The North Caucasus: a Hotbed of Terrorism in Metamorphosis

Pavel Baev

July 2011
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Summary

Since summer 2009, instability in the eastern part of the North Caucasus has escalated, a security threat against which the Russian leadership cannot find a strategy. Despite a maximum-intensity counterinsurgency campaign, the rebels have been able to expand their support base and zone of operations, staging terrorist attacks in Moscow. The Domodedovo airport attack of 24 January 2011 is just the latest example. President Medvedev is trying to combine sustained repression with economic development, but his “soft power” approach lacks credibility. Increased transfers from the federal budget have created a system of administrative corruption, which now constitutes a greater obstacle to private investment than the high risk of violence. In fact, rampant corruption has become the major driver for instability because public anger cannot find political expression, feeding the growth of underground Islamic networks that often resort to violence. The inefficacy of Medvedev’s strategy increases the probability that the 2011-2012 election cycle in Russia could be suddenly and profoundly influenced by terrorism originating in the North Caucasus. Yet, another attempt to mobilize the country through a decisive, centralizing leader might propel Russia towards a spontaneous Soviet-style implosion.
Introduction

Severe economic recession has caused a profound crisis of the Russian state. One manifestation of this crisis is the growth of extremism in its many forms, and in particular the escalation of domestic terrorism. The new wave of terrorism that has been rising in the North Caucasus since the summer of 2009 is distinctly different from the previous wave that retreated after the raid on Nalchik, Kabardino-Balkaria on 13 October 2005. The series of counter-terrorist operations that lasted for the first half of Vladimir Putin’s political “reign” was essentially a spillover from the Second Chechen War that started with the rebel incursion into Dagestan in August 1999 and ended with the explosion, which claimed the life of arch-terrorist Shamil Basayev on 10 July 2006.1

Today Chechnya is controlled with brutal efficiency, even if by no means pacified, by Ramzan Kadyrov, and terrorism has evolved into a more complex phenomenon driven by a profound crisis of governance, which takes different forms in various parts of the region. This evolution shapes the key argument of this paper: in the early 2000s, the struggle against terrorism was instrumentalized in order to consolidate Putin’s regime, but at the start of the 2010s, the inability to suppress violent instability in the North Caucasus betrays the deep corrosion of this “defective democracy.”2

Official data on terrorist attacks is unverifiable and unreliable, and information collected by NGOs and the media cannot account for

Support for my research on Russian security matters by the Norwegian Defence Ministry is greatly appreciated.


failed or prevented attacks nor for military skirmishes. It is clear, nevertheless, that daily ambushes, assassinations and, above all, suicide bombings make the North Caucasus by far the most “terrorized” area of Europe and one of the most dangerous locales of terrorism in the world. Yet, the ongoing escalation of instability remains under-researched and the media grant it priority attention only when terror comes to Moscow; three most tragic examples are the derailing of the Nevsky Express train on 27 November 2009; the double suicide bombing in the Moscow metro on 29 March 2010; and the suicide bombing in the Domodedovo airport on 24 January 2011.

It stands to reason that the Russian leadership is not interested in serious analysis of the terrorist challenge as the conclusions could be rather disturbing. The scant interest in the Western academy is determined by the over-concentration of terrorism-related studies on the Al-Qaeda networks and the war in Afghanistan. This paper cannot fill the vast gap in research and has the limited aim of exposing the crucial deficiency of Russia’s counter-terrorist campaign. It starts by examining the scope and characteristics of the current upsurge of terror attacks, addresses the military counteroffensive, proceeds further to evaluating the root causes of the instability, and finally looks into the prospects of defeating terrorism by economic development as Moscow presently endeavors. The conclusion is that terrorism developing on the current trajectory will re-shape the agenda of elections in 2011 and is set to become a major factor in the reconfiguration of the “unconventional” Putin-Medvedev duumvirate in 2012. Furthermore, new attacks could transform Russia’s current crisis of governance into a crisis of statehood.

3 Data of great value are collected by Memorial and published on the website Kavkazsky uzel, <www.kavkaz-uzel.ru/category/terakty-v-moskve>.
4 The useful Global Terrorism Database registered a sharp increase of attacks in Russia in 2008 (the latest available data) to 180, above the previous maximum of 130 in 2001 and close to the average level for India in the 2000s. See <www.start.umd.edu/gtd/>.
5 Speaking at the meeting on security in the North Caucasus, President Dmitry Medvedev dismissed the data gathered by the Interior Ministry: “We cannot believe the statistics because they are often nonsense.” According to that database, the number of terrorist attacks in Dagestan increased from 161 in 2009 to 231 in 2010. The official record of the meeting is available at: <http://eng.kremlin.ru/transcripts/1340>.
Defining Terrorism in the North Caucasus

Violence in the North Caucasus takes different forms and distinguishing between acts of terrorism, banditry and insurgency is problematic; yet it is clear by every account that the frequency and intensity of attacks have increased markedly since the start of 2009. Many commentators have pointed out that it was the official termination of the so-called “regime of counter-terrorist operation” in Chechnya in mid-April 2009 that marked the beginning of escalation. That rise reached its peak in August 2009 and then subsided, so the Nevsky Express bombing (November) was a shocking surprise.6

Table 1. Major Terrorist Attacks in the North Caucasus in 2009

<table>
<thead>
<tr>
<th>Date</th>
<th>Place and region</th>
<th>Target</th>
<th>Type of attack</th>
<th>Fatalities (not incl. rebels)</th>
<th>Rebel force</th>
</tr>
</thead>
<tbody>
<tr>
<td>05.03.2009</td>
<td>Ekazhevo, Ingushetia</td>
<td>De-mining squad</td>
<td>Roadside bomb</td>
<td>5</td>
<td>Unknown</td>
</tr>
<tr>
<td>15.05.2009</td>
<td>Grozny, Chechnya</td>
<td>Police station</td>
<td>Suicide: vest-bomb</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>05.06.2009</td>
<td>Makhachkala, Dagestan</td>
<td>Dagestan's Minister of Interior</td>
<td>Sniper</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>22.06.2009</td>
<td>Nazran, Ingushetia</td>
<td>President of Ingushetia</td>
<td>Suicide: car bomb</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>05.07.2009</td>
<td>Arshty, Ingushetia</td>
<td>Police convoy</td>
<td>Ambush</td>
<td>10</td>
<td>10-15</td>
</tr>
<tr>
<td>26.07.2009</td>
<td>Grozny, Chechnya</td>
<td>Theatre</td>
<td>Suicide: vest-bomb</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>03.08.2009</td>
<td>Itum-Kali, Chechnya</td>
<td>Police convoy</td>
<td>Ambush</td>
<td>5</td>
<td>5-7</td>
</tr>
<tr>
<td>13.08.2009</td>
<td>Buynakak, Dagestan</td>
<td>Police station</td>
<td>Attack</td>
<td>11</td>
<td>10-15</td>
</tr>
<tr>
<td>17.08.2009</td>
<td>Nazran, Ingushetia</td>
<td>Police HQ</td>
<td>Suicide: car bomb</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>21.08.2009</td>
<td>Grozny, Chechnya</td>
<td>Police patrols</td>
<td>Suicide: vest-bombs</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>25.08.2009</td>
<td>Mesker-Yurt, Chechnya</td>
<td>Police post</td>
<td>Suicide: vest-bomb</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

6 Kadyrov insisted on lifting the regime introduced at the start of the Second Chechen War, against objections from the military and the FSB. See E. Barry, “Chechnya and its Neighbors Suffer a Relapse,” New York Times, 29 August 2009.
The year 2010 saw a steady sequence of attacks (not only in the arbitrary category of “major”) and the increase in the number could be established as a scientific fact, while a related expert assessment would point to a particularly dramatic rise in Dagestan and a spread beyond the “epicenter” in Chechnya and Ingushetia; some new features have also become apparent.7

Table 2. Major Terrorist Attacks in the North Caucasus in 2010

<table>
<thead>
<tr>
<th>Date</th>
<th>Place and region</th>
<th>Target</th>
<th>Type of attack</th>
<th>Fatalities (not incl. rebels)</th>
<th>Rebel force</th>
</tr>
</thead>
<tbody>
<tr>
<td>06.01.2010</td>
<td>Makachkala, Dagestan</td>
<td>Police station</td>
<td>Suicide: car bomb</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>19.02.2010</td>
<td>Nazran, Ingushetia</td>
<td>De-mining squad</td>
<td>IED</td>
<td>4</td>
<td>Unknown</td>
</tr>
<tr>
<td>31.03.2010</td>
<td>Kizlyar, Dagestan</td>
<td>Police patrol</td>
<td>Suicide: car, vest-bombs</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>05.04.2010</td>
<td>Karabulak, Ingushetia</td>
<td>Police station</td>
<td>Suicide: vest-bomb, and IED</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>01.05.2010</td>
<td>Nalchik, Kabardino-Balkaria</td>
<td>Hippodrome</td>
<td>IED</td>
<td>2</td>
<td>Unknown</td>
</tr>
<tr>
<td>26.05.2010</td>
<td>Stavropol, Stavropol kray</td>
<td>Concert</td>
<td>IED</td>
<td>8</td>
<td>Unknown</td>
</tr>
<tr>
<td>21.07.2010</td>
<td>Baksan, Kabardino-Balkaria</td>
<td>Hydro-power station</td>
<td>Attack/raid</td>
<td>2</td>
<td>5-7</td>
</tr>
<tr>
<td>24.07.2010</td>
<td>Buyanaks, Dagestan</td>
<td>Military check-point</td>
<td>Drive-by shooting</td>
<td>4</td>
<td>3-5</td>
</tr>
<tr>
<td>17.08.2010</td>
<td>Pyatigorsk, Stavropol kray</td>
<td>Cafe</td>
<td>Car bomb</td>
<td>1</td>
<td>Unknown</td>
</tr>
<tr>
<td>29.08.2010</td>
<td>Tsentoroy, Chechnya</td>
<td>Village, President of Chechnya</td>
<td>Attack/raid</td>
<td>7</td>
<td>15-20</td>
</tr>
<tr>
<td>05.09.2010</td>
<td>Buyanaks, Dagestan</td>
<td>Military camp</td>
<td>Suicide: car bomb</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>09.09.2010</td>
<td>Vladikavkaz, North Ossetia</td>
<td>Market</td>
<td>Suicide: car bomb</td>
<td>19</td>
<td>1</td>
</tr>
<tr>
<td>24.09.2010</td>
<td>Makachkala, Dagestan</td>
<td>Police patrol</td>
<td>Suicide: vest-bomb</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>23.10.2010</td>
<td>Khasavyyurt, Dagestan</td>
<td>Police base</td>
<td>Suicide: car bomb</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>11.11.2010</td>
<td>Makachkala, Dagestan</td>
<td>Police patrols</td>
<td>Drive-by shooting</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

7 Collection and examination of the always questionable data on terrorism can be found in P. Baev, “The Targets of Terrorism and the Aims of Counter-Terrorism in Moscow, Chechnya and the North Caucasus,” paper presented at the annual conference of the International Studies Association (ISA), Chicago, 3 March 2007.
According to some estimates, up to 90 percent of all attacks in 2009 were aimed at the military, police and law enforcement officials, but in 2010 (as Table 2 demonstrates), a significantly greater portion of attacks targeted civilians, so the overall character of the armed violence is changing towards a combination of guerrilla violence and classical terrorism.\(^8\) This tendency is reinforced by the noticeable increase in the frequency of suicide bombings; the first attack of this kind after a long pause happened on 15 May 2009, but the highest impact was achieved by the Moscow metro explosions. In essence, the attack on the heavily guarded village of Tsentoroy—location of the Kadyrov family residence—was a form of collective suicide: wounded rebels detonated explosive vests they were wearing.\(^6\) There is no consistent pattern in this “martyrdom,” some attacks are meticulously planned and synchronized for maximum effect, while others seem to be acts of desperation. Nor is there evidence for training in any camps abroad or involvement of foreign instructors.\(^10\) The range of tactics used by rebel groups is quite diverse, but it should be pointed out that not a single attempt at hostage-taking has been recorded since the September 2004 Beslan massacre.

The rebels are exploiting their advantage of surprise, choosing the time and place and often hitting poorly-guarded targets, like the Baksan hydropower station; yet counter-intuitively some categories of high-value assets or sensitive localities have never been targeted. The “strategic” oil and gas pipelines ending in Novorossiysk as well as oil terminals in this port and in nearby Tuapse are perhaps the most obvious examples of this odd selectivity. The high-profile Olympic construction works in Sochi have been safe, and this major tourist center is eager to forget the chain of small explosions in spring-summer 2008.\(^11\) Large urban centers of the regions immediately bordering the North Caucasus—Krasnodar, Volgograd and Rostov-on-Don—remain terrorism-free (St. Petersburg, for that matter, has not experienced a single attack in the turbulent 2000s); what is perhaps more surprising, is that conflict-prone Abkhazia and South Ossetia have also been spared the shock of explosions or ambushes.

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\(^{10}\) One network that is blamed for several attacks is investigated in I. Gordienko, “What is the Nogai Jamaat,” Novaya Gazeta, 30 January 2011. External connections are often exaggerated, as in D. Nechitailo, “Al Qaeda is Watching the North Caucasus,” Nezavisimaya gazeta, 17 November 2010.

Overall, the trend of escalating instability in the Eastern part of the North Caucasus is unmistakable, and while its main thrust is the rebel offensive against law enforcement bodies, terrorist attacks against civilians are on the rise. The remarkably high intensity of suicide bombings is a phenomenon that signifies an excruciating crisis in the society and a break-down of traditional self-healing mechanisms in many traumatized communities.\textsuperscript{12}

Great experience in combating terrorism has been accumulated by the Federal Security Service (FSB) and other Russian “power structures” over the last 15 years, and official reporting presents the picture of a chain of successful operations, in which terrorist groups typically are exterminated with no prisoners taken. Evidence collected by NGOs paints a significantly different picture: one of brutal harassment and incompetence, but there is beyond any doubt that many rebel leaders have been destroyed in the last couple of years and that casualties among the terrorists/insurgents have been rising.\(^\text{13}\) That, however, leads neither to a decline in the strength of the rebel camp nor to the disruption of its leadership.

One characteristic feature of counter-terrorist operations in the last two years is diminishing involvement of Armed Forces units, despite the fact that military bases and convoys are often targeted by rebels. This is partly a consequence of change in the nature of operations from fighting against “mountain guerrillas,” which requires large numbers of troops to comb rugged terrain, to confronting “urban guerrillas,” where heavy weapons are unnecessary. Another element of instability is criminal violence, and clashes between rival clans are often camouflaged as terrorism so that the involvement of the authorities is conveniently obscured. The fusion of insurgency, terrorism and banditry is becoming more complex as public discontent is typically portrayed as radicalism, so military instruments are not suitable for this multi-dimensional civil war. Primarily, however, the disengagement of the Armed Forces is caused by the problems with military reform, executed since autumn 2008 with great determination but haphazard planning; presently, most Army brigades

Comprised of poorly trained conscripts drafted for 12 months are close to full numerical strength but unable to perform combat tasks.\textsuperscript{14}

Thus the main burden of counterterrorism work falls on the various law-enforcement structures subordinated to the Ministry of Interior, which is also undergoing reform, perhaps less radical than the military but nevertheless seriously disrupting its work. There is a visible difference in performance (and often tensions) between special police units (like riot-control OMON) deployed to the North Caucasus from other Russian regions and local police forces. It is increasingly difficult to sustain the pattern of rotation of the former due to growing pressures in their home regions and discontent among professionals who face increasing risks. As for the local police, they have grown closely affiliated with vying political clans and so are part of the problem rather than of a solution.\textsuperscript{15}

The tensions between federal forces and local armed units have a particular configuration in Chechnya, where well-organized paramilitary formations operate completely outside Moscow’s control, answering only to Kadyrov. This is the fruit of the “Chechenization” policy that was instrumental in terminating the war but now leaves Chechnya in violent limbo. In spring 2009, Kadyrov scored an important political victory by securing the removal of the “counterterrorist operation” legal regime, so now the activity of remaining federal troops is effectively minimized and he can hunt “bandits” as he sees fit. The escalation of attacks undermines his heavy-handed authority but he responds by recruiting more kadyrovtsy. Moscow is now advancing a plan to build local battalions in Dagestan, but such delegation of the monopoly on violence could push this ethnically-divided republic over the brink, into a long-predicted civil war.\textsuperscript{16}

Overall, Russia has few reserves for building up its enforcement capabilities in the face of growing terrorist threat. The Federal Security Service (FSB), the most special of all special services, which is supposed to coordinate the “war on terror” through the National Anti-Terrorist Committee, is not up to the task, and not


particularly keen to focus on this: prioritizing the management of its business interests.\textsuperscript{17}

\textsuperscript{17} Great value of information on corruption in the FSB can be found in A. Soldatov & I. Borogan, \textit{The New Nobility}, NY: PublicAffairs, 2010.
The Ease of Rebel Recruitment

Acknowledging the escalation of terrorist violence in the North Caucasus, the Russian leadership gives no explanation for this trend, merely condemning the rebels as “bandits” or “outlaws” (Kadyrov prefers the Arabic term “shaitan”). The only source that feeds the growth of extremist networks, according to official discourse, is external support, with Western security services are mentioned more often in this context than Al Qaeda. External cash flows that fed the Second Chechen War have mostly dried up, and there is no evidence whatsoever of any inflow of funds corresponding to the current escalation of violence. It is, nevertheless, obvious that successful recruitment allows the rebels to compensate for the high casualties and that their message of defiant resistance against brutal suppression finds a sympathetic audience, despite massive state propaganda.

The vocabulary for this message is provided by radical Islam, which has effectively replaced ethnic nationalism and secessionism as the militant counter-ideology of armed struggle. Moscow is ambivalent in confronting this ideological challenge seeking to present itself as a supporter of mainstream Islam and at the same time as a sponsor of interethnic “multiculturalism.” This Russian-style political correctness fails to take into account that Islam in the Caucasus has traditionally been divided (unlike the rigidly centralized Orthodox Church) and intertwined with local traditions, many of which are supportive of armed resistance against unfair and oppressive “colonial” government. While some Islamic clerics are eager to go along with the official line and benefit from closeness to local authorities, many others seek to connect with the strong grass-roots movement for reviving the values of “pure Islam” and reshaping communities on the basis of Sharia law, paving the way for the expansion of radicalized and politicized—but not necessarily integrated—Islamic networks.

The main driver for this process is neither the crisis of traditional communities under pressure from modernization, nor the aggravation of socioeconomic disparities but the deep corrosion in structures of governance. Corruption is an inherent feature of the “soft” authoritarian system of power that has emerged in Russia under Vladimir Putin’s “reign” and continues to evolve under the present-day duumvirate, so that in Transparency International's 2010 Corruption Perception Index, Russia slipped yet lower: below Nigeria, Iran and Pakistan. In the North Caucasus, administrative corruption has reached grotesque proportions—and not due to any particular predisposition of the indigenous population. A key element of Putin’s strategy for stabilizing the region in the mid- and late-2000s was buying the loyalty of local elites, and that has engendered nepotimonal regimes across the North Caucasus, each based on the redistribution of wealth provided by Moscow among the clients and entourage of “masters.”

President Dmitry Medvedev has on several occasions bitterly criticized the “outrageous” level of corruption in the North Caucasus that has become a threat to national security. However, his reshuffling of leadership in the republics has merely brought to power different clans, which duly engaged in the forceful redistribution of property. This violent clan struggle, which has reached maximum intensity in Dagestan, is often indistinguishable from terrorism; thus the assassination of Adylgieryy Magomedtagirov, Interior Minister of Dagestan, was found not to be an act of terrorism but a contract killing executed by a military officer. Local police and other law enforcement structures are effectively “privatized” by political clans and operate as their “muscle” in racketeering. Yet most attempts to investigate these criminal connections are blocked by regional authorities. Deputy Prosecutor General Ivan Sydoruk asserted at Federation Council hearings that the law enforcement system in the North Caucasus is deeply corrupt and the reform of the Interior Ministry should be aimed at expelling the “traitors,” but the next day had to qualify his statement and explain that some “exceptional cases” should not be taken for a pattern.

Besides this common camouflaging of political clan wars as “terrorism,” corruption has a profound impact on genuine terrorism by generating social discontent and directly feeding Islamic networks.

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21 The Index compiled by Transparency International is accessible at <www.transparency.org/policy_research/surveys_indices/cpi/2010/results>.
turns to Islam in its search to uphold anticorruption values. At the same time, rulers who a few years back were persecuting “Wahhabists” now prefer to make donations to mosques and medresse and to sponsor the Haj pilgrimage, seeking to shelter themselves from the Islamic ostracism, and some of this money makes its way to terrorist groups. Terrorism remains unacceptable for the majority of Muslims but the rebels can rely on widening social support and domestic sources of funding, which amounts to a solid recruitment base.

The dynamic is different in Chechnya, which is by no means corruption-free, but is experiencing a particular kind of instability. As the traumas of wars are gradually overcome, Kadyrov’s despotic rule is becoming less acceptable for the society where power-sharing between key clans and compromise in settling disputes are traditional norms. Destroying this “sultanic” regime has become the mobilizing idea for a new generation of rebels who have grown up knowing only war and violence, while the old leaders like Doku Umarov are no longer necessarily the authority. The “young wolves” demonstrated their determination in the attacks on Tsentoroy and on the parliament in Grozny, which have discredited Kadyrov’s claim on effective management of the reconstruction of Chechnya. His control over the Chechen diasporas, above all in Moscow, achieved through a series of assassinations, is also eroding, despite Putin’s unwavering support for his protégé.

Medvedev Experiments with a New Strategy

The new wave of instability in the North Caucasus has caught the Russian leadership by surprise; they had convinced themselves that they had won the struggle with terrorism. This escalation of terror attacks coincided with the arrival of the devastating—and equally unexpected—economic crisis, so it was logical to assume that the worsening of the socio-economic situation caused this extreme form of protest. Putin made sure that there were no cuts in federal budget allocations to the newly-destabilized republics, first of all to Chechnya, which has by far the highest per capita level of financial support. The working assumption was that generous funding (amounting to 75-80 percent of republican budgets) was necessary—but not sufficient—to challenge the perception of the panicking elites and dissatisfied population that the “pie” was shrinking.29

In early 2010, Medvedev launched a new strategy for the region, the point of departure for which was the formation of the North Caucasus federal district consisting of five republics and Stavropol kray, leaving the rump Southern federal district with Krasnodar kray with its Olympic projects and enclave-republic Adygeya. Aleksandr Khloponin, former governor of the Krasnoyarsk kray, was appointed a new envoy with the rank of deputy prime minister. Empowering an outsider with a reputation as an efficient manager was supposed to signify the “modernizing” emphasis of the new strategy.30

Khloponin wasted little time developing an ambitious plan stretching as far as 2025, which envisaged a range of targets for growth and modernization but was based on two key propositions: tighter control over federal funds by his office and a massive inflow of private investment into job-creating sectors like construction and tourism. He immediately encountered stiff resistance from the republican “bosses” in achieving the former, and Kadyrov’s blunt refusal to accept any supervision over his spending habits effectively killed the initiative. As for the latter, even the most adventurous investors have been scared away, less by the high risk of rebel

attacks and more by the predation of local authorities and racketeering of police. By late 2010, Khloponin had to admit that the net outflow of capital from his domain would be hard to reverse.

The new strategy implicitly downplays the role of forceful suppression in this phase of war against Islamic terrorism, even if Medvedev keeps recycling Putin’s extra-tough, “take-no-prisoners” rhetoric. Khloponin indeed claims no part in organizing counterterrorist operations and focuses on the problem of chronic unemployment, particularly among the young. It is plausible that the real nature of this problem is hidden by the growth of criminalized “shadow” economy, which employs tens of thousands of people, spreads far beyond the region (primarily across Russia) and involves well-organized illegal circulation of goods and services, including the recently-prohibited gambling business. Regional authorities deny the existence of this unregistered economy and have deliberately over-emphasized unemployment and low incomes in order to secure more federal funds. Redistribution of this “easy money” not only corrupts the political structures but also depresses the “normal” economy where the margins of profit are incomparably lower. Khloponin’s designs for “clusters of innovation” and tourist zones look completely out of touch with this stagnant economic reality.

One grand-scale enterprise that attracts keen attention across the North Caucasus is the construction of arenas, hotels and supporting infrastructure for the 2014 Winter Olympics in the Sochi area. Only Abkhazia can expect to get a share of the enormous (and hugely wasteful) financing of this extravaganza, a fact which invites envy from many “uninvited” elites and clans; hence the ambivalent exploitation of the “Circassian question” as a means to prompt Moscow to be more generous. Putin’s intense personal involvement in the Olympic mega-project makes its security a matter of the highest sensitivity. That inevitably makes Sochi a high-value target for terrorists; it may be only a matter of months before a perhaps limited but heavy-resonance attack would re-open the discussion about moving the games to a more appropriate location.

Overall, during the first year of implementation, Medvedev’s “development-first” strategy for stabilizing the North Caucasus has reached an unfortunate but predictable dead-end. The new federal

33 S. Mashkin, “Accountant Left the Last Grenade to herself,” Kommersant, 28 November 2009.
34 Estimates of total costs of the endeavor go as high as $US 30 billion, including the $US 2 billion budget for providing security; see M. Tovkailo, “The Price of Safety,” Vedomosti, 31 January 2011.
district is not well-administered and there are growing public demands in the Stavropol kray to withdraw from it.\footnote{S. Markedonov, “Abandoned Foothold of Russia,” Gazeta.ru, 1 November 2010, <http://gazeta.ru/comments/2010/11/01_x_3433818.shtml>.
} Private investors cannot be lured or herded into the criminalized business environment in the region, and the sustained inflow of federal financing only strengthens the clan-based system of political patronage further. The inherent corruption of this system of governance feeds directly into the growth of terrorist networks.
Conclusion

The Russian leadership is failing to deliver an efficient response to the new wave of terrorism in the North Caucasus. Medvedev seeks to explain it away by alleging external sponsorship and pointing to high unemployment, but the role of the Islamic factor and the impact of corruption on shaping the evolution of the rebel movement and driving the terrorist activities remain under-analyzed. The attempt to shift the emphasis in counter-terrorist strategy from forceful suppression to economic development has a sound rationale, but its economic “incentives” do not follow the rules established by predatory political clans, while the resources for combating terrorism are stretched to their limits. Chechnya has re-emerged as the epicenter of instability where the brutal rule of Kadyrov causes the rise of armed resistance; Moscow, however, has little leverage for checking this dynamic.

There are few reasons to expect that the rebel movement will exhaust its energy and peak as it did in 2006-2007. There is no single coordinating center for this movement as various Islamic networks and terrorist groups remain disconnected and often vie for influence and financing. At the same time, the rebels retain the strategic initiative and are able to combine old tactics (IEDs, ambushes, drive-by-shooting) with new types of attacks (for instance, on hydro-power stations). There is a significant increase in suicide bombings, and while a few are performed by female terrorists, many are combined with armed attacks involving highly motivated and trained fighters. It is clear to the rebels that their increased struggle is not generating a corresponding reaction from the federal authorities so long as they do not target Sochi or the strategic oil-and-gas infrastructure or, first and foremost, Moscow. This leaves them free to pursue their current regional goals and to strike at the high-value targets at the moment of their choice.

The inefficacy of Medvedev’s strategy creates a strong probability that the 2011-12 election cycle in Russia could be suddenly and profoundly influenced by a terrorist threat originating in the North Caucasus; this was the case in the 1999-2000 cycle, while the restructuring of Putin’s leadership in 2007-2008 was essentially free from domestic security concerns. The main victim of this resecularization would be the “modernization” agenda, incoherent as it is, since public opinion would inevitably shift towards enforcement of emergency measures, strengthening of military and special services capabilities and reconstituting a “strong hand” regime. This bodes
well for Putin’s return to the position of supreme and undivided power, but his ability to reassert control over the troubled region is highly doubtful.

Spectacular growth of export revenues from rocketing oil prices strengthened his hand in combating terrorism in the mid-2000s. Russia cannot count on such effortless economic fortunes in the years to come as the global economy settles on the track of slow growth and China remains a very difficult trade partner. This unpromising prospect signifies a general exhaustion of the state-building potential of Putin’s regime as its self-serving bureaucratic machine consumes a disproportional share of shrinking petro-rent. The North Caucasus remains a part of Russia, but it is exactly in this part that the ills of its stalled transition have acquired a particularly acute character, so that corruption becomes not just a bane for modernization but a driver of terrorism. In the early 2000s, the struggle against terrorism was instrumentalized for the consolidation of the quasi-democratic, semi-authoritarian system of governance. A decade later, it might trigger its spontaneous Soviet-style implosion.
Annex