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Russia

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Russia

SUMMARY

Vladimir Putin, who was catapulted into the Kremlin following Boris Yeltsin's resignation, was elected President on March 26, 2000 by a solid majority that embraced his military campaign in Chechnya. Parties backing Putin did well in the December 1999 Duma election, giving Putin a stable parliamentary majority as well. Putin's top priority is to revive the economy and integrate Russia into the global marketplace. He has also strengthened the central government vis-a-vis the regions and brought TV and radio under tighter state control. Federal forces have suppressed large-scale military resistance in Chechnya but face the prospect of prolonged guerilla warfare. The economic upturn that began in 1999 is continuing. The GDP and domestic investment are growing after a decade-long decline, inflation is contained, the budget is balanced, and the ruble is stable. Major problems remain: one fourth of the population live below the official poverty line, foreign investment is very low, crime, corruption, capital flight, and unemployment remain high. Putin appears to seek simultaneously to tighten political control, introduce economic reforms, get major debt forgiveness, and strengthen the military.

Russian foreign policy under Yeltsin had grown more assertive, fueled in part by frustration over the gap between Russia's self-image as a world power and its greatly diminished capabilities. Russia's drive to reassert dominance in and integration of the former Soviet states is most successful with Belarus and Armenia but arouses opposition in Georgia, Ukraine, Uzbekistan, and Azerbaijan. The CIS as an institution is failing. Washington and Moscow continue to disagree over Russian missile technology and nuclear reactor transfers to Iran, among others. After September 11, however, Russia has adopted a much more cooperative attitude on many issues.

The military is in turmoil after years of severe force reductions and budget cuts. The armed forces now number about one million, down from 4.3 million Soviet troops in 1986. Weapons procurement is down sharply. Readiness, training, morale, and discipline have suffered. Following the war in Chechnya and strained relations with the West over Kosovo, Putin's government increased defense spending sharply. There is conflict between the military and the government and within the military over resource allocation, restructuring, and reform.

After the collapse of the Soviet Union, the United States sought a cooperative relationship with Moscow and supplied over $4 billion in grant aid to encourage democracy, market reform, and strategic threat reduction in Russia. Early hopes for a close partnership waned, in part because Russians grew disillusioned with perceived U.S. disregard for Russian interests, while Washington grew impatient with Russia's increasingly adversarial stance on issues in which their interests clash. Direct U.S. foreign aid to Russia, under congressional pressure, fell over the past decade. Indirect U.S. assistance, however, through institutions such as the IMF, is very substantial. The United States has imposed economic sanctions on Russian organizations for exporting military technology and equipment to Iran and Syria. There are more restrictions on aid to Russia in the FY2002 foreign aid bill. In the spirit of cooperation after September 11, however, the two sides have agreed on a strategic nuclear force reduction treaty and a strategic framework for bilateral relations, signed at the Bush-Putin summit in May 2002.

MOST RECENT DEVELOPMENTS

On July 24, Russian media reported that Russia had adopted a ten-year plan to build five more nuclear reactors in Iran, in addition to the one now under construction at Bushehr.

On August 3, Russian officials said that the plan to build additional nuclear reactors in Iran was not definite and would be reevaluated in light of [U.S.] political concerns.

On August 16, Iraqi and Russian officials announced that the two sides had agreed on a multi-year, $40 billion economic cooperation agreement, to be signed in September 2002.

On September 12, President Putin sent a letter to U.N. Security Council members and member states of the O.S.C.E., justifying possible new Russian ground and air strikes against alleged Chechen rebel bases in Georgia.

On September 14, President Bush made a statement in which he asked President Putin to give Georgia time to clear the Pankisi Gorge of Chechen rebels. E.U. officials and other European leaders also spoke out against Russian military action in Georgia.

BACKGROUND AND ANALYSIS

Post-Soviet Russia and Its Significance for the United States

Russia was by far the largest of the former Soviet republics. Its population of 146 million (down from 149 million in 1991) is about half the old Soviet total. Its 6.6 million square miles comprised 76.2% of the territory of the U.S.S.R. and it is nearly twice the size of the United States, stretching across Eurasia to the Pacific, across 11 time zones. Russia also has the lion's share of the natural resources, industrial base, and military assets of the former Soviet Union.

Russia is a multinational, multi-ethnic state with over 100 nationalities and a complex federal structure inherited from the Soviet period. Within the Russian Federation are 21 republics (including Chechnya) and many other ethnic enclaves. Ethnic Russians, comprising 80% of the population, are a dominant majority. The next largest nationality groups are Tatars (3.8%), Ukrainians (3%), and Chuvash (1.2%). Furthermore, in most of the republics and autonomous regions of the Russian Federation that are the national homelands of ethnic minorities, the titular nationality constitutes a minority of the population. Russians are a majority in many of these enclaves. Nevertheless, political confrontations between the executive and legislative branches weakened the central government, allowing many of the republics and regions to demand greater autonomy, and in some cases independence. Only the Chechen Republic, however, has tried to assert complete independence. Some have seen this trend as a threat to the cohesion of the Russian state. One of President Putin's key policies is to reverse this trend and rebuild the strength of the central government vis-a-vis the regions.

The Russian Constitution combines elements of the U.S., French, and German systems, but with an even stronger presidency. Among its more distinctive features are the ease with which the president can dissolve the parliament and call for new elections and the obstacles preventing parliament from dismissing the government in a vote of no confidence. The Constitution provides a four-year term for the president and no more than two consecutive terms. The president, with parliament's approval, appoints a premier who heads the government. The president and premier appoint government ministers and other officials. The premier and government are accountable to the president rather than the legislature.

The bicameral legislature is called the Federal Assembly. The Duma, the lower (and more powerful) chamber, has 450 seats, half chosen from single-member constituencies and half from national party lists, with proportional representation and a minimum 5% threshold for party representation. The upper chamber, the Federation Council, has 178 seats, two from each of the 89 regions and republics of the Russian Federation. Deputies presently are the regional chief executive and the head of the regional legislature. Legislation approved in July 2000, however, will transform this chamber, replacing the regional leaders with Deputies appointed by them who will serve as full-time legislators. (See p. 4, below.) The most recent parliamentary election was in December 1999.

The judiciary is the least developed of the three branches. Some of the Soviet-era structure and personnel are still in place, but a major overhaul of the criminal code was completed in late-2001. Trial by jury is being introduced and is to become the norm by 2003. Federal judges, who serve lifetime terms, are appointed by the President and must be approved by the Federation Council. The Constitutional Court rules on the legality and constitutionality of governmental acts and on disputes between branches of government or federative entities. The Supreme Court is the highest appellate body.

Russia is not as central to U.S. interests as was the Soviet Union. With the dissolution of the U.S.S.R. and a diminished Russia taking uncertain steps toward democratization, market reform and cooperation with the West, much of the Soviet military threat has disappeared. Yet developments in Russia are still important to the United States. Russia remains a nuclear superpower. It will play a major role in determining the national security environment in Europe, the Middle East, and Asia. Russia could be cooperative, passive, or disruptive. Russia is central to the future of strategic arms control, missile defense, and dealing with nuclear proliferation and international terrorism. Such issues as the U.S. budget deficit, the future of NATO, and the U.S. role in the world will all be affected by developments in Russia. Also, although Russia's economy is distressed, it is potentially an important market and trading partner. Russia is the only country in the world with more natural resources than the United States, including vast oil and gas reserves. It has a large, well-educated labor force and a huge scientific establishment. And many of Russia's needs — food and food processing, oil and gas extraction, computers, communications, and transportation — are in areas in which the United States is highly competitive.

Political Developments

The ongoing political struggle in Russia has many aspects, including contests over political ideology, the character of government, and the pace and character of economic reform; institutional clashes between the executive and legislative branches and between the

central government and the regions; and personal rivalries among would-be leaders. The political landscape is fluid, with parties and alliances forming, shifting, and dissolving. Some argue that what appears on the surface to be "normal" competition among politicians and parties of varying ideological hues masks a deeper underlying contest – an ongoing venal competition among elites to seize ownership of vast, previously state-owned assets.

In 1999, Islamic radicals based in Russia's break-away republic of Chechnya launched armed incursions into neighboring Dagestan, vowing to drive the Russians out and build a new Islamic state. A series of bombing attacks against apartment buildings in Moscow and other Russian cities killed some 300 people. The new government of then-Premier Vladimir Putin responded with a large-scale military campaign. Russian security forces may have seen this as an opportunity to reverse their humiliating 1996 defeat in Chechnya. Russian forces invaded and gradually occupied most of Chechnya. With Moscow keeping its (reported) military casualties low and domestic media ignoring the suffering of the Chechen population, the conflict enjoyed strong Russian public support, encouraging military and political leaders to escalate the offensive, despite international criticism. After a grinding siege, Russian forces took the Chechen capital in February 2000 and in the following months took the major rebel strongholds in the mountains to the south. Russian forces are believed to have killed tens of thousands of civilians and driven hundreds of thousands of Chechen refugees from their homes. Many foreign governments and the UN and OSCE, while acknowledging Russia's right to combat separatist and terrorist threats on its territory, criticized Moscow's use of "disproportionate" and "indiscriminate" military force and the human cost to innocent civilians. Although Moscow has suppressed large-scale Chechen military resistance, it faces the prospect of prolonged guerilla warfare. Russia reportedly has lost over 10,000 troops in Chechnya (1999-2002), comparable to total Soviet losses in Afghanistan (1979-1989). Russian authorities deny there is a "humanitarian catastrophe" in the North Caucasus and strongly reject foreign "interference" in Chechnya.

In the December 1999 Duma election, the two parties associated with then-Premier Putin, Unity and the Union of Rightist Forces, fared very well. The Fatherland-All Russia bloc, led by former Premier Yevgenni Primakov and Moscow Mayor Yuri Luzhkov, did not do well, as had earlier been predicted. The Communist Party, which lost about one quarter of the seats it previously held and most of its parliamentary allies, remains the largest faction in the Duma, but no longer controls a majority. Vladimir Zhirinovsky's right-wing Liberal Democratic party and Grigory Yavlinsky's democratic, pro-market, Yabloko Party both lost over half the seats they previously held.

Twelve days later, President Yeltsin's surprise New Year's Eve resignation propelled Putin into the Kremlin, advanced the presidential election date from June 4 to March 26 and increased Putin's already strong election prospects. (See CRS Report RS20525, *Russian Presidential Election, 2000,* March 24, 2000.)

Putin's meteoric rise in popularity was due to a number of factors: his tough policy toward Chechnya; his image as a youthful, vigorous, and plain-talking leader; and massive support from state-owned TV and other mass media. Putin's political strength and popularity reached such levels that three of his four chief rivals, Primakov, Luzhkov, and Lebed, decided not to run in the presidential election. On March 26, Putin was elected president with 52.5% of the vote in an 11-person field. His closest rival, Communist Party leader Gennady Zyuganov, got just under 30%. All other candidates were in single digits.

Putin, who was a Soviet KGB foreign intelligence officer for 15 years and later headed Russia's Federal Security Service (domestic security), is, in contrast to Yeltsin, an intelligent, disciplined statist. His priorities appear to be: strengthening the central government, reviving the economy, integrating Russia into the global marketplace, and modernizing the military.

On the domestic political scene, Putin won several major victory over regional leaders, reclaiming some authority for the central government that Yeltsin had allowed to slip away. First, Putin created seven super-regional districts, each overseen by a presidential appointee. Then he pushed legislation to change the composition of the Federation Council, the upper chamber of parliament. That body was comprised of the heads of the regional governments and regional legislatures of Russia's regions, giving those leaders exclusive control of that chamber and also parliamentary immunity from criminal prosecution. With Putin's changes, Federation Council Deputies will be appointed by the regional leaders and legislatures, but once appointed, will be somewhat independent. A related bill gives the president the right to remove popularly elected regional leaders who violate federal law. To partly compensate the regional leaders, Putin created the State Council, a consultative body comprised of the heads of Russia's regions and republics.

The Putin regime has been steadily working to gain control of the broadcast media. A key target was the media empire of Vladimir Gusinsky, which included Russia's only independent television network, NTV, which had been critical of Putin. Gusinski, one of the so-called oligarchs who rose to economic and political prominence under Yeltsin, was arrested in June 2000 on corruption charges. Many viewed this as an act of political repression by the Putin regime. Gusinsky was released and allowed to leave the country, but was rearrested in Spain on a Russian warrant and is being held there pending extradition to Russia. NTV owed several hundred million dollars to the state-controlled gas monopoly, Gazprom. In April 2001, Gazprom took over NTV and appointed Kremlin loyalists to run it. A few days later, Gusinsky's flagship newspaper, *Segodnya*, was shut down and the editorial staff of his respected newsweekly, *Itogi*, was fired. The government then forced the prominent oligarch Boris Berezovsky to give up ownership of his controlling share of the ORT TV network. In January 2002, TV-6, the last significant independent Moscow TV station, was shut down, the victim, many believe of government pressure. The government also appears to be moving against the independent radio network, Echo Moskvuy.

A law on political parties introduced by the government and explicitly aimed at reducing the number of parties gives the government the authority to register, or deny registration to, political parties. In April 2001, Putin suggested that the Duma be stripped of it power to debate or vote on specific components of the budget and instead either approve or reject the government's proposed budget as a whole. In April 2002, the pro-Putin bloc in the Duma staged a political coup against the Communist Party faction, depriving it of most of its committee chairmanships and other leadership posts. Many believe this was orchestrated by the Kremlin in order to undermine Communist parliamentary opposition to Putin's market-oriented economic reforms and his western-oriented foreign policy..

Economic Developments

Since the collapse of the Soviet Union, Russia has experienced widespread economic dislocation and a drop of about 50% in GDP. Conditions worse than the Great Depression

of the 1930s in the United States have impoverished much of the population, some 25% of which is living below the government's official poverty or subsistence level. Russia is also plagued by environmental degradation and ecological catastrophes of staggering proportions; the near-collapse of the health system; sharp declines in life expectancy and the birth rate; and widespread organized crime and corruption. The population has fallen by 4 million in the past decade, despite net in-migration from other former Soviet republics. The following table highlights economic performance through the decade.

Table 1. Russian Economic Performance Since 1992

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP Growth Rates	-14.5%	-8.7%	-12.6%	-4.1%	-4.9%	0	-5.0%	3.2%	8.3%	5.5%
Inflation Rates	2,525%	847%	223%	131	%	11%	84%	36%	20.2	15%

Sources: PlanEcon, Inc. and Center for Strategic and International Studies.

By the end of 1997, Russia's steadily declining GDP seemed to have bottomed out, inflation was under control, and the ruble was stable. In mid-1998, however, there was a sharp economic crisis triggered by government revenue shortfalls and a pyramid-type government borrowing scheme, worsened by the Asian financial crisis and falling world oil prices. In August, the government suspended payment on its debts to commercial and government creditors and devalued the ruble, which promptly lost two-thirds of its value, while the Russian stock market lost 88% of its value. Many peoples' savings were wiped out. The emerging middle class was hard-hit. The number of Russians living below the official poverty line increased 25%. Some analysts warned of the danger of a total economic collapse. Russia's 1998 grain harvest was the worst in 40 years, raising fear of famine.

These dire predictions, however, were wrong. In 1999, the economy began to recover. Inflation was held to 36% and the ruble was stabilized at about 25-28 to the dollar. Economic output increased and the GDP grew by 3.2%, its best performance of the decade, due partly to the sharp increase in the price of imports and increased price competitiveness of Russian exports caused by the 74% ruble devaluation in 1998. The surge in the world price of oil and gas also buoyed the Russian economy. The economic upturn accelerated in 2000, led by a 7.6% increase in GDP, 20% inflation, and a budget surplus. Economic performance remained strong in 2001. Economists disagree as to whether this is a turning point marking the start of real economic recovery, or a cyclical up-tick that will not be sustainable without further, politically costly, systemic reform.

In August 1999, the Paris Club of official government creditors provided a "framework agreement" reducing Russian interest payments on its Soviet-era debt (of over $50 billion) and deferring payment of principal until after 2001. In February 2000 Russia reached an agreement with the London Club of commercial creditors, writing off 36.5% of Russia's $32.8 billion Soviet-era commercial debt outright, with the remainder to be converted into 30-year eurobonds with lower interest rates and an 8-year grace period. This amounts to a total of 52% debt forgiveness in current net value terms. "Comprehensive" Paris Club

negotiations have begun, to determine whether western government creditors will grant Russia more large-scale debt forgiveness, or offer debt rescheduling without forgiveness. Germany, which holds 48% of that debt, is calling for full repayment. Some of Moscow's critics contend that Russia's recent economic upturn and its substantial increases in defense spending should be taken into account by western governments considering further debt forgiveness for Russia. The United states holds about 5% of Russia's Paris Club debt, about $3 billion. In December 2001, the Senate unanimously passed the Russian Federation Debt Reduction for Nonproliferation Act of 2001 (S. 1803) sponsored by Sens. Biden and Lugar and sent it to the House, where a companion bill (H.R. 3836) is being considered. These bills would link U.S. debt forgiveness for Russia to Russian efforts at nonproliferation of weapons of mass destruction. The Bush Administration is believed to be leaning toward supporting Russia's quest for debt forgiveness.

Economic Reform. In January 1992, Yeltsin launched a sweeping economic reform program developed by Acting Premier Yegor Gaidar. The Yeltsin-Gaidar program wrought fundamental changes in the economy. Although the reforms suffered many setbacks and disappointments, most observers believe they carried Russia beyond the point of no return as far as restoring the old Soviet economic system is concerned. The Russian government removed controls on the vast majority of producer and consumer prices in 1992. Many prices have reached world market levels. The government also launched a major program of privatization of state property. By 1994, more than 70% of industry, representing 50% of the workforce and over 62% of production, had been privatized, although workers and managers owned 75% of these enterprises, most of which have not still been restructured to compete in market conditions. Critics charged that enterprises were sold far below their true value to "insiders" with political connections. Land privatization, backed by the Yeltsin regime, was stalled by the strong collective farm lobby in the Duma. The Putin government says that it favors marketization and land reform. Putin has declared reviving the economy his top priority. His liberal economic reform team has formulated policies that have won G-7 and IMF approval. Skeptics charge that this may be more to impress western creditors than to implement real economic reform. The test will be in its implementation.

Foreign Policy

In 1992 and early 1993, Yeltsin's Russia gave the West more than would have seemed possible even 2 or 3 years earlier under Gorbachev. Moscow cut off military aid to the Communist regime in Afghanistan; ordered its combat troops out of Cuba; committed Russia to a reform program and won IMF membership; signed the START II Treaty that would eliminate all MIRVed ICBMs (the core of the Soviet Strategic Rocket Forces); and radically reduced Russian force levels in many other categories. The national security policies of Yeltsin and Foreign Minister Andrei Kozyrev came to be strongly criticized at home, not only by hardline communists and ultranationalists but also by many centrists and prominent democrats, who came to agree that the Yeltsin/Kozyrev foreign policy lacked a fundamental sense of national interest and was too accommodating to the West — at Russia's expense. This criticism contributed to the erosion of Yeltsin's support in the legislature. Since 1993, Russian foreign policy has become increasingly more assertive and nationalistic in many areas, while maintaining cooperation with the West in others. This shift may have had a number of causes: a) a policy adjustment to "responsible" criticism; b) an attempt to woo some of the hardline nationalists' supporters; c) a reaction to the success of nationalists and

communists in the 1993 and 1995 parliamentary elections; and d) resentment over the West's "inadequate" response to Russia's earlier conciliatory approach, western "responsibility" for Russia's economic distress, and western indifference to Russian security concerns.

The victory of leftist and nationalist forces in the 1995 legislative elections pushed Yeltsin to replace Kozyrev as Foreign Minister with Yevgenni Primakov, who was decidedly less pro-Western. Primakov opposed NATO enlargement, promoted integrating former Soviet republics under Russian leadership, and favored closer links with China, India, and other states opposed to U.S. "global hegemonism." (See CRS Report 97-185, *Russian-Chinese Cooperation: Prospects and Implications*.) When Primakov became Premier in September 1998, he chose Igor Ivanov to succeed him as Foreign Minister. Ivanov has kept that position.

Increasing nationalism in Moscow is tempered by a desire not to be isolated from the West. The Kosovo crisis and the NATO air strikes against Yugoslavia in 1999 posed a serious dilemma for Moscow: how to oppose NATO's military action without provoking a confrontation with the U.S. and NATO Europe. The response was a combination of vehement rhetoric and limited action. Moscow relied on vigorous diplomacy to help defuse the conflict and demonstrate its status as a world power. During much of the conflict, Russia opposed NATO's terms for peace as too severe, but in the end Russia joined U.S., NATO, and EU representatives in persuading Yugoslavia to accept a cease fire on NATO's terms.

Moscow still opposes NATO enlargement in Central and Eastern Europe, but has moderated its previously vehement objections. Russia appears reconciled to the likelihood of further NATO enlargement. Several years ago, Moscow declared a "red line," warning that any attempt to bring former Soviet republics such as the Baltic states into NATO would be an intolerable security threat that would wreck NATO-Russia relations and require strong Russian counter measures. By September 2001, however, Russian officials gave up trying to block Baltic accession to NATO. In December 2001, NATO and Russian Foreign Ministers announced their intention to create a NATO-Russia Council, on the principle of "NATO at 20," in which Russia and NATO members would participate as equals on certain issues. This replaces the NATO-Russia Permanent Joint Council, a consultative body that operated on the principle of "19 plus 1," i.e., NATO plus (and often *versus*) Russia, which Moscow found unsatisfactory. On May 28, 2002, NATO and Russian leaders meeting in Rome signed the "NATO at 20" agreement.

After the collapse of the Soviet Union, a consensus emerged in Moscow that reestablishing Russian dominance in this region is its highest foreign policy priority. A September 1995 Yeltsin decree outlining Russian policy toward other CIS countries set the goal of further economic integration under Russian leadership, including a customs union and a payments union. Russia has also striven for a CIS defense alliance and Russian military bases in the territory of other CIS states. Another Russian goal is to get agreement to joint efforts to secure the CIS's "external borders." The 1995 decree also said Russia would provide financial and other assistance to ethnic Russians in other CIS states, and warned of retaliation if their rights are abused.

There has been little progress toward overall CIS integration. Russia and other CIS states impose tariffs on each others' goods in order to protect domestic suppliers and raise revenue, in contravention of an economic integration treaty. Recent CIS summit meetings

have ended in failure, with many of the presidents sharply criticizing lack of progress on common concerns and Russian attempts at domination. The CIC appears to be foundering.

On October 11, 2000, however, the presidents of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan upgraded their 1992 Collective Security Treaty, giving it more operational substance and *de jure* Russian military dominance.

Russia and Belarus have taken a number of steps toward integration. Belarusan President Aleksandr Lukashenko is widely believed to covet a leading role in a unified state. But he unconstitutionally removed the parliamentary opposition in 1996 and strongly opposes market reform in Belarus, making economic integration difficult and potentially very costly for Russia. In April 1997, Yeltsin and Lukashenko signed documents calling for a "union" between states that are to remain "independent and sovereign." On May 23, 1997, they signed a Union Charter. Lukashenko minimized his and his country's political subordination to Moscow. Yeltsin avoided onerous economic commitments to Belarus. Decision making was to be on the basis of one-side- one-vote, valid only if approved by both sides. On December 25, 1998, Yeltsin and Lukashenko signed an agreement to "unify" the two countries. After protracted negotiations, the two presidents signed a treaty on December 8, 1999, committing Russia and Belarus to form a confederal state. Moscow and Minsk continue to differ over the scope and terms of union, and in June and again in August 2002, Putin sharply criticized Lukashenko's scheme for a union in which the two entities would have equal power. The prospects for union appear to be growing more distant.

Russian forces remained in Moldova against the wishes of the Moldovan government (and the signature of a troop withdrawal treaty in 1994), in effect bolstering a neo-Communist, pro-Russian separatist regime in the Transdniester region of eastern Moldova. Russian-Moldova relations warmed, however, after the election of a communist pro-Russian government in Moldova in 2001. Russian forces intervened in Georgia's multi-faceted civil strife, finally backing the Shevardnadze Government in November 1993 — but only after it agreed to join the CIS and allow Russia military bases in Georgia. Russia tacitly supports Abkhaz separatism in Georgia and is delaying implementation of a 1999 OSCE-brokered agreement to withdraw from military bases in Georgia. In 2002, tension arose over Russian claims that Chechen rebels were staging cross-border operations from Georgia's Pankisi Gorge, near the border with Chechnya. In March 2002, the Bush Administration announced that a small contingent of U.S. military personnel would be deployed in Georgia to help train and equip Georgian security forces combat Chechen, Arab, Afghani, al-Qaeda, and other terrorists who may have infiltrated into Georgia. Russian aircraft have staged sporadic air attacks against alleged Chechen rebel bases in Georgia. Tension between Russia and Georgia escalated sharply this summer, as Russian officials, frustrated by the seemingly endless guerilla warfare in Chechnya, began threatening systematic military action against Chechen bases in Georgia. On September 12, Putin sent a letter to U.N. Security Council members, Secretary-General Annan, and member states of the O.S.C.E., justifying possible new Russian ground and air strikes against Chechen rebel bases in Georgia. On September 14, President Bush made a statement in which he asked President Putin to give Georgia time to clear the Pankisi Gorge. E.U. officials and other European leaders also spoke out against Russian military action in Georgia. In response, Russian officials racheted down the rhetoric about military action in Georgia, at least temporarily. (See CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, updated regularly.)

Moscow has used the Armenian-Azerbaijani conflict over Nagorno-Karabakh to pressure both sides and win Armenia as an ally. Citing instability and the threatened spread of Islamic extremism on its southern flank as a threat to its security, Moscow intervened in Tajikistan's civil war in 1992-93 against Tajik rebels based across the border in Afghanistan. At the OSCE summit in Istanbul, November 1999, Russia agreed to accelerate the withdrawal of its forces from Moldova and Georgia, but has reneged on those commitments.

A major focus of Russian policy in Central Asia and the Caucasus has been to gain more control of natural resources, especially oil and natural gas, in these areas. Russia seeks a stake for its firms in key oil and gas projects in the region and puts pressure on its neighbors to use pipelines running through Russia. This became a contentious issue as U.S. and other western oil firms entered the Caspian and Central Asian markets and sought alternative pipeline routes. Russia's policy of trying to exclude U.S. influence from the region as much as possible, however, was dramatically reversed by President Putin after the September 11. Russian cooperation with the deployment of U.S. military forces in Uzbekistan, Tajikistan, and Tajikistan would have seemed unthinkable before September 11. (For more on Russian policy in these regions, see CRS Issue Brief IB93108, *Central Asia's New States: Political Developments and Implications for U.S. Interests*, and CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*.)

Of all the Soviet successor states, Ukraine is the most important for Russia. The Crimean Peninsula has been especially contentious. Many Russians view it as historically part of Russia, and say it was illegally "given" to Ukraine by Khrushchev in 1954. Crimea's population is 67% Russian and 26% Ukrainian. In April 1992, the Russian legislature declared the 1954 transfer of Crimea illegal. Later that year Russian and Ukrainian negotiators agreed that Crimea was "an integral part of Ukraine" but would have economic autonomy and the right to enter into social, economic and cultural relations with other states. In January 1994, Yuri Meshkov, an advocate of Crimean union with Russia, was elected President of Crimea. Moscow and Kiev sought to avoid open conflict over Crimea. Moscow distanced itself from Meshkov, allowing Kiev successfully to use economic and political pressure against Crimean separatism. Throughout 1996, Yeltsin postponed visiting Kiev to sign a friendship treaty, citing Kiev's refusal to cede full of Sevastopol naval base in Crimea to Russia. Moscow also stalled on the division of the Black Sea Fleet. In response, Ukraine pointedly increased its cooperation with NATO. Finally, in May 1997, Yeltsin and Ukrainian President Leonid Kuchma signed a Treaty resolving the long dispute over Sevastopol and the Black Sea Fleet and declaring that Russian-Ukrainian borders can not be called into question. This agreement, widely viewed as a major victory for Ukrainian diplomacy, was ratified in April 1999.

Moscow grudgingly treats the three Baltic states, which never joined the CIS, as exceptions among the former Soviet states. Russian troops were withdrawn from Lithuania in 1993 and from Estonia and Latvia in August 1994. In October 1997, Russia and Lithuania signed a border delimitation treaty, Russia's first such treaty with a former Soviet state. However, Russia frequently and strongly states its objection to what it calls human rights violations against the Russian-speaking population in Estonia and Latvia, particularly concerning citizenship and language laws. In 1998, Moscow launched a sharp campaign against Latvia, using propaganda, threats, and de facto economic sanctions to try to force a

change in Riga's citizenship and language laws. Many believe that Russia fosters tension with the Baltic states as a way of trying to block their accession to NATO.

Defense Policy

Fundamental Shakeup of the Military

The Russian armed forces and defense industries are in turmoil. Their previously privileged position in the allocation of resources has been broken, as has their almost sacrosanct status in official ideology and propaganda. Hundreds of thousands of troops have been withdrawn from Eastern Europe, the former Soviet Union, and the Third World. Massive budget cuts and troop reductions forced hundreds of thousands of officers out of the ranks into a depressed economy and probable unemployment. Present troop strength is about 1 million men. (The Soviet military in 1986 numbered 4.3 million.) Weapons procurement is at historic lows. Readiness and morale are very low, and draft evasion and desertion are widespread. (See CRS Report 97-820, *Russian Conventional Armed Forces: On the Verge of Collapse?*) In mid-1997, Yeltsin named General (later Marshal) Igor Sergeev, previously Commander of the Strategic Rocket Forces, as Russia's Defense Minister, declared military reform a top priority, and signed a number of decrees to reorganize, consolidate, and further downsize the armed forces.

But fundamental reform of the armed forces and the defense industries — which Russia urgently needs if it is to solve its economic problems — is a very difficult, controversial, and costly undertaking and was further set back by the economic and political crises of 1998-1999. The Chechen conflict further delayed military reform. Putin, however, has pledged to strengthen and modernize the armed forces, and appears determined to do so. At the same time, he appears to be quite aware of Russia's financial limitations. The decisions announced in August and September 2000 to greatly reduce Russia's strategic nuclear forces (from 6,000 to 1,500 deployed warheads), to shift resources from strategic to conventional forces, and to reduce military manpower by 350,000, from 1,200,000 (authorized) to 850,000, may be indications of a serious intent of effect military reform.

The conflicts in Kosovo and Chechnya, and the generally more hawkish, anti-western atmosphere in Russia, led the government under Putin to make some other changes. A new military doctrine and new national security and foreign policy "concepts" were adopted. These documents retain the previous judgement that Russia's main security threats are internal rather than external, but assert that external military threats, particularly from NATO, are growing, and call for greater military readiness and capability. This is the context for the Putin government's pledge to increase defense spending by 50%.

In March 2001, Putin made a series of changes in the military leadership that may foreshadow major policy changes. Sergeev was replaced as Defense Minister by Sergei Ivanov, a former KGB general very close to Putin, who had resigned his nominal intelligence service/military rank and headed Putin's Security Council as a civilian. Deputy Finance Minister Lyubov Kudelina, a woman, was appointed Deputy Defense Minister in charge of the defense budget. Putin explained that the man who had supervised the planning for

military reform (Ivanov) should be the man to implement reform as Defense Minister. He also said these changes would increase civilian control of the military.

Despite its difficulties, the Russian military remains formidable in some respects and is by far the largest in the region. Because of the deterioration of its conventional forces, however, Russia relies increasingly on nuclear forces to maintain its status as a major military power. Even Russia's increased defense spending (up some 50% over last year, to $5.16 billion in 2000) is far below the levels of support of the 1970s or 1980s. There is sharp debate within the armed forces about priorities between conventional vs. strategic forces and among operations, readiness, and procurement. Russia is trying to increase security cooperation with the other CIS countries. Russia has military bases on the territory of all the CIS states except Azerbaijan and is seeking to take over or at least share in responsibility for protecting the "outer borders" of the CIS. In the early 1990s, Russia, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, and Uzbekistan signed a collective security treaty and/or an agreement on creating a common "military-strategic space." Implementation of these agreements, however, has been limited, although in the proposed Russia-Belarus union, President Lukashenko pointedly emphasizes the military dimension. On the other hand, Georgia, Ukraine, and Azerbaijan are shifting their security policies toward a more western, pro-NATO orientation.

Control of Nuclear Weapons

When the U.S.S.R. collapsed in 1991, over 80% of its strategic nuclear weapons were in Russia. The remainder were deployed in Ukraine, Belarus, and Kazakhstan. Those three states completed transfer of all nuclear weapons to Russia and ratified the Nuclear Non-Proliferation Treaty as non-nuclear-weapon states by 1995-1996. All Soviet tactical nuclear weapons, which had been more widely dispersed, reportedly were moved to Russia by 1992 to be dismantled. The command and control system for strategic nuclear weapons is believed to be tightly and centrally controlled, with the Russian President and defense minister responsible for authorizing their use. The system of accounting and control of nuclear (including weapons grade) material, however, is much more problematic, raising widespread concerns about the danger of nuclear proliferation. There are growing concerns about threats to Russian command and control of its strategic nuclear weapons resulting from the degradation of its system of early warning radars and satellites. At the June 2000 Clinton-Putin summit, the two sides agreed to set up a permanent center in Moscow to share near real-time information on missile launches. (See CRS Issue Brief IB98038, *Nuclear Weapons in Russia: Safety, Security, and Control Issues*.)

U.S. Policy

U.S.-Russian Relations

The spirit of U.S.-Russian "strategic partnership" of the early 1990s was replaced by increasing tension and mutual recrimination in succeeding years. In the aftermath of the September 11, 2001 attacks, however, the two nations have reshaped their relationship on the basis of cooperation against terrorism. For the change in Russian policy toward more

cooperation with the United States and the West, see CRS Report RL31543, *Russia's National Security Policy After Sept. 11*. (August 20, 2002)

Russia's construction of nuclear reactors in Iran and its role in missile technology transfers to Iran are critical sources of bilateral tension. Despite repeated pleas by President Clinton and other U.S. officials, who argued that Iran would use the civilian reactor program as a cover for a covert nuclear weapons program, Russia adamantly refused to cancel the project. In 1997, Israeli and U.S. critics charged that Russian enterprises were actively assisting Iran's missile development program. The Clinton Administration and the Congress made this a high-priority issue in bilateral relations. In January 1998, Russia tightened export controls on missile technology. On June 9, 1998, Congress passed H.R. 2709 (Title I of which was the "Iran Missile Proliferation Sanctions Act"), that would have imposed economic sanctions on foreign entities that contribute to Iran's efforts to develop ballistic missiles. The President vetoed this bill. Before the expected veto override attempt, Moscow brought criminal charges against seven entities, alleging illegal exports to Iran. The Clinton Administration promptly imposed economic sanctions against them. Congress took no further action on H.R. 2709. But in December 1998, press reports and Administration statements asserted that some Russian entities continued to transfer missile technology to Iran.

On January 10, 1999, the Clinton Administration announced economic sanctions against three more Russian institutions. It further threatened to curtail contracts worth hundreds of millions of dollars for Russian launch of U.S. commercial satellites. Moscow denies these allegations and protests the sanctions. Dissatisfied with Russia's response and Clinton Administration actions, the House unanimously passed the Iran Nonproliferation Act (H.R. 1883) on September 14, which requires the president to impose economic sanctions on any entity or government that contributed to Iran's development of weapons of mass destruction or of ballistic missiles. The bill also targets U.S. payments to the Russian Space Agency, in connection with the international space station, worth over $500 million. On February 22, 2000, the Senate unanimously passed the bill. President Clinton signed it into law (P.L. 106-178) on March 14. On November 3, the Russian Foreign Ministry notified the State Department that as of December 1, it would no longer consider itself bound by the 1995 Gore-Chernomyrdin agreement limiting Russian conventional arms sales to Iran. On January 16, 2001, the Russian Atomic Energy Ministry announced that it had begun construction of a second nuclear reactor at Bushehr. (See CRS Report RL30551, *Iran: Arms and Technology Acquisitions*.) The Bush Administration continues to treat these as urgent issues in its relations with Russia. At the May 2002 summit meeting in Russia, the two countries established a bilateral working group to seek a mutually satisfactory resolution of this lingering policy conflict. In late July, however, the Russian press reported that the Ministry of Atomic Energy had adopted a plan to build five new nuclear reactors in Iran over a ten-year period. A high-level U.S. delegation made a previously planned visit to Moscow to urge Russia to cancel this deal. Afterward, Russian officials reportedly said that the ten-year plan was "theoretical" and might be reevaluated in light of "political factors."

Since late-1997, U.S. and Russian interests have clashed over Iraq. Russia has strongly opposed military action against Iraq in connection with the UN inspection regime. Virtually all segments of the Russian political spectrum protested vehemently against the U.S.-led missile and air strikes against Iraq in December 1998. Russia has supported Iraq's call for an end to economic sanctions and limiting UN weapons inspections. It also wants to expand

economic relations with Iraq and secure repayment of $7 billion of loans owed from the Soviet period. Since September 11, however, Moscow has moved away from blanket support of Iraq. Some Russian officials have suggested that under certain circumstances, U.S. military action against Iraq might not seriously strain U.S.-Russian relations – provided it was not unilateral and Russia's economic interests in Iraq were protected. Nevertheless, on August 16, 2002, Iraqi and Russian officials announced that the two countries would soon sign an economic cooperation agreement worth $40 billion. A senior Russian official confirmed that a five-year agreement with Iraq, encompassing the oil, electrical, chemical, agricultural, and transport sectors, under consideration for several years, has been approved by the relevant ministries and is being readied for signing. He also said the contracts would not violate U.N. sanctions against Iraq. The initial U.S. response downplayed the deal. A White House spokesman said that Putin was a strong supporter of the war against terrorism and that Moscow was expected to continue honoring the sanctions regime against Iraq.

A sharp U.S.-Russian clash of interests over missile defense, the ABM Treaty, and strategic arms reductions flared in the first year of the Bush Administration. These problems were substantially reduced, but not entirely resolved, at the Bush-Putin summit in May 2002. The Bush Administration rejected the Clinton Administration's policies of seeking implementation of START II together with modification of the ABM Treaty to allow limited national missile defense. (START II was approved by the U.S. Senate in January 1996 and by the Russian Federal Assembly in April 2000, but instruments of ratification were never exchanged and the treaty was never implemented. Agreements signed by Presidents Clinton and Yeltsin in September 1997 had modified the treaty, requiring Senate approval of the new terms, which was not forthcoming.) The new Bush Administration declared its disinterest in START II and the ABM Treaty and its determination to pursue robust missile defense. This approach was met with resistance from Moscow, but the Administration stuck to its policies and, despite skepticism from some Members of Congress and many European allies, gradually won Russian acquiescence on most elements of its program.

Moscow reacted very negatively to early Bush Administration assertions of its determination to press ahead vigorously with a more robust missile defense program, but the atmospherics, at least, changed markedly during the Bush-Putin summit in Slovenia on June 16, 2001. Putin expressed willingness to consider some changes to the ABM Treaty – but later made clear that he saw this in terms of theater missile defense for Europe, in which Russia would expect to participate, a formulation not favored by the Bush Administration. At the G-8 meeting in Genoa on July 22, Bush and Putin made the surprising announcement that senior officials would begin consultations soon on the linked issues of missile defense and strategic nuclear arms reductions. After their October 21 meeting at the APEC summit in Shanghai, the two presidents announced that they had narrowed their differences on these issues. In the run up to the November 2001 Bush-Putin summit, U.S. and Russian officials hinted that a breakthrough agreement was near that would, *inter alia*, relax ABM Treaty restrictions on missile defense testing while preserving the ABM Treaty and also sharply reduce strategic nuclear forces on both sides. The November 13-16 summit in Washington and Texas, however, did not result in the expected package deal. Although both sides said they would reduce their strategic offensive nuclear forces by some two-thirds, the Americans resisted Russian's desire to codify this in binding treaty form. They also disagreed on missile defense tests and the ABM Treaty. Discussions at the foreign minister level in December narrowed the differences on strategic force reductions.. On December 13 the Bush Administration gave Moscow official notification of its intention to renounce the ABM

Treaty within six months. U.S. press reports, citing Administration sources, say that Russian leaders were privately informed of the U.S. decision some days earlier. Russia's official response was cool but restrained, calling the U.S. decision a mistake, but saying that it would not cause a major disruption in relations. Similarly, in January 2002, Moscow reacted negatively to the Bush Administration's proposed plans to put in storage many of the nuclear warheads it plans to withdraw from deployment, rather than destroy them. Again, however, Russian criticism was relatively restrained, while the two sides continued intensive negotiations. The negotiations bore fruit in mid-May, when final agreement was announced. Moscow won U.S. agreement to make the accord a treaty requiring legislative approval. The terms of the treaty, however, achieve all the Administration's key goals: Deployed strategic nuclear warheads are to be reduced to 1,700-2,200 by 2012, with no interim timetable, no limits on the mix or types of weapons, and no requirement for destroying rather than storing warheads. The so-called Treaty of Moscow was signed by the two presidents on May 24, 2002. On June 13, the United States became free of all restraints of the ABM Treaty. On the same day, Moscow announced that it would no longer consider itself bound by the provisions of the (unratified) START II Treaty, which has become a dead letter. On June 24, the commander of Russia's Strategic Rocket Forces announced that in response to the U.S. withdrawal from the ABM Treaty, Russia had decided to prolong the life of its MIRVed ICBM force, which, he said, could be extended another 10-15 years.

Moscow and Washington are cooperating on some issues of nuclear weapons reduction and security. Since 1992, the United States has spent over $3 billion in Cooperative Threat Reduction program (CTR or "Nunn-Lugar") funds to help Russia dismantle nuclear weapons and ensure the security of its nuclear weapons, weapons grade nuclear material, and other weapons of mass destruction. During the September 1998 summit, both countries agreed to share information when either detects a ballistic missile launch anywhere in the world, and to reduce each country's stockpile of weapons-grade plutonium by fifty metric tons. In June 1999, U.S. and Russian officials extended the CTR program for another seven years. The two sides also agreed to each dispose of an additional 34 tons of weapons-grade plutonium, with the U.S. to seek international funding to help finance the $1.7 billion Russian effort. The planned U.S.-Russian joint missile early warning information center in Moscow, however, has yet to be established. In April 2002, the Bush Administration decided not to certify that Russia was fully cooperating with U.S. efforts to verify its compliance with agreements to eliminate chemical and biological weapons. This could block or limit U.S. funding for a number of major U.S.-Russian comprehensive threat reduction programs.

President Putin denounced the September 11 terror attacks in New York and Washington in very strong terms, comparing them to Nazi atrocities. Some saw this as preparing the Russian public for cooperation with the United States. Indeed, he has moved toward fundamentally reshaping U.S.-Russian relations on a more cooperative basis. Russia has facilitated U.S. military force deployments to bases in Uzbekistan, Tajikistan, and Kyrgyzistan, an unprecedented development that required not only Russia's approval but its active support. Russia is also sharing intelligence about Afghanistan with the United States, has sent arms, including tanks and other heavy weapons, to the anti-Taliban opposition forces, and reportedly provided them with direct military assistance on the ground. Further Russian cooperation could become highly desirable, depending on what options the United States chooses in its anti-terrorism campaign. The interplay of what Washington might want from Moscow and what Moscow might seek in return could involve some very high-stakes tradeoffs. In the short run, the Bush Administration has said it would work with Congress

to eliminate the Jackson-Vanic restrictions on trade with Russia, to facilitate increased U.S. trade and investment in Russia, and to support Russia's efforts to win debt relief from the Paris Club of creditors.

U.S. Assistance

(The following discussion draws heavily from CRS Issue Brief IB95077, *The Former Soviet Union and U.S. Foreign Assistance*.) From FY1992 through FY1997, the U.S. government obligated $4.5 billion in grant assistance to Russia, including $2.1 billion in Freedom Support Act aid for democratization and market reform and $857 million for Cooperative Threat Reduction (Nunn-Lugar assistance). But Russia's share of the (shrinking) NIS foreign aid account fell from about 60% in FY1993-FY1994 to 17% in FY1998 and has been at or below 20% since then. The Administration allocated $179 million to Russia from FY2000 appropriations, $61million of which is for the Extended Threat Reduction program, and it has requested a level of $162 million for Russia programs in FY2001.

Both the FREEDOM Support Act and annual foreign operations appropriations bills contain conditions that Russia is expected to meet in order to receive assistance. A restriction on aid to Russia was approved in the FY1998 appropriations and each year thereafter, prohibiting any aid to the government of the Russian Federation (i.e., central government; it does not affect local and regional governments) if the President does not certify that Russia has not implemented a law discriminating against religious minorities. The President has made such determinations, most recently on May 26, 2000.

In addition to the conditions related to Russian nuclear reactor and ballistic missile technology transfers to Iran, discussed above, Members of Congress proposed a number of other conditions, which were debated during the 106th Congress (H.R. 4811) or Senate (S. 2522). These bills would have:

- required a reduction in assistance to Russia by an amount equal to any loan or other financial assistance or energy sales provided to Serbia, required U.S. opposition to international financial institution loans, and suspended Export-Import and OPIC loans or guarantees. Authored by Senator Helms in response to Russia's hosting of the Yugoslav Defense Minister, an indicted war criminal, and its provision of a loan to Serbia, it was adopted as an amendment to S. 2522, after being modified with a presidential waiver authority.
- expressed the sense of the Senate that the United States should oppose international financial institution loans to Russia if it delivered additional SS-N-22 Moskit anti-ship missiles to China. This amendment by Smith (NH) was added to S. 2522 during floor debate. H.R. 4022 (Rohrabacher), prohibiting rescheduling or forgiveness of bilateral debt until Russia has terminated sales of the missiles was approved by the House International Relations Committee on April 13, 2000 with a presidential waiver authority provision.
- prohibited the rescheduling or forgiveness of any bilateral debt owed to the United States by Russia until the President certifies that Russia has ceased operations and closed its intelligence facility at Lourdes, Cuba. H.R. 4118

(Ros-Lehtinen) was approved by the House (275-146) on July 19, 2000. The International Relations Committee added presidential waiver authority that would permit the rescheduling of debt, but the bill did not provide a waiver for debt forgiveness. Further, the bill still would have required U.S. opposition to rescheduling and forgiveness at the Paris Club, possibly making the rescheduling waiver meaningless. In the Senate, a similar piece of legislation was introduced (S. 2748, Mack) on June 16, 2000. (See CRS Report RL30628.)