

Russia: Looking for Prominence in the Global System

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Over the past 75 years, the United States and the United Kingdom have built the deepest intelligence alliance in the world. Despite decades of cooperation, however, there exists today a significant misalignment between the strategic prioritization of this “special relationship” and the regulations, policies, organizational cultures, and technologies that facilitate its day-to-day activities. This report’s recommendations are designed to encourage the adoption of policies, procedures, and tools that will enable the United States and the United Kingdom to achieve the deep level of collaboration they have repeatedly committed to in bilateral agreements, national security strategies, and intelligence guidance. If allies and partners are an indispensable pillar of both nations’ strategies to challenge rising and revanchist authoritarianism and other threats, then the U.S. and UK intelligence communities should jointly pursue robust interoperability that appropriately balances risk with opportunity. World War II posed a significant intelligence challenge to the Western allies. The German government used assorted models of a specific cipher device, that would come to be known in the West as “Enigma”. The cryptographic effort against this system, led by the British, was known as ULTRA. The Japanese used its own version of this device; the cryptographic effort against this system, run by the Americans, was known as MAGIC. As the war, and the astounding effects of cryptographic success, progressed, both the Americans and British found it in their best interests to collaborate and share expertise.

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Introduction

After decades of dominance by one hegemonic power, Russia welcomes a less Western, more multipolar chapter of globalization. However, Moscow’s expectations of inclusivity are tampered by the pull of a U.S.-Chinese duopoly.

The nature of globalization is changing primarily as a result of the shift of the global center of gravity away from the West and toward Asia. Globalization as, essentially, Westernization is coming to an end. In its place, other economic and political systems and cultural patterns are coming to the fore. Global capitalism is no longer Western capitalism writ large but a more diverse, global phenomenon. Russian officials criticize the ideology behind globalization — that real power is concentrated in the hands of transnational companies, predominantly with U.S. roots, at the expense of national governments. The Kremlin sees globalization in the form of unification on the basis of Western standards as a threat to national identities and Indigenous cultures.

What the world is witnessing now is not deglobalization but a new stage in the globalization process, with more players joining. Globalization is being reformed as the number of active participants proliferates. Each

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new major player comes with its own interests, ideas, and patterns of behavior. The result is more diversity in the world. There will be no going back to a Western-led process. Instead, the world will see the rise of a more interactive culture of striking a balance of multiple interests in the name of universal public good.

For Russian foreign policy, this transition is a chance for the emergence of a less Western-dominated, more multipolar world. The Russian expert community and wider public largely welcome this seminal trend. From Moscow's perspective, while globalization is a generally positive phenomenon, it should not be tantamount to the Westernization of the entire world¹. After the unprecedented dominance of one hegemonic power whose values, norms, principles, and interests mostly drove globalization, the next stage should be a more inclusive process that involves many non-Western powers. The new set of universally recognized values and norms should be developed jointly by several leading powers from all over the world, including Russia.

To achieve this goal, Russia collaborates with non-Western powers such as Brazil, India, China, and South Africa bilaterally and within the BRICS context; with several members of the Shanghai Cooperation Organization; with other non-Western groups, such as the Association of Southeast Asian Nations and the African Union; and with individual countries from its post-Soviet neighbors to regional powers, such as Egypt, Iran, Saudi Arabia, and Turkey.

Reforming International Trade

Russia joined the World Trade Organization (WTO) in 2012 after exceptionally lengthy negotiations. WTO membership has not, however, significantly affected the Russian economy. Russia's main exports are hydrocarbons, metals, chemicals, agricultural products, arms, and military equipment. This structure makes the country less dependent on the rules and norms that govern global trade because those rules do not apply to commodities, which still form the bulk of Russia's foreign trade, as they do to manufactured products.

Russia's official position on the international trading order is closely linked to the prevailing Russian view of global geoeconomics, which, in turn, is aligned with the country's stance on geopolitics. Moscow's principal complaints are about the many restrictions that continue to be imposed on Russia by the United States and many of its allies with the aim of changing the Kremlin's foreign and domestic policies².

With regard to the future of the global trading order, the Russian view is that regional economic blocs are the building blocks. The European Union (EU) is a great example and a model, although Russia will not emulate it all the way. Regional trade agreements (RTAs) are more responsive to the needs of modern trade than WTO agreements, which require more time to conclude. RTAs are also ahead of WTO agreements on other issues, including investment rights, environmental standards, and protection of workers. Some regional accords, for instance the Chile-New Zealand-Singapore Digital Economy Partnership Agreement, already cover e-commerce and intellectual property.

Russian experts point out that the agendas of RTAs often diverge from the more universal agenda set by the WTO. Yet, membership in regional agreements allows participating countries to more effectively lobby their interests in the WTO framework because they can rely on the support of fellow RTA members. However, Russia and its partner countries in the Eurasian Economic Union are less involved in RTAs than other nations.

¹ "Session of Davos Agenda 2021 Online Forum," President of Russia, January 27, 2021, available online at: <http://en.kremlin.ru/events/president/news/64938>.

² "Foreign Ministry statement on measures in response to hostile US actions", Ministry of Foreign Affairs of the Russian Federation, April 16, 2021, available online at: https://www.mid.ru/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/4689067?p_p_id=101_INSTANCE_cKNonkJE02Bw&_101_INSTANCE_cKNonkJE02Bw_languageId=en_GB.

The agreements concluded by Russia are less important than most other RTAs in terms of their share of the global market and the scope and depth of their commitments.

New global trading standards will have to emerge amid ruthless competition and dialogue among the key regional players: North America, the EU, China, India, and others. Even relatively small economic players, like the Eurasian Economic Union, will seek to play some role in the creation of new international norms. More importantly, future global standards will not be Western standards accepted by or imposed on the rest of the world.

Complaints and Criticisms

On reform of the international trading system, complaints about unfair trade are mostly raised by developing countries that are used to benefiting from special treatment under various differentiated regimes. Sometimes, developing nations complain that developed countries are asking for overly beneficial conditions given their level of development. Russia is somewhere between these two positions. Despite being able to claim a developing-country status on the basis of several international qualifications, status-conscious Russia joined the WTO as a developed country. Russia's problem is that it acceded to the organization late and assumed several obligations that countries that had joined earlier never undertook. Here lie the roots of what Russians regard as unfair trade practices.

Another area of criticism relates to the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights. Specifically, the agreement's article 66.2 regulates the transfer of technology and obliges developed countries to provide incentives for such transfers. Least developed countries, in particular, wanted this requirement to be made more effective. Meanwhile, some countries, like China, are involved in forced technology transfers. These can happen under the pretext of national security interests, for instance if software companies are forced to reveal their source codes. Russia's position is ambivalent: on the one hand, Moscow is also known to engage in forced technology transfers; on the other hand, Russia is an exporter of high-technology products, including software, and its companies are exposed to such demands in other markets.

Russia has joined U.S.-led criticism of the WTO's dispute settlement provisions. This criticism has essentially focused on claims that the WTO's Appellate Body (AB) interprets provisions of agreements too loosely, abuses its authority, and delivers advisory rulings on noncore issues. The AB ignores the set appeal period of ninety days; there are too many appeals; the arbiters are overwhelmed by their workload; and the body does not honor stated norms. Russia believes that measures are necessary to ensure that all stages of the arbitration process and the AB function properly³. Moscow has also proposed that arbiters should examine claims methodically and that the requirements on their work should be stricter⁴. An EU-led interim arbitration system, which includes over twenty countries, merits discussion in Russia's view, but Moscow would prefer all arbitration to be handled on a multilateral basis (Terence P. Stewart, 2020).

³ "Максим Медведков: в ВТО есть негласное понимание, что политические санкции на рассмотрение не выносятся (Maxim Medvedkov: There Is a Tacit Understanding in the WTO That Political Sanctions Are Not Submitted for Consideration)", Interfax, August 22, 2018, available online at: <https://www.interfax.ru/interview/626154>.

⁴ "Максим Медведков: в ВТО есть негласное понимание, что политические санкции на рассмотрение не выносятся (Maxim Medvedkov: There Is a Tacit Understanding in the WTO That Political Sanctions Are Not Submitted for Consideration)", Interfax, August 22, 2018, available online at: <https://www.interfax.ru/interview/626154>.

Governance of Technology and Data

Different developing countries have different priorities when it comes to data governance. The more ambitious governments — usually authoritarian or semiauthoritarian ones with distinct nationalist agendas — seek to engage in data governance in their own jurisdictions to strengthen internal control and protect their publics from malign influences from abroad. Other developing countries essentially follow current Western trends, with few means at their disposal to change the situation.

In Russia, data governance issues have been marked by the government's pursuit of more control over information flows and the Kremlin's push for digital sovereignty. While these ambitions are not unique to Russia and have been observed in many other regions, the situation in Russia is complicated by the ongoing confrontation with the United States. This has resulted in near-total distrust of multinational tech companies by the Russian security apparatus, which clearly dominates the other parts of the Russian government. The Kremlin's ultimate aim is to be able to take down all information from the internet or digital platforms that it deems dangerous for internal stability and national security while allowing the digital economy to serve as an economic engine. When Russia faces a choice between these two contradictory goals, security always trumps the economy.

Russia has put forward various initiatives on internet governance since 2005. The country's most successful move so far has been the introduction of internet domains in Cyrillic. However, Western countries have rejected Russian proposals to change the structure of web governance to ensure equal participation of the international community in the process. Moscow sees the internet as a political resource and seeks to make it less dependent on the U.S. government. Looking ahead, Russia foresees further segmentation of the internet.

On the global scene, Russia works closely with China to promote a more inclusive, non-Western model of internet governance. Moscow and Beijing have come up with joint proposals that diverge in key points from the ideas supported by the United States and its European and other allies (Alexander Gabuev & Leonid Kovachich, 2021). In recent years, this trend has been strengthening, as demonstrated by Russia's domestic policies on data governance and data localization.

Internet Laws and Control of Social Media

Russia amended its data governance rules in 2019 with the adoption of a package of laws on the so-called sovereign internet (BBC, 2019). The legislation ostensibly sought to ensure the continued operation of the Russian segment of the internet if it ever becomes disconnected from the global network. To this end, the Russian authorities created a register of traffic exchange points between Russian and global networks. By law, all traffic now passes only through these points.

Moreover, the laws on the sovereign internet allow for the use of new technologies to block sites and accounts, and the legislation appears to have significantly increased the Russian government's technical abilities. The laws required all internet operators to install special equipment using deep packet inspection (DPI) technology, which allows Roskomnadzor — the Russian federal agency responsible for regulating Russian media — to analyze all passing traffic, allocate specific packages, and slow down or block internet protocol addresses. In 2020, more than 80 percent of telecommunications operators in Russia were equipped with DPI technology, and Roskomnadzor deployed the technology in March 2021 to throttle Twitter traffic (Meduza, 2021).

A key component of Russia's data governance regime consists of rules related to data localization. In July 2014, President Vladimir Putin signed a data localization law, the implementation of which has become the top priority for Russian regulators (RKP, 2014). Under the law, since September 1, 2015, all personal data of Russian nationals must be stored and processed in data centers that are physically located in Russia. However, the implementation process differs from one company to another, and most foreign players have not followed the letter of the law — although this has not yet resulted in any penalties. In 2015–2017, a tactic that helped many global players to mitigate the challenges presented by the law was to maintain dialogue with Roskomnadzor while stating that they were taking the regulator's concerns seriously and looking at ways to address them. Initially, the major problem for international firms was cost, not politics.

A company's failure to communicate with Roskomnadzor would result in the blockage of its service, as exemplified by LinkedIn, which was blocked in Russia in November 2016. Firms that did maintain regular channels of communication managed to postpone the implementation of the data localization law. However, Roskomnadzor's push for compliance has been increasing since the 2018 Russian presidential election. Many companies have since found technical means to meet minimal government criteria for storing data locally, including through various cloud solutions.

In 2019–2020, the Russian government adopted a policy of pressuring foreign companies through increased fines to store data in Russia (Vyacheslav Khayryuzov, 2020). The enforcement problem that the Russian government has with the data localization law is that some global companies, like Twitter, have no offices or staff in Russia, so there is no effective way to collect fines. Thus, Roskomnadzor is increasingly using its newly acquired technical capabilities to constrict traffic to certain foreign platforms — or ban them completely, as in the case of LinkedIn.

Toward the end of 2020, the Russian government began a campaign against Western social media companies for blocking access to Kremlin propaganda outlets. Russia quickly adopted legislation to protect the country's media and bloggers from such alleged discrimination. The Russian authorities gained the ability to restrict access to platforms that the Prosecutor General's Office considers to be in violation of the rights and freedoms of Russian media and individuals (Rossiyskaya Gazeta, 2020).

After the January 2021 arrest of anticorruption campaigner Alexei Navalny and ensuing street demonstrations across Russia, the government tried to choke foreign social media platforms by claiming that they had spread information that encouraged illegal activity by minors. In March 2021, Roskomnadzor sought to fine Meta (formerly Facebook), Google, Telegram, TikTok, and Twitter for their refusal to remove information about the protests (Madeline Roache, 2021).

Soon afterward, the Russian authorities launched a targeted offensive against Twitter for its failure to remove content about suicide, child sexual exploitation, and drug abuse (Daria Litvinova, 2021). Roskomnadzor threatened to block the social network entirely within thirty days if it did not delete the material and demonstrate a more cooperative attitude toward takedown requests from the Russian authorities (Daria Litvinova, 2021). While the authorities presented their moves as aimed at protecting children and the general public, such requests routinely include material generated by Russian political opposition groups and other avowed foes of the Russian government.

The throttling of Twitter provided the Russian authorities with a test case for the use of DPI technology to improve state control over the internet. Several unrelated sites were knocked offline on the day the offensive was launched, creating embarrassment for Roskomnadzor. The necessary technical adjustments were quickly

implemented, and between March and May 2021, Twitter users in Russia experienced reduced speeds for downloads of posts containing photos and videos (Moscow Times, 2021).

Roskomnadzor and prominent Russian government officials make no secret about their desire to use Twitter as an illustration of what awaits other firms that do not comply with their requests. Given the social network's relatively small user base in Russia, the Kremlin clearly thinks it has a free hand to operate without risking a wide public backlash. The government has so far acted with greater restraint against certain platforms, such as YouTube, that lack popular Russia-based equivalents.

Essentially, the Russian government's position has hardened significantly to make U.S.-based transnational tech giants obey Russian laws and regulations. In the information age, this is a critical element of national sovereignty. The fact that the U.S. Congress has criticized and scrutinized some tech companies, such as Facebook, has strengthened the Russian argument that in a globalized world, national governments cannot afford to leave internet governance to the tech majors and need to exercise more oversight.

Regulating Foreign Tech Companies

As the Russian authorities pursue further moves to regulate foreign social networks and tech companies, they appear to be looking to Turkish internet legislation as a model. The regulation of social networks in Turkey also requires the storage of all customer data on servers in the country and the removal of any content the authorities deem offensive or defamatory. In July 2020, the Turkish parliament passed legislation that obliged all social networks with more than 1 million active users per day to open an official representative office in Turkey, and many companies have chosen to comply (Marc Santora, 2020).

The Russian parliament adopted a law in 2021 imposing taxes on foreign tech companies. The legislation requires such firms with over 500,000 users to register subsidiaries or representative offices in Russia and pay taxes there. There is widespread support for the law among the Russian tech community, whose members claim that they pay value-added tax and other taxes while foreigners continue to make a lot of money in Russia and pay nothing (Yulia Stepanova, 2021). It is unclear, however, whether the Russian government will be as successful as Turkey's in persuading foreign companies to comply with this new legislation.

Financial Governance

Russia joined the International Monetary Fund (IMF) in 1992 as a borrower but soon became a creditor. A key issue in Russia's relations with the fund has been a redistribution of the quotas on which members' voting rights are based. The need for this redistribution comes from the changing balance in the global economy and the rise in developing countries' share in global gross domestic product (GDP), which increased from 36.1 percent in 1990 to 58.1 percent in 2016 (International Monetary Fund, 2016). Yet, Group of Seven (G7) countries still make the major decisions, and the impact of the emerging economies is small. Developed countries also increasingly ask the IMF for financial assistance, while emerging economies contribute to the global financial recovery.

Russia, along with other BRICS members, sees reform of the international financial architecture as a priority. All of the BRICS countries except South Africa are among the ten IMF members with the greatest quota shares, and their combined quota share has risen from 11.5 percent in 2008 to 14.7 percent in 2016 — still short of the 15 percent needed to block decisions on major issues (RT, 2016). If the BRICS countries manage to get support from several other members, they could exert a considerable impact on the IMF's

decisions. However, the fund's members are still debating the quota formula.

Russia is a member of the New Development Bank (NDB), which was developed by the BRICS countries. Moscow sees the bank as a complement to the Bretton Woods international financial institutions and a means to focus on infrastructure and sustainable development projects. As Russia is going through a process of de-dollarization, it promotes the use of national currencies in international trade. Thus, it supports the NDB in using national currencies in lending to developing countries.

After joining the World Bank Group in 1992, Russia soon became a partner and now participates in various regional World Bank initiatives. Russia promotes reform of the bank with the aims of creating a more democratic governance structure, widening the bank's financial possibilities, and reviewing its share capital. Increasing the World Bank's capital has been one of the thornier issues. Russia supports developing countries that demand additional capitalization to increase the volume of credits. Moscow understands developing countries' complaint about the deficit of financial resources allocated to infrastructure projects. From Russia's own perspective, a major problem in its interaction with the World Bank has been anti-Russian sanctions, which have led to the suspension of the bank's activities in Russia.

For many years, Russia has promoted reform of the global system of reserve currencies. That agenda includes expansion of the basket of currencies that determine the value of the IMF's special drawing rights (SDRs)—an international reserve asset that supplements members' official reserves. Over a decade ago, Russia proposed diversifying the list of reserve currencies on the basis of a set of measures to stimulate the development of major regional financial centers. Specifically, Russia proposed including BRICS currencies in the SDR currency basket (Reuters, 2009). The IMF, however, rejected the notion of conferring the status of reserve currency onto the Russian ruble. Experts pointed to the modest scale of the ruble's emission and its inability to satisfy enormous demand (Yakov Mirkin, 2022).

Since then, Western skepticism about the potential internationalization of the ruble has only grown. Russia's economy has not been doing well in the past decade, and the country's relations with the West were undermined by the 2014 Ukraine crisis. The ruble's share of global trade, which stood at 1.6 percent in 2013, had sunk to 1.1 percent by 2016 (Bank for International Settlements, 2016). By contrast, the IMF's 2015 decision to add the Chinese renminbi to the SDR basket resulted in the Chinese currency accounting for 10.9 percent of the basket in 2016 (Robert Kahn, 2015).

Russia is a founding member of the Financial Stability Board (FSB), which monitors and makes recommendations about the global financial system. Russia's central bank uses FSB recommendations to improve banking regulation in the country. Moscow also uses FSB norms and standards to bring itself to the global level in various fields, such as mechanisms to regulate bank insolvency and fintech development.

With the disintegration of the Soviet Union in 1991, Russia assumed responsibility for Soviet foreign debt, which stood at more than \$100 billion (David Robinson & David Edwin Wynn Owen, 2003). Moscow fully repaid all of that debt in the 2000s and has since maintained a low debt-to-GDP ratio. From 1992 to 2017, Russia wrote off \$130 billion of debt owed to it, including by Cuba, Iraq, Afghanistan, Mongolia, Syria, and several other countries (Fincan, 2020). As a member of the Group of Eight (G8) from 1998 to 2014, Russia took part in joint action to restructure African countries' debt burden, but Moscow wrote off almost all of the developing countries' debt unilaterally.

According to the World Bank, Russia is currently the fifth-largest sovereign creditor of developing countries — after China, Japan, Germany, and France — and lent \$22.9 billion to thirty countries in 2019 (RBC,

2021). Moscow's principal debtors are Belarus, Bangladesh, and Venezuela. Essentially, globalization has worked to bring Russia's lending terms and practices more in line with current international models.

Reforming Global Taxation

International tax regulation is needed for economic activity that transcends borders. This pertains to tech companies that can operate in a country's cyberspace while being physically absent from that country. International taxation is based on compromise among tax jurisdictions. Such compromise, in turn, is based on the norms of treaties on avoiding double taxation.

As tax-regulating bodies imply a partial loss of control over tax flows, Russia opposes the creation of a supranational fiscal regulator. Russia is open to cooperation, however, and the Eurasian Economic Union interacts with the International Fiscal Association, the International Tax and Investment Center, the Intra-European Organization of Tax Administrations, and other bodies.

In the mid-2010s, the Organization for Economic Cooperation and Development (OECD) raised the issue of the unfair distribution of the taxes of transnational corporations. Developing new approaches to international taxation became the number one priority of the action plan on base erosion and profit shifting — the practice of aggressive tax avoidance — led by the OECD and the Group of Twenty (G20). According to the 2023 priorities for Russia's fiscal policy, Moscow strongly supports new approaches to taxing digital companies so that tax on profits is paid in the jurisdictions where those profits are generated (Ministry of Finance of the Russian Federation, 2020).

Russia is considering imposing a new digital tax on companies that use data on Russians to shape their advertising policies in the country, such as advertising tailored to individuals. The taxes collected in this way would be directed to support Russia's tech industry.

In addition, Russia is taking steps to counter aggressive tax planning by multinational corporations and, more broadly, reduce the parts of the country's economy that are based offshore — a process known as de-offshorization. Companies sometimes misuse agreements on double taxation to avoid paying tax altogether. Also, some multinationals use international agreements such that profit generated in the countries where they operate is declared in the countries with the lowest tax rates. The Russian government is therefore taking measures to stop the use of offshore entities to escape taxation in Russia. Moscow has introduced a rule of insufficient capitalization, which limits accounting for the interest on loan agreements and reduces exemptions under international accords in cases of cross-border financial transactions (Kommersant, 2015).

The Climate Change Agenda

In the area of climate change, Russia's policy mix cannot be categorized as that of either an advanced or a less developed country. Russia is a major global emitter: fourth in overall volume, and sixth if its vast forests are taken into account (Kommersant Ekologiya, 2012). The Soviet Union used to have the world's second-largest carbon emissions (Adnan Vatansever & Anna Korppoo, 2012). Since then, Russia has halved its emissions from 3.1 billion tons of carbon dioxide equivalent in 1990 to 1.6 billion tons in 2020 (A. Ignat'eva, 2021). There is no risk of Russia not living up to its national commitment to reduce its greenhouse gas emissions by 70 percent relative to 1990 levels by 2030. The country will play a significant role in the future as a global exporter of hydrocarbons, and decarbonization will have a major impact on Russia.

Not being a rich country, Russia is in no hurry to dramatically cut its emissions because of the high cost that doing so would entail for the national economy. Russia is yet to recognize the need to cut emissions now to reduce future damage. The expectation still lingers that global warming will turn out to be a net positive for the country, such as by expanding agricultural activity toward the country's north and making the Northern Sea Route commercially navigable. That is despite very clear risks to the infrastructure that rests on permafrost, which covers almost two-thirds of Russia's territory. Moscow is prepared to be criticized but is unlikely to change its attitude as a result. Other states also need to recognize that Russian emissions are part of a process of producing goods that are then imported by low-emitting Western European countries. Thus, international efforts are needed to properly deal with the problem.

Indeed, there is a limit to what any one country can do on its own territory. Of key importance is to ensure a proper match between Western money and emissions-cutting projects in less developed countries. This linkage can be seen as a form of compensation for industrialized countries' historical emissions. Russia is not expected to be a large financial donor in this regard. Nevertheless, Moscow has declared its readiness to transfer a modest amount of money to the climate fund established in the framework of the 2015 Paris Agreement on climate change, with the purpose of using that money for projects in Central Asia (Green Climate Fund, 2020). From the Russian perspective, it would be fair if Western Europe were to fund projects in Russia that are aimed at lowering emissions while producing goods — such as metals, petrochemicals, and fertilizers — that are intended for the EU market.

A Differentiated Approach to Adaptation

In return, adaptation should become a priority for Russia, as it is for developing countries. Moscow is likely to join the developing world in emphasizing this goal but does not expect significant international assistance to meet it. Rather, Russia should actively adapt to climate change, particularly in those parts of the country that are most affected, such as the agricultural territories of Krasnodar and Stavropol in southern Russia and the vast northern regions of Siberia that rest on permafrost.

At the end of 2019, the Russian government approved a national plan of adaptation to climate change (Moscow Times, 2021). However, this was only the beginning of a long process for Russia. Moscow needs to organize proper monitoring of climate developments, raise the competence of those dealing with the topic, and draw up specific adaptation plans for its many regions. There are also bureaucratic issues. Responsibility for adapting to climate change and cutting emissions is vested in the Ministry of Economic Development. However, since most emissions result from the burning of fossil fuels, the relevant technologies are the preserve of the Ministry of Energy. Other government departments should also be involved, from the Ministry of Agriculture to the Ministry of Defense, which is largely responsible for the Arctic.

The core problem is that sustainability and growth cannot be reconciled at all stages of economic development. In the long term, fostering economic growth and solving environmental problems such as emissions can go in parallel, but poorer nations at certain stages of their development cannot achieve both, particularly without external assistance. Resource-rich countries such as Russia face their own problems. To reconcile growth and ecological sustainability, Russia must completely transform its economy: not only oil and gas production but also the manufacture of metals, fertilizers, pulp and paper, and so on. The complete transformation of a national economy is a mammoth task and a hyperexpensive enterprise. Moreover, someone still has to engage in dirty production for the benefit of the global economy.

On carbon pricing, the view in Moscow is that there should be different mechanisms for different countries (Climate Action Tracker, 2022). It would be a huge mistake for Russia to introduce the types of systems that operate in the EU, such as trade in quotas. Russia needs a different form of carbon pricing, for example a replacement for energy taxes. Russia has high energy taxes that are imposed exclusively on companies' excess profits. These taxes could be recalibrated on the basis of how dirty relevant production is, thus stimulating the generation of cleaner energy. Potentially, Russia can greatly raise the energy efficiency of its economy. In the same vein, Moscow should also spur the replacement of coal with natural gas. This is effectively another form of carbon pricing built into the energy system.

Misplaced European Efforts

In general, developed countries should pay more than developing nations to address climate change. It would also make sense to encourage European companies to carry out green projects in the developing world. Emissions cuts produced in this way should then count toward European countries' commitments to emissions reductions. It is cheaper to cut emissions in Russia — not to mention China and India — than in the EU. Money would buy far more emissions cuts in the developing world than in developed countries.

Yet, the EU seeks to reduce greenhouse gas emissions on its territory to zero, which makes little sense in terms of dealing with climate change. The EU accounted for only 8 percent of global emissions in 2018, and money spent on bringing that figure to zero could be used much more efficiently to reduce emissions in other parts of the world (European Environment Agency, May 29, 2020). It is true that reducing emissions in Europe would stimulate the European economy and support European producers, but this has little to do with climate change.

The EU's European Green Deal, a set of policy initiatives that aim to make Europe climate neutral by 2050 — in conjunction with similar decarbonization plans announced by China and Japan and the policies of U.S. President Joe Biden — presents Russia with a serious challenge. The EU's introduction of a transborder carbon tax, to be imposed from 2023 on companies that export certain goods to the union, will affect Russia. Transforming the Russian economy in the short term is impossible, so Moscow will immediately try to offset the EU tax by seeking areas where its losses will be compensated, if only partly. However, in the longer term, global trends will push Russia toward structural changes in its economy that make the country less vulnerable to these trends. In the energy field, such changes would include a focus on hydrogen energy.

Conclusion

The third decade of the twenty-first century could be a decisive period for Russia as it looks for a prominent and influential place in the global system. The multipolar world that Russians long spoke about has, in essence, arrived. The United States is still the preeminent power but no longer the hegemon. China has risen fast and high. Beijing is not merely just another center of power but a formidable challenger to Washington for global primacy. A U.S.-Chinese duopoly is already in place, and it puts Russia and several other countries in an uncomfortable position as they seek to avoid a hard bloc division of the world. Despite its confrontation with the United States and its close relationship with China, which one might call an entente, Russia does not want to become part of a Pax Sinica.

Russia not only has to deal with the two superpowers and try to maintain some sort of equilibrium, if not equidistance, between them. It also has to manage other ambitious powers, such as Turkey; pursue parallel

partnerships with the two rival Asian giants, China and India; and work on a *modus vivendi* with its geographically closest and uniquely complex neighbor, the EU, with which relations have severely deteriorated. For Russia, finding its way in this complicated environment without losing balance will not be easy.

In terms of urgency and scale, Russia's biggest challenge will be to organize an orderly energy transition away from the post-Soviet reliance on hydrocarbons as the biggest source of revenues for the state budget. To meet this challenge, Moscow will have to bring climate- and environment-related issues to the center of its policy agenda; devise and implement a strategy of energy transition, including the transformation of the energy industry; and, last but not least, develop effective climate diplomacy to negotiate with Russia's economic partners, who are way ahead of it in terms of adapting to a carbon-free economy.

It is unlikely that Russia's confrontation with the West will significantly subside soon. The realistic objective there is to manage that confrontation well, so that it does not lead to an inadvertent collision. As Russia's U.S. adversaries will continue to largely control the global financial system, Moscow needs to develop alternatives that permit it to lower its dependence on dollar-denominated transactions. An even bigger challenge is to reduce technological dependence on the West without becoming overly reliant on Russia's big partner, China — as is the case in international finance. Russia cannot meet this challenge without a major effort that requires transitioning from a rent-based economy to one that encourages innovation.

Finally, while doing all of the above, Russia has to avoid the danger of sliding into autarky economically and a besieged fortress politically. Engagement with all other parties in the globalized system, including one's political adversaries, is a must for any player who does not want to be left behind and become irrelevant. The 2020s may well be the time for a major political transition in Russia. The outcome of that transition — and the policies adopted as a result — will probably shape Russia's place and role in the world for much of the twenty-first century.

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