

**PRESS CONFERENCE WITH CARNEGIE MOSCOW CENTER EXPERTS ON  
THE SUBJECT: "RUSSIA AND GLOBAL POLICY" MARRIOTT AURORA  
HOTEL, 16:10, APRIL 21, 2004**

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Mathews: Ladies and gentlemen, I think we will begin. I thank you all for coming. My name is Jessica Mathews. I  
am President of the Carnegie Endowment for International Peace in Washington DC. With me are three of my  
colleagues.

I am going to just make a few introductory remarks and then they are going to speak in each of their areas of  
specialty in Russian. So you only have to listen to one of us speaking English. And then I will be -- we will all be  
happy to answer questions on the material we have covered as well as on Iraq which an area where I particularly  
focused my own personal research, as you wish.

To begin, let me say that we are here in Moscow with the members of the Carnegie Board of Trustees, and our  
Chairman James Gaither is also with us today, to celebrate what is for us a terribly important milestone, and I  
think an important one for Russia as well, which is the 10th anniversary of the founding of the Carnegie Moscow  
Center. The Center is unique. It is unique as a Russian-American collaboration. It began as largely an American  
effort but today we have 42 people here in Moscow and only one of them is an American. The rest are Russian.

It is unique in terms of amount of money, resources, the length of the commitment that the Endowment has made,  
and the public profile and an impact of our work together. I think that all of you as journalists know how often the  
scholars at the Moscow Center are called on by your colleagues, by yourself and your colleagues, to understand  
the breaking news. In that respect the Moscow Center has been really extraordinary.

We have produced now in the years here about a hundred books and many many more studies, policy briefs,  
papers on a range of issues of importance to the post-Soviet Russia on migration, on relations with Islamic  
population, on economic reform, on foreign and security policy, both with respect to the United States, Russian  
relations with Europe, Russian relations with the Far East, and a whole range -- and the development of Russian  
civil society, on issues addressing corruption and the rule of law, and the development of the rule of law, and on  
the development of institutions of democracy in Russia.

As a part of the celebration of the ten years here, we have produced a volume I think you have copies: "Russia the  
Next Ten Years". Every author in this book is either a present or former member of the Carnegie Moscow staff or  
the Carnegie Russian staff in Washington. When you look at the authors and their prestige in their own fields, you  
have a sense of how successful the Moscow Center has been.

The last word I am going to say is that this is not just a looking back, this meeting for us. It is very much a  
looking forward. And that's why the title here is "Russia the Next Ten Years". And a good part of the work that  
we will be doing here in Moscow in the next several days is going to be looking at the research agenda of the  
Carnegie Moscow Center over the next decade in the present political environment.

Let me stop here and turn to my colleagues Lilia Shevtsova, who I am sure you know, a senior associate at the  
Center, and Dmitri Trenin, Deputy Director of the Center, and my colleague in Washington, Anders Aslund, who

directs the Russian-Eurasia Program in Washington.

As I said, they will all speak in Russian and then four of us will be available to answer your questions.

Shevtsova: Anders Aslund is acting very wisely because he knows that usually I begin with pessimistic assessments and he has an opportunity to add a little bit of optimism. But I am ready to meet Anders' challenge.

So, I would like to comment on some of our Russian problems. My comments to a certain measure have been inspired by the London economic forum. I returned yesterday night. So, having looked at the forum, I felt as though I was present at a congress of the Soviet Communist Party in pre-Gorbachev times. Russian oligarchs, Russian politicians, Western politicians and Western analysts united there emotionally, in euphoria, when they proclaimed the victory of economic reform in Russia and made optimistic forecasts concerning Russia's future: we will soon overcome poverty to level with European nations and will powerfully and persistently move ahead.

The oligarchs who addressed the forum, in particular those who brought Faberge eggs back to Russia, promised to be socially responsible and promised not to encourage corruption and even combat corruption among bureaucrats. Naturally, a question arises as to in what way they are going to combat corruption. Maybe they have decided not to give bribes? But on the whole, I got the impression of absolute optimism, an apotheosis of optimism. You know, one could get the impression that they were talking not about this Russia, but some virtual Russia, as though they discussed Russia of, say, 3005, rather than 2004.

One gets the impression that this kind of optimism means that their perception of Russian reality is not too adequate or even worse. This boundless optimism could also mean a trap where Russia may find itself, along with the Western analytical community.

And the trap is the following: we do not understand the developments in Russia adequately and soberly and perhaps we have been oversimplifying the problems Russia faces. Anyway, if there really is inadequacy, our sobering up will be very severe and rough and disappointment awaits us.

I would briefly list the main challenges faced by Russia, at least in the political and system spheres. Even though there seems to be absolute tranquility today, even though there seems to be conciliation in the political arena, there are problems which have just been suspended or frozen, but sooner or later they will emerge again and we do not have solutions to offer.

The first problem is the problem of Russian stability, which has been regarded by many as our achievement. But it is stability of adaptation and survival, rather than stability of development. Society is stable, because it fears that worse things may happen. This can be seen from the results of opinion polls.

The second aspect is that economic growth in Russia is really very surprising. I am sure Anders will speak about economic growth. But what kind of economic growth is it? What are its sources? In my opinion, it is economic growth without development. That is, it is a vicious circle.

The third problem: Yes, the president has concentrated all power in his hands and one gets the feeling that there is a well-adjusted presidential pyramid. But, by the way, we forget limiters of presidential power which do exist and could be even weightier. First and foremost it is bureaucracy which has managed to consolidate. Therefore, what we have rather looks like a sort of omnipotent powerless power. And I cannot totally rule out the possibility that Putin, if he really want to proceed with reform, will have to clash with his own regime. We would see an interesting situation then: Putin versus Putin, Putin versus the regime. Certainly, if he thinks about his mission.

And there is yet another problem and challenge, if we speak about Russia's future. This challenge concerns life according to customs, as Boris Berezovsky described it, rather than according to rules. Living according to customs does not mean living in line with the law. It is rather life in line with deals and compromises made in the shadow. Take a merger of the authorities and business -- this is an example of life based on customs.

The challenges I have listed make me doubt that our economic liberalism could further successfully develop, if the air has been released from politics.

And the last thing. There is a certain drama in the current situation. The drama is that even if President Putin comes to realize all the obstacles and limiters, he will inevitably face during his second term of office, can a man who has created, formed a bureaucratic authoritarian regime, can this man decide to dismantle it? This has never happened in history. Anyway, Gorbachev started dismantling what other people had built.

And the second part of the intrigue, even more dramatic. Reform has never been accomplished in conditions of stability and tranquility anywhere in the world. Therefore, one should wait for crises. And the Russian elite, leadership, our community have to answer the following question: are we going to wait for crises? Are we going to try to avoid them as crises always mean turning the chessboard over? If we manage to avoid them, when should we start thinking about system reform? When, who with, in what way? All those questions remain unanswered for the time being. Thank you.

Now Anders will perhaps speak about economic liberalism.

Mathews: Anders Aslund is well known to many of you here. He began his career as a Swedish diplomat. He is a distinguished economist who is the author of several books in particular on the course of post-Soviet economic reform both in Russia and in all of the post-Soviet states in Central and Eastern Europe. And as I said, in addition, he directs the Russia-Eurasia program at the Carnegie Endowment in Washington.

Aslund: I am pleased today to mark the tenth foundation anniversary of the Moscow Carnegie Center, and be here in Moscow. I started learning Russian more than 30 years ago. I worked as a Swedish diplomat here 20 years ago. And in the early 1990s I worked as an economic aide to Gaidar. Incidentally we were on the same flight yesterday, from London. We particularly discussed his statement that economic liberalism has won in Russia. This is obvious. Economic liberalism in Russia today is undisputed. Everyone agrees that this is the case.

As Lilia said, it is like during a Communist Party Congress, everyone agrees that only a liberal market economy can work. This is a big deed accomplished since the start of the 1990s. Why has this happened this way? Yegor Timurovich Gaidar so persistently accomplished price liberalization in the early 1990s. Anatoly Borisovich Chubais so persistently accomplished privatization. We can see today that it is not too important as to how privatization is being carried out, but it is important it is being carried out.

And political support was insufficient then for real financial stabilization to be accomplished before 1998. For many years, until the 1998 crisis, there was vast budget deficit. The state's debt was enormous. What happens then? Financial collapse. Naturally, this leads to devaluation. But the main thing is weak financial policy. After 1998, as we see, accords were reached on economic liberalism, and we can see now that a liberal market economy works here as well as anywhere else in the world.

Economic growth at a rate of 7 percent has continued for five years. I believe that growth will continue. We can see this in market economies in CIS member states. Average growth was around 8 percent a year during the past three years. That means that Russia is slightly behind those countries.

The reason is simple: liberalization, privatization, and financial stabilization. They work. What is known as the Washington consensus or Washington accord works here. But it is important for the future not to make silly things in economic policies, which are possible now that we see liberal authoritarianism and too much concentration of power. Economic growth will then continue at a high rate.

So, what problems do exist? The main problem is the state. What is successful comes from the private sector, what is unsuccessful is linked with the state. I would focus on the law-enforcement system, which does not work properly, not better than before. Maybe they intervene slightly less, but the quality has not improved.

Another thing is education, the third one is health care and the fourth one is all sorts of state monopolies, which

have not worked properly. They are the things that should be reformed now. What should be done to reform them? Through a system of balances. The President certainly can do it himself.

Via energetic mass media outlets which can criticize what has been happening in society. Doing this is not easy. On the other hand, I think that the bulk of the Russian economy, privately owned, works well enough as it is. There is certainly a big question: will there be confiscation of YUKOS's assets? This is not a matter related to Menatep's ownership. And we can see that the Russian trading system was down 10 percent over the past ten days. This happens because investors believe today that it is very likely that YUKOS's assets will be confiscated.

Naturally they are big and important factors. Ownership rights that exist today should be recognized.

I would like to speak about the Carnegie Center, our work here during the past years. Those who worked with us include Mikhail Dmitriyev, who used to be deputy minister of labor and economics, Sergei Vasilyev, who is a senator today, Dmitri Vasilyev, an important man in privatization, Tatyana Maleva and Yevgeny Gavrilenko, now chief economist with Troika Dialog. We feel that we have strongly participated in this victory of economic liberalism here in Russia. Thank you.

Mathews: Thank you, Anders. Our third colleague here is very well known to you. It's Dmitri Trenin who like his two colleagues here has been with the Carnegie Russia program through its whole life, more than a decade, and is deputy director of the Moscow Center and has played an absolutely key role as its lead scholar in the areas of foreign and security policy.

Trenin: Thank you, Jessica, for your kind words. Ladies and gentlemen, there are not too many people here who may recall congresses of the Communist Party. I will tell you what makes this meeting different from Communist Party congresses. They usually started with the international situation and we are ending with it. Actually there is a very big meaning in it. While in the old times, in the era of the CPSU and the Soviet Union, Russia's resources were considered a means of implementing various global projects, now the external environment is considered a means of implementing a project called "Russia". As my colleagues said, and I am fully agree with them on details and particularly one very important detail of Project Russia, there are very serious disagreements within Russia. But that is a topic of a different discussion.

Events in 2003 and at the beginning of this year showed one very banal thing that is often forgotten in practical politics, namely that foreign policy cannot be independent from domestic policy, from what happens inside the country. Many of the problems facing Russia's foreign policy, which did not encounter serious problems in the West before, are connected with events that happened in Russia last year and are continuing to happen this year.

I think it has become clear to everyone that the declared goal of Russia's integration into the world community, if one sticks to it, cannot but call for dramatic transformations in the country -- economic, political, social, a transformation of values and so on. It is impossible to integrate an untransformed country into the world community. If there is no successful foreign policy, no PR methods will help. It is necessary to ensure that what is visible matches the essence.

The policy of President Putin was characterized and is characterized by pragmatism. Many Russians consider pragmatism an unconditional achievement of the last few years in the field of foreign policy. Pragmatism is considered a more serious policy with regard to idealism or some unrealistic projects of the 1980s and the 1990s. But with all its usefulness and relevance, pragmatism is not enough for the success of foreign policy. Pragmatism is just a method, a means, it's not a strategy or a goal. In this respect, Russia is still facing very serious foreign policy problems, and namely what are the benchmarks of Russian foreign policy?

The current policy aims to create a modern great power with a solid economic foundation that carries out an independent foreign and military policy. But what kind of relationship does Russia want to have with Europe and the US? Is it the Europe of the end of the 19th and the beginning of the 20th century, or is it modern Europe? What kind of Europe do we mean when we say that Russia wants to be a part of it? And how do we understand Europe? When we speak about competition with the US, do we mean a game with a zero sum or a more complex

form of interaction? Is it arithmetics or algebra? When we speak about a competitive country, a successful country in conditions of globalization, isn't it some sort of an antithesis to the notion of great power, which reeks of the 19th century?

Apparently a practical policy should combine traditions and innovations. However the ratio of this combination is an important question. At the end of last year Russia and the US were a step away from being drawn into a dangerous confrontation in the Caucasus over Georgia. The post-Soviet space is turning into a field not only for cooperation but even more so for Russian-American competition. And it's a very serious question how this competition is going to be regulated.

There is an obvious gap between general political rhetoric and real military development in the field of security policy. Anyone who has read the Defense Ministry's White Paper, which was published in October of last year, could not fail to notice that. The impression was that two different people wrote it, one wrote one thing and the other wrote a totally different thing. Rhetoric focused on new challenges in the 21st century, but military development was still geared to scenarios of the second half of the 20th century.

President Putin is a skilled downhill skier, he is an excellent skier but one cannot stand forever on the skies that go every which way. And there is no doubt that they are going apart.

And the last thing. Security is still seriously shifted in our mind toward a policy based on force. However, truly serious problems, the most serious security problems are connected with the demographic situation in Russia and particularly the spread of AIDS. Too little has been said about this. I think this has not become a priority task at the state level, I mean the prevention of an epidemic of AIDS and a modern demographic and migration policy.

On the whole foreign policy is still perceived in terms of traditional categories rather than in terms of projects that could bring real benefits in real time. With all the importance of our relationship with the US and Europe, the main challenge to Russia in the 21st century is a challenge -- and the way how Russia responds to it will be critical to its very existence, or rather to what kind of a country Russia will be in the 21st century, a challenge that is facing Russia in the east, in Siberia and the Far East, an that is an insufficient development deficit, if you wish. How to develop these regions and incorporate them into the world community and not to lose Russia? That's a challenge that is facing the Russian government today and will be facing it in the foreseeable future. It's one of the important if not the most important problems. Thank you.

Mathews: Thank you. I hope that you could gather from these comments several of the characteristics that we think mark the Carnegie Moscow Center. First of all, a fierce and unrelenting independence from Russian government views, from American government views, from any political, personal or business interests. This is a key characteristic of the Center that we think makes it unique.

Secondly an international approach to all our analysis. You see here an American, two Russians and a Swede, which's the kind of interaction that we think enriches the work we do. Third that our staff is interdisciplinary. We have political scientists, we have economists, we have former journalists, Masha Lipman, one of our -- one of your former colleagues and one of ours now. And we believe that that also makes for a top product.

And finally, and this is also critical, and I think you can see from these three individuals, top expertise, scientific expertise in each field of work. All three of my colleagues will be speakers at tomorrow's conference "Prospects for Russia". Carnegie has brought together I think an extraordinary collection of speakers of former and current top level government officials, top members of the Russian business community, top scholars from the Russian and American scholarly communities. Among the Americans who will be present include former Secretary of Defense Bill Perry, former Deputy Secretary of State Strobe Talbott -- both of them are Carnegie trustees -- and a former top level American diplomat specializing in Russia, Steve Sestanovich, who is with us this afternoon. Steve, you should raise your hand.

In addition to his service in American government, Steve also served as Vice President of the Carnegie Endowment, directing the Russian and Eurasian work. And he will be available to answer your questions this

afternoon as well. So let me stop there and open the floor to all of you. And as I said, we will be happy to answer your any questions that you might have.

Q: I have a question about the enlargement of NATO -- actually not NATO but the European Union. There are 14 questions that have not been resolved so far. It was promised that they would be resolved before the enlargement on May 1. Has any progress been made on that? Mr. Trenin will you answer this question?

Trenin: Fourteen questions cover a wide range of issues from economy to the Russian non-citizens in the Baltic countries -- in Latvia and Estonia. But I would not like to concentrate on these questions as the main agenda for the Russian-European relations.

There is such a notion in Russia as "the price of an issue", in other words how much the resolution of this set of problems will cost. Estimates differ. But it's going to be several hundred million dollars. Maybe \$300-400 million. It's a big sum of course. But it's not so big to be pivotal for the future of Russian-European relations.

I believe there are much more serious questions between the European Union and Russia. And I am afraid that these questions will remain unanswered for the time being. In my view neither Russia nor the European Union is prepared to look at each other as a resource for itself. In other words, foreign policy that is considered not in terms of traditional bilateral diplomatic or power relations but in terms of modern realities when Russia sees Europe as a resource for its own development and Europe sees Russia also as a resource, for example, for raising its international status and as a possible resource for its development. A new quality of relations in this area is still a long way away from us. That depends on the internal transformation of Russia. Russia as it is today cannot be integrated in a common space with Europe, neither in economic, nor in political, nor in legal terms. But it doesn't follow that Russia will always be what it is today. And Europe is one of the external challenges. Lilia Shevtsova has spoken about internal challenges. But there are also external challenges that also push Russia toward modernization and transformation.

The fact that Europe has expanded to include not only the former COMECON countries, but also the former republics of the Soviet Union is a very serious challenge. When, but not if, living standards in the Baltic countries and in Poland substantially outstripped the living standards in Kaliningrad, it will be a very serious challenge to Russia not only economically speaking.

So, this is one serious problem. Another problem -- and again it is not included in the 14 points -- is a problem for the countries wedged between an expanded EU and the Russian Federation, the problem of the countries which are not yet seen as candidates to join the European Union. Above all, this is Ukraine and also Byelorussia, Moldavia, the Caucasus countries. Here one can see both cooperation and rivalry between Russia and Europe. And we have seen an instance of such rivalry in Moldavia. We can observe such rivalry in Ukraine before and after the elections in Ukraine. There are many serious problems there.

But in my view, the European Union has not yet reached a level when we can say, yes, the European Union will be as it is over the next 10-15 years. The European Union is in great flux and we don't know where it will be in 10-15 years. So, in my opinion, 10-15 years is the time when Russia will have to do its homework, and also the European Union. And then Europe may come to see Russia in a different way and Russia may come to see Europe in a different way.

Q: REN-TV company. I am Darya Stavnikova. I have a question for Mr. Aslund and Mrs. Shevtsova. Regarding the pension reform. Today Mikhail Zurabov will be speaking with the government in his new capacity, he will tell about progress achieved so far and about a new proposal, the market of additional voluntary insurance. At the same time, insurers say that these are "pension pyramids". What is your attitude to the pension reform in Russia and its prospects?

Aslund: Well, I can answer. First, it is important that the pension reform is being implemented. Second, there are very many dubious points in this pension reform. For example, private funds were clearly discriminated against when citizens were allowed to choose only 2 percent could choose private funds. And 55 funds were licensed

when the majority of them were obviously not serious. And there persist two big questions, are people being cheated and are serious private companies prevented from taking part in competition?

But the most important thing is that the pension reform is still going on.

I would like to go back to the questions about the European Union. I think that the relations between Russia and the European Union will be poor for many years because of many reasons. The first reason is that the European Union is hugely protectionist. The Soviet Union in 1989 exported 35 percent of its total export to the 15 present EU members. And the share is the same today. If it were a normal open market economy, it would be about 60 percent. Why? Mainly because Russia is practically unable to export steel and chemical products or can export them in very limited amounts. And the enlarged European Union today buys 50 percent of Russian exports. The European Union may easily ban the export of steel from Russia to these countries. We cannot know it beforehand because Russia is not a member of the WTO, Russia is unable to counteract it. That is why Russia is suspicious that the European Union could do something like this. We have already seen it in the case of grain. Russia exported about 5 million tons of grain to the European Union two years ago. The European Union cut livestock import by 90 percent last year. Russia is absolutely defenseless. But the conclusion this prompts is that Russia should join the WTO as quickly as possible. This is the only way it can defend itself.

And secondly, Russia enjoys a 7-percent annual growth rate. The European Union has less than 2 percent growth a year. And even the so-called new Europe, Central Europe is growing at 3 percent a year, which is not right for such comparatively poor countries. Russia has a far more liberal economy today than the European Union and that is also a problem.

And the third point is visas, an issue touched upon by Dmitri Trenin. I think the relations will be bad over many years. Thank you.

Shevtsova: Mathews, would you like to say something?

Mathews: No.

Shevtsova: To put it in a nutshell, what the state is doing in the field of the pension reform means that the state has been changing the rules of the game over half a year. First the state tried to persuade the population to accept one pension reform, half a year later the state changed the model of the pension reform and that new model affects the destinies of millions of people. What does that prove? It proves that the state is behaving itself like a woman of easy virtue who cannot be trusted. But if society does not trust its state, society has no reason to fulfill its obligations by the state. Moreover, if the state changes the rules of the game on the pension reform, there are no grounds for thinking that it will not change the rules of the game regarding private property, energy tariffs and all the other achievements of the past decade.

Q: BBC, Ilya Arkhipov. Each of you has his own forecast and they differ from one another. That's understandable. The contradictions pointed out by Mrs. Shevtsova, Mr. Trenin and some others -- the Swedish colleague presented a more optimistic forecast for Russia -- still do not cancel the impression that Russian agencies are working at cross purposes. The contradictions that would preclude the optimistic scenario offered by Mr. Anders. Could one imagine a kind of common denominator? And could one give at least a general idea as to whether Russia in ten years' time will remain an authoritarian country but with a more or less liberal economy, or the contradiction between liberal economic development and internal political problems that everybody recognizes, I understand, at least those sitting at this table, will become irreconcilable. And what will be the outcome of such a conflict? Will the shell break in two because of the internal conflict?

Shevtsova: You want all of us to become like Ray Bradbury?

Q: No, no. I understand that forecasting is an ungrateful thing.

Shevtsova: May I start?

Mathews: Let me just offer one thought and then I'll turn to my colleagues. One of the things that I think has surprised most Americans at least in what has happened here since the fall of the Soviet Union is that economic reform and political reform have not gone along the same track and I think many American presumed that liberal market capitalism brought democratic reform along with it inevitably. And we've seen that that's not true here. We've seen it also not true in China and other places of the world.

And the question of the relationship between economic reform and political reform remains one that's at the top of our agenda at Carnegie Endowment worldwide. It is an open question, I think, intellectually and scientifically. What that relationship particularly over the longer term may be? And it's one of the most important issues around today and also in the Middle East, very much so.

So let me turn in the Russian context to my colleagues.

Aslund: I don't think we should try to clarify it. I think you can see three different perspectives here. And the question is which of them is more important. As an economist I say that the economy may be a little bit more important. Lilia, as a political scientist, thinks that political developments are more important. So it's not so obvious that political risks are the greatest risks in the economy today. It's very hard for the state to know what it should do, especially as we have seen in the case of YUKOS. You can see how it affects the RTS index in Russia and financial markets.

Another question is that if this will really affect investment in Russia. We haven't seen anything like that so far. We can also say that the YUKOS case will not create any real threat to the Russian economy. I think this needs to be discussed and I think there must be different views. There is no one position within Carnegie. There is pluralism and there is no such a thing as Carnegie Endowment's view. There are different views of the Carnegie Endowment staff members.

Shevtsova: If you follow up remarks. We have a shared view as far as pluralism is concerned. We are very proud to be able to argue with our President and with each other and remain friends and colleagues. There are not so many organizations that can afford such a luxury.

As for some of our disagreements with Anders, I think that I and my friend Dmitri have won him over to our side because Anders said at the beginning of his speech, and he said that there were economic problems but they could be solved only with the help of counterbalances, pluralism and so on. Basically he said that all economic problems have political implications. So he is with us.

And very briefly on your question that cannot be answered even in five minutes. But I will try to do so in one minute. I think the system that developed and consolidated under Putin has a potential for self-reproduction. It can reproduce itself in the mode of stagnation for an indefinite period of time. But a crisis may occur as well. It will be caused by internal problems, an industrial accident, external factors because we are interconnected with the rest of the world. And I do not rule out that an external factor may trigger it.

And when a crisis occurs, the main question will be how to get out of it. That could be done through dictatorship, through harsher government and harsher one-man rule of a nationalistic or great power nature. There is a social and political basis for such a scenario -- the people who voted for Rodina and who think that Putin is too weak, incompetent and impotent.

But there may also be another way out, through gradual opening up and construction of a new state, new institutions. Which of these scenarios will prevail is hard to say. We can only guess. If no steps are taken to reform the political system of power, and there are no conditions for that, there is no pressure, there is no a structured liberal force for that, but Putin feels that there is a threat from the regime and bureaucracy and this is why he is trying to carry out administrative reform. The main question is whether he will be able to move further beyond the first step and not only to raise the salaries of top officials but change their motives because the problem of bureaucracy is much more important than the problem of independent institutions. This step will lead toward independent institutions. So either he remains a hostage of bureaucracy, and then he will be just a footnote



in Russian history, or he wants to do something more than that. I am sorry but I was trying to answer your question as briefly as possible.

Trenin: Very briefly. I do not think that there is such a big difference between us. But unlike other organizations, we are not fired for disagreement but one may face redundancy claim for agreement. This is why we have different points of view and they allow us to be where we are.

I think the crises Lilia spoke about may be development crises. I think we will see in the future a combination of attempts at evolutionary development and attempts to do reforms from above, and crises that will make these reforms impossible to carry out with the instruments that authorities are using to carry them out or to try to carry them out. But that is normal.

I am not claiming a piece of the Carnegie pie that is not mine, and just like you I would be interested to hear the views of my friends and colleagues, but I just want to say that what is happening in Russia is also happening in the rest of the world. And that's the fundamental difference between the current Russian development from all possible models of the past. Even if an analyst does not take something into account, even if he ignores something, the country exists in a globalized world and it has a tremendous impact on everyone and all Russian projects.

That is why Russia is a country that is comparable with European countries in a number of ways, for example with what they were like in the 1930s-1940s, but it exists now in a totally different world, and that will accelerate its development and aggravate contradictions. But I hope that all this will only speed up Russia's progress.

Mathews: Let me add just one final word. I agree with Anders that certainly the YUKOS affair has not had any significant macroeconomic impact. Yet I do believe that it could have depending on how it plays out. It has been whether it comes to be seen as an instance that involves one man and one company or rather it comes to be seen as an incident that speaks more broadly about the Russian government's adherence to the rule of law will have in my view a deep effect on foreign investment and the entire Russian economy over time.

Q: I think a question for Mr. Trenin or for anyone who may want to answer it. I am Marianna Belenkaya, RIA Novosti. In your view, what is Russia's place in the system of international relations today and what should it be in the near future? What role may Russia play, especially in the light of international crises in Iraq, the Middle East and the UN?

Trenin: Speaking formally Russia is one of the leaders of the international community owing to its membership in the UN Security Council. But realistically speaking, today Russia is very much preoccupied with its own problems. The Russian foreign policy, if we speak about the actual foreign policy, is largely confined to the former Soviet Union or rather the CIS where its main interests are. In the opinion of Russian leaders, Russia has some competitive advantages even over the United States and Europe. It's worth fighting for, if you like.

You may remember that Russia withdrew from the Balkans as a peacekeeping power last year. It has agreed to Beijing being the main mediator between Pyongyang and Washington on the Korean nuclear problem. Russia is not contesting the right to be such a mediator between Teheran and Washington. It has its small business in Iran and it is trying to promote this business. Russian participation in the Quartet -- well, the Quartet is in many ways a token structure today -- but Russian participation in the Quartet is not very noticeable because Russia doesn't have that many real levers of influence and it doesn't have many interests in order to influence.

Speaking about Iraq, Russia, if you remember, also tried to play the role of mediator between Baghdad and Washington and then when one of the parties to these relations was overthrown, Russia has been left without a role in Iraq. Some interests remain, they are evaluated -- if you look at our contracts -- at about a million dollars, that is the value of Russian interests. Russia today is not a country preoccupied with foreign policy and it is perhaps useful for Russia today and in the foreseeable future. If you like, this is reasonable self-restraint.

As for the UN, Russia, like some other countries, often makes a fetish of the UN, one has the impression that the

UN is a kind of entity that may take one position or another position. In reality the UN is a flaw, a world Hyde Park speakers' corner where any state can speak, including a state of whose existence the majority of mankind isn't even aware. On the other hand, it is an instrument for legitimizing serious decisions. But for legitimization to take place there must be agreement among the leaders of the international community. And their Russia is one of the second-rank leaders. At present, we have one first-rank leader and several second-rank leaders. Russia belongs in this cast.

This is a reality at Russian foreign policy generally recognizes. Russia is not laying claims to a hat that is too big for its size or boots that are too big for it. I think it is doing the right thing in concentrating on the interests that have a direct bearing on its own development. The relations with the United States, of course, play the key role, the relations with Europe are practically in the same category, the relations with China are becoming more important due to China's growing weight and role. But these are the relations between a strong China and a relatively weak Russia. How to keep the balance in the Far East internationally is one of the problems of Russian foreign policy. We spoke about the Far East and Siberia. It is a very serious problem and in this connection, the relations with Japan take on great significance.

Actually President Putin, at least in the first two years of his second term has a chance to make important, serious steps to strengthen Russia's position in the world in a way that would serve the interests of the country's development.

Mathews: I think we should call this press conference to a close now. We will be available here for a few minutes to answer any additional questions you might have. I want to thank all of you for coming very much. I hope you will also join us tomorrow for the conference.

END.