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Russia

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Russia

SUMMARY

Vladimir Putin won reelection as Russian President on March 14, 2004, in an exercise in "managed democracy" in which he took 71% of the vote and faced no serious competition. The pro-Putin Unified Russia party similarly swept the parliamentary election in December 2003 and controls more than two-thirds of the seats in the Duma. On March 1, Putin replaced long-serving Premier Kasyanov with a little-known bureaucrat, Mikhail Fradkov, indicating that Putin intends to take the reins of government even more completely into his own hands. Putin's twin priorities remain to revive the economy and strengthen the state. He has brought TV and radio under tight state control and virtually eliminated effective political opposition. Federal forces have suppressed large-scale military resistance in Chechnya but face the prospect of prolonged guerilla warfare and terrorist style attacks.

The economic upturn that began in 1999 is continuing. The GDP and domestic investment are growing impressively after a 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 low, crime, corruption, capital flight, and unemployment remain high. Putin apparently seeks simultaneously to tighten political control and accelerate economic reform.

Russian foreign policy in the late 1990s 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 nuclear reactor sales to Iran, among other issues. After the September 11 attacks, however, Russia adopted a generally 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. Putin's government has increased defense spending sharply but 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 WMD threat reduction in Russia. Early hopes for a close partnership waned however, due to mutual disillusionment. 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, was 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 FY2004 foreign aid bill. In the spirit of cooperation after September 11, however, the two sides 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 September 28, 2004, a group of 115 U.S. and European politicians and foreign policy experts, including Senators Biden and McCain, accused President Putin of undermining democracy and leading Russia back toward authoritarianism. The charge was contained in an open letter to President Bush and other NATO and EU leaders.

On October 14, 2004, Russia and China signed an agreement ceding ownership of several small islands in the Amur River to China. The islands, near the Russian city of Khabarovsk, had been in dispute for decades. The resolution of this last territorial dispute concludes the process of Russo-Chinese border demarcation that began in the 1980s.

On October 20, 2004, the Russian Duma approved the second reading of the government's 2005 budget. The draft budget increases military and security force spending by 29% over 2004, with little or no increases for social programs.

On November 5, 2004, President Putin signed the Kyoto Protocol, which earlier had been ratified by parliament. Russia's accession is expected to bring the pact, aimed at reducing global greenhouse gas emissions, into effect in early 2005.

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 144 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. During Yeltsin's presidency, many of the republics and regions won greater autonomy. Only the Chechen Republic, however, tried to assert complete independence. 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. President Putin was reelected to a second term in March 2004.

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 are appointed by the regional chief executive and the regional legislature. (See p. 3-4, below.) Parliamentary elections were held on December 7, 2003. (See p. 5, below, for results.)

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 but has not yet become the norm. 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 has an important role in the future of arms control, nonproliferation of weapons of mass destruction, and the fight against terrorism. Such issues as the war on terrorism, 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 recovering and is potentially an important 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 technology, computers, communications, transportation, and investment capital — 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 central government and the regions; and rivalries among competing political-economic cliques. Some argue that what has appeared on the surface to be "normal" competition among politicians and parties of varying ideological hues

masked a deeper underlying contest — an ongoing venal competition among elites to seize ownership of vast, previously state-owned assets.

President Yeltsin's surprise resignation (December 31, 1999) propelled Putin into the Kremlin. Putin's meteoric rise in popularity was due to a number of factors: his tough policy toward Chechnya; his image as a youthful, vigorous, sober, and plain-talking leader; and massive support from state-owned TV and other mass media. In March 2000, Putin was elected president with 52.5% of the vote. 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 16 years and later headed Russia's Federal Security Service (domestic security), is 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 victories over regional leaders, reclaiming some authority for the central government that Yeltsin had allowed to slip away. First, Putin created seven super-regional districts overseen by presidential appointees. Then he pushed legislation to change the composition of the Federation Council, the upper chamber of parliament (a body that was comprised of the heads of the regional governments and regional legislatures), giving those leaders exclusive control of that chamber and also parliamentary immunity from criminal prosecution. With Putin's changes, Federation Council Deputies are appointed by the regional leaders and legislatures, but once appointed, they are somewhat independent. A related bill gives the president the right to remove popularly elected regional leaders who violate federal law. In September 2004, Putin proposed that regional governors no longer be popularly elected, but instead be appointed by the president and then ratified by regional legislatures. Legislation to this effect was introduced in October 2004. There is strong resistance to this proposal from many who denounce it as a major attack on Russian democracy and federalism.

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. Gusinsky, one of the so-called oligarches who rose to economic and political prominence under Yeltsin, was arrested in June 2000 on corruption charges and was later released and allowed to leave the country. Many viewed this as an act of political repression by the Putin regime. In April 2001, the state-controlled gas monopoly 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 has also moved against the independent radio network, Echo Moskvuy and other electronic media.

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 its 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.

In the summer of 2003, the Russian government launched a campaign against Mikhail Khodorkovski, CEO of Yukos, the world's fourth largest oil company. After numerous searches and seizures of Yukos records and the arrest of several senior Yukos officials, Federal Security Service police arrested Khodorkovski on October 25. Five days later prosecutors froze Yukos stock worth some $12 billion. Khodorkovski, the wealthiest man in Russia, became a multi-billionaire in the 1990s in the course of the often corrupt privatization of state-owned assets under former president Yeltsin. Khodorkovski, however, subsequently won respect in the West by adopting apparently open and "transparent" business practices while transforming Yukos into a major global energy company. Khodorkovski criticized some of President Putin's actions, established a major philanthropic foundation, financed anti-Putin political party, and hinted that he might enter politics in the future. Khodorkovski's arrest is seen by many as politically motivated, aimed at eliminating a political enemy and making an example of him to other Russian "oligarches." Many observers also see this episode as the denouement of a long power struggle between two Kremlin factions: a business-oriented group of former Yeltsin loyalists and a rising group of Putin loyalists drawn mainly from the security services and Putin's home town of St. Petersburg. A few days after Khodorkovski's arrest, Presidential Chief of Staff Aleksandr Voloshin, reputed head of the Yeltsin-era group, resigned, as did several of his close associates, leaving the Kremlin in the hands of the "policemen." In December, the Russian Tax Police served Yukos with a bill for $3.4 billion in back taxes. Khodorkovski went on trial in June 2004 on multiple criminal charges of tax evasion and fraud. It appears that Yukos is going to be broken up and its principal assets sold off to satisfy alleged tax debts.

In parliamentary elections on December 7, 2003, the big winners were the Unified Russia Party, identified with President Putin, and the newly created pro-Kremlin populist/nationalist party, Motherland. When the new Duma convened on December 29, Unified Russia had 300 of the 450 seats. With its two-thirds majority and the added support of the Motherland Party and Vladimir Zhirinovsky's right-wing Liberal Democratic Party, the Kremlin's control of the Duma is absolute, sufficient to pass any legislation and to amend the Constitution. The big losers were the Communist Party, which lost half its seats, and the two liberal, pro-western parties, Yabloko and Union of Rightist, which failed to reach the 5% threshold and were virtually eliminated from the Duma. The Communist Party now holds 52 seats; Motherland and the Zhirinovsky's LDP hold 36 seats each. These are the only four parties with meaningful representation in the Duma.

The pro-Kremlin sweep in the Duma election foretold the results of the presidential election three months later. Demonstrating what some of Putin's own advisors call "managed democracy," the Kremlin team used levers of power and influence to affect the electoral process, including determining the opposition candidates. So-called "administrative resources" (financial, bureaucratic, and judicial) were mobilized at the federal, regional, and local level in support of Putin's campaign. The state-controlled national broadcast media lionized Putin and generally ignored and/or denigrated his opponents. On March 14, 2004, Putin, as expected, won reelection to a second term with a reported 71% of the vote, and no

serious opposition. Communist Party leader Zyuganov declined to run, as did Zhirinovsky, both of whom designated surrogates to put up a show of contesting the election. In the event, the Kremlin's biggest campaign challenge turned out to be maintaining the appearance of a politically meaningful contest. Most objective observers, Russian and international, concluded that in this the Putin team failed.

Putin declined to participate in several televised debates with the other five presidential candidates, nor did he present a campaign platform. Two weeks before the election, however, he surprised observers by announcing a major government shake up. There were two notable personnel changes: Mikhail Kasyanov, who had served as Putin's Premier for four years but also had ties with the Yeltsin "family," was replaced by Mikhail Fradkov, a little-known bureaucrat who was Moscow's representative to the EU and before that briefly headed the Federal Tax Police. Igor Ivanov, who had been Foreign Minister since 1998, was replaced by career diplomat Sergei Lavrov, who had served for a decade as Moscow's U.N. Representative. Putin and Fradkov further announced a major streamlining of the government bureaucracy, sharply reducing the number of ministries, state committees, and commissions, and the number of deputy ministers, etc.; and similarly streamlining the presidential administration.

Chechnya. 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 create an 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 Putin blamed Chechen terrorists and 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. With Moscow keeping its (reported) military casualties low and Russian media reporting little about Chechen civilian casualties, the conflict enjoyed strong Russian public support, 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 have killed tens of thousands of civilians and driven hundreds of thousands of Chechen refugees from their homes.

In March 2003, Russian authorities conducted a referendum in Chechnya on a new Chechen constitution that gives the region limited autonomy within the Russian Federation. Moscow claims it was approved by a wide margin. In October 2003, the Moscow-appointed head of the Chechen Administration, Akhmad Kadyrov, was elected President of the republic. Russian hopes that these steps would increase political stability and reduce bloodshed were disappointed, as guerilla fighting in Chechnya and suicide bomb attacks in the region and throughout Russia continued. On May 9, 2004, Kadyrov was assassinated by a bomb blast in Grozny, further destabilizing Chechnya. On August 29, Alu Alkhanov, Moscow's preferred candidate, was elected President of Chechnya, replacing Kadyrov.

Many foreign governments and the U.N. 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 and urge Moscow to pursue a political solution. Although Moscow has suppressed large-scale Chechen military resistance, it faces the prospect of prolonged guerilla warfare. Russia reportedly has lost some 12-15,000 troops in Chechnya (1999-2004), 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. The bloodshed continues on both sides. Russian forces regularly conduct sweeps and "cleansing operations" that reportedly result in civilian deaths, injuries, and abductions. Chechen fighters stage large and small attacks against Russian forces and pro-Moscow Chechens in Chechnya and neighboring regions and terrorist attacks against civilian targets throughout Russia. Most recently, on August 24, 2004, two Russian airliners were brought down by suicide bombers, killing all 90 people aboard. On September 1, a group of heavily armed fighters stormed a school in the town of Beslan, taking some 1,150 children, teachers, and parents hostage and demanding the withdrawal of Russian forces from Chechnya. Two days later, in a chaotic and violent battle, over 350 hostages and nearly all the pro-Chechen fighters were killed by explosives set by the hostage-takers and by gunfire from all sides. Radical Chechen field commander Shamil Basaev later reportedly claimed responsibility for the Beslan school assault, the airliner bombings, and recent suicide bomb attacks in Moscow. However, Aslan Maskhadov, the nominal political leader of Chechnya's separatist movement, denounced the school attack and suicide bombings against civilian targets as unjustifiable acts of terrorism.

On September 13, 2004, in the aftermath of the bloody Beslan school hostage crisis, President Putin proposed a number of changes to the political system that would further concentrate power in his hands, necessitated, he said, by Russia's intensified war against international terrorism. He proposed, *inter alia*, that regional governors no longer be popularly elected, but instead that regional legislatures confirm the president's appointees as governors and that all Duma Deputies be elected on the basis of national party lists, based on the proportion of votes each party gets nationwide. The first proposal would make regional governors wholly dependent on, and subservient to, the president, undermining much of what remains of Russia's nominally federal system. At present, half the Duma's 450 Deputies are elected from single member districts, many of them as independents. The second proposal would eliminate independent deputies and further strengthen the pro-presidential parties that already control an absolute majority in the Duma. Putin and his supporters argue that these measures will help reduce corruption in the regions and "unify" the country, the better to fight against terrorism. Critics see the proposals as further, major encroachments on the fragile democratic reforms of the 1980s and 1990s that have already suffered serious setbacks under Putin. They warn of Putin's growing authoritarianism. President Bush, Secretary of State Powell, and many members of Congress voiced concern that Putin's September 13 proposals threaten Russian democracy.

Economic Developments

After the collapse of the Soviet Union, Russia 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 impoverished much of the population, some 25% of which is still 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 5 million in the past decade, despite net in-migration from other former Soviet republics.

In 1999, the economy began to recover, 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 has remained relatively strong since then. Economists disagree as to whether this is a turning point marking the start of fundamental economic recovery, or a cyclical improvement that will not be sustainable without further, politically painful, systemic reform. The following table highlights economic performance through the decade.

Table 1. Russian Economic Performance since 1992

Annual percentage change

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
GDP Growth Rates	-14.5	-8.7	-12.6	-4.1	-4.9	0.8	-5.0	3.2	9	5.5	4	7.3
Inflation Rates	2,525	847	223	131	48	11	84	36	20.2	15	12	13.6

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

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. The Putin government 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 (now G-8, with Russia as a full member) and IMF approval. The test will be in its implementation. Some notable accomplishments include a flat 13% personal income tax and lower corporate taxes which helped boost government revenue and passage of historic land privatization laws. In May 2004, Russia reached agreement with the EU on Russian accession to the WTO. EU leaders reportedly made numerous economic concessions to Moscow. Russia agreed to sign the Kyoto Protocol and roughly double the price of natural gas domestically by 2010.

Foreign Policy

In the early 1990s, Yeltsin's Russia gave the West more than would have seemed possible even two or three 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 have eliminated 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 ultra nationalists but also by many centrists and prominent democrats, who came to agree that the Yeltsin/Kozyrev foreign policy lacked a 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. Russian foreign policy became 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. In 1995, Yeltsin replaced Kozyrev as Foreign Minister with Yevgeny 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 hegemonist." When Primakov became Premier in September 1998, he chose Igor Ivanov to succeed him as Foreign Minister. Ivanov kept that position until March 2004, when he was replaced by career diplomat Sergei Lavrov, formerly Russia's U.N. Ambassador.

During Putin's first year as president he continued Primakov's policies, but by 2001, even before September 11, he appears to have made a strategic decision to reorient Russian national security policy toward cooperation with the West and the United States. Putin sees Russia's economic revitalization proceeding from its integration in the global economic system dominated by the advanced industrial democracies — something that cannot be accomplished in an atmosphere of political/military confrontation or antagonism with the United States. After the September 11 attacks, the Bush Administration welcomed Russia's cooperation against Al Qaeda and the Taliban regime in Afghanistan, which paved the way for broader bilateral cooperation.

Moscow is still unhappy about NATO enlargement in Central and Eastern Europe, but has reconciled itself to that, including former Soviet Baltic republics. 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 May 2002, NATO and Russian leaders meeting in Rome signed the "NATO at 20" agreement, in which Russia and NATO members 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 all sides found unsatisfactory. Russia reacted relatively calmly to NATO's admission of seven new members (May 2004), including the former Soviet Republics of Estonia, Latvia, and Lithuania.

After the collapse of the Soviet Union, a consensus emerged in Moscow that reestablishing Russian dominance in this region is a very high priority. 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 CIS as an institution 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. In February 2003, the presidents of Russia, Ukraine, Belarus, and Kazakhstan agreed in principle to create a "joint economic space" among the four countries. They signed a treaty to that effect in September 2003 but are still negotiating its fundamental principles and terms of implementation.

Russia and Belarus have taken steps toward integration. Belarusian President Aleksandr Lukashenko may have hoped for a leading role in a unified state during Yeltsin's decline. Lukashenko 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 were 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. In December 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 Putin repeatedly has sharply criticized Lukashenko's schemes for a union in which the two entities would have equal power. The prospects for union seem to be growing more distant.

Russian forces remain 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 and South Ossetian separatism in Georgia and has delayed 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 to combat Chechen, Arab, Afghani, al-Qaeda, and other terrorists who had infiltrated into Georgia. Russia appeared to play a moderating role in the so-called "rose revolution" that brought the U.S.-educated reformer Mikheil Saakashvili to power in Georgia in place of the discredited President Eduard Shevardnadze in November 2003. Russia further improved relations with the new Georgian regime by seemingly helping to

broker a peaceful end to the separatist movement in Adjara. Russian support for Abkhaz and South Ossetian separatism, and Russia's continued occupation of military bases in Georgia, however, remain outstanding issues. 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. (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.

A major focus of Russian policy in Central Asia and the Caucasus has been to gain more control of natural resources, especially oil and 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 attacks. Russian cooperation with the deployment of U.S. military forces in Uzbekistan and Tajikistan would have seemed unthinkable before September 11. (For more on Russian policy in these regions, see CRS Issue Brief IB93108, *Central Asia: Regional 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. There was tension over Kiev's refusal to cede exclusive use of the Sevastopol naval base in Crimea to Russia. Moscow 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. Bilateral relations remain very important for both countries. Ukraine's October 31, 2004 presidential pitted the openly pro-Moscow Prime Minister, Viktor Yanukovych, against a more independence and reform-minded opposition candidate, Viktor Yushchenko. Putin traveled to Ukraine days before the election and endorsed Yanukovych. Nevertheless, Yushchenko narrowly out polled Moscow's man in the first round. A run-off election will take place November 21.

Defense Policy

Fundamental Shakeup of the Military

The Russian armed forces and defense industries have been in turmoil for over a decade. 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 were 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. 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. Yeltsin 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 is a very difficult, controversial, and costly undertaking. The Chechen conflict delayed military reform.

Putin 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, suggested serious intent to effect military reform.

In March 2001, Putin made a series of changes in the military leadership that may yet lead to 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. Putin explained that the man who had supervised the planning for military reform (Ivanov) should be the man to implement reform as Defense Minister. In May 2004, the General Staff was taken out of the direct chain of command and given a more advisory role, a move that appears to strengthen civilian control.

The improvement of Russia's economy since 1999, fueled in large part by the cash inflow from sharply rising oil and gas prices, has enabled Putin to begin to reverse the budgetary starvation the military endured during the 1990s. Defense spending has increased substantially in each of the past few years. The government's draft 2005 budget calls for increasing military spending by 29% over 2004. At the official exchange rate, that puts the defense budget at $18 billion out of a total federal budget of $114 billion. Factoring in purchasing power parity of the ruble would increase those numbers to $50 billion and $316 billion respectively, but Russian defense spending remains anemic by current U.S. or former Soviet standards.

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 power. In November 2004, Putin announced that Russia was developing a new strategic nuclear missile superior to any in the world, although no details were provided as to its ostensibly

unique features. 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 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. 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 Report RL32202, *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 and Putin's goal of integrating Russia economically with the West. (For the change in Russian policy toward integration with the West and cooperation with the United States, see CRS Report RL31543, *Russia's National Security Policy After September 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 tension with the United States. Despite repeated and ongoing representations from the White House and Congress, which argue that Iran will use the civilian reactor program as a cover for a covert nuclear weapons program, Russia refused to cancel the project, which was completed in 2004. Revelations of previously covert Iranian

nuclear developments have revived this issue, and some Russian political leaders criticize the policy of nuclear cooperation with Iran, giving rise to policy debate on this issue in Moscow. Moscow's position is that it intends to continue its civilian nuclear power projects in Iran, while urging Tehran to accept more intrusive international safeguard inspections. Moscow is withholding delivery of nuclear fuel for its recently completed reactor at Bushehr, Iran, pending agreement with Teheran about return of spent fuel to Russia for reprocessing.

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 June 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 and threatened to curtail contracts worth hundreds of millions of dollars for Russian launch of U.S. commercial satellites. Dissatisfied with Russia's response and Clinton Administration actions, the House unanimously passed the Iran Nonproliferation Act (H.R. 1883), 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. The Senate also unanimously passed the bill, which President Clinton signed into law (P.L. 106-178) on March 14, 2000.

Since the mid-1990s, U.S. and Russian interests have clashed over Iraq. Russia strongly opposed military action against Iraq in connection with the U.N. 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 supported Iraq's call for an end to economic sanctions and limiting U.N. weapons inspections. It also sought to expand economic relations with Iraq and secure repayment of $7 billion of loans owed from the Soviet period. After September 11, Moscow moved away from blanket support of Iraq. Some Russian officials 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 a long-term agreement worth $40 billion for Russian firms to modernize Iraq's oil, electrical, chemical, agricultural, and transport sectors.

As the United States moved toward military action against Iraq, Putin tried to balance three competing interests: protecting Russian economic interests in Iraq; restraining U.S. global dominance; and maintaining friendly relations with the United States. In February-March 2003, Putin aligned Russia with France and Germany in opposition to U.S. military action and threatened to veto a U.S.-backed UNSC resolution authorizing military force against Iraq. The U.S.-led war in Iraq further strained U.S.-Russian relations, but the senior leadership in both countries said that this would not be allowed to jeopardize their overall cooperation. On May 22, Russia voted with other members of the U.N. Security Council to

approve a U.S.-backed resolution giving the United States broad authority in administering post-war Iraq. Moscow's main interests in Iraq came to focus on debt repayment, having the post-Saddam regime honor pre-war multi-billion dollar contracts with Russian oil firms, and preventing a glut of Iraqi oil from sharply depressing the price of oil. In December 2003, Moscow initially reacted angrily to the Pentagon decision to bar Russia (and other states that did not support the U.S.-led coalition in Iraq) from bidding as prime contractors on $18 billion of U.S.-funded Iraqi reconstruction projects. Russians said they would not write off their portion of Iraq's debt, as Washington was requesting. Two weeks later however, after visits from U.S. Presidential Envoy James Baker and from a delegation of Iraq's Governing Council, this issue was resolved. Putin said that Russia would write off 65% of Iraq's debt ($5.2 billion). The Iraqis said Russian firms would get multi-billion dollar oil field development contracts.

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 planned 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. On June 1, 2003, Presidents Bush and Putin exchanged instruments of ratification allowing the Treaty of Moscow to enter into force. They also agreed to cooperate in missile defense. Later that month, the two sides agreed to conduct a joint missile-defense exercise on Russian territory next year.

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 have blocked U.S. funding for some U.S.-Russian comprehensive threat reduction programs, but President Bush granted Russia a waiver.

Despite continued tension between Washington and Moscow over Iran and the sharp disagreement over Iraq in early 2003, both governments seems determined to preserve the cooperative relationship they built following the September 11 attacks. In March 2003, Senator Lugar introduced legislation to exempt Russia from the Jackson-Vanik amendment to the Trade Bill of 1974, action which would grant Russia permanent normal trade relations (PNTR) status and facilitate Russian accession to the WTO.

U.S. 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 between 15%-22% since then. Roughly $158 million was allocated to Russia in FY2000 appropriations. The Administration requested $148 million for Russian programs in FY2003, a 6% cut from the previous year. The FY2004 Russian appropriation fell to $93.4 million. The Administration's FY2005 request for Russia is $79.5 million.

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) unless the President certifies that Russia has not implemented a law discriminating against religious minorities. The President has made such determinations each year.

In addition to the conditions related to Russian nuclear reactor and missile technology transfers to Iran, discussed above, Members of Congress introduced a number of other conditions on aid to Russia. The FY2001 foreign aid bill prohibited 60% of aid to the central government of Russia if it was not cooperating with international investigations of war crime allegations in Chechnya or providing access to NGOs doing humanitarian work in Chechnya. The FY2002 bill withholds 60% of aid to the central government only if it does not provide access to NGOs. Possibly as a result of Russian cooperation with the United States in its war on terrorism, the war crime provision was dropped. The FY2003 and FY2004 bills continued this practice.