves of other actors, the U.S., the EU and China in particular.

The article begins by discussing the existing domestic political explanations of Russia's foreign policy. The next section introduces the concept of domestic power relations and reconstructs the evolution of selected aspects of Russian domestic politics during the period of Putin's rule. Subsequently, I analyze the influence of domestic politics on Russia's foreign policy in Asia against the backdrop of external factors. The final section discusses the role of domestic politics in Russia's international behavior and addresses wider implications of the research.

### **What Place for Domestic Politics in Russia's Foreign Policy?**

Domestic factors constituted an important element in the explanations of Soviet foreign policy.<sup>5</sup> The influence of domestic politics on the Russian Federation's foreign policy in the 1990s was also widely acknowledged. Analysts, in particular, underscored Yeltsin's bargaining with the parliament and political opponents as well as struggles for power inside his "court." These various conflicts blocked efforts to articulate a coherent vision of Russia's national interests and translate them into an effective policy.<sup>6</sup> As

<sup>5</sup> Seweryn Bialer. 1981. "Soviet Foreign Policy: Sources, Perceptions, Trends," in *The Domestic Context of Soviet Foreign Policy*, ed. Seweryn Bialer, Boulder, CO: Westview Press.

<sup>6</sup> Samuel Charap. 2007. "Inside Out: Domestic Political Change and Foreign Policy in Vladimir Putin's First Term." *Demokratizatsiya* 15: 3; Bobo Lo. 2002. *Russian Foreign Policy in the Post-Soviet Era: Reality, Illusion, and Mythmaking*. Houndmills, Basingstoke; Hampshire, NY: Palgrave Macmillan; Celeste A. Wallander, ed. 1996. *The Sources of Russian*

a consequence, in the 1990s domestic politics was simultaneously a source of Russia's international behavior and a constraint on it.

Following Putin's ascendance to power, the place of domestic politics in the landscape of Russia's foreign policy-making changed substantially. During his first term, Putin managed to gain effective control over foreign policy. This change grew out of two parallel processes: the strengthening of the Russian state and its autonomy in relation to other domestic actors, and the centralization of political power in the Kremlin. Analysts saw Putin as successful in isolating foreign policy from domestic politics. The dominant interpretation of that period is best illustrated by the following quotation:

Moscow's conduct of external affairs is more centralized, coordinated and professional than at any time in the recent past (...) the Russian government speaks with one voice (...) the apparent logical inconsistencies (...) are the product of deliberate policy rather than of bureaucratic chaos and infighting.<sup>7</sup>

Another interpretation downplaying the role of domestic politics in Russia's international behavior focused on long-term domestic and international structural changes, visible already in the 1990s. According to this approach, the consensus on Russia's international objectives – the preservation of its status as a global, independent power and the maintenance of the post-Soviet sphere of influence – had emerged even before Putin's arrival. From this perspective, domestic politics played a minor role. The following quotation represents this strand of thinking:

The frequently assertive, narrowly self-interested foreign policy that has characterized Russia during the Putin-Medvedev years is the culmination of a process that began over a decade earlier, during the presidency of Boris Yeltsin, at a moment when the bulk of the Russian elite came to recognize that integration with the West and its institutions was neither possible nor desirable, at least in the short-to-medium term.<sup>8</sup>

Developments, taking place in Russia's political system since the mid-2000s, have reinvigorated the debate on the role of domestic politics in foreign policy and several major interpretations have emerged. According

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*Foreign Policy after the Cold War*, Boulder, Colo: Westview.

<sup>7</sup> Lo, *Vladimir Putin and the Evolution...*, 4.

<sup>8</sup> Jeffrey Mankoff. 2012. *Russian Foreign Policy: The Return of Great Power Politics*. Second ed., Lanham, MD: Rowman & Littlefield, 5.

to proponents of the view that Putin wields a great deal of autonomy in the realm of foreign policy, the Russian leader has managed to insulate foreign policy from internal political conflict and to balance the contradictory interests of the particular factions that make up the regime.<sup>9</sup> The 2014 annexation of Crimea and the “silent intervention” in Ukraine seemed to confirm Putin’s leadership in the formation of Russia’s foreign policy.

An alternative view emphasized the growing potential of interest groups to promote their parochial preferences. The merger of political and economic power – captured by the notion of the “Kremlin, Inc.” – has made the pursuit of profit one of the key drivers of Russia’s foreign policy. Foreign policy goals have become more diversified and often driven by the economic interests of the ruling elite, according to this perspective. Groups and individuals fighting for power within the Kremlin gained the potential to influence the foreign policy-making process.<sup>10</sup> These actors included big business, the energy sector, state-owned enterprises, the military and the security services. Their preferences were relatively well-defined and even with the increase in state control, they managed to retain the ability to act as powerful veto players, keeping their parochial interests intact. One of the most conspicuous examples was the lobbying activity of the uncompetitive state behemoths, which preferred to block Russia’s economic integration with the rest of the world and opposed World Trade Organization (WTO) membership. Overall, they rejected the key rules of the Western-led liberal international order.

Another current in the literature explored divisions within the Russian elite. It suggested that changes among informal coalitions with competing foreign policy orientations resulted in the shifting patterns of Russia’s international behavior.<sup>11</sup> The *siloviki*, who became more influential in Putin’s second term, played the most prominent role, gaining dominance over other factions and prompting Russia to adopt a more anti-Western and assertive foreign policy.<sup>12</sup> Although their efforts concentrated on particularistic competition for wealth and power, they shared an anti-Western and Eurasianist mentality. During Medvedev’s presidency, factions of liberals

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<sup>9</sup> Ibid. 58; Sakwa. *The Crisis of Russian Democracy*, 139.

<sup>10</sup> Robert H. Donaldson and Joseph L. Noguee. 2009. *The Foreign Policy of Russia: Changing Systems, Enduring Interests*. 4th ed. Armonk, NY: M.E. Sharpe, 108-109; Dmitri Trenin and Bobo Lo. 2005. *The Landscape of Russian Foreign Policy Decision-Making*. Moscow: Moscow Carnegie Center, 16-17.

<sup>11</sup> Andrei P. Tsygankov. 2013. *Russia's Foreign Policy: Change and Continuity in National Identity*. Third edition ed., Lanham, MD; Oxford: Rowman & Littlefield.

<sup>12</sup> Ian Bremmer and Samuel Charap. 2006. “The *Siloviki* in Putin’s Russia: Who They Are and What They Want” *The Washington Quarterly* 30: 1; Bettina Renz. 2006. “Putin’s Militocracy? An Alternative Interpretation of *Siloviki* in Contemporary Russian Politics.” *Europe-Asia Studies* 58: 6; Jorgen Staun. 2007. “Siloviki Versus Liberal-Technocrats: The Fight for Russia and Its Foreign Policy,” *DIIS Report*, Copenhagen: Danish Institute for International Studies.

and modernizers balanced the influence of the *siloviki*, thus making foreign policy more benign and cooperative, according to this perspective.

Observers who approached Putin's Russia from a "network state" perspective interpreted foreign policy as almost entirely determined by domestic politics. From this point of view, public (state) and private interests were enmeshed, leading to a contradictory and reactive foreign policy, rather than a coherent grand strategy.<sup>13</sup> Kononenko provides an illustrative summary of this perspective:

Russia's internal politics is realized through establishing the 'state-private partnership' ventures and state corporations (...) Such policy-making advances the interests of domestic power groups and networks, both at home and abroad, while adhering to the rhetoric of 'national interest' and a 'strong state.'<sup>14</sup>

Finally, part of the literature honed in on changes in the domestic system to explain an evolving foreign policy. Moscow's growing international assertiveness, often referred to as revisionism and neo-imperialism, reflected the evolution of Russia's political system toward authoritarianism and a rent-based economy.<sup>15</sup> The need to protect the regime from any challengers led to an increase of anti-Westernism in foreign policy and the application of "counter-revolutionary" tactics in the post-Soviet space. Foreign policy served Vladimir Putin as a way to prevent elite defection and provided a focal point for elite unity. Since the mid-2000s, the Kremlin regularly evoked images of Russia as a "besieged fortress" with the goal of extending the ruling elite's domestic powers. Thus, increased assertiveness and great-power positioning became the major legitimizing practice of Putin regime.<sup>16</sup>

As this cursory literature review demonstrates, observers drew disparate conclusions largely due to their selective engagement with different elements of domestic politics. What remained missing is the overall picture

<sup>13</sup> Stefanie Ortmann. 2011. "The Russian Network State as a Great Power," in *Russia as a Network State. What Works in Russia When State Institutions Do Not?*, ed. Vadim Kononenko and Arkady Moshes, Basingstoke and New York: Palgrave Macmillan: 162.

<sup>14</sup> Vadim Kononenko, "Introduction," in *Russia as a Network State...*: 7.

<sup>15</sup> Luke Chambers. 2010. "Authoritarianism and Foreign Policy: The Twin Pillars of Resurgent Russia" *Caucasian Review of International Affairs* 4: 2; Samuel A. Greene. 2012. "How Much Can Russia Really Change? The Durability of Networked Authoritarianism," *PONARS Policy Memo*, Washington: CSIS; Lilia Shevtsova. 2009. *The Medvedev Presidency: Russia's Directions and Implications for Foreign Policy*. James A. Baker III Institute for Public Policy, Rice University.

<sup>16</sup> Andrew Monaghan. 2008. "'An Enemy at the Gates' or 'from Victory to Victory'?" *Russian Foreign Policy*. *International Affairs* 84: 4.

of the role played by domestic politics in driving Russia's international behavior and the implementation of its foreign policy. To fill this gap, it is necessary to start with the reconstruction of Russian domestic politics and its evolution.

### **Re-constructing Domestic Politics in Putin's Russia: Domestic Power Relations**

The Russian Federation's political system since the mid-1990s has been of a dualistic nature. There existed two arenas with two different sets of rules: a public one, governed by formal institutions and fundamental constitutional laws, and a factional one, controlled by informal rules and the "administrative regime."<sup>17</sup> Upon taking office, Vladimir Putin attempted to transcend this duality by establishing his personal authority and control in the form of a power vertical (*vertikal vlasti*). This phrase encapsulated the top-down nature of the political process, the "rebuilding" of the Russian state, and the concentration of power in the Kremlin.

Putin's political construction turned out to be relatively stable, surviving generally intact for more than a decade, throughout the presidential succession, the period of the Putin-Medvedev tandem, and the subsequent "job-swap" that returned Putin to the Kremlin. The regime proved to be resilient to the opposition during a few rounds of competitive (though neither free nor fair) elections and two rounds of mass-scale political protests (in 2005-2006 and 2011-2012). State institutions, deprived of their autonomy, were successfully subordinated to the regime. The political system achieved a sort of equilibrium located at an indeterminate point between democracy and authoritarianism.<sup>18</sup>

On the other hand, the very existence of the power vertical and the range of Putin's authority were widely questioned by scholars and commentators.<sup>19</sup> The so-called strengthening of the Russian state was said to be accompanied by its simultaneous weakening. The state disaggregated into numerous "verticals," turning into a conglomerate of actors directly or indirectly using state power to advance their parochial goals.<sup>20</sup> Domestic power became divided among particular actors, who competed for political

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<sup>17</sup> Sakwa. *The Crisis of Russian Democracy...*

<sup>18</sup> Laura Petrone. 2011. "Institutionalizing Pluralism in Russia: A New Authoritarianism?" *Journal of Communist Studies and Transition Politics* 27: 2; David White. 2012. "Re-Conceptualizing Russian Party Politics" *East European Politics* 28: 3.

<sup>19</sup> Marie Mendras. 2012. *Russian Politics. The Paradox of a Weak State*. London: Hurst and Company; Andrew Monaghan. 2012. "The *Vertikal*: Power and Authority in Russia" *International Affairs* 88: 1.

<sup>20</sup> Ottorino Cappelli. 2008. "Pre-Modern State-Building in Post-Soviet Russia" *Journal of Communist Studies and Transition Politics* 24: 4: 554-556; Nicolai Petrov. 2011. "Obiliye Slabogo Gosudarstva" *Pro et Contra* 15: 5: 52-53.

influence and economic assets.<sup>21</sup>

As a result, Putin did not manage to retain his monopoly on power nor did a dominant party regime emerge. Russian domestic politics metamorphosed into a pluralist arrangement. Importantly, however, this pluralism remains limited to actors with concentrated political and economic resources, and thus can be termed the “pluralism of the powerful.”

### *The Centrality of Domestic Power Relations*

To explain the workings of Russian politics under Putin, scholars have come up with a number of interpretations – the administrative regime, Politburo 2.0, the clan system, the network state, *sistema*, the neo-feudal state – which focus exclusively on domestic politics and their direct application to the study of Russia’s foreign policy proves to be difficult. To bridge the gap between the domestic and international realms, this article proposes to reconstruct Russian politics through the lens of domestic power relations. Such a focus makes it possible to account for the pluralist distribution of power among the multiplicity of domestic actors and for the polymorphous nature of the Russian polity, in which neither the state nor society are autonomous and cohesive entities. This analytical entry point allows for embracing the complexity of domestic politics and for tracing its role in Russia’s international behavior.

The first challenge is to distinguish relevant domestic actors participating in domestic power struggles. These actors – hereafter termed “power-holders” – are individuals and corporate entities endowed with material resources, which give them some level of control over the state’s means of violence as well as the political, administrative, and economic spheres. Individuals include both those controlling resources due to their position within Putin’s regime (e.g., Igor Sechin, Sergei Ivanov), and those owning resources in the private sector (Oleg Deripaska, Gennady Timchenko). The category of corporate entities covers political parties (United Russia), state institutions (Investigative Committee, FSB, armed forces), state-owned enterprises (Gazprom, Rosatom), and private big business (RusAl, LUKoil). Power-holders are assumed to be, on average, rational in the pursuit of political influence and control over economic assets. Consequently, their specific interests and preferences are defined first and foremost by the material resources at their disposal rather than by their particular identities.

The second challenge concerns the arrangements among

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<sup>21</sup> Jakub Godzimirski. 2010. “Strategic Decision-Making in Russian Energy Sector. The Case of Nord Stream”, *Working Paper*, NUPI: 6; Yevgenii Minchenko and Kirill Petrov. 2012. *Bol'shoye Pravitel'stvo Vladimira Putina i "Politbiuro 2.0"*. Moscow: Minchenko Consulting: 3.

power-holders. The most important criterion is considered to be their relationship to the leader. From this perspective power-holders are divided into four groups: the inner circle, the winning coalition, veto players, and the opposition.

The inner circle is a specific group, as it is composed only of individuals whose access to resources depends exclusively on the leader. These power-holders directly shape state policies. Their spheres of influence ("turfs") are determined not by official positions, but by specific privileges, such as: control over personnel, nominations, and financial flows, access to economic rents, control over institutions, and access to the leader. The turfs constitute the object of constant in-fighting and bargaining among the members of this group.

The three remaining groups are composed of power-holders whose resources do not depend directly on the leader and who, as a consequence, retain greater autonomy in their behavior on the domestic scene. The winning coalition gathers the supporters of Putin and the ruling regime. These power-holders remain subordinated to the regime and their interests are promoted in return. Veto players are neutral towards the regime. They have, however, enough power to block policies which would directly affect their narrowly defined interests. As a consequence these interests are respected by the regime. The opposition is composed of those power-holders who strive to overthrow the regime. Thus, the regime either neglects their interests or acts against them.

The third challenge relates to the evolution of domestic power relations. The circle of power-holders is prone to changes. New actors can be empowered, while the existing power-holders can be deprived of resources. Power-holders may change their attitude toward the leader, moving from one group to another. The relative balance among power-holders forming a particular group evolves along the lines of competition for political and economic resources. Finally, interactions between the inner circle and the winning coalition shift. Table 1 summarizes the theoretical concept of domestic power relations.

### *The Evolution of Domestic Power Relations in Putin's Russia*

Having been chosen as Yeltsin's successor, Putin faced a highly disadvantageous domestic distribution of power, which Archie Brown characterized as "a weak president, powerful interests."<sup>22</sup> The winning coalition was small and deeply divided, veto players dominated and the opposition stood a real chance of gaining power. At that time Putin had no inner circle, since virtually no power-holders were dependent on him.

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<sup>22</sup> Archie Brown. 2001. "Vladimir Putin and the Reaffirmation of Central State Power." *Post-Soviet Affairs* 17: 1.

**Table 1: Domestic Power Relations**

<b>Power-holders</b>			
Individuals		Corporate entities	
<b>Groups of power holders</b>			
Inner circle	Winning coalition	Veto players	Opposition
Individuals tasked with controlling the most important state policies	Individuals and corporate entities subordinate to the regime and support it	Individuals and corporate entities neutral towards the regime	Individuals and corporate entities opposing the regime
<b>Evolution of domestic power relations</b>			
Empowerment of new power-holders or disempowerment of the existing power-holders	Changes in the composition of particular groups of power-holders	Competition and bargaining for specific resources among power-holders	

During his first term, President Putin effectively re-shaped domestic power relations. He reduced the number of power-holders, broadened the winning coalition, and created an inner circle.

Selected oligarchs, governors, regional political and economic actors, opposition political parties, and the media lost access to the resources they had once controlled.<sup>23</sup> Putin established the United Russia party to serve as the main tool of control over key political institutions. The leader paid attention to power-holders with political, administrative and security-related resources and offered them economic incentives to support him. The winning coalition comprised the state bureaucracy, security services and law-enforcement agencies, and the military and the military-industrial complex.<sup>24</sup> Power-holders with economic resources were left beyond the winning coalition, Gazprom and Rosoboronexport being the exceptions.<sup>25</sup> Putin laid the foundation for his inner circle, empowering

<sup>23</sup> Vladimir Gel'man, "Leviathan's Return. The Policy of Recentralization in Contemporary Russia," in *Federalism and Local Politics in Russia*, ed. Cameron Ross and Adrian Campbell. London: Routledge, 2009; Staun, "Siloviki Versus Liberal-Technocrats: The Fight for Russia and Its Foreign Policy," 17-19.

<sup>24</sup> Tor Bukkvoll. 2003. "Putin's Strategic Partnership with the West: The Domestic Politics of Russian Foreign Policy," *Comparative Strategy* 22; Brian D. Taylor. 2011. *State Building in Putin's Russia: Policing and Coercion after Communism*, Cambridge: Cambridge University Press.

<sup>25</sup> Sakwa. *The Crisis of Russian Democracy...*, 97-99.

selected individuals with the supervision of particular state policies; the most prominent of these individuals were: Igor Sechin, Dmitri Medvedev, Sergei Ivanov, and Vladislav Surkov. The oligarchs were warned not to engage in politics, which in practice relegated them to the position of veto players.<sup>26</sup> The outright opposition was represented by the right-wing political parties Yabloko and the Union of Right Forces (SPS), and by Mikhail Khodorkovsky, the owner of Yukos. The attack against Khodorkovsky, launched towards the end of Putin's first term, marked a new phase in the evolution of domestic power relations, which is summarized in Table 2.<sup>27</sup>

**Table 2. Domestic Power Relations, End of Putin's First Term (2003)**

<b>Inner circle</b>	<b>Winning coalition</b>
Limited to several individuals	Power-holders with political, administrative and security-related resources
<b>Veto players</b>	<b>Opposition</b>
Power-holders with economic resources	Limited (Mikhail Khodorkovsky and Yukos; right-wing parties)

The most important developments after 2003 encompassed the increase in the number of new power-holders, the broad inclusion of economic power-holders into the winning coalition and the strengthening of the inner circle.

Economic power-holders joined the winning coalition in different ways. Coalitional power-holders were strengthened to the detriment of the veto players or the opposition. The most illustrative were the cases of Rosneft' taking over Yuganskneftegaz, Yukos's main asset, and Gazprom taking over the oil concern Sibneft.<sup>28</sup> New corporate entities were created and empowered with economic resources under the aegis of the need to strengthen the Russian state. The creation of seven state corporations (*goskorporatsii*) was the most extreme example of this trend.<sup>29</sup> Another

<sup>26</sup> Ibid. 99.

<sup>27</sup> Richard Sakwa. 2009. *The Quality of Freedom: Khodorkovsky, Putin, and the Yukos Affair*. Oxford; New York: Oxford University Press.

<sup>28</sup> Other examples include the take-overs of such corporate entities as Sual, VSMPO-Avisma, Avtovaz or SilMash. See: Greene, "How Much Can Russia Really Change? The Durability of Networked Authoritarianism."; Simon Pirani. 2010. *Change in Putin's Russia: Power, Money and People*. London: Pluto Press.

<sup>29</sup> Among these state corporations were: Rostekhnologii, Rosnano, Vneshekonombank, Vneshtorgbank and Rosatom. Even the partial privatization of the electric energy sector, which

way was the *de facto* privatization of state assets by handing them over to non-state power-holders, usually people closely associated with Putin. Simultaneously, Putin's inner circle gained strength with the empowerment of old members, such as Finance Minister Alexei Kudrin, and new individuals, such as Defense Minister Anatolii Serdyukov. These power-holders obtained control of state policies as well as the state's economic assets.<sup>30</sup> Some of the inner circle members had broad but imprecisely defined spheres of influence which led to competition among them.<sup>31</sup> Others were given "sectoral" responsibilities.<sup>32</sup> The control over specific assets resulted in closer ties between members of the inner circle and particular corporate power-holders composing the winning coalition.<sup>33</sup>

**Table 3. Domestic Power Relations at the End of Putin's Second Term (2008)**

<b>Inner circle</b>	<b>Winning coalition</b>
Broad, with individuals exercising political and economic control	Comprising both political-administrative-security and economic power-holders
<b>Veto players</b>	<b>Opposition</b>
disempowered or coerced into the winning coalition, almost completely eliminated	Lacking power-holders with concentrated resources

Towards the end of Putin's second term, power struggles within the winning coalition and the inner circle became the center of gravity for Russian domestic politics.<sup>34</sup> The composition of the winning coalition became more complex as power-holders with political, administrative and

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led to the dismembering of the state monopoly RAO UES, resulted in the creation of a new state-owned power-holder – Inter RAO.

<sup>30</sup> They have been termed "silovarchs" (Treisman), "mega-managers" (Shevtsova) or "internal oligarchs" (Bunin).

<sup>31</sup> These were: Dmitri Medvedev (domestic politics), Igor Sechin (energy policy, partially industrial policy), Sergei Ivanov (defence and security matters, partially industrial policy), Vladislav Surkov (domestic politics), Sergei Chemezov (defence and security, industry), Nikolai Patrushev (internal security).

<sup>32</sup> E.g. Vladimir Yakunin (Russian Railways) or Anatolii Serdyukov (defence and military reform).

<sup>33</sup> Pirani. *Change in Putin's Russia...*; Sakwa. *The Crisis of Russian Democracy...*

<sup>34</sup> Following the sentence for Khodorkovsky and the failure of the 2005-2006 protests, the opposition was composed of actors with dispersed resources. Potentially threatening power-holders either lost in the Kremlin-engineered 2007 Duma elections (Yabloko, SPS) or were effectively disempowered (e.g. Rodina nationalist party).

security-related resources were balanced by those with economic resources. The role of the inner circle grew as its members increased their political influence and control over particular sectors of the Russian economy. Veto players, meanwhile, ceased to exert any meaningful influence, having been either disempowered or coerced into the winning coalition. The opposition lacked power-holders and remained in disarray.<sup>35</sup> Table 3 illustrates the trends and changes in domestic power relations towards the end of Putin's second presidential term.

The subsequent period of the "tandem" – which started in 2008 with Dmitri Medvedev's presidency and Putin's prime-ministership – was characterized by contradictory trends in the evolution of domestic politics. On the one hand, Medvedev promoted political and economic steps aimed at weakening certain power-holders in order to limit the "pluralism of the powerful" and to broaden the leadership's room for maneuver. The apparent liberalization of the political system,<sup>36</sup> coupled with the modernization and privatization agenda, were to reduce the number of political, administrative and economic power-holders. On the other hand, the struggles over economic assets within the winning coalition and the inner circle intensified. Certain members of the winning coalition (e.g. oligarchs Gennady Timchenko, the Rotenberg brothers and the Kovalchuk brothers), were significantly strengthened at the expense of other coalition members, such as Gazprom, or by transferring state property to them.<sup>37</sup> The rise of Putin's close personal allies suggests that the regime was pursuing a kind of "insurance policy," in case the "old" power-holders decided to switch sides and leave the winning coalition. Conversely, the economic crisis reinforced the state power-holders with respect to their counterparts in the private sector because private businesses weakened by the crisis depended on state loans to survive.<sup>38</sup> The inner circle became even more internally divided. Sechin, who aspired to control the energy sector, and Sergei Chemezov who supervised the Rostekhnologii state corporation, were among the most aggressive in expanding their turfs. Power struggles focused on battles within the winning coalition and the inner circle. The internal balance of power in both groups evolved but their composition remained basically unchanged. Neither veto players nor the opposition managed to capitalize on Medvedev's agenda in any durable way. Table 4 illustrates the configuration of domestic power relations at the end of the "tandem" period.

<sup>35</sup> One of the few exceptions included the oil concern TNK-BP.

<sup>36</sup> Gordon M. Hahn. 2010. "Medvedev, Putin, and Perestroika 2.0" *Demokratizatsiya* 18: 3.

<sup>37</sup> Pirani. *Change in Putin's Russia...*

<sup>38</sup> The state-owned banks supported private big business with loans, which enabled them to withstand the demands of Western lenders. In exchange, the state actors received shares of particular businesses, e.g. VneshEkonombank helped Norilsk Nickel and received 25 percent of its shares in return. See: Nikita Krichevskii. 2009. *Postpikalevskaya Rossiya: Novaya Politiko-Ekonomicheskaya Realnost'*. Moskva.

**Table 4. Domestic Power Relations, End of the Tandem Period (2011)**

<b>Inner circle</b>	<b>Winning coalition</b>
Broadened and divided internally	Torn apart by fighting over economic assets
<b>Veto players</b>	<b>Opposition</b>
Remains limited in numbers	Still unable to consolidate resources

Putin's third term, which *de facto* started with the September 2011 announcement that he would return to the presidency, has so far led to two key developments: the serious weakening of the inner circle and the strengthening of selected members of the winning coalition.

Putin re-arranged his entourage, disempowering over the course of two years several key power-holders: Kudrin, Serdyukov and Surkov. Despite being nominated prime minister, Medvedev also was seriously weakened. These moves broadened Putin's autonomy and diminished the overall importance of the inner circle. At the same time, Sechin rose to the position of key power-holder within this group. Concerning the winning coalition, the internal balance of power also shifted. Rosneft, having taken over TNK-BP, removed one of the last veto players with economic resources and grew into the single most powerful economic power-holder. Its links with Sechin turned out to be key to Rosneft's success in the high-level power struggles. Among the security-related actors, the Investigative Committee grew stronger. Relations between the inner circle and the winning coalition have remained tense. While Sechin gradually increased his control over the energy sector, the dismissal of Serdyukov allowed the military to regain part of its influence and autonomy. The general weakening of Putin's popular legitimacy and some discontent among the elites following his return to the presidency did not lead to any meaningful reshuffling among the winning coalition, veto players and the opposition. Particular power-holders preferred to secure their positions within the winning coalition rather than to risk openly challenging Putin. The protest movement which emerged in the wake of the Duma 2011 elections did not transform into a political power-holder.<sup>39</sup> A schematic representation of domestic power relations after two years of Putin's third term is presented in Table 5.

This reconstruction of domestic power relations allows for distinguishing several stages in the evolution of Russian domestic politics. The first period (2000-2003) was marked by the decrease in the number of pow-

<sup>39</sup> Only Alexei Navalny has prospects to become an opposition power-holder.

**Table 5. Domestic Power Relations after the Two Years of Putin's Third Term (2013)**

<b>Inner circle</b>	<b>Winning coalition</b>
Reduced membership	Strengthening of selected power-holders
<b>Veto players</b>	<b>Opposition</b>
Very few	Alexei Navalny but corporate entities are still absent

er-holders and the creation of the winning coalition, which was dominated by power-holders with political, administrative and security-related resources. The majority of power-holders with economic resources found themselves in the position of veto players. During the second phase (2003-2008), both the circle of power-holders and the winning coalition increased significantly. Individuals from the inner circle, empowered politically in the first period, gained control over economic assets. The group of veto players was effectively disempowered, while the opposition was unable to concentrate resources. As a result, the center of power struggles gradually moved toward bargaining within the winning coalition and the inner circle. These power struggles intensified in the third period (2008-2011), when they were accompanied by the leadership's ineffective attempts to limit the number of power-holders. The last phase (since 2011) has been marked by the serious weakening of the inner circle and continuous infighting within the winning coalition, which has led to the substantial strengthening of selected power-holders without changes in the general composition of the group.

### **Domestic Power Relations and Russia's Policy towards Asia**

This section of the article discusses two aspects of Russia's foreign policy: the process of preference formation and the implementation phase. In analyzing the influence of domestic power relations on these two stages of foreign policy-making, this discussion focuses on Russia's international behavior in the Asia-Pacific region. I chose to analyze this aspect of Russian foreign policy for two reasons. First, the Kremlin's strategic concepts toward the Asia-Pacific region have been relatively well defined. Second, the importance of Asia for Russia's identity is not as large as in the case of Europe, the U.S. or the post-Soviet space. Hence, Russian preferences and interests are expected to be shaped primarily by a rational cost-benefit analysis and the assessment of external power shifts.

*Preference formation and domestic power relations*

Preference formation is an on-going process of defining a state's ultimate goals, i.e., what a state actually wants, in the international realm against the backdrop of changes in the domestic and external environments.<sup>40</sup> In the beginning of Putin's rule, in the early-2000s, Russia's goal in Asia was to regain the position of an independent player. Between 2000 and 2001, Moscow strengthened its co-operation with China, re-engaged India, made an attempt to mend fences with Japan and rebuilt ties with the Soviet-era allies, Vietnam and North Korea.<sup>41</sup> Two key external factors – unipolarity and American predominance – played a fundamental role in shaping Russia's preferences at that time.<sup>42</sup> A diversified presence in Asia was expected to make Russian foreign policy less Western-centric, to improve Moscow's bargaining position towards the West, and to balance U.S. influence. Russia concluded a bilateral treaty on co-operation with China and both states coordinated their stances on a number of international issues, e.g., U.S. missile defense policy.<sup>43</sup> Along with Central Asian states, Russia and China established the Shanghai Co-operation Organization. "Strategic partnerships" with India and Vietnam were proclaimed. In this period, the economic importance of Asia for Russia was limited. Arms sales, especially to China and India, stood out as the major element of Russian trade with the region. Russian elites had only just begun to debate the concept of oil and gas exports to the Asian market.

Shifts in Russia's external environment led to changes in Russia's foreign policy preferences. Russia's geopolitical focus towards Asia reversed abruptly after the 9/11 attacks. Seizing the opportunity to substantially improve relations with the U.S. and the EU, Russia pushed co-operation with Asian states to the backstage. The importance of the "strategic partnership" with China diminished.<sup>44</sup>

The domestic political context in the early 2000s was marked by the decrease in the number of power-holders and the gradual build-up of Putin's winning coalition. Actors who could have been able to pursue independent agendas in the international realm – such as regional authorities – were disempowered. As a consequence, Putin gained unprecedented control over foreign policy. Moreover, the specific composition of the winning coalition and the absence of the inner circle reinforced Putin's

<sup>40</sup> Derek Beach. 2012. *Analyzing Foreign Policy*. Basingstoke: Palgrave Macmillan.

<sup>41</sup> See: Donaldson and Noguee. *The Foreign Policy of Russia...*; Natasha Kuhrt. 2007. *Russian Policy Towards China and Japan: The El'tsin and Putin Periods*. London and New York: Routledge; Mankoff. *Russian Foreign Policy...*

<sup>42</sup> Tsygankov. *Russia's Foreign Policy...*, 133-135.

<sup>43</sup> Bobo Lo. 2008. *Axis of convenience : Moscow, Beijing, and the new geopolitics*. London; Washington, D.C.: Chatham House; Brookings Institution Press, 41-43.

<sup>44</sup> *Ibid.*, 93-97.

ability to promote his own vision of Russia's Asian policy and allowed him to introduce significant changes. The best example was the post-9/11 turn away from China, which did not meet with any serious domestic opposition. The security services and law-enforcement agencies, which formed the core of the winning coalition at that time, were among the most suspicious towards Beijing's intentions. They strived to curtail the scope of Chinese activities and to curb Chinese migration, in particular in the Russian Far East. Conversely, the attempts to restore Soviet-era ties and the expansion of arms exports to China, India and Vietnam matched the interests of other founding members of the coalition, namely the military-industrial complex.

As of 2003, Russia's goals in Asia were increasingly framed in terms of energy policy. That year the Russian government adopted a landmark document defining its energy strategy through 2020.<sup>45</sup> According to the document, by 2020 the share of natural resources exported to Asia was to reach 30 percent of Russian exports in the case of oil and 25 percent in the case of gas. Conversely, Khodorkovsky, then the owner of Russia's largest private oil company, Yukos, put forward a proposal to construct an oil pipeline from Siberia to China. Khodorkovsky opted for economic rapprochement with Beijing, seeing China as the major customer for Russian oil. The aim to diversify Russian oil and gas exports by creating new routes leading to the Asian market, has remained a constant element of Russia's preferences in Asia since 2003.<sup>46</sup>

Moscow regarded the diversification of oil and gas exports to Asia as a useful instrument in its relations with the European states, its major customers. The prospects of redirecting an important part of Russia's oil and gas exports to Asia were supposed to facilitate Russia's negotiations with the Europeans. There were, however, changes in domestic power relations, which defined the ultimate shape of energy goals in Asia. Following the arrest of Khodorkovsky (2003) and the dismembering of Yukos (2004), the idea of building a pipeline exclusively to China was rejected and Russia chose to supply several Asian customers rather than just China. The Kremlin's strategy encompassed a dual diversification: away from Europe towards Asia and *within* Asia. This move was expected to improve Russia's bargaining position in the region, by inciting Sino-Japanese rivalry for the exploration of resources and for export routes.<sup>47</sup> Making energy the cornerstone of Russia's policy towards Asia dovetailed with the direction in

<sup>45</sup> President of Russia. 2003. "Energeticheskaya strategiya Rossii na period do 2020 goda." Moskva.

<sup>46</sup> Keun-Wook Paik. 2012. *Sino-Russian oil and gas cooperation. The Reality and Implications*. Oxford: Oxford University Press; Nina Poussenkova. 2013. "Russia's Eastern Energy Policy: A Chinese Puzzle for Rosneft", *Russie.Nei.Visions*, Paris: IFRI.

<sup>47</sup> Paik, *Sino-Russian oil...*: 282.

which domestic power relations evolved in the mid-2000s. The relevance of actors with economic resources in the winning coalition significantly increased. The energy component of Russia's Asian policy became vital to the growing number of power-holders forming the winning coalition and Putin's inner circle.

The mid-2000s also brought far-reaching shifts in Russia's geopolitical environment, which influenced Moscow's preferences in Asia. Relations with the West gradually worsened, while the "color revolutions" in the post-Soviet space challenged Russia's regional primacy. Under these circumstances, co-operation with China gained increasing relevance for the Kremlin. Simultaneously, Russia attempted to hedge against possible negative consequences from China's rise. Moscow reinforced ties with India, made another attempt to reconcile itself with Japan and embarked upon closer co-operation with ASEAN states. Moscow aspired to use rapprochement with China to improve its own position towards the West, but struggled not to become dependent on Beijing.

Domestically, the interests of the winning coalition members with economic resources became intertwined with China's continued economic growth. These links strengthened the rationale for closer co-operation. Power-holders with security-related resources, such as the military, remained ambiguous with regard to China. The Russian military perceived its Chinese counterpart both as a counter-balance towards the U.S. and as a potential threat.<sup>48</sup>

The 2008-2009 global economic crisis further altered Russia's foreign policy preferences. The Kremlin proclaimed its "turn to Asia." Russia's new overarching goal became to establish a multi-vector and multi-dimensional presence in the region rather than to lean solely on China. Russia aspired to become a fully-fledged participant in the Asian political and economic order. Achieving this status would allow for further strengthening co-operation with China, without falling into dependence.<sup>49</sup> The turn to Asia coincided with the improvement in Russian-American relations known as the "reset." This evolution was another external factor, which broadened Russia's room for maneuver in relations with China.

In addition to external factors, the shifts in domestic power relations taking place in the late-2000s were also conducive to the turn to Asia. The prospects of entering the Asian market offered new economic opportunities to the members of the winning coalition. Importantly, domestic factors

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<sup>48</sup> Stephen Blank, ed. 2010. "Russia's Prospects in Asia." Carlisle, PA: Strategic Studies Institute; Stephen Blank. 2013. "Russian Military Policy in Asia: A Study in Paradox." In RUFBS Briefing. Stockholm: FOI.

<sup>49</sup> Natasha Kuhrt. 2012. "The Russian Far East in Russia's Asia Policy: Dual Integration or Double Periphery?" *Europe-Asia Studies* 64: 3; Tsygankov. *Russia's Foreign Policy...*, 195-196.

contributed to the interpretation of China's rise in terms of opportunity rather than a threat. The most active and unambiguous proponents of close cooperation with China were those members of the winning coalition, who had economic and energy resources. From their perspective, China offered opportunities to broaden the scope of their influence. This trend was reinforced by the changing balance of power within Putin's inner circle, especially the growing position of Sechin in the sphere of energy.<sup>50</sup>

The 2014 Ukrainian crisis and the subsequent tensions with the Western states it evoked have only reinforced the idea of the turn to Asia. The Kremlin regarded Russia's political and economic presence in the East as a way to avoid isolation and dilute the costs of possible Western economic sanctions. Moscow has opted for a multi-vector policy towards Asia, but the relative importance of China in this regard increased, given its rising political and economic power as well as growing tensions in the relationship with the U.S.

#### *Implementation process and domestic power relations*

The implementation process provides a kind of "reality check" on a state's preferences.<sup>51</sup> Two aspects of Russia's policy towards Asia have explicitly contradicted the preferences presented above: the growing reliance on China at the expense of other Asian states and the failure to diversify energy exports in the Eastern direction.

The aspiration to avoid dependence on China by developing close relations with a number of key Asian actors has been a constant thread in Russia's policy preferences in Asia since the early 2000s. Even if the Kremlin has not interpreted China's rise in terms of a threat, it has nevertheless strived to hedge against it. The implementation of the strategic concept of the turn to Asia rather than just to China has turned out to be difficult, however. The balance sheet of Moscow's relations with Japan, Vietnam, the Korean states and India demonstrates that Russia's Asian policy has remained dominated by (if not subordinated to) relations with China.

Russia's policy towards Japan waxed and waned.<sup>52</sup> By the end of the 2000s, the mood in the Kremlin was becoming increasingly anti-Japanese, mostly due to Tokyo's implacable position on the territorial dispute over the Kuril Islands. This policy, which dovetailed with China's increasing assertiveness towards Japan, proved to be short-lived.<sup>53</sup> Following the

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<sup>50</sup> Poussenkova, "Russia's Eastern Energy Policy...."

<sup>51</sup> Beach, *Analyzing Foreign Policy*.

<sup>52</sup> For a more elaborate exposition of Russian-Japanese relations, see Natasha Kuhrt. 2007. *Russian policy towards China and Japan: the El'tsin and Putin periods*. London and New York: Routledge.

<sup>53</sup> Fiona Hill, *Gang of Two*, November 27, 2013; Hiroki Sugita, *Russia ties deepening over*

2011 tsunami catastrophe, Russia offered Japan the broadening of energy co-operation. Putin's return to the presidency in 2012 coincided with the reinstatement of Shinzo Abe as the prime minister of Japan, which provided additional impetus for rapprochement. Political contacts between Moscow and Tokyo thrived, including several meetings between both leaders and the 2013 visit of the Japanese prime minister to Russia, the first in a decade. In the same year, the foreign and defense ministers conducted consultations in the "2+2" format. This detente was occurring against the backdrop of Sino-Japanese brinkmanship in the East China Sea. However, the annexation of Crimea and the 2014 Ukrainian crisis slowed down the pace of Russian-Japanese co-operation. The U.S.-Japan alliance has put severe constraints on Moscow's and Tokyo's flexibility.

Russia has pursued a much more consistent policy towards Vietnam. Bilateral co-operation was reinvigorated in the late 2000s. Moscow increased the supply of advanced weaponry and intensified bilateral energy ties. In 2013, Russia and Vietnam opened negotiations on a free trade area with the Russian-led Customs Union. At the same time, Moscow suffered several setbacks in its relations with Hanoi as well. Vietnam did not agree to the return of Russia's navy to the naval base in Cam Ranh. Although Russia's policy bolstered Vietnam vis-à-vis China, it did not prevent the escalation of Sino-Vietnamese tensions in the South China Sea in 2014. Russia kept a neutral stance in the dispute.

Russia's political engagement with two other important actors in East Asia – the Korean states – has remained inconsistent. The episodes of increased interest on Moscow's part were separated by long periods of inactivity. Russia failed to regain the influence it had once enjoyed in North Korea, despite offering a series of incentives. It restructured Pyongyang's Soviet-era debts, promised to build a gas pipeline and managed to open a railway link, the first step towards creating the Asia-Europe transport corridor.<sup>54</sup> Reaching out to South Korea, Moscow presented these initiatives (a gas pipeline and a transport corridor) as both economically beneficial for South Korea and politically stabilizing the situation in the Peninsula.<sup>55</sup> However, none of these concepts has been implemented so far.

In the case of India, the arms trade was the most acute symbol of this country's place in Russia's foreign policy landscape. Russia used to sell its most advanced weaponry to India while denying similar equipment to China. This pattern persisted till the early-2010s, when serious obstacles

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energy, security, *The Japan Times*, January 15, 2014.

<sup>54</sup> Zachary Keck, "To Hedge Its Bets, Russia Is Encircling China," *The Diplomat*, November 5, 2013; *Linking Russia and North Korea is part of a Putin plan to avoid the Suez Canal*, Reuters, October 17, 2013.

<sup>55</sup> Viacheslav B. Amirov, 2010. "Russia's posture in and policy towards Northeast Asia." In *Russia's Prospects in Asia*, ed. Stephen Blank. Carlisle, PA: Strategic Studies Institute. 1-28.

emerged. The American-Indian quasi-alignment was viewed by Moscow with growing suspicion. The Russian military-industrial complex started losing its privileged position in the Indian arms market, mostly due to the insufficient quality of its products. Russian arms producers lost several important tenders and Russia's reputation as an arms supplier for the Indian armed forces has also deteriorated. The delivery of an aircraft carrier was postponed several times and its price doubled over a decade. Both states continue to co-operate on the construction of a 5<sup>th</sup> generation fighter, but implementation has been slow. Stripped of the arms trade, Russian-Indian relations will become an empty shell. There are no joint economic projects or investments, including the limited access of India to Russia's energy resources. Moreover, the expected Russian-Chinese agreement on the sale of the Su-35 fighters – a more advanced type of aircraft than that operated by India – is marking the end of India's privileged position in the Russian worldview.

The balance sheet of the implementation of Russia's concepts to diversify its policy in Asia remains ambiguous. The majority of projects which would form the basis for Russia's co-operation with Asian states remain on paper; meanwhile, Russian-Chinese collaboration increases. The idea to avoid dependence on China, which has been an important driver of Russia's policy in Asia, has not been implemented so far. The failures to make the turn to Asia a reality can be ascribed to external and internal factors. Russian-Japanese reconciliation lost momentum mostly because of the 2014 Ukrainian crisis. Tensions with the U.S. limit Moscow's room for maneuver in East Asia. Domestically, the diversification of political and economic ties in Asia does not contradict the interests of dominant power-holders. It must be admitted, however, that both the members of Putin's inner circle and the winning coalition have relatively little to gain from co-operation with East Asian states and have not pushed it forward. Prospective benefits from collaboration with China overwhelm possible gains from co-operation with other East Asian states.

The realm of energy exports is the sphere in which the discrepancy between Russia's foreign policy preferences and their implementation is the largest. Diversification of oil and gas exports (in terms of routes and customers) has underpinned Russia's approach since the early 2000s. The first setback for the Russian strategy came in 2008, when Moscow decided that it could no longer expect to provoke a Sino-Japanese "race" for Siberian oil. The economic crisis, which hit Russia in the second half of 2008, altered the calculations of both the Kremlin and the key Russian energy companies, which – like Rosneft – found themselves needing to repay foreign loans. Rosneft was in a particularly difficult situation, having no easy access to credit and coping with a US\$21 billion debt, a substantial

part of which (US\$ 13 billion) was scheduled for repayment by mid-2009.<sup>56</sup> Pressed by financial needs and unable to gain support from other potential Asian customers – Japan in particular – Moscow re-adjusted its energy policy toward China. In October 2008, details of the East Siberia-Pacific Ocean (ESPO) pipeline's branch to China were agreed and the construction of the pipeline along the route Skovorodino-Daqing won the green light. A few months later, in February 2009, Rosneft and Transneft signed a contract with the China National Petroleum Corporation (CNPC). Russian companies committed to deliver 300 million tons of oil, worth US\$100 billion, over a period of twenty years, starting in 2011. In return, the Chinese side credited Rosneft and Transneft with loans of US\$15 and 10 billion, respectively. Russian commentators expressed serious doubts about whether Russia would actually profit from the contract.<sup>57</sup>

The ESPO pipeline was a crucial element of Russia's entry into the Asian energy market and the diversification of its oil exports away from Europe. Although its inauguration suggested that Russia indeed had managed to diversify oil export in the Asian market,<sup>58</sup> further developments have changed the ultimate outcome of Russia's policy. Initially, the ESPO pipeline did not bind Russia exclusively to China. The latter was to receive only half of the pipeline's oil in the first stage and a little more than one-third in the second stage.

The situation changed in 2013. Difficulties in the Sino-Russian energy trade, especially disputes over oil prices and volumes, did not discourage Rosneft from looking to extend co-operation with China. In 2013 the second breakthrough in Russian-Chinese oil trade was achieved. Rosneft signed a series of new multi-billion dollar contracts with Chinese companies; affirmed its readiness to send an additional 10 million tons of oil to China via the Kazakhstani pipeline;<sup>59</sup> signed a contract which doubled the amount of oil to be sent to China via the ESPO by 2018;<sup>60</sup> and struck a deal with Sinopec on deliveries of 10 million tons of oil for the period of the next ten years, worth US\$85 billion.<sup>61</sup> Taken together, the contracts have tripled the amount of oil to be sent to China. By 2020, Russia may be expected to supply 56 million tons of oil (i.e. more than 1.1 million barrels per day). It means that about 75 percent of Russian oil exported to Asia

<sup>56</sup> Poussenkova, "Russia's Eastern Energy Policy...."

<sup>57</sup> Paik, *Sino-Russian oil...*: 338-339; Poussenkova, "Russia's Eastern Energy Policy...."

<sup>58</sup> The first phase of the ESPO pipeline was inaugurated in December 2009. Deliveries of oil from the ESPO to China began in early 2011, amounting to 15 million tons per year.

<sup>59</sup> "Rosneft' podtekayet v Kitai," *Kommersant*, 9 January 2013.

<sup>60</sup> Rosneft and CNPC signed a contract on deliveries of 15 million tons (300 thousand bpd) for 25 years, worth up to US\$ 270 billion. Chen Aizhu, Melissa Akin, *Russia to ship China 46 mln T oil total in future –CNPC*, Reuters, June 24, 2013; Georgy Bovt, *Rosneft's Chinese Oil Card*, June 24, 2013.

<sup>61</sup> Denis Dymokin, *Russia grabs China oil and gas export deals*, Reuters, October 22, 2013.

will reach no other state but China.

With the construction of the ESPO, the Kremlin avoided favoring China and appeared to have maintained room for maneuver, without falling into dependence on a single customer. Later practices have undermined this approach, effectively contradicting Russia's policy preferences. The implementation of energy policy has turned out to be detached from broader strategic planning. The major culprits of the shift to China have been Rosneft and its "trustee" in Putin's inner circle, Sechin. Rosneft needed additional capital to finalize the takeover of TNK-BP, the cost of which was estimated at US\$45 billion.<sup>62</sup> In 2014, Rosneft started obtaining prepayments. The oil sector is controlled by Sechin and he was the one who decided to "put all of Russia's eggs into the Chinese basket." Co-operation with China strengthened Sechin's position in Russia's political economy, making him one of the most vigorous proponents of close energy ties with the Middle Kingdom. Unlike in 2008-2009, in 2013 external factors played a minimal role.

The dynamic sphere of oil exports stood in stark contrast with almost non-existent gas exports, which lasted until May 2014. Russia's ambitious plans to reach the Asian gas market included new LNG facilities in the Russian Far East, two gas pipelines to China, and the trans-Korean gas pipeline. All of these plans required the development of new gas fields in Eastern Siberia, funded by foreign investors. Despite numerous memorandums signed between Russia and China between 2006 and 2013, the gas contract was still missing. The interplay of external and domestic factors was behind these recurrent failures.

For Russia, gas talks with China were first and foremost a way of putting pressure on the European Union, its most important customer. From the mid-2000s, Gazprom attempted to convince the European companies to renew long-term gas contracts and to prevent the anti-monopolist regulation of the EU gas market from being applied.<sup>63</sup> The planned Altai gas pipeline to China was to be supplied from the West Siberian gas fields, i.e. the very source of deliveries to Europe. By demonstrating its ability to "switch sides," Russia sought concessions from the EU. China, for its part, felt no pressure to close talks with Russia, as it had secured access to alternative gas sources in the late 2000s.

The configuration of domestic power relations in Russia was not conducive to finalizing gas talks with China, either. Gazprom, being one of

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<sup>62</sup> In early 2013 Rosneft allegedly started talks on a new loans-for-oil agreement, attempting to secure as much as US\$25 billion for the take-over of TNK-BP. Melissa Akin and Olesya Astakhova, *Russia regulator says BP deal may be Rosneft's last*, Reuters, October 23, 2012; Dmitry Zhdannikov and Vladimir Soldatkin, *Exclusive: Russia plans \$25-\$30 billion oil-for-loans deal with China*, Reuters, February 13, 2013.

<sup>63</sup> Paik, *Sino-Russian oil...*, p. 361.

the most powerful corporate power-holders in Russia, was at the same time subject to attacks, undertaken by its smaller counterparts. Its privileged position rested on its monopoly control over gas export. Potential competitors – independent gas companies such as Novatek and oil enterprises producing gas such as Rosneft – united in their efforts against Gazprom. For almost a decade, Gazprom fought to take over the license to develop the Kovykta gas field, which was to supply the Chinese market, from TNK-BP, which was a veto player in that respect. Finally, while Rosneft had its promoter in the inner circle (Sechin), Gazprom as a corporate actor lacked a similar backer. To the contrary, numerous players strived to broaden their turfs at the expense of Gazprom.

The stalemate in Russia's plans to export gas to the Asian market was overcome as a result of interlinked domestic and international processes in the early 2010s. The continuing absence of tangible progress in negotiations between Gazprom and CNPC prompted other Russian and Chinese energy players to engage in talks. This additional engagement resulted in the opening of several new options for gas co-operation. In 2013, Chinese companies were allowed to enter Russia's LNG sector. CNPC acquired a 20 percent share in the Yamal LNG project, operated by the Russian independent gas producer, Novatek, along with the French energy company Total.<sup>64</sup> Two Russian LNG producers – Novatek and Rosneft – protected by individuals from Putin's power circle, Timchenko and Sechin respectively, successfully undermined Gazprom's export monopoly. In 2013 both companies gained the right to export LNG independently from Gazprom.

The other factor which influenced Russia's energy policy in the East was the 2014 Ukrainian crisis and subsequent tensions in Russian-Western relations. During his visit to China in May 2014, Putin struggled to show that the West had not isolated or weakened Russia. He managed to bring Gazprom in line and finally signed the repeatedly postponed gas contract. A 30-year contract between Gazprom and CNPC envisions deliveries of 38 bcm per annum, along the so-called eastern route, starting in 2018. Again, observers questioned whether Russia would profit from the project, assessing the deal as political rather than commercial. For fierce opposition critics, like Boris Nemtsov, Russia was de facto subsidizing China's economy, continuing the practice set by the 2009 oil contract.<sup>65</sup> Moreover, unlike the ESPO oil pipeline, a gas pipeline will supply China exclusively.

The opening of the LNG partnership with China and the 2014 gas

<sup>64</sup> Ilya Arkhipov, Jake Rudnitsky, *CNPC to Join Novatek's Yamal LNG Project With 20% Stake*, Reuters, June 21, 2013; Katya Golubkova, *Russia's Novatek gets China LNG backing, export reforms eyed*, Reuters, September 10, 2013; Denis Dyomkin, *Russia grabs China oil and gas export deals*, Reuters, October 22, 2013.

<sup>65</sup> Mikhail Krutikhin, *Arithmetic, an Enemy of Gazprom*, Natural Gas Europe, June 11, 2014; Boris Nemtsov, "Kitaiskii kontrakt: voprosy i fakty," May 29, 2014, <http://echo.msk.ru/blog/milov/1330024-echo/> (accessed June 25, 2014).

deal paved the way for more robust co-operation with China and further reduced incentives for reaching out to other Asian customers. Japan and South Korea have acquired gas from Russia's first LNG facility in Sakhalin since 2009. However, given the scope of planned gas exports to China, the relevance of the Sakhalin exports is going to decrease. Japan's investment in another planned LNG facility in Vladivostok remains uncertain.<sup>66</sup> The gas contract makes the implementation of other projects, such as the previously envisioned gas pipeline to the Korean states, almost impossible. Gazprom's investment and attention will be focused on China. Moreover, Russia returned to the idea of constructing a western gas pipeline (Altai). If such a deal is concluded – which is doubtful – it will only increase China's share in Russian gas exports to Asia.

### **Conclusions – Re-evaluating the Role of Domestic Politics in Russia's Foreign Policy**

Following Putin's return to the Kremlin in 2012, Russian scholars argued that domestic factors once again started to play an important role in how Russia's foreign policy is formed.<sup>67</sup> Such observers expected that in the long-term perspective foreign policy would be subject to internal competition between interest groups, although it is widely believed to have remained in the hands of Putin and the bureaucratic apparatus so far.<sup>68</sup> This article demonstrated that domestic politics has continued to influence Russia's foreign policy for the last decade and the evolution of domestic power relations has been reflected in Russia's international behavior.

This analysis of Russia's policy towards Asia explores how the interplay of external and domestic factors shaped Russia's foreign policy preferences and the process of their implementation. Power shifts in the international system prompted Russia to diversify its policy away from the West and toward the East, culminating in the "turn to Asia," i.e., a broad engagement with multiple regional states. Domestic power relations, in turn, contributed to the interpretation of China's rise in terms of an opportunity rather than of a threat for Russia, thus weakening the incentives for a multi-vector policy in Asia and focusing Russian relations on China.

<sup>66</sup> The first step to implement this idea was the 2012 Russian-Japanese agreement on the delivery of gas from a planned Gazprom LNG facility in Vladivostok. Its production would make it possible to provide Japan with 10 million tons of liquefied gas, i.e. 14 bcm of natural gas, by 2020.

<sup>67</sup> Tatiana Romanova. 2012. "O Neoklassicheskom Realizme i Sovremennoi Rossii." *Rossiia v globalnoi politike* 11: 3; Vinogradov. 2012. "Vzglyad Za Okolitsu." *Rossiia v globalnoi politike* 11: 3; Dmitrii Yefremenko. 2011. "Posle Duumvirata: Vneshnaya Politika Moskvyy." *Rossiia v globalnoi politike*; Dmitrii Yefremenko. 2012. "V Ozhidanii Shtormovykh Poryvov." *Rossiia v globalnoi politike* 11: 2.

<sup>68</sup> Dmitri Trenin. 2013. "Chetvertyi Vektor Vladimira Putina." *Rossiia v globalnoi politike*: Mai/June.

The case of Russia's oil and gas exports to Asia exposes the growing role of domestic power relations in the implementation of the energy component of Russia's foreign policy. Particular power-holders turned out to be capable of altering Russia's diversification strategy. Regardless of state-level policy preferences, individual and corporate power-holders, Sechin and Rosneft in particular, were able to change overarching strategic plans. They redefined the shape of Russia's energy presence in Asia.

This analysis illustrates the ebb and flow of the influence exerted by domestic politics on Russia's international behavior. Putin's leadership and the continuity of his regime notwithstanding, Russia's foreign policy is not isolated from domestic politics. On the contrary, foreign policy remains deeply embedded in domestic arrangements. The shifts in the domestic political realm are reflected in the evolution of foreign policy. A focus on domestic power relations makes it possible to explain how and when domestic politics influenced Russia's international behavior and makes possible a re-assessment of existing interpretations.

The features of domestic power relations that have mattered most include: the number of power-holders, arrangements among power-holders, the size and composition of the winning coalition and the inner circle, as well as the balance of power within the two latter groups. The number of power-holders and the arrangements among particular groups (i.e. inner circle, winning coalition, veto players, and opposition) shaped Putin's room for maneuver and his flexibility in foreign policy. The larger the circle of power-holders, the more entangled the leader was. The dominant winning coalition turned out to be an indispensable tool for gaining effective control over foreign policy, but its greater size limited Putin's freedom of action. The need to take into account and to actively promote various interests of the winning coalition's members directly influenced Russia's preferences on the international field. The process of interpretation and adjustment to international change was filtered through the preferences of the winning coalition and its members. The emergence of Putin's inner circle made the situation even more complex. The necessity to constantly reconcile the increasingly conflicting interests of powerful members of the inner circle also reduced Putin's tactical maneuverability.

With the exception of Putin's first term, "non-democratic pluralism" has been steadily growing throughout the period of Putin's rule. The winning coalition and the inner circle became the most crucial components of Russia's internal distribution of power. The influence of domestic power relations on Russia's foreign policy was, therefore, shaped mostly by the internal arrangements within these two groups. Developments inside the regime and among its supporters turned out to be more important for foreign policy-making than the relationship between the regime and its opponents. The size and composition of the winning coalition influenced

the process of tailoring means to ends and actively shaped the process of implementation as well as final outcomes of particular policies. It was the outcomes of power struggles which shaped foreign policy. The coherence between the interests and preferences of the power-holders from the inner circle and particular members of the winning coalition increased the ability of domestic actors to pursue their own visions of foreign policy.

The analysis of the role of domestic power relations enables a re-assessment of domestic political explanations that have until now been dominant in the literature. Neither the increase in authoritarianism nor temporary political thaws defined the direction of Russia's foreign policy. These general changes in Russian internal arrangements set the context for domestic politics rather than directly shaping Moscow's international behavior. The influence of particular interest groups depended on their relations with other actors, particularly those comprising the inner circle. In the case of informal coalitions, such as the *siloviki*, conflicting material interests won out over a shared mentality. It was the empowerment of new actors with economic resources that contributed to their growing influence over foreign policy rather than the mere presence of *siloviki* in Putin's winning coalition.

This article demonstrates that although domestic politics has not determined Russia's foreign policy, it does nevertheless remain an indispensable element in explaining Moscow's behavior internationally. The weight of domestic political factors does, however, vary according to changing internal arrangements. Preferences tend to be related to the size and composition of the winning coalition and the relative strength of the inner circle and its members. Domestic actors are capable of altering final outcomes in the process of policy implementation in such a way that they reflect their own parochial interests. As a consequence, future changes in Russia's foreign policy may be expected to result from shifts in both external factors and domestic power relations.

