



RUSSIA --- in --- GLOBAL AFFAIRS

Vol. 2 · No. 2 · APRIL – JUNE · 2004

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The program for the so called “civilized revenge” actually appears to be a new version of authoritarian state policy. Can a state living without rules and organized by the will of one person be economically efficient? The answer is definitely no. The current state system is, in fact, a system of self-preservation and of status quo, but not of development. It can only guarantee to run around in a circle which must produce the illusion of movement.

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Russia has everything that is required for developing a normal consolidated democracy: private ownership, a pluralistic political system and an enlightened leadership which understands all the difficulties and obstacles that a course toward totalitarianism or authoritarianism can entail. It also has the support of the consolidated West to steadily encourage it through the democratic process.

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IZVESTIA
NATIONAL DAILY

PUBLISHED BY
GLOBUS PUBLISHING HOUSE

RUSSIAN EDITION
IS PUBLISHED
WITH PARTICIPATION OF



FOREIGN AFFAIRS

Editorial Office:
11 Mokhovaya St., Bldg. 3B,
Moscow 103873, Russia
tel.: +7 (095) 292-1101
fax: +7 (095) 292-1101
e-mail: info@globalaffairs.ru
<http://www.globalaffairs.ru>

Registered with
THE MINISTRY
OF THE RUSSIAN FEDERATION
FOR PRESS, TV AND RADIO
BROADCASTING AND MEANS
OF MASS COMMUNICATION
PI No. 77-12900
3 June 2002

Printed by
Kaluzhskaya Tipografia Standartov
Order No. _____
Circulation: 3,000 copies

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Circulation
Vladimir Astafyev
tel.: 7 (095) 292-1101
subscribe@globalaffairs.ru

Advertising
Elena Chibina
tel.: 7 (095) 292-1101
ad@globalaffairs.ru

Russian Edition

Copy Editors
Alexander Kuzyakov
Lyubov Rykлина

Proof-Reader
Arnold Kun

Design and Layout
Konstantin Radchenko
Photos contributed
by Fotobank Agency

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Heading for a Sober National Policy

Fyodor Lukyanov, Editor-in-Chief

Long before his formal re-election as Russia's president, Vladimir Putin had launched ambitious activities in the country, which was a signal to everyone: the head of state was very serious about his next term in office. The next four years will produce the prerequisites for Russia's development in the long term. These prerequisites may differ, depending on what policy the president may pursue. Actually, all discussions about Putin's policies can be reduced to one fundamental question: Is the strengthening of state power, which the Russian president has introduced in his first term, the 'end' or the 'means'? If it is the 'end,' as leftist and rightist critics of Putin believe it to be, the country will face a period of stagnation; thereafter, should the favorable situation on the world oil markets deteriorate, there could be economic upheavals with unclear political consequences. However, if the creation of a rigid power hierarchy is intended only as an effective instrument for achieving Russia's political and economic modernization — of which the president's supporters are convinced — Russia will have a chance to become a very different country.

It will differ from what it is now, but also, it will differ from other developed states. Indeed, as the Russian economy and political system gain stability, it is becoming increasingly clear: the state model in Russia will be a far cry from what was originally conceived 10-12 years ago.

At that time, on the wave of 'post-revolutionary' enthusiasm, it was universally understood that Russia must seek to become a rich and well-developed country, like those in the West (or Europe, to be more precise, which is closer to Russia geographically and historically). When Russia would achieve this goal seemed then to be only a matter of time. That ideology underlay the Partnership and Cooperation Agreement, concluded by Russia and the European Union ten years ago. The agreement provided for Russia's gradual transformation toward the European model through the adaptation of European norms, rules and laws. The PCA, originally intended as a 'guiding star' for Russia, is now in the focus of a Russia-EU conflict. The subject has turned into a burning torch, which has shed light on the reality: Moscow is following a

different path. Unlike the Russia of ten years ago, today's Russia no longer wants to imitate Europe, not to mention adapt to it (See the article by **Timofei Bordachev** and **Arkady Moshes**). It has been repeatedly emphasized in Moscow that the European Union's model of development is not the only one possible and is not necessarily the best for Russia. Nevertheless, few people in Russia question its ultimate goal of integrating into the community of developed states. Russian President Boris Yeltsin proclaimed this goal at the dawn of the new Russian democracy. Later it was repeatedly reiterated by Yeltsin's successor, Vladimir Putin, during his first and second terms. Is Russia capable of finding its own way to this goal, which would be consonant with its national specifics and, at the same time, follow the path of civilization's development in order not to slip into isolation? What model will Vladimir Putin build and what dangers lie in store for Russia in the course of this construction? Prominent Russian analysts **Mikhail Leontyev**, **Lilia Shevtsova** and **Andranik Migranyan** have different opinions of the consolidation of state power in Russia. Yet they are unanimous in that a decisive factor for the country's future is the ability (or inability) of the state to complete the economic reforms. Economist **Alexander Radygin** analyzes the merits and

deficiencies of the state capitalist model, now taking shape in Russia. Finally, lawyer **Vladimir Ovchinsky** speaks about the danger of social discord as a large part of Russian society consider themselves cheated and deprived of their share of the material benefits which they believe the economic reforms should have delivered.

There have been many debates in Russia in the last 15 years about China's model for reforms. Critics of Russia's liberal reforms cite the example of the Chinese reformers who have managed to avoid the upheavals and costs that Russia has experienced. Russia's leading Sinologists, who recently participated in a situation analysis led by **Sergei Karaganov**, discuss in this issue the problems facing China today. Another topic in this issue involves WMD proliferation. This discussion moves all of the debates about socio-political models into the background, because terrorists, armed with nuclear weapons, do not consider the political situation of a country that they consider their enemy. The recent events in Spain have shown that terrorists are able to change the government of a leading European country by using 'conventional' methods. It is horrible to imagine what sort of blackmail the world would face if the deadliest weapons in the history of mankind fall into the hands of the terrorists.

One-Man State?



“ Putin as a political phenomenon was borne out of the feeling of humiliated national dignity and the craving for a revenge. The challenge of his political course and his second term in office is that he must meet the revengeful aspirations of the public in a civilized, non-cataclysmic way ”

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Union of the Sword and the Plowshare

New oppositionists uniting
for a “Russia without Putin”

Mikhail Leontyev

How is it possible to unite the ultra-leftist, non-conformists, liberal “Westerners,” the ardent followers of the Communist idea, and the Chechen-loving champions of human rights? It may seem impossible, but it is the membership of a new radical opposition group that waves just one slogan: “Russia without Putin!” From the viewpoint of realistic prospects, this slogan reeks of utopia. However, it has a clear meaning, which is easy to understand at least in the genre of anti-utopian writings.

THE FIRST TERM

What great misdemeanors has the incumbent president committed to arouse such enmity among the radicals? First, he has pushed them to the side of the road of Russian politics. His first term in office was entirely devoted to laying out the elementary prerequisites for implementing his presidential task: the restoration and modernization of Russia. This is the essence of Russian politics today, and it is important to remember that when Putin was first elected president there were no such policy prerequisites.

What was Russia’s condition prior to the election of Putin? State institutions were on the point of collapse. This degradation had touched every part of government, including its only legitimate institution – the presidency. It would be unfair to suggest,

The article by Russian journalist and TV commentator **Mikhail Leontyev** was published in Russian in *Izvestia* daily, Feb. 25/2004, and caused heated debates in the press (see the article by political analyst **Lilia Shevtsova** in this issue).

however, that Boris Yeltsin was responsible for this deterioration. Russia's catastrophic condition was the result of a systemic Soviet crisis: it was the Communists, not the pro-democratic reformers, who had destroyed the Soviet Union. Rats, flies and other creatures that thrive on rotting remnants arrived en masse only after the country's body had already fallen to pieces. Yeltsin displayed much more aptitude than the more humanistic Russian elite in dealing with the situation. His objective role was **“presiding over a slide into the abyss.”** A realistic and positive program was unthinkable until the nation came to realize the scope of the catastrophe, stopped awaiting miracles from the market economy and humanitarian aid, and hit the bottom of that abyss.

The President's first term in office began with a gradual and very cautious rehabilitation of the Russian state that started with its basic elements, without which it is impossible to make real advances. The first such step – whatever apprehensions this may have caused the radicals – was **regaining control in the law enforcement agencies, and the repressive machine.** Note: at that time we could only think of “controllability,” not “efficiency.” The very existence of a state is implausible if the repressive machinery is corrupted and manipulated by financial or criminal groups and clans, including several from abroad. In a genuine hierarchic system, orders from the top must be taken as directives for action rather than a topic for bargaining. This is the major prerequisite for rebuilding the state as a major player in domestic politics.

Furthermore, it was important to **regenerate Russia's vital interests in the territories around its borders.** Without the neighboring countries located in the so-called post-Soviet space, Russia cannot be viewed as an economically and, moreover, politically self-sufficient sovereign state.

The latter means restoring the Russian state as a player in international politics, as well as maintaining its sovereignty. It should be noted that only a handful of contemporary countries enjoy genuine sovereignty; the others either lack the chances of becoming truly sovereign or delegate a part of their powers – more

or less voluntarily – to some great power. Except for a few international outcasts, several countries have real sovereignty – the U.S., China, India and Russia. Germany, Britain or Japan, for example, cannot be categorized as truly sovereign nations.

For Russia, maintaining its role in international politics is vital not only in civilizational and cultural terms – it is important for its very survival. In comparison with Mexico or the Czech Republic, for example, Russia cannot exist as a part of some integrated project. If it forfeits its sovereignty, it will be torn apart economically, politically, and physically by new and old international players competing for influence on its territory. Imagining Russia as a quiet and comfortable satellite nation developing in some “normal way” amongst a variety of other liberal satellites, which are in turn under the patronage of great democratic powers, is either pure self deception or propagandist intrigue.

Four years is less than a second in historical terms, and gathering stones is a much more difficult activity than casting them. What has been accomplished over the past four years falls disappointingly short of our expectations, yet we have avoided gross errors at the same time; we did not lose any contests to anyone, nor quarrel. To rebuild the country, Russian policymakers had to act cautiously, and occasionally clandestinely. Today, the country has reached a level of its rehabilitation when it can afford to act openly. It is precisely that openness that infuriates and baffles the Russian catastrophe-phobic elite, who grew out of an ailing, despised and crumbling country. This group of individuals has swelled in wealth and influence by selling out what was left of the country.

“RUSSIA WITHOUT PUTIN.”
ANTI-UTOPIA ONE

This **liberal option** is a way of action for coy opponents to President Putin and it implies a certain reversal of strategy. It means forgetting Putin like a nightmare as if he never existed. Or else, acting by the principle: “Let’s proceed like our predecessors did.” At first sight, it looks as if we have seen all of this before. It brings to mind the last years of Yeltsin’s presidency, with the oli-

garchs kicking in the doors of the Kremlin offices. It means the restoration of the oligarchies that lost their hold on power. Ironically, this is what makes all the difference. The phrase “Never again!” will become a popular motto for the elite of the 1990s that has somehow survived to our present times. The question is how that “Never again!” can be implemented.

At best, this is a return to 1991 – with larger hard currency reserves, but without the remainders of the Soviet infrastructure, humanistic-democratic illusions or the legitimacy based on such illusions in the face of an impoverished and brutalized country. (Recent public opinion polls show that 51 percent of the Russian constituency was prepared to vote against all the candidates in the March presidential election had Putin decided not to participate. Against this background, it does not take Solomon to figure out that 95 percent of voters would have definitely voted against the oligarchies).

In order for the oligarchs to realize their motto of “Putin never again,” they will require the support of external forces. The oligarchs will proceed to do what they have done in the past, that is, transfer Russia’s assets out of the country to the direct control of the U.S. administration; these activities were performed quietly, methodically and step by step, lest the populace become unnecessarily aroused. But the next time they are given the opportunity, this transfer of assets will occur rapidly and in huge volumes. In the political sphere, such moves will mean a rapid (and, most likely, direct) return to the pro-Western diplomacy of former Foreign Minister Andrei Kozyrev. As for the economy, it will be left intact – there will always be enough of the “right” people around to manage it. An oligarchic restoration means a brief period of joyful plundering of the country, with all of the inevitable consequences such as heightened tensions, conflicts and the decay of the remaining state. But there is no external resource or helping hand that would support the treacherous elite in upholding power and order in a country like Russia. Nor is there an external force that would need it very much. Therefore, such a scenario will simply pave the way to Russia’s dismemberment.

Abstract utopias aside, a look at the real capabilities of this opposition suggests that an economic and political destabilization is its only instrument for affecting the strong position of the pro-Putin majority. The situation in Chechnya provides the only ‘fast-action’ possibility amongst the possible external and internal factors which could destabilize the Putin regime. As a tool of destabilization, Chechnya does not have anything to do with Chechen separatism, Islam or the Chechen people per se. It is related only to the struggle for power in Russia. These true motives give the “democratic” opposition, uniting under the slogan of “Russia without Putin,” a bloody and barbarous taint that is already easily discernable.

Interestingly, the attempts to pool a radical and democratic anti-Putin opposition have brought the Russian liberals to the margins of the political spectrum. Compared with this group, even the boisterous Soviet-era dissident Valeria Novodvorskaya resembles a serious politician with a profound ideology. Take, for example, the Election 2008 committee headed by Garry Kasparov, the international chess grand master. His fame probably does much to conceal the fact that, notwithstanding his remarkable abilities in abstract thinking, a chess master is essentially a sportsman, which makes his talent more comparable to a soccer player than an intellectual. In any case, an individual who ardently propagates the strange pseudo-historic theory of Anatoly Fomenko, which is based on a combination of wild guessing and obscure mathematics, can hardly aspire to the role of Russia’s savior. And giving the buffoon figure Ivan Rybkin a role in the whole scene could have raised a good laugh had he not been associated with the sinister web of Chechen terror.

“RUSSIA WITHOUT PUTIN.”

ANTI-UTOPIA TWO

The second option represents the stance of the **leftists**, and seems to be even more utopian than the liberal one. Essentially, it calls for a radical overturn of power in the **orthodox national-communist** style. This leftist opposition exploits a range of complaints lodged against Putin: economic liberalism, surrendering positions to the

U.S., integration with the West, and, generally, the “selling out of the homeland.” Nationalist populism in its bare form is a difficult thing to describe, largely due to its unpredictability. What is definite is that any significant departure from Putin’s policy of balancing on the edge in our relations with foreign partners (primarily the Americans) will bury all hope for maintaining Russia’s genuine sovereignty. Russia has not yet fully recovered, and its opportunities for pursuing an independent policy will be undermined by a different approach. The liberal option provides us with a pro-Western foreign policy that is styled after Kozyrev, while the second version presupposes a style much more abrupt than that of Yevgeny Primakov. What will transpire is something close to the style of Vladimir Zhirinovskiy, when the country will become an outcast, and its relations with the outside world will fold up. Such an event is totally alien to the idea of Russia’s survival.

Simultaneously, such processes will occur inside the country as well. If someone successfully secures the victory of such a party, this will translate into a victory of revenge. And it will be a revenge that is quick and total. This is when the nationalist populists will have the chance to secure a certain level of legitimacy and support of the population. Fundamentally, this movement will by no means be Communism but, rather, Fascism in one form or another. All of this will be happening against the backdrop of individual revenge and individual terror on the part of the feebly controlled law enforcement agencies. It should be noted that, unlike Communism, Fascism has never rejected private property — it has always opposed the postulation of its inviolability. This new model of Fascism will be different from the old ones — it will have an incomparably greater share of criminality in it. Extremist criminality, in fact.

A CIVILIZED REVENGE

Russians have a huge desire to see a renaissance of their country, a restoration of its role, power, and national dignity. As underlined by all sociological studies — regardless of the differences in the assessments — these sentiments all point to the same fact: it is a

demand for revenge. Putin as a political phenomenon was born out of that feeling of humiliated national dignity and the craving for a revenge. The challenge of his political course and his second term in office is that he must meet the revengeful aspirations of the public in a civilized, non-cataclysmic way. It means the rehabilitation and modernization of Russia in normal, civilized conditions that correspond with the outside world. Above all, it means maintaining adequate relations with the world's power centers (in terms of tactics and strategy), no matter what attitude those centers may have toward Russia's renaissance. Demagogical proclamations about a "national-socialist threat," propelled by momentary objectives, ignore the fact that should Russia miss its chance to gain revenge in a civilized way, it will eventually be acquired by brutal methods.

In other words, the second option will be made possible not as a result of political games, but rather as a result of failure, i.e. if Putin's modernization drive is disrupted or if it turns into another fly-by-night phase of a national catastrophe following the liberal option. Such a failure may lead to an oligarchic restoration followed by a criminal-fascist reaction that will end with Russia's disintegration and eventual disappearance. Such is the full spectrum of the practical manifestations of the "Russia without Putin" slogan.

HOPING FOR A HELPING HAND FROM ABROAD

Russia is facing the colossal task of rebuilding its might amidst the overwhelming reluctance of key international players who would like to prevent such a scenario from happening. The President has no room for error, and that is the sole explanation for his being seemingly over-cautious. Surprisingly, this approach was enough to win over the hearts of the majority of Russians who plan to continue living in this country. On the other hand, it was enough for forming a systemic opposition – albeit on the fringes – to this wish of the politically immature masses of people. It is also quite natural that oppositionists of variegated colors are scheming beyond the borders of Russia.

Narrowly oriented and stubbornly entrenched demand has brought to life a phenomenon labeled “the united anti-Putin opposition.” Although its representatives come from different backgrounds, they do not have questions or claims against each other. In fact, they have just one claim, and it is directed against Putin: the claim argues against the presidency of Vladimir Putin. Since it is difficult to articulate any real sense to this claim, the radical opposition is being increasingly “Rybkinized,” that is, making buffoons of themselves. This association resembles the “Union of the Sword and the Plowshare” and the promise to provide it with a Parabellum [as described by the Soviet satirists Ilya Ilf and Yevgeny Petrov in their satire novel *The Golden Calf* in 1927. Its protagonist, a witty swindler, pools money from the surviving Russian nobility for their “early liberation from the hateful Soviet regime.” He promises one of them a Parabellum gun. — Ed.] The present situation would seem humorous if not for one thing: the Parabellum may exist in the form of some TNT planted by the Chechens, while the “milieu” from abroad will readily extend a helping hand, as soon as such an opportunity makes itself available.

We have not removed ourselves enough from a potential disaster, nor do we have any room to commit errors. We have no justifiable right to lose the battle.

Straight Forward into the Past

A Manifesto of Stagnation

Lilia Shevtsova

Vladimir Putin's presidency is being praised to the high heavens and certain individuals have been forwarding their programs for "restoring the ruined power." Mikhail Leontyev's article is remarkable in that respect, but not so much for its praising passages, but because it reflects the mindset of a certain part of the Russian political elite that would like to set the tune of Putin's second term in office. It is surprising that the author (or authors), as if possessing a knowledge that is inaccessible to ordinary people, hints that Putin has no intention of following the political course he declared in his policy statement on February 12, 2004. In light of the unexpected — and obviously illogical — dismissal of Mikhail Kasyanov's Cabinet of Ministers, Russian society has been speculating about what new turns will be made in the presidential course.

When Putin launched his election campaign, he made it unequivocally clear that he had chosen a liberal stance. "Only free people can ensure economic growth and prosperity for their nation," he said. "In a nutshell, these are the pillars on which the success of economic development rests." However, the ways of restoring the state that are discussed in Leontyev's article prove that the authors are advising Putin on a different course of action and cherish the hope that they will be heeded. Their program for the so-called "civilized revenge," actually appears to be a new ver-

Lilia Shevtsova is a research fellow at the Carnegie Endowment for International Peace. This article, published in Russian in *Izvestia* daily, Feb. 25/2004, is a critical response to Mikhail Leontyev's article — see p. 8 in this issue.

sion of **authoritarian state policy**. The methods used by the government during Putin's first term in office have made evident at least one thing: there is a sharp contrast between Putin's liberal policy statement and the actual political processes in the country. A natural question arises: Does this contradiction come from Putin's apprehensions, or a desire to rectify the career in Russian policies that has become evident since 2003? Is it the President's wish to calm the Russian liberal minority, not to mention the West, who are so concerned about the transformation of power in Russia? It could be argued that by dismissing the Cabinet, Putin made the decision to reaffirm his stated liberal-market political course.

ON THE IMPORTANCE
OF THE CAUTIOUS USE OF FORCE

The recent presidential election in Russia did not only symbolize the automatic re-endorsement of Putin's presidency; it signaled the end of a period in Russian history known as 'post-Communist experiment.' Putin has consolidated his political regime and now needs to cement the system that has taken shape in Russia. While preparing the cement mix for this purpose, he will have to measure the proportion of the ingredient ideas, such as strong statehood, patriotism, populism, and liberalism. What guideline will the President ultimately choose for Russia? I would rather agree that a return to "Yeltsinism," in terms of an oligarchic method of rule, is hardly possible. At the same time, a repeat of Yeltsin's methods of courting favorites, while putting together a new "Family," cannot be ruled out either. I tend to share Leontyev's thoughts concerning the chances of a leftist populist scenario in the near future. Even the staunch "patriots" in the circle that is close to the Kremlin realize the destructive nature of the anti-Western style of Vladimir Zhirinovskiy or Dmitry Rogozin. On the face of it, the liberal alternative appears to have been discredited, and its proponents are demoralized. It is very doubtful that Putin will take up the ideas of a political force that has suffered defeat.

There are indications that the Russian political quarters are vigorously working to blend authoritarianism with economic reforms

and an orientation toward a strong state. However, they do not want these attempts to frighten the West. In other words, a new type of traditionalism is taking shape that is free of the Communist shell. By “traditionalism” I mean that the accent is still being made on the leader’s personified and unlimited power in domestic policy, together with the use of force in foreign policy.

What do the new traditionalists propose and what do they object to? The emotion of Leontyev’s article suggests that they are enthusiastic about Putin’s decision to push the radical oppositionists out of the scene. This is a vain type of satisfaction, however, as the removal of all forces except bureaucracy from Russian politics fertilizes the soil for the growth of radicalism of all colors, ranging from liberalism to leftist nationalism. The appearance of Sergei Glazyev on Russia’s political stage as Putin’s main opponent perfectly illustrates this tendency. A political vacuum is always fraught with erratic and unpredictable developments. That is why the Western democracies cultivate a diversity of political approaches and, of course, opposition parties. In this way they try to preclude any quandaries for the state. In this sense, Leontyev’s acerbic remarks about the opposition being increasingly “Rybkinized” are premature. Shiftless opposition means trouble for Russia’s state power and a threat to its only political institution — the presidency.

As concerns the zealous proponents of full state authority and, at the same time, “full sovereignty” for Russia, this idea has long expired; a country’s membership in any international organization implies the voluntary restriction of its sovereign powers. Russia’s sovereignty will have to be limited, unless it fancies for itself the role of a global “outcast.” If Russia wants to remain on the side of the civilized world, it will have to adopt the rules exercised by the international community.

Presently, it seems that those who seek to become support pillars for Putin regard full sovereignty as the right to use force in the dimensions unlimited by legislation. This position may be viewed as a symmetric response to the policies of the U.S. neo-conservatives who also place the use of force above the law. However, the

situation inside and outside Iraq has made it clear as daylight that the U.S. policy of force has provoked the most severe political crisis of the past decade. This policy has split the Western community and brought about a decline of support for the Republican Party amongst many Americans.

If Russia copies the U.S. model, a dialog with the West will hardly be possible. Moreover, an expansionist understanding of Russia's sovereignty that fails to be supported by adequate resources threatens to make Russia nothing more than a source of ridicule.

WHAT TYPE OF STATE DOES RUSSIA NEED?

Let us now analyze the main thesis of the neo-traditionalists. It looks very simple: during his first term in office Putin began restoring the Russian state; during his second term, he will have an opportunity to use the state machinery for modernizing Russia and earning it a worthy place in the world.

That Russia stands in need of a strong state capable of guaranteeing social rights and civilized living conditions to its citizens is indisputable. It does need a modern bureaucracy, strong armed forces, and efficient special services to ensure national security. But this kind of state does not contradict the ideals of Western liberalism, and this is proved by the everyday practices of any developed society.

The liberal project does not demand that Russia simply observe all of the Western recipes. Russia's past experience of cooperating with the International Monetary Fund and the International Bank for Reconstruction and Development suggests that it should take a cautious approach to the recommendations that it may get from the West; Russia may have interests that differ from those of the leading world powers. Western nations are split, and each of them has its own view of how the world should develop, which was graphically manifest by the recent Iraqi crisis.

The real question is hinged on whether we understand a "strong state" as one which establishes the rules of the game that are observed both by society and those in power. Or do we

understand the state to be controlled by a handful of people in the Kremlin corridors of power who behave according to their own “perceptions of the game,” as opposed to the requirements of the law? The first type of a state is the one where the rules of the game are ensured by laws and independent institutions. The second type is one that is able to ensure only one thing – a society without rules.

Indeed, during his first term of presidency President Putin succeeded in dragging the country out of chaos; however, the state that has arisen as result of his presidency is basically identical to the one Russia had under Yeltsin – it continues to bypass laws without any principles. There is a slight difference, however: whereas the lawless state under Yeltsin was non-systemic, Putin has turned the “perceptions-driven” state machinery into a system. But what does this system rely on? It relies on the fact that the President must make up for the absence of law or the executive’s inability to implement law. For instance, he has to meet with the oligarchs at his dacha and lay out the rules of “equidistant alienation” for them. Or he must give personal guarantees to the Western state leaders and businessmen for foreign investment in Russia. It would be inconceivable in any normal democratic society when the country’s number one citizen has to work in substitution of the law. In Russia, however, life would be inconceivable without such a substitution. Putin chose to personally perform the functions of the law; this decision must have come from his lack of faith with the rules, together with the perception that his personal obligations and guarantees as a president are the more efficient ways of handling things.

Every time the President stands in substitution of the law or any of the branches of power, we are inclined to take it as a forced measure and believe that the rules will appear soon and work automatically. Nothing of the sort has happened so far, and we will not see this happen until the political class stops entrusting the President with the powers of an arbiter standing beyond society. Arbiters, too, can make mistakes and their obligations are not everlasting. When Putin moves out of the Kremlin, there will be

no guarantees that the new leader will be committed to the old obligations. The very practice of living beyond rules brings about the omnipotent power favorites and a type of power succession that boils down to the denial of the previous chapters in the nation's history. Yeltsin wiped out Gorbachev together with the country, Putin wiped out Yeltsin, together with his regime. What will Putin's successor do?

The strengthening of authoritarianism, i.e. the President's personal power, will have no dramatic effect on the situation if the state machinery continues "acting according to perceptions." True, people are more apprehensive of an authoritarian leader, but life without rules will continue, with the stakes growing still higher.

Can a state living without rules and organized by the will of one person be economically efficient? The answer is definitely no. It cannot be predictable, because it can exist only in the absence of clear obligations before its citizens. In light of this, Leontyev's assertion that the basis for modernization has been created in Russia is wishful thinking. The current state system is, in fact, a system of self-preservation and of status quo, but not of development. It can only guarantee to run around in a circle which must produce the illusion of movement.

If Putin is really determined to consolidate this type of state — and Leontyev believes that he is — then it means that in the short-term Russia is doomed to stagnation. And we should also bear in mind that a system designed along the principles of a "transmission belt" has no chance for managing crises: any blow will crush it like a sandcastle. Many of us remember only too well what happened to the "transmission belt-driven" systems. A glaring example is the collapse of the Soviet Union. Incidentally, it had much stronger life support systems than Russia presently possesses.

If Putin really plans to go on with the transformation, albeit in a more liberal and systemic way, then it remains unclear how he can succeed with the existing state system and political class which pushes him to replace the regular rules of the game with its own rules.

THE SYSTEM AGAINST PUTIN

Leontyev eagerly points to a ready-made enemy – the democratic opposition which is trying to bereave us of Putin. Now, where are these audacious terminators who are threatening the President? Are they in Garry Kasparov's discussion club? Let us be serious; the President is in danger, but not because of the oppositional forces. The threat comes from the system that took shape under Yeltsin and was consolidated under Putin's leadership. The political regime that he has built presently constrains him and makes him more vulnerable than Yeltsin was. There is an old truth: the more powers a leader has, the more he is compelled to share them with the suite. And the more he does so, the weaker he becomes. The impotence of omnipotence is an axiom, which was made evident during Yeltsin's presidency, as well as by many rulers before him.

Putin has to carry alongside his ratings an awkward crowd of opportunists who have infested the agencies of the executive, the United Russia party and several organizations that the Kremlin has set up. All of these monsters do not help the President to broaden the base of his leadership. On the contrary, they enfeeble him by misusing his popularity.

By towering over society, the authorities are losing contact with reality. This situation generates the risk of inadequate decisions, especially as the legislative power and the judiciary have actually turned into departments of the presidential administration.

The nature of the state structure is such that the leader, even having immense powers, is unable to subjugate the mammoth machine that unavoidably strives to meet its own interests rather than fulfill the leader's objectives. The further strengthening of such a state will make the President increasingly cornered by the demands of that state and its bureaucracy.

Already, it is obvious that the President has to satisfy the demands of his regime to the detriment of his own leadership, and this year's election campaign, in which the Kremlin virtually ruled out any competition with Putin, provides a glaring proof. A question arises: What bugbear scared the guys at the top so much? Was

it the phenomenon of the late General Alexander Lebed? But where was the candidate for that role? It is hard to believe that liberal Irina Khakamada, leftwing Sergei Glazyev or Communist Nikolai Kharitonov could have filled the void left by Lebed. Or maybe the President did not deign to compete with that handful of contenders? Then why did his team clean out the electoral field so heartily? By paving the road for Putin against possible contenders before the December 2003 election to the State Duma, the Kremlin devalued the significance of Putin's victory in the March 2004 presidential election.

Another disservice of the authoritarian mindset was the apparent attempt to put an imperial gloss on Putin: dressed in a military uniform, he was led to a military exercise to watch a farce of missile launches. The launches failed, but they served to hold up Russia's military to ridicule, while dealing a blow to the president's dignity. Is it the Russian special way of eliminating "national humiliation?"

PRESIDENT FACING CHALLENGES

No doubt, people can extol Putin's efforts to revive Russia, but all of the praise will not make it easier for him to find answers to the structural challenges that he obviously faces.

His primary challenge is to earn a full-fledged **legitimacy** of his own, not the one that was bestowed on him by his predecessor. Now that the role of violence has been limited, and all the previously known tools of legitimization of power have been exhausted, elections can be the only instrument for forming state power. However, the present electoral system is turning into just another time bomb for Russia. U.S.S.R. President Mikhail Gorbachev dreamt of elections becoming an instrument for renovating the Soviet state; instead, they caused its destruction. Today's manipulations with the electoral system are "a tune from the same opera" — they are undermining Putin's new leadership and the very foundations of the state.

The second most serious challenge is **assuming responsibility**, which is totally flouted in Russia since "no one is responsible for

anything.” Despite the concentration of powers in the President’s hands, he bears no real responsibility for the country’s political course, government, law enforcement, or administrative resources since he has been placed beyond the reach of criticism. All of the other executives have no such powers to bear responsibility. In the meantime, the country’s modernization is impossible without clearly specified responsibility. Will Putin be able to summon the courage and break the vicious circle of the pervasive ‘I couldn’t care less’ attitude? As a first step, he should have attached some responsibility to the parliamentary majority (the United Russia party) for the Cabinet of Ministers and appointed Boris Gрызлов (its leader) prime minister. Of course, these moves would mean a certain loss of quality, but they would also mean the acquisition of principles. It is important that somebody bear responsibility for something in this country!

Challenge number three is the **continuity of regime** which can, to a great degree, predestine our future. Putin will have to decide on how he will ensure the continuity of power – by prolonging his stay in the Kremlin or by appointing a man to succeed him. He seems to be quite earnest when he says he will not change the Constitution to stay in the presidential office longer than prescribed by law, unless some dramatic circumstances compel him to do so. But if the crowd of activists feeding on his popularity ratings realizes that he is truly going, they will immediately rush to find him a successor. Then Putin is likely to become a lame duck, with great reforms dropping off his agenda. Regardless, Putin has just two years ahead of him to carry out his reforms, since a new cycle of power will begin in 2006, be it with Putin or without him.

The fourth challenge is to prevent **deterioration in relations with the West**. Putin has confirmed his existential pro-Western orientation, but his thesis that Russia must integrate into the family of developed Western democracies has never experienced a practical implementation. So today we have to think about how we can allay the Cold War syndrome. Why was our romance with the West so short-lived yet again? Briefly speaking, there were two factors. First, Russia failed to assimilate the liberal model and was

What Russian Liberals Should Do

Adapt to the new strategy of interaction with the state. The state and bureaucracy are not synonymous. It is time for everyone to ask: "What have I done for Russia?" [...]

Learn to look for the truth in Russia, rather than in the West. A good image in the U.S. and Europe is a very good thing. But it will never be able to replace the respect we get from our fellow citizens. We must prove – above all, to ourselves – that we are not temporary figures on the Russian soil but people who are here to stay. We must stop disregarding – the more so, demonstratively – the interests of the country and the people. These interests are our interests.

Give up senseless attempts to question the legitimacy of the president. No matter whether we like Vladimir Putin or not, it is time to realize that the head of state is not just a person. The president is an institution that guarantees the country's integrity and stability. And God forbid that we should live to see the day when this institution collapses – Russia will not survive another February 1917. The history of our country teaches us that bad state power is still better than no state power at all. Moreover, it is time to realize that motivation from the authorities is a must for civil society's development. The infrastructure of a civil society does not appear instantly, as if by magic, but takes shape over many centuries.

Stop lying to ourselves and society. We must realize that we are adults and strong enough to tell the truth. [...]

Leave the cosmopolitan perception of the world in the past. [...] We must admit that a liberal project can be implemented in Russia only in the context of national interests and that liberalism will take root in the country only after it gains a firm footing.

Legitimize privatization. We must accept that 90 percent of the Russian population do not view privatization as fair, nor do they believe that the beneficiaries are the legitimate owners. As long as these sentiments persist, there will always be political, bureaucratic and, perhaps, even terrorist forces that will encroach on private property. In order to justify privatization in the country where the ideas of the Roman law of property have never been strong and well-defined, big business must be forced to share its riches with the people. This could be accomplished, perhaps, by initiating a tax reform in the raw materials sector, together with other initiatives that large owners may dislike. It would be better if the owners initiate the process themselves, so that they may influence and control it, rather than fall victim to a senseless resistance to the inevitable. [...] It is not the authorities who need the legitimization of privatization – they will always prefer to have levers of pressure on us. This must be done for ourselves and our children who will live in Russia – and walk the Russian streets without the need to be heavily guarded.

Invest money and brains in the creation of fundamentally new public institutions that will not be stained with the lies of the past. We must build real civil society structures, not ones that we treat as saunas for our leisure. We must open the doors for new generations; attract conscientious and talented people who will comprise the new elite of Russia. The most horrible thing for Russia today is the brain drain, for the natural mental capacity of the Russian people, rather than the decreasing natural resources, is the foundation for the country's competitiveness in the 21st century. Our mental resources will always be concentrated where there is a nutrient medium for them, that is, in civil society.

In order to change the country, we must change. In order to convince Russia of the need for, and inevitability of, a liberal vector for development, we must remove the complexes and phobias of the last decade and of the entire dreary history of Russian liberalism. In order to return freedom to the country, we must first believe in it.

*Excerpts from the article entitled The Crisis of Russian Liberalism, published in the Vedomosti newspaper on March 29, 2004. The author is **Mikhail Khodorkovsky**, former chairman of the Board and major co-owner of the YUKOS oil company, currently in detention awaiting trial.*

unable to imitate it skillfully. Second, the Western community has been mired in its own problems and is unprepared to admit Russia into its orbit. It fails to understand that integration is a global priority of the same significance as fighting international terrorism or nuclear nonproliferation.

One way or another, Putin will have to think now about averting Russia's drift to a new isolationism, to say nothing of a new confrontation.

PUTIN HAS DETERMINED THE VECTOR

Admittedly, I am not optimistic about the prospects for Russia's modernization during Vladimir Putin's second term of presidency. The political developments over the past few years have helped make his liberal election platform look like a "special operation" designed to calm the grumbling Russian liberals and Western politicians, who have suddenly developed a concern over the future of Russian democracy. If Putin really wants to make the liberal course a guideline for action during his second term in office (which means that all his activity in 2003 was but a "special operation"), two questions arise: Who will he rely on for carrying out his reformist agenda? How successful can a liberal course be if it is carried out by non-liberals?

We will have to wait and see. President Putin has determined the vector to further development, and we will have an opportunity to judge his liberal course against the benchmarks that he has articulated in his policy statement.

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What Is ‘Putinism’?

Andranik Migranyan

The first steps by President Vladimir Putin’s administration and its key political and personnel decisions, including recent developments surrounding YUKOS, immediately sparked stormy debates in political circles and among analysts. They questioned what was happening to the Russian authorities and the regime, originally founded by President Boris Yeltsin. Putin set upon harnessing a group of oligarchs who had seized control over the financial, media and administrative resources of the Russian state and sought to manipulate the political authorities.

These developments were proceeding against the background of the ongoing Chechen war and the complex and painful reconciliation efforts there (the adoption of a new Constitution, presidential elections in this North Caucasian republic, and the so-called Chechenization of the Chechen problem, that is, the transfer of power to Chechens loyal to federal authorities; the latter move has been questioned by many in the Russian political class, especially the liberals, as well as by the Western mass media and political circles. Observations by particular Russian politicians and liberal analysts about the nature of the Putin regime have been especially worrying and even alarmist since the Duma election last

Andranik Migranyan, Doctor of Science (History), is a professor at the Moscow State Institute of International Relations, First Vice President of the Reforma Foudation. This article is based on a report made at a meeting of the Unity for Russia Foundation. The article was published in Russian in the *Strategiya Rossii* journal, No. 3/2004.

December. In that event, oppositional parties describing themselves as liberal and pro-Western, e.g. the Union of Right Forces (SPS) and Yabloko, lost the election by a wide margin. Serious liberal analysts have proclaimed that a bureaucratic authoritarian regime has been emerging in Russia as a result of the Duma election. In that contest, United Russia won an impressive victory, while the Communist Party's position substantially weakened; SPS and Yabloko failed altogether to get seats in parliament. The regime, the analysts say, will lead the socio-political system to stagnation, freeze the badly needed economic and social reforms and may even reverse Russia's development in certain areas.

However, before characterizing President Putin's first term in office, it is worth briefly tracking the evolution of the Yeltsin regime before 2000 in order to understand why Putin has, as many believe, radically severed his regime with it. Only in this context is it possible to evaluate the nature of the Putin regime and bring to light its inherent trends that can produce both stagnation in the political system of Russia or preconditions for the regime's evolution toward consolidated democracy.

YELTSIN'S LEGACY

The Yeltsin regime, formed after the collapse of the Soviet Union, had passed through three important stages by the time power was handed over to Putin. The first stage ended in 1993 as the former parliament was terminated and a new Constitution adopted. During that period of reconstructing the old political institutions and forming a new Russian state, Yeltsin's regime could be described as a 'delegative democracy' – a term first proposed by the Argentine political scholar Guillermo O'Donnell. Regimes that emerge during a transition from one system to another are characterized by the presence of a charismatic leader, as well as extremely weak political institutions with no ability for mobilization. There is a lack of feedback between the people, who legitimize a charismatic leader's authority through popular elections, and the leader himself after the elections. At the initial stage, a charismatic leader, while being extremely popular, can promise a

lot of changes but will not be able to achieve his goals. As a result, the leader's charisma is impaired, leading to a loss of support from the population. In this situation, such a regime may develop according to the following two scenarios: if democratic reforms are successful and civil institutions are strengthened, they move toward consolidated democracy; on the other hand, if serious problems block economic and social reforms, the regime may experience a deep crisis, chaos and even the inability to properly govern. At this point, the country may evolve toward a consolidated authoritarianism. The main feature of a delegative democracy is that this regime is not consolidated in principle. Such a regime is incapable of putting forth sensible objectives; it fails to mobilize — via various institutions — financial, institutional, human and information resources that are necessary for resolving problems facing the country.

On Russian soil, problems arose as a result of the struggle between the charismatic leader, Boris Yeltsin, who relied on the broad masses, and the Supreme Soviet and the Congress of People's Deputies. This latter resolutely opposed Yeltsin's course, and did everything possible to block his plans. They were even ready, if the opportunity occurred, to depose him. Under those conditions, the regime's decentralization was aggravated by the need for the president, who was struggling for his very survival, to find the support of allies. He was forced to make very serious concessions to regional political and business elites, which would help the president to gain the upper hand over his opponents.

After President Yeltsin crushed the Supreme Soviet, his regime entered the second stage in the confrontation. This was characterized by the president's loss of charisma and mobilization potential. At the same time, the threat of a regime change by radical political elements who desired the return of the old system of government in one form or another, no longer presented a problem. As the opposition was defeated, a regime of delegative democracy drifted toward a rather moderate military-bureaucratic consolidation of power. The consequential weakness of Russian society, together with the forceful removal of the institutionalized opposi-

tion, enabled the decentralized military-bureaucratic authorities to begin the large-scale process of transferring state property into select private hands. In fact, the authorities no longer expressed the interests of society. They focused their attention exclusively on creating their clientele which, having acquired huge slices of state property (financial outlets, media resources and natural resources), would become the authorities' stronghold. During that period, the officials in the top echelons of power did not care to consider the acute problems that were plaguing the country and the people.

At that time, no consideration was given to the need for retaining the nation's research and development potential and advanced technologies, creating 'points of growth' in the economy, and promoting integration within the post-Soviet space. The authorities dealt exclusively with state property redistribution. That was a period when the majority of the people were struggling for their survival, and the strong and serious independent actors appeared on the political stage. It was a time when many of Russia's constituent republics and regions had turned into semi-independent, neo-feudal entities.

In Moscow, there emerged new financial groups which coined money at the expense of the national budget, and laid their hands on the most profitable sectors of the economy which produced and exported raw materials. The sweeping property redistribution, together with the formation of new segments in the bureaucratic and business structures with a view to supporting the existing regime, was accomplished through the absolute decentralization of the government authorities. These officials failed to formulate common national interests and goals, and to mobilize the necessary resources for achieving them. It was during this period that corrupt government officials merged with the rising Russian businesses; the business leaders sought to resolve their problems by circumventing the law and lobbying bills that would fit their own interests. Corruption was rampant and assumed unprecedented dimensions: it was necessary to pay a lot of money to obtain a government official's signature, while the need for acquiring a large number of referrals made business activities ineffective. Moreover, the numerous control agencies, with their endless

checks and audits, turned the lives of normal businesspeople into a nightmare. On top of that, law enforcement agencies began engaging in protection racketeering. The fierce battles for assets resulted in the murder of many people by their rivals.

Thus, during the period between the crackdown on parliament, the adoption of the new 1993 Constitution and the 1996 presidential election, Russia had a regime with weak political institutions unable to control the state's media, financial and administrative organizations. The top brass of that regime, together with the top brass of the newly formed businesses, were engaged in the carve-up of assets and power. The situation was similar in the provinces, where regional leaders controlled local businesses or, together with local business organizations, also engaged in the redistribution of assets and power. Separatist trends intensified, as did the trends for turning Russia into a de facto confederation. The provinces blatantly ignored the decisions of the federal government, and oftentimes violated federal laws.

But this decentralization of power, together with the state's loss of central authority, created an illusion of democracy. This was intensified by both the state and non-state mass media outlets, which unanimously supported property redistribution, as well as the state's inability to be a mouthpiece for public interests. Under these conditions, high-ranking officials and businesspeople that had connections with the government turned into multimillionaires overnight and got away with it.

Although many political analysts insisted that the 1993 Constitution had created a super-presidential republic, it cannot be denied that by 1996 this super-presidential republic had lost its substance. True, the president had the authority to dismiss the Cabinet or sack one or another minister, and even decide the fate of a governor or an oligarch, although this required painstaking efforts on his part. However, in reality, the president's authority was limited to downtown Moscow. Whenever his authority extended beyond this limit, he used all of the available resources to resolve private issues related to himself or his near circle. By the 1996 presidential election, when Yeltsin ran for his second

term, Russia still had decentralized power, weak institutions, and a leader who had totally lost his public support. The state as an institution expressing society's combined interests had lost control over the main sectors of society and over its own resources.

The third stage of the Yeltsin regime started after he won the 1996 election. The regime then totally degraded and the Russian state completely lost its central authority. Even in the opinion of our incorrigible liberals, there occurred the privatization of state institutions by oligarchs, as well as the privatization of the Cabinet, the president's administration and the president himself – or rather the president's family. The privatization of the president's family resulted in the emergence of an ugly phenomenon: the non-institutional center of power, which the Russian political journalism, and later the political literature, branded as the 'Family.' It included members of the president's family proper and the leading oligarchs who controlled financial and industrial groups, as well as the main mass media outlets. This power center made all of the political and personnel decisions during President Yeltsin's second term in office.

Those were the main characteristic features and specifics of the regime Russia had by the end of President Yeltsin's first term and throughout his second term. To retain his personal power under such a regime, when the state had no central authority, the president used his powers for redistributing property and preventing a transfer of power to the Cabinet. The president constantly instigated conflicts inside the Cabinet and parliament, thus effectively paralyzing their activities. This was the only way for him to retain personal power and prevent its transfer to the prime minister and government. This explains why centers of power – alternative to the prime minister – were created and supported inside the government. This eventually led to numerous reshuffles of the Cabinet until Vladimir Putin came to power, first as prime minister and then as president.

Summing up the results and describing the Yeltsin regime in general terms, I can say that the regime was least of all characterized by democratic elements and features. For the above reasons, the regime failed to create conditions for the development

of real democratic and political institutions, first and foremost mass political parties and civil society institutions. During the 1996 presidential election, administrative pressure was employed on an unprecedented scale, let alone across-the-board mobilization of financial, informational and other resources in Yeltsin's favor in his fight against a Communist candidate. By that period, oligopolies were formed. Each one of these comprised a financial and industrial group, political party, presidential candidate, analysts, journalists and media outlets. This made it possible for them to build up their influence within the political, economic and personnel decision-making process.

THE MAKING OF THE PUTIN REGIME

Putin started his first term in office as president when the worst of all regimes known in political theory and practice had been created in Russia. Alongside democracies, Juan Linz and Alfred Stepan distinguished a whole range of non-democratic regimes, including authoritarian, totalitarian, post-totalitarian and sultanistic. However, the regime in place in Russia by 2000 was beyond compare with even a sultanistic one; the best example of the latter is supplied by Nicolae Ceausescu's regime in Romania, according to the analysts. Despite the nepotism and dictatorship under Ceausescu, the state in Romania retained central authority and was powerful enough to express public interests. The state had certain ideological brakes as it was ruled by a Communist party. In its foreign policy, Romania had to maneuver between Russia and the West. While keeping control over key power institutions (a feature which made Romania similar to a sultanistic state), the Communist Party still managed to leave the Romanian state virtually without debts to the West.

The regime inherited by Putin was totally decentralized; the state had lost central authority, while the oligarchs robbed the country and controlled its power institutions. To mend the situation, Putin began to build a hierarchy of power. He ended the omnipotence of the regional elites which were led by regional barons in the person of the governors and the presidents of con-

stituent republics of Russia. Furthermore, he destroyed the political influence of the oligarchs and oligopolies in the federal center. During his first two years as president, Putin succeeded in restoring vertical governance in general. The establishment of seven federal districts, together with the appointment of the president's envoys to those districts, formed a common legislative space in the country and brought local laws, with rare exceptions, into line with federal legislation. The Family – which included members of the Yeltsin family, leading oligarchs, and chief executives of mass media outlets controlled by those oligarchs – was ruined as a non-institutional center of power. As a result, the Russian political and economic actors who sought to privatize the state, together with all of its resources and institutions, were weakened. Strangely enough, Putin's efforts to restore the country's controllability and the state's central authority triggered a strong negative reaction among liberal critics of the Yeltsin regime, both in Russia and abroad.

The reason for such a reaction was not that Putin was really dismantling Yeltsin's "democratic" regime and creating an authoritarian regime. By destroying oligopolies which had claimed control over the state, Putin actually stripped several groups of active Russian political actors of their financial and media resources. Boris Berezovsky, Vladimir Gusinsky and other oligarchs and major businesspeople were stripped of the ability to use the mass media to maximize their economic capabilities. By denying those groups access to the Kremlin and destroying the Family power center, Putin barred them from decision-making on key political and personnel issues. The move deprived some leaders of the 'democratic parties,' as well as many journalists and analysts who served those politicians and the Family oligarchs, of strong political and financial support. The oligopolies identified the regime's 'democratic' nature from the premise of whether or not they were close to the center of power, and whether or not they could successfully maximize their political and financial well-being, rather than from objective characteristics and unbiased estimates of the situation in the country.

The criticism voiced in the “free” press controlled by Gusinsky and Berezovsky had been a source of contempt for a long time. Most people can still recall the first ‘blacklists’ which emerged at the TV channels owned by those oligarchs: these television channels were only allowed to air reports that met the oligarchs’ economic and political interests, and only people who were ready to serve their interests could appear on those channels. All other politicians and analysts were denied the right to go on the air. The printed media controlled by the oligarchs adhered to similar policies. The same approach was used for filling positions in the president’s administration and the government.

It is no wonder, then, that Putin’s attempts to restore central authority, and reintroduce their status, rights, powers and capacities of the political institutions, faced the resistance of oligopolies. They interpreted these efforts as the strengthening of authoritarian and totalitarian trends in the Russian political power structure and as an assault on freedoms. However, the activities of oligarch-controlled media outlets had nothing in common with the functions of the mass media in the democracies of the West. Therefore, it was quite natural that occasionally, when the oligopolies failed to divide the most select slices of state property amongst themselves, we witnessed fierce information wars crowned by the dismissals of government officers of various ranks, depending on how close they were to the Family.

President Putin started with an attempt to restore the state’s role as an institution expressing the combined interests of the citizens and capable of controlling the state’s financial, administrative and media resources. He also began establishing common rules for all economic and political actors. Naturally, in line with Russian traditions, any attempt to increase the state’s role causes an intense repulsion on the part of the liberal intellectuals, not to mention a segment of the business community that is not interested in the strengthening of state power until all of the most attractive state property has been seized. In the absence of common rules, this part of the business community received unilateral advantages, taking avail of its closeness to the ‘Family.’

Naturally, both liberal intellectuals and a particular segment of the business community view Putin's efforts to restore central authority as a threat to democracy and an attempt to establish authoritarian rule.

The consolidation of state power naturally enhances the role of law enforcement agencies as the strengthening state tries to set barriers against criminals, particularly those in big business, who are particularly keen on tax evasion and the maximization of their profits — if the state is weak. Ongoing efforts to put an end to these breaches of the law are also seen as restraints upon free entrepreneurship and the destruction of free market foundations of Russia's statehood. Claims that the authorities have been ruining the environment for the further development of market relations have been disproved by key economic indicators. These have clearly shown the attractiveness of the Russian economy for domestic and foreign investors during the past several years. Actually, changes within the political sphere have promoted economic stabilization.

Toward the end of his first term, President Putin succeeded in consolidating the political regime. Under the new conditions, Russia is in a situation quite similar to that of the Soviet Union when Mikhail Gorbachev came to power. In 1985-1986, he was just starting to think about ways to modernize the regime which lacked any internal dynamics, yet was consolidated enough institutionally and ideologically.

What are the gains, losses and essential properties of Putin's consolidated regime? A comparison of Putin's Russia with Gorbachev's Soviet Union of 1985 allows the conclusion to be drawn that today, after almost 20 years of reforms and shocks, there is a wide chasm between the Gorbachev regime and the current regime in virtually all spheres. It is clear that the social revolution, initiated by Gorbachev's reforms, has been seen through to fruition in 2004. In my opinion, which is shared by many other analysts, the radical change of the economic components of the social system was the main goal and meaning of this social revolution. The absolute dominance of private ownership in Russia,

recognized by all political forces today, has been the greatest achievement and result of this social revolution. In the political sphere, the reforms have produced a high level of pluralism, which rests on private ownership and the concomitant development of civil institutions. In turn, these institutions promote the development of a pluralistic party system.

Naturally, the level of civil society is not high enough at the current stage. Public interests are not taking shape as fast and effectively as could have been the case had mid-sized and small businesses developed more rapidly. But as was mentioned above, this is largely due to the fact that during a long period, the alliance of former government officials and leaders of several major oligarchic groups prevented the state from actively pursuing an effective policy toward creating a favorable environment for mid-sized and small businesses. The authorities only offered exclusive conditions to several groups which – sometimes in accordance with the law, but for the most part bypassing it – strengthened their own positions which allowed them to achieve monopoly status in many segments of the Russian economy.

The regime formed under Yeltsin obstructed the emergence and development of a civil society, as well as a political party system structured on such a society. This explains why Russian political parties, with the exception of the Communist Party and the Liberal Democratic Party, mostly remained parties that were controlled by particular oligarchs. While these parties had a certain level of grass-roots support, they actually totally depended on their sponsors. It was no accident that when Gusinsky's media empire collapsed and Mikhail Khodorkovsky's YUKOS began to face problems, Yabloko and SPS began to experience serious problems as well; they even failed to win any seats in the State Duma. Many of these parties' sponsors began to display their loyalty to the authorities, while several joined United Russia. They realized that if they wanted to keep their businesses, they had to moderate their political ambitions. Otherwise, in the heat of the moment, they could fall under strong pressure from the authorities seeking to clean house in the sphere of big business.

The above does not mean that the existing political system has lost its democratic nature. If democracy is the rule by a majority and the protection of the rights and opportunities of a minority, the current political regime can be described as democratic, at least formally. A multiparty political system exists in Russia, while several parties, most of them representing the opposition, have seats in the State Duma.

Clearly the state, having restored its effectiveness and control over its own resources, has become the largest corporation responsible for establishing the rules of the game. A fundamentally new problem has emerged for the authorities and society: How far does the state intend to expand into society in its bid to control and regulate anything a bureaucrat chooses? Today, on the foundation of a new economic structure, President Putin's consolidated regime must address the development of civil society, and enhance its position against the state. Mikhail Gorbachev failed to solve this problem, and this failure resulted in the collapse of the Soviet Union.

We must realize that under the current conditions, given the absence of a developed civil society, it would be absurd to insist that civil society control the state. This has never happened in any society which is experiencing a transition to democracy, whether we are talking about a transition from a post-totalitarian or even authoritarian regime to democracy. The transition period will require a long period of time, during which broad democratic rights and freedoms can be retained. But it is absolutely clear that the authorities and political parties and forces loyal to them will have certain advantages.

In particular, this was the case in postwar Italy where a one-and-a-half party system existed for 50 years – democratic rights and freedoms existed for everyone, but the opposition never had a chance to come to power. This was also the case in Japan, Mexico and, for quite a long time, France. A one-and-a-half party system, which guarantees a long stay in power for one party, emerges when there are strong anti-system forces in the country, which can radically change the country's social and political sys-

tem if they come to power. The one-and-a-half party system may exist until the anti-system forces begin to share the basic democratic institutions and values of the existing political system and become integrated into it. For that reason, the process can be rather lengthy. This process has taken many decades in countries with far greater democratic traditions than Russia.

If Russia is lagging behind the developed capitalist nations in regard to the consolidation of democracy, it is not the quality of democracy, but rather its amount and the balance between civil society and the state. I must briefly digress into theory here. While there are qualitative dissimilarities between totalitarianism and democracy, there is no clear qualitative distinction between authoritarianism – especially at its advanced stages – and democracy. There exists a quantitative difference and an innate organic link between these two types of regimes. In the 20th century, it was no accident that many developed authoritarian regimes broke with the past on the basis of a contract between old and new elites, opening up opportunities for consolidated democracy and civil society's control over the state when the preconditions had become possible. I believe that Putin's regime is in many respects more democratic than any other regime that has ever existed in Russian history. If Russia succeeds in firmly establishing its current positions, this regime will be able to resolve a whole range of other issues, consolidate itself and move the country forward toward consolidated democracy. This corresponds with the development of civil society and civil society's control over the state. This presupposes the development of the party system and turning the one-and-a-half party system into a real two-party system. However, good wishes alone cannot expedite the process. It can be facilitated by the substantial growth of the Russian economy, the development of small and mid-sized businesses, and the improvement of the population's living standards. On the other hand, the authorities themselves must efficiently reform the political system as the country's economic and social spheres develop.

The present regime in Russia can transform into bureaucratic authoritarianism or consolidated democracy. It would be inaccu-

rate to describe the existing regime as bureaucratic authoritarianism. Under bureaucratic authoritarianism, there exists a serious alienation of the regime and state institutions from the people. The authorities seek to retain their powers and control the key spheres of life. Their actual goal is to continue with the status quo, while reproducing the socio-political system without its development and modernization. It is impossible for such regimes to adequately react to internal and external challenges, as they are characterized by the omnipotence of bureaucrats and rampant corruption.

The Putin regime possesses certain features which differentiate it from bureaucratic authoritarianism. It can best be described as a plebiscitary democratic regime with a charismatic leader at its helm. This type of regime has been already described by Max Weber: there is a direct relationship between a charismatic leader and the people; the leader's ability to mobilize the masses is great. He controls the institutional system and is also able, while relying on the masses, to overcome the resistance of bureaucracy. Naturally, there is a serious threat that bureaucratic authoritarianism may emerge. In principle, for a democratic political system to retain its dynamism and ability to develop and adjust itself, three types of conflicts must exist inside it: a conflict between the politicians and the government bureaucracy, a conflict between the bureaucratic sphere and the political sphere (the executive and the legislature), and a conflict between a charismatic leader and the political system in general. In the absence of such conflicts, braking mechanisms emerge in the socio-political system and it begins to stagnate, Weber noted.

In my opinion, the conflict between a politician and bureaucracy tends to be diminished today, and politicians have been increasingly replaced by bureaucrats. As a result, the Kremlin's control over the legislature, as well as the necessary conflict between the legislative and executive branches mentioned above, diminishes as well. Naturally, this may create serious prerequisites for the political system's stagnation. Fortunately, there still is a conflict between a charismatic leader staying above the political system and having direct access to the population (especially via

the mass media) and the left and right opposition, which finds itself in and out of parliament. This inspires the hope that the political system will advance toward resolving a whole range of pressing problems, rather than narrowing the potential of the political opposition and grounds for conflict (rivalry of ideas and approaches capable of making the political system more dynamic, rather than a destructive conflict). If the authorities really seek to build a civil society which is capable of establishing control over the state, they themselves need to be reformed first and foremost.

Obviously, under the current conditions it is necessary to overcome the 'double-headed' nature of the executive. It would be expedient for the president to head the executive branch himself, which would stop the overlapping of functions, cut down the swollen bureaucratic apparatus of the president's administration and the Cabinet, and let the president pursue energetic policies. In this respect, he would continue to rely on a parliamentary majority and the majority support of the population.

Priorities for advancing the regime toward a consolidated democracy include separating the state bureaucratic apparatus from business in order to weed out the roots of corruption. Only an enlightened leader and his administration can achieve this. It is impossible to effectively combat corruption by occasionally picking this or that corporation, checking it, ruining it, or redistributing its assets. The state must establish stringent rules common for all, which must be observed by government officers and the authorities, as well as the business community. Naturally, this requires changes in bureaucratic ethics and the formation of a special caste of government officers; these officials must be offered higher remuneration to enhance their well-being, otherwise, it would be difficult to detach bureaucrats from the sphere of business. The exchange of political and economic resources corrupts both officials and businessmen. The mass media should be aware of this problem and report their findings to society and the highest levels of authority.

An enlightened leadership can prevent the political regime from descending into bureaucratic authoritarianism, and achieve a civilized market and effective consolidated democracy.

Along with certain domestic factors, there is a serious external factor that inspires hope that the regime will advance toward consolidated democracy. The state now has sufficient resources for serious maneuvering and setting strategic goals in the interests of society – and it has the levers for attaining these goals. Russia's economic weakness and dependence on the world market, together with the need to create a competitive economy, may also prompt the Kremlin to make decisions that will promote the system's modernization toward consolidated democracy – especially given that the West insists that Moscow cultivate liberal values and institutions as a precondition for Russia's integration into the Western economic, political and military structures. This factor can prevent the Putin regime's transformation into a bureaucratic authoritarianism. For the same reason, it is hardly worth lamenting the fact that SPS and Yabloko are no longer represented in the State Duma, and that there is allegedly no one to criticize the Russian authorities from the liberal positions, nor push Russia along the liberal path.

The course of events, as well as the Western liberal communities, pushes Russia down the liberal path. They have steadily challenged Russia, making it compete with the liberal West on Western terms and on the basis of Western principles. Therefore, I find ridiculous the claims that if Boris Nemtsov, Grigory Yavlinsky or Irina Khakamada are not Duma members, the Russian authorities are spared the need to consider competition, freedom and democracy. Formerly, internal and external challenges forced the Communist leadership to modernize the Soviet regime. Now, too, it is the Western nations and the G-8 group that exert effective pressure on the Kremlin so that the Russian authorities can continue to build a more competitive economy. And a competitive economy will lay the foundation for building a developed civil society, which would then form a developed political party system. All of this will create the mechanisms for civil society's effective control over the state.

To sum up, Russia has achieved a colossal divorce from the past, and the social revolution is over. Russia now must endure

its evolutionary development toward consolidated democracy which will nurture a civil society capable of exercising control over the state. In 2004, Putin is launching this advance from a foothold that is totally different from the sort experienced by Alexander II, Sergei Vitte, Pyotr Stolypin or Gorbachev. We have never been so close to the creation of a real consolidated democratic system which would crown Russia's modernization and permit the country to join the family of civilized nations, thus putting an end to disputes over whether or not Russia is part of Europe. Russia possesses all of the requirements to settle this question: private ownership and a pluralistic political system, although its civil society and party system are not yet fully developed. We have a consolidated power system. We have an enlightened leadership which understands all the problems, hardships and deadlocks that a course toward totalitarianism or authoritarianism can entail. We have the consolidated West, which is strong enough to steadily encourage the process. And we have a society that is educated and developed enough to accomplish the transformation of Russia. There is simply no other way to retain the integrity of the Russian state.

Russian Economy



“ The bulk of Russian enterprises, having learned to work in market conditions through the reform years, have made the most of their competitive advantage — Russian products have begun aggressively replacing imported goods, while Russian exports witness a rise in demand ”

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Economy with Room for Growth

German Gref

Over the past five years the Russian economy has been demonstrating high growth rates. At the same time, factors influencing the dynamics of this development have changed repeatedly, with the devaluation of the ruble and an increase in the prices of export commodities playing the key role during the first stage. Nonetheless, the bulk of Russian enterprises, having learned to work in market conditions over the reform years, have made the most of their competitive advantage – Russian products have begun aggressively replacing imported goods, while Russian exports witness a rise in demand.

Many analysts have insisted that a weak ruble should be the basis for economic growth. That was one possible option for recovery. However, had such a strategy been pursued, it would have resulted in the preservation of the old economic structure, and in hindering programs which are intended for improving the living standards of the population.

Now that the ruble has been steadily strengthening or, I should say, has not been weakening, we are witnessing **a significant growth in investment** and a vigorous modernization of our production assets. Many Russian goods successfully compete on the domestic market with foreign goods in terms of their price and quality. It is noteworthy that investment now accounts for the major part of our economic growth.

German Gref, Doctor of Science (Law), is Minister of Economic Development and Trade of the Russian Federation. The article is based on his speech made at the Academy of National Economy in February 2004.

Naturally, it would be wrong to say that we have fully utilized the potential for growth due to investment:

- the economy has mostly been developing due to internal resources, while the inflow of external investment remains relatively low;
- the huge savings of the population remain untapped. Macroeconomic stability and insurance of the citizens' private deposits in commercial banks should become the key solutions to this problem;
- the financial infrastructure ensuring investment flows between economic agents remains underdeveloped;
- the shortage of investment targets due to the non-transparency of companies, the absence of in-depth credit histories and obscure ownership structures, present real problems. Potential investors simply cannot adequately assess their investment risks, hence the total amount of investors is limited. By 2007, all large and mid-sized Russian enterprises are to gradually shift to international accounting standards – this will be an important step toward resolving the investment problem.

Structural reform is closely related to attracting investment. However, Russia's economy is not short of investment resources; rather, it is short of investment ideas. It is simply impossible for Russia to swallow a larger investment inflow than it has at present. An energetic structural reform could mend the situation.

The non-market sector should be reduced as much as possible. Unprofitable enterprises should inevitably fall under bankruptcy procedure; companies, fully or partially owned by the state, should not be provided with (often covert) preferences and benefits. These companies should eventually be privatized. Finally, it is necessary that we strengthen those efforts that are aimed at stimulating the emergence of competitive offshoots of the infrastructure monopolies.

Certain steps have already been taken in these areas. Bankruptcy procedure has been improved, and privatization continues. A lot has been done to streamline the infrastructure monopolies. As of today, the greatest progress has been made in reforming the energy sector and the railway transportation system. In the energy sector, restruc-

turing of the national grid (Unified Energy Systems) will continue, while a step-by-step liberalization of energy prices will be implemented. The reform of railway transportation should create a competitive environment for independent commercial offshoots of the Russian Railways Co. to engage in various support activities.

Russia's reform of the gas sector is 'in the pipeline.' In the next two to three years, state regulation of gas prices is to be replaced with the regulation of gas transport tariffs, while gas production and sales are to be liberalized.

Along with the reform of the infrastructure monopolies, it is necessary to exercise more effective control over economic concentration, since the promotion of fair market competition is one of the most important and undeniable functions of the state. To minimize any negative effects of that interference, this year the principles of anti-monopoly regulation will be reviewed. Mechanisms will be introduced for preventing abuses caused by a company's domineering position on the market (currently, only control over the emergence of such a position is exercised).

At the same time, efforts should be made to improve the anti-monopoly regulation procedures, above all those which will facilitate market players' applications for court hearings against breaches of legislation.

Fifteen years of market reform have already passed but, unfortunately, the list of structural anomalies in the Russian economy is still too long.

A favorable business climate, together with comfortable social conditions, can only be ensured by an **effective state**; this remains one of the most pressing challenges of our day. The state machinery in its current condition not only impedes business activities, but it ineffectively performs its social functions. It actually hinders the restructuring process which is direly needed by the nation. Unless administrative reform is accomplished without delay, Russia's ongoing transition to a democratic and economically stable nation will be complicated.

The main guidelines for reform have already been determined. The reform efforts should focus on the reduction of state interference in business, the elimination of the overlapping functions of

the state agencies and the delimitation of the powers and authority of the executive bodies. Finally, it must promote the emergence of self-regulating organizations which in the long run will take over certain regulating functions in the economic sphere.

The state is simply incapable of effectively monitoring all of the processes taking place in the economy, let alone regulating these processes. Such attempts cause excessive bureaucratic red-tape and an expansion of the state machinery, as well as the worsening of the administrative burden. Wherever possible, it would be reasonable to pass over the state's functions to expert organizations, i.e. market players. But it is important to make sure that these organizations do not use their regulating functions as a tool for suppressing competition – they should work in the interests of the entire market. This year it will be necessary to hand over some of the state's functions to self-regulating organizations, review the functions of the control and supervisory agencies in order to reduce their range, and further improve the licensing system.

Administrative reform has been launched. At the initial stage, 4,095 out of 5,318 state functions were analyzed, and 1,708 of these functions (42 percent) were found to be redundant, overlapping or requiring reduction in terms of the scope and sphere of their implementation. Approximately 20 percent of the redundant functions relate to essential spheres of economic life (licensing, the issuance of permits, out-of-court suspension of business activities, etc.). To review such functions would require, in particular:

- making it possible to suspend an organization's activities solely through the courts and only if there is a direct threat to the people's life and health;
- replacing, wherever possible, licensing with control over market players by self-regulating organizations;
- stripping government agencies of their control functions (primary data collection, laboratory research and tests), with the state only retaining its supervisory functions.

The major state codes and approximately one hundred federal laws will have to be amended to make all of this possible. Part of the required legislation has already been drawn up.

In particular, draft laws have been formulated which call for stripping federal ministries of certain functions. These include the Ministry of the Interior (vehicular inspection), the Ministry of Finance (part of functions related to state regulation of auditing), and the Ministry of State Property (part of functions related to state regulation of real estate appraisal). A law has also been drafted on the handover of real estate inventory functions to the market.

The remaining functions of the executive will be divided among agencies so as to rule out conflicts of interests between them. This means that the sector now responsible for the establishment of rules will be separated from supervisory functions, as well as from service operations and the management of state property. This stage of administrative reform is to be completed within the first half of this year.

During the second half of the year, the remaining state functions will be analyzed in order to perfect the methods for their implementation, and bringing the financing of the state apparatus into line with the range of its functions and effectiveness. At the same time, there are plans for drawing up legislation on the general requirements for administrative regulations, as well as a framework law on the quality standards of state services.

While excessive interference of the state in the activities of the economic agents is being reduced, debates are now underway for the introduction of procedures for substantiating state interference in the economy in individual cases. In order for such a provision to be properly observed, a mechanism will have to be introduced for regular evaluation of the regulating measures, which could lead to the potential rejection of the state's interference in certain cases.

An important characteristic of the state is the efficiency of its **judicial system and law enforcement agencies**. Unfortunately, the abuse of authority by police and prosecutors has provoked a serious setback in this state sector. It takes months or even years to complete even the simplest cases, making litigation costs inadmissibly high for average people and small businesses.

The judicial system should not be the means for the illegal appropriation of property rights. On the contrary, it should effec-

Objectives of the Russian Government

1. Macroeconomics. In this field, we must constantly work toward reducing inflation, maintaining a stable exchange rate and creating conditions for the ruble's full convertibility. There is also the issue of reducing excessive administrative interference in the economy. The state must manage only those properties that are required for implementing its powers and ensuring the country's security and defense capability.

2. Competition. The elimination of non-competitive production businesses, while creating an economic medium that will be conducive to innovations and new technologies.

3. Budget. First, it is necessary to formulate the budget proceeding from long-term development priorities. We cannot simply adjust our developmental programs to the cost; rather we must calculate the cost with regard to the developmental objectives. Second, an effective social policy must be established. This will require the reform of the social welfare system.

4. Taxes. It is important that we conclude the tax reform. When this is effectively accomplished, the main aspects of the tax system should not be revised for many years. There needs to be equal taxation conditions for all enterprises operating in one sphere, and the tax system must not be burdensome for businesses. Furthermore, these steps should be accompanied by the reduction of a single social tax, together with the conclusion of the property tax reform.

There needs to be a tax reform for the extracting companies to ensure the collection of a fair and economically substantiated natural resource rent. Next on the agenda is to introduce appropriate changes to the value-added tax. Finally, tax sources should be redistributed between the center and the regions.

5. Finance. First, our financial institutions must ensure broader access to credit resources, while improving the quality of financial services for businesses and citizens: mortgage, educational and consumer loans.

Second, it is vital to develop a legal foundation that will not be burdensome for participants in the financial markets.

Finally, we need to guarantee the rights of the depositors, and create a reliable savings insurance plan.

Eventually, Russian capital will effectively compete with foreign capital on the Russian market. We need to strengthen the Russian banking system and increase its capitalization.

Excerpts from President Vladimir Putin's speech at a joint session of the Boards of the Ministry for Economic Development and Trade and the Ministry of Finance in March 2004.

tively protect those rights. In terms of economic diversification, particularly important is the protection of intellectual property rights. Therefore, reform should in the least be aimed at perfecting mechanisms for the protection of property rights, settlement of corporate conflicts, and arbitration.

Reform of the state governance system should be a top priority over the next few years. Naturally, this will require **institutional restructuring** in a broad range of critical economic spheres. These include, above all, tax reform, better oversight of natural resources and finances, as well as new measures for making the economy more transparent. I

will not dwell in detail on these issues, since they have long been in the focus of debate by the experts. At this time, it is important that we give consideration to social security, **education and health care**, since these are spheres that are particularly significant for all citizens.

Presently, the quality of state-provided medical services is unsatisfactory, while the quality of public education leaves much to be desired. There has been a rise in ‘under-the-table’ transactions in these domains, while the personnel lack the necessary incentives for providing high-quality services. We must admit that the proclaimed principle of free education and medical services has not been observed in practice. Where it is observed, the quality of the services in most cases is impermissibly low.

By preserving this situation, we are not only reducing living standards, we are undermining the nation’s long-term competitive advantage – the high quality of its human capital. So, poor education and health services are not just a social problem – it is a direct challenge to Russia’s sustainable economic growth.

What measures need to be taken to improve the situation? The prescription remains the same – more freedom for the educational and medical institutions. Competition will do its work. The system of health insurance should work as an insurance system, rather than a system for financing the existing medical infrastructure. Higher educational institutions should be given the right, as well as learn, to legally make money through professional training. To make higher education more accessible, the state should provide guarantees for educational loans to every Russian citizen.

On the whole, I am positive about the prospects for Russia’s economic development in the coming years. Even if oil prices go down substantially, the growth rate of the Russian economy will not be negative. In the coming years, economic growth will largely be promoted by ‘new’ companies formed in market conditions and targeted at exacting consumers. The state, for its part, should create the prerequisites and support such companies. To be able to make prudent and effective moves, the state should become more transparent for society and its goals should be serving the interests of society and the business community.

Russia en Route to State Capitalism?

Alexander Radygin

The trend toward toughening state control in the corporate sector of the Russian economy, which first manifested itself in 2000-2001, has become especially evident since the beginning of the year.

THE STATE'S EXPANSION AND CREATION OF 'POWER CENTERS'

As early as 2000, Russia clearly tended to consolidate business entities, as well as the shares it controlled in holding companies. (This was the time when the consolidation of Rosneft's subsidiaries began in earnest. Additionally, there was the formation of the Antey and Almaz concerns in the defense industry, the growth of the Rosspirtprom holding company which united 89 alcohol producers, the merger of all nuclear fuel producers and traders into one corporation and the unification of all nuclear power plants in a single power-generating company on the basis of Rosenergoatom, etc.) The annual shareholders' meetings at Gazprom, Unified Energy Systems, Aeroflot and some other big companies in 2000 also revealed the federal authorities' intention of toughening their control via corporate procedures (i.e. boards of directors).

Obviously, the toughening of state control through the formation of new big holding companies, together with the state's broader representation in the existing companies, was prompted by a number of objective factors, such as the need for technolog-

Alexander Radygin, Doctor of Science (Economics), is a member of the Board of Directors of the Institute for the Economy in Transition.

ical integration and improving the companies' ability to compete on the market. The increased pressure on various enterprises was also aimed at increasing budget revenues. There are certain indications that in 2000 the government implicitly set **a strategic goal of establishing at least one state-owned 'power center' in each of the most important sectors** based on the assets remaining in state ownership (state unitary enterprises and blocks of shares).

However, such a policy faced a whole range of objective limitations: 1) a 'streamlined' system of state property management, complete with corruption and kickbacks; 2) a limited amount of state assets that would provide for the creation of holding companies controlled by the state; 3) in certain cases, the need to make decisions that are viewed by investors as systemic risks (e.g. deprivatization); and 4) political and geopolitical factors. Still, the path of simple integration and consolidation of state assets looked particularly attractive (compared, for example, with such an alternative as trust management).

In 2002, it became clear that simply forming big state-owned entities on the basis of the remaining assets might have quite negative results. A glaring example is Rosspirtprom where, in addition to the unending scandals between the parent company and its subsidiaries, there emerged problems that stemmed from its managers' opportunistic behavior. The government was forced to intervene. Its official order of October 29, 2002 stripped the holding company of the right to draw credits on its own; it also forbade the shareholders to elect the boards of directors and executive boards of companies whose shares had been contributed to the federal state unitary enterprise's authorized capital. Finally, it could not dismiss the leaders of its subsidiaries. All of these procedures required the exclusive consent of the governmental cabinet. Furthermore, it is the cabinet's authority to forward its recommendations at the shareholder meetings of the aforementioned companies on the size of its dividends, amendments to their bylaws and changes in their authorized capital.

The integration of the defense industry enterprises is another process that has not developed without conflicts as well.

According to a program for the defense industry's development adopted in October 2001, the defense sector's reform in 2002 through 2006 was to result in the emergence of 74 major holding companies and concerns controlled by the state (on the basis of 400 defense enterprises). However, in 2002 the planned number of holding companies was reduced to 42. By the end of last year, three integrated structures were actually formed (the Sukhoi aircraft holding company, the Almaz-Antey concern and the Tactical Missiles corporation). This year the program will be further amended.

The new federal authorities' drive for self-affirmation at the start of 2000 was accompanied by the state's (mostly tax agencies') tough actions against LUKoil, TNK, AvtoVAZ, Gazprom, Norilsk Nickel etc. Still, those raids – complete with searches and criminal proceedings in 2001 (such as the Federal Tax Police Service v. LUKoil, the Audit Office v. TNK, the General Prosecutor's Office v. Sibneft and Norilsk Nickel) produced no results – “in the absence of *corpus delicti*.”

I can agree that prosecuting tax crimes is one of the few effective ways for the state to influence corporations and their beneficiaries. However, three points should be made on this subject. First, tax reform must be further perfected, i.e. the objective economic reasons behind the majority of tax crimes need to be removed. Second, the rule of law should be ensured for the use of force and verification of facts for commencing criminal proceedings. Third – and this is of particular importance – the ultimate goals of the instigators of *selected* criminal proceedings are not clear, given that tax breaches appear to be *systematic*.

The year 2001 saw a significant expansion of the executive influence in the economy in several directions:

- personnel reshuffles in the biggest natural monopolies and strategic companies where the state had its stakes (Gazprom, Russian Railways, Rosenergoatom, etc.);
- reorganizations (mostly through mergers) of existing companies and the creation of new holding companies in the strategic sectors; consolidation of regional communications monopolies

into seven interregional subsidiaries within the Svyazinvest holding company; consolidation of aircraft industry companies into five integrated entities, etc.;

- the return of formerly withdrawn (privatized or leased) assets (e.g., Gazprom's former assets handed over to SIBUR, Itera, etc.);
- attempts to review the existing (since 1992) norms concerning the delimitation of companies' ownership levels, as well as the stakes owned by the Russian Federation (e.g., ALROSA);
- the establishment of control over main money flows and their concentration in state-owned banks. The Savings Bank (Sberbank) and Vneshtorgbank lend credit to Russia's biggest companies and have unparalleled access to the ample, as well as the cheapest financial resources – the population's savings and the Bank of Russia's funds. Not surprising, there was a heated debate in 2001-2002 on whether or not Vneshtorgbank should be privatized;
- a tough political struggle (2000-2002) around the reorganization of the country's biggest natural monopolies (Gazprom, Unified Energy Systems, Russian Railways).

Federal authorities have increasingly intervened in regional property conflicts via the president's envoys to the federal districts. For example, to settle the 2001 conflict between the Karabash Copper Works and Karabashmed joint stock company, the office of the presidential envoy to the Urals District proposed handing over part of Karabashmed shares to the state.

“TRUST MANAGERS” IN THE PRIVATE SECTOR?
Following the first steps aimed at the consolidation of state assets and the show of force against private companies in 2001 and 2002, an *alternative strategic approach* was developed. It is based on the use of certain private companies (groups) as “trust managers” of the federal center in a particular region (for example, Tyumen) or a particular sector of the economy (for example, ferrous or non-ferrous metallurgy). The advantages for private groups are obvious: they thrive not from successfully avoiding prosecution in their use of illicit schemes, but rather from the *carte blanche* given to them by the state to expand while enjoying its political support.

During that period, the Russian president made a point of it to avoid contacts with financial and industrial tycoons. This policy certainly did not mean that he rejected such an approach; indeed, his remoteness simply made it easier for a trust manager to be easily replaced by another should he breach the established rules. That condition certainly worried would-be trust managers, in spite of all the potential benefits. Moreover, the state's pointed policy of remaining equidistant from large businesses directly influenced the reorganization processes in the biggest private groups.

A clear counter trend emerged. Private capital attempted to distance itself also from the authorities by moving as far away as possible to ensure its safety; this would include the process of legally registering property rights in consolidated assets abroad. The establishment of TNK International by the Alfa/Renova group, the registration of the Millhouse Capital managing company by the Roman Abramovich group, and the formation abroad of a holding company controlling the SUAL group's assets were, perhaps, the first signs of Russian businesses attempting to ensure 'safe transparency.'

Partners in the Alfa/Renova group opted to form alliances with Western investors. Last year's merger between BP and TNK and the formation of an international industrial group based on SUAL assets with Fleming Family & Partners were fully in line with that strategy. As of January 2004, Fleming Family & Partners' stake in SUAL International (registered in the British Virgin Islands) is said to have reached 23 percent. It cannot be ruled out that the number of partners will grow (via IPO or strategic partnership deals), i.e. the aluminum holding company may grow increasingly 'multinational.'

Seeking to protect their assets, in the early 2000s other major groups chose to ensure their representation in regional administrations. For example, Norilsk Nickel CEO Alexander Khloponin became Governor of the Taimyr Autonomous District and later of the Krasnoyarsk Territory, while Roman Abramovich became Governor of the Chukotka Autonomous District.

In addition, in 2002 and 2003 some groups began shifting from attempts to directly privatize administrative control, to a marked loyalty to the federal authorities, while exhorting big business's

“social responsibility.” Some companies signed social partnership agreements with the regional authorities. Others initiated an increase of federal stakes or the transfer of certain assets under the state’s control. In 2003 and 2004, the idea of ‘corporate social responsibility’ (even though the notion is fairly abstract where it concerns commercial entities) became dominant in the debates over the ways to properly arrange relationships between the business community and the government.

In the fuel and energy sector, as well as in the banking sector, there seems to be a clear division marking the “loyal” companies from the others. For example, Gazprom and Rosneft are clearly pro-state companies (given the government’s equity control and their managers’ loyalty), while YUKOS is obviously at the opposite pole. Some of the biggest Russian groups, such as Interros and United Heavy Machinery (OMZ), are not being directly affected by the toughening of state control; according to analysts, they are viewed as reliable since they properly “understand the state’s interests.” Their real owners, in both cases, perfectly realize that any deviation from “understanding the state’s interests” may result in serious sanctions (such as the audit of the acquisition of Norilsk Nickel by Interros).

Many large companies have been forced to prove their loyalty by taking part in litigation that formally concerned economic disputes, yet had clear political repercussions which damaged the plaintiff’s reputation (for example, Gazprom v. NTV and LUKoil v. TV-6).

It seems that between 2000 and 2003 attempts were made to **select loyal businesses as opposed to all the rest**, although in reality there was a constant rotation between these two groups. Yet some of the events of last year suggested that the status of “trust managers” is rather questionable.

THE YUKOS CASE

Since June 2003, YUKOS top officials have been under intense pressure; Mikhail Khodorkovsky’s arrest was undoubtedly the most important event of last fall. Actions by the General Prosecutor’s Office have given rise to much speculation and accounts, but, as usual, the real motives remain off camera.

Purely political explanations for the attack on YUKOS attempt to link the oil company with the election campaign, or Khodorkovsky's political ambitions. Others point to the confronting groups in the Russian president's office and their financial sources (the remaining members of President Boris Yeltsin's 'Family' and YUKOS-Sibneft vs. the St. Petersburg group of security officials and Rosneft). However, none of these offer a comprehensive explanation of the situation, although those motives could have provided an additional impetus for the use of force by the state agencies.

It is equally difficult to accept purely economic motives, aimed at property redistribution, as the decisive reason. At the moment, besides purely market activities, there are no available legal methods for seizing a YUKOS stake, unless variants involving personal pressure are considered: for example, a Special Trust Arrangement (a 50-percent stake in the Menatep Group) could be amended in favor of other beneficiaries. Another possibility would be for a particular company to "voluntarily" return assets to the state, or to an entity named by the state — by analogy with MediaMost, SIBUR and other cases.

By all appearances, there are insufficient legal grounds for the nationalization of YUKOS, or the coercive, yet legal, appropriation of any part of its holdings in the state's favor. The arrest of a substantial share of the company (initially 44.1 percent) cannot result in a legally backed alienation of this share in the state's favor. First, according to analysts, the act of arresting shares is legally irrelevant — its being based on Article 115 of the Russian Criminal Procedural Code is questionable. Second, offshore firms that are the legal owners of the shares can file counterclaims in British courts.

Another possible alternative is for the state to present tax claims to the company; hypothetically, such a move could be used to secure an 'offset deal' and swapped for a substantial stake in YUKOS. However, such action also requires better validation (it probably has legal grounds, but YUKOS was not an exception to the rule when companies faced all sorts of tax schemes on a broad scale in 1998 through 2000).

But let us go back straight to the cause of the conflict.

The reorganization of the biggest private groups (holding companies) carried out energetically during the 2000s was to a large degree triggered by the need, already understood in 2001, to make their ownership and revenue structure legally flawless. The formation of offshore holding firms (to avoid extra taxation in Russia) was a logical step, and the owners (partners, beneficiaries) opted to ensure the control and protection of their assets via various juridical mechanisms. These measures guaranteed better protection of their property rights, as well as a greater transparency with regard to the real owners of Russian companies.

Naturally, certain motives were insufficient for making beneficiary ownership fully transparent. For example, getting access to the capital market (the issuance of ADR), or having pressure applied by Western banks in a global campaign against money laundering (good examples are the moves by the FATF, OECD, EU, ‘Wolfsberg Principles’, etc.). It was necessary for a certain period of time to pass, after which the risk of losing the acquired (often with breaches of civil or criminal legislation) assets would be minimal. Furthermore, up to a certain point it is impossible to disclose all sources used for property acquisition – this would include tax-dodging. A great majority of Russian companies are unprepared for such a task at the moment. **YUKOS was, in fact, the first Russian company to have completed that phase of its development.**

Obviously, bringing the whole ownership scheme out of the shadows (and I am not referring to tax and financial schemes here) and creating a fully legal structure for the protection of assets means, first, the reduction of the need for a company to have intimate relationships with government bureaucracy (good connections with federal and regional officials and courts, financing of politicians, etc.).

Second, a private company’s (together with its owners’ and beneficiaries’) independence from the state and its law-enforcement system is growing. It would be difficult to name another private company in Russia that has the size and the level of legal protection of its owners as YUKOS. A question arises: How does a

major independent company fit into the ‘strong state’ ideology in its current Russian version?

A potential reason for the use of force against the Khodorkovsky group is related to the whole logic of YUKOS’s development as a ‘model’ company in the 2000s. The policy of promoting a favorable corporate image, together with artificially increasing its capitalization, could be indicative that preparations were underway for the sale of the company, or its merger with a major global company on a parity basis.

As a result of YUKOS’s merger with Sibneft announced in 2003 (and later put on ice), this new company would have been ranked around the fourth or fifth amongst the world’s biggest oil companies. Yet the strategic goal of the new company to become a ‘global energy leader’ would have been difficult to achieve had it not gone multinational. Talks of a possible merger (or the sale of a substantial stake) between YUKOS and ExxonMobil or ChevronTexaco, reported at the end of last summer, make this version the more probable.

The Russian authorities must have found the level of influence and the rate of independence of such a big company unacceptable (given that its production and refining facilities are based in Russia and that it actually controls Eastern Siberia). If the guess is right, a blow to YUKOS’s and Sibneft’s capitalization was also a sensible move. The actions taken by the Russian law-enforcement agencies (irrespective of the legal grounds, names and time limitations) were intended to convey to YUKOS what they should not do under any circumstances; the moves were also intended to show the world that they should not deal with such a ‘tainted’ company. As a result of the drop in capitalization, the YUKOS owners have lost interest in selling off part of their shares.

What followed was an ‘anti-oligarch campaign,’ waged all through last summer and fall (primarily, all sorts of ‘public opinion polls’ were published). To a great extent, the campaign focused on the hysteria around the “rejection of the results of privatization by the people.” Clearly, this was only a cover for other socio-economic objectives of the state.

Naturally, the above is an attempt to offer an adequate explanation for what happened. Still, the first lesson is obvious: the company that had openly (more than any other company) disclosed its structure, shareholders and beneficiaries to the public was the first to fall victim to this legalization. It cannot be ruled out that this use-of-force-and-pressure policy may become standard — especially since the developments in 2002 and 2003 indicate that major international groups may emerge on the basis of several metallurgical and chemical holding companies which have virtually completed their consolidation. Time will tell whether or not this assumption is right.

In conclusion to this section, I would like to make some more general points.

It is quite possible that YUKOS managers and owners really committed crimes (related to tax evasion, use of budgetary funds, scheming with assets and transfer prices to the detriment of other shareholders, and so forth). In that case, the action taken by the prosecutors and subsequent lawsuits are perfectly legal. But this is only true under one condition — that law enforcement is non-selective. But if the owners and managers of only one company fall under judicial pressure for wrongdoings that are common to all companies in a given period, then this type of law enforcement can only be described as being arbitrary.

The whole situation does not inspire optimism. If the authorities only target YUKOS (irrespective of their true motives) then all of the measures taken under the judicial reform in 2000-2003 are hardly worthwhile.

If YUKOS is only the beginning of a campaign (that starts with Russia's biggest private company so that the smaller companies "fear outright"), there arises the question that deprivatization may be the state's general policy.

How realistic is it?

It is possible to find flaws in almost any privatization deal that was hatched between 1992 and 2003, which is not surprising given the rapid pace at which the relevant legislation was drafted and the privatization program was implemented (therefore, there was no malicious intent in the privatization deals). Clearly, the issue of

privatization legitimacy must be settled once and for all (for example, the 10-year statute of limitations could be reduced), except for cases where the law was flatly violated by officials (including cases of corruption) and where there were clear signs of criminal intent. The latter cases should be explicitly listed in a special legislative act. Provided that the law enforcement practices are equitable, this would be a safe barrier against any attempts at property redistribution on a large scale under the pretext of restoring justice.

It is worth noting that opinions concerning the YUKOS case have polarized: Western officials, business (investment) and academic circles are poles apart from the mass media, which in general represents the “public opinion.” The latter often portrays the YUKOS case in the overall context as an offensive against democratic freedoms. On the other hand, business circles tend to hold neutral attitudes or approve the steps taken by the Russian authorities. This should not be surprising given the unending string of corporate scandals in many developed nations, together with the toughening of corporate and securities legislation.

Enron’s bankruptcy in 2001 and 2002 and scandals involving WorldCom, Citigroup Tyco, Adelphia and other U.S. companies have revealed serious faults of regulation norms concerning corporate governance, accounting and the stock market. As a consequence of these developments, the Sarbanes-Oxley Act was adopted in July 2002.

The 2003 scandal which led to Richard Grasso’s resignation as chairman and chief executive of the New York Stock Exchange – after it was disclosed that he had been given a pay package worth almost \$150 million – clearly showed the weakness of control over top managers.

In December 2003, one of the biggest corporate scandals in European history broke out with Italy’s Parmalat case. And already this year, former managers of Germany’s Mannesmann were brought to trial and charged with “breach of trust of the shareholders” in selling their company to Britain’s Vodafone four years ago. Numerous scandals involving Japanese companies and South Korean *chebol* conglomerates were reported in the 2000s.

Therefore, since foreign businesses oftentimes confront problems at home, they understand that there is sometimes a need to toughen regulation regarding big public corporations abroad as well.

Paradoxically, the illegal corporate deals and legislative problems in the Western nations that only became obvious over the last few years have helped to remove Russia from the list of high corporate risks. This is underlined by the fact that last year YUKOS ranked second in terms of corporate governance among the world's top 20 publicly traded oil and gas companies, according to Energy Intelligence, a U.S. analytical agency.

Still another effect of the YUKOS case is that it has clearly showed the inner contradictions of what is known as a Russian model of corporate governance. Despite its transparency, openness and adherence to Western corporate governance standards, YUKOS is a one-man company and this man is incarcerated in the Matrosskaya Tishina prison.

Another possible long-term effect of the YUKOS case is that it could weaken the prospects for the emergence of multinational corporations in Russia based on major groups working in the extracting sector. In a sense, a line has been drawn as concerns the question of "limiting the omnipotence of Russia's financial and industrial groups."

Finally, the YUKOS case will clearly have its effect on the debates about taxation in the extracting sector and other industrial policies.

FURTHER EXPANSION AND POLARIZATION OF INTERESTS

The logic of the state's expanding control over strategic sectors in 2003 was not limited to the YUKOS case, even though its traces and side effects were observable in many cases.

First, it is worth mentioning that **reform of the federal unitary enterprise system was combined with further construction of state (vertically integrated) holding companies.** In particular, this year's plans call for handing 123 federal state unitary enterprises over to state holding companies.

It could be argued that this rather coercive integration could be justified with respect to the fuel and energy sector, nuclear power engineering, communications, the defense industry, and certainly Russia's unique production companies, such as the Energia aerospace company and integrated aircraft companies which are built around major R&D companies. This policy allows the state to maintain control (even if formal) over the biggest natural monopolies and certain strategic industries (sectors), prevent potential disruption of traditional economic ties and the total degradation of unique research efforts. Furthermore, it permits to preserve the coordination of production and technological activities within the framework of originally unified complexes.

But the global record has clearly shown the real drawbacks of such organizations: the extra costs connected with auditing the subsidiaries, difficulties in exercising control over redistribution of resources (assets) and revenues, a tendency toward politicization, excessive red tape, etc.

Russia's practices of the 1990s-2000s had the following specific features:

- permanent reorganization of holding companies with inherent violations of property rights, strife for gaining control, handover of shares, etc. Economic efficiency and rational management were rarely the primary considerations for such reorganizations. It is important to see the differences between the motives for the reorganization of the state holding companies (politics, lobbying, diverse methods for the transfer of assets, budgets, withdrawal of assets, corruption) and private companies (optimization of management, takeovers, dumping of unprofitable assets, forcing out 'alien' shareholders, expansion, tax dodging, outflow of capital). Many times these motives overlap;

- the use of state holding companies for serving the factional interests of certain state officials and private entities, withdrawing financial resources (offshore holding firms, transfer prices, profit centers outside formal state holding companies, violation of the rights of shareholders of the parent company and subsidiaries, etc.), pursuing non-economic goals (elections, financing particu-

lar political groups), and implementing spontaneous budgetary allocation decisions. In addition to plain corruption, this approach results in the state's inefficiency as an owner and, consequently, minimal revenues on its assets.

Second, **pension reform is a telling example of the side effects of the state's expanded control.** Last year even the Finance Ministry admitted that the first phase of the reform had been a flop. The non-transparent choice of Vnesheconombank as the agent for managing state pension funds, the 'tender' in which 55 private companies were chosen to manage the assets, and the incomprehensibility of the public information campaign suggested that under the pretext of the pension reform the government sought to maximize the funds remaining under its control. According to Russia's Ministry of Finance, only 1-1.5 percent of future pensioners (up to 700,000 individuals) have turned over their funds to private managers, against the 6-10 percent as had been expected.

Third, in 2002 Russia witnessed vigorous **debates on the goals and principles of potential industrial policy.** These talks focused around two essential and interrelated issues: 1) alternatives in the country's long-term economic development – either maintaining the status quo or rejecting the national economy's reliance on raw materials. Furthermore, introducing greater taxation of exports to level off profitability in the extracting and manufacturing sectors; 2) absolute state support for 'integrated business groups' (as seen by the Russian Union of Industrialists and Entrepreneurs) or "limiting the omnipotence of Russia's financial and industrial groups."

In 2003, the debate was actually reduced to highly politicized disputes around the 'natural resource rent.' The adoption of a new law on underground resources – the government is expected to consider its draft this summer – will be an important indicator of the authorities' real position on the issue and their attitude to the toughening of state control in the sector. Key issues include the possibility for local governments to take part in the allocation of mineral rights (the Russian Constitution vests those powers with the local authorities), finding an alternative to licenses (for example, "exclusive rights to excavate within a particular

sector” purchased during auctions), the terms for granting mineral rights, geological exploration and other problems associated with prospecting.

Fourth, from the available data it is possible to suggest that since last year **the formation of a certain ‘nucleus’ for state expansion and control has been underway**. This includes Gazprom, several loyal oil companies and some entities in the defense industry. In light of this fact, the chances for any serious reform of Gazprom are next to impossible.

Licenses and auctions in the oil sector are another possible route for the state’s expansion. It is very unlikely that the review of some licenses that started in 2003 (e.g., Sakhaneftegaz, affiliated with YUKOS, was stripped of its license for developing the region’s biggest Talakan oil and gas field in favor of Surgutneftegaz) was made possible just through the decision by the Ministry of Natural Resources or a regional court.

Importantly, in December 2003 Gazprom, Rosneft and Surgutneftegaz signed a contract and formed a consortium in order to pursue concerted policies for the acquisition of licenses. These were used for developing fields in Eastern Siberia (until recently this region was mostly under YUKOS’s control) and Yakutia. Since the government has ample stakes in the former two companies, it looks like the state wants more control in the sector. State-owned Transneft clearly backs the alliance.

Speaking about concerted policies, counteracting TNK-BP, as well as the expansion of Chinese oil companies in the region, will likely be an important aspect of the consortium’s activities. At the start of the year the first step was made to limit TNK-BP’s activities at the Kovykta gas condensate field. In particular, it has virtually been agreed that Gazprom will join the project, since otherwise the license holder may lose its license to this field and face problems with other pipelines. ChevronTexaco and ExxonMobil, both U.S. companies (which claimed a stake in YUKOS-Sibneft in 2003), this year lost the right to develop three blocks of fields in the Sakhalin-3 project, which, presumably, lies in the sphere of the Gazprom-led consortium’s interests.

Another potential innovation is the emergence of a national oil company (Gosneft). In addition to the consolidation of all assets that the state has retained in the sector, the company would be a bridgehead for the state's further expansion. In particular, the new national company (along with Rosneft, Surgutneftegaz and Sibneft) has been considered as a candidate for managing – on the state's behalf – a nationalized stake in YUKOS.

If we analyze the situation in terms of the confrontation between the 'old Moscow' and 'St. Petersburg' groups, it is obvious that in 2003 their clashing interests aggravated the situation, thus leading to a greater polarization of Russia's biggest business groups: on the one pole there are the state-owned Gazprom, Rosneft and Transneft companies, together with private companies Surgutneftegaz, LUKoil and the Mezhprombank group; on the opposite pole there is the Alfa/Renova group, YUKOS and Sibneft companies, as well as the Oleg Deripaska and MDM groups.

Clearly, from the point of view of a "state-oriented" strategy, the greatest threat was posed by the 'old Moscow' group's initiatives in the oil industry, telecommunications and the energy sector. YUKOS was the first to fall victim in the battle, with the Deripaska group and Alfa/Renova likely to follow suit. In January, Russia's Audit Office stated its plans to audit tax payments by Sibneft. Given that tax optimization schemes are very similar at YUKOS and Sibneft, it cannot be ruled out that Sibneft will face tax claims with subsequent bankruptcy proceedings.

However, it would be inaccurate to explain all of the recent steps in the sphere of economic policy exclusively by the two political groups' mutual attacks.

First, the Russian president has his personal opinion about the proper place of a big private company within the Russian state; actually President Putin expressed his views to the European media during his visit to Italy and the EU summit in November 2003. Second, even though the construction of a 'federal power vertical' has been quite successful, regional leaders (particularly those having succeeded in building their own financial and industrial groups) are still able to resist the federal authorities.

Finally, many measures have been definitely positive, namely the attempts to radically reform the federal unitary enterprise system, liquidate Russian ‘domestic offshore centers’ (soon after the amendments to Article 25 of the Tax Code took effect on January 1, 2004), limit the application of tolling schemes, etc.

Since the beginning of the new millennium, the following trends have been prevailing: the state authorities’ property expansion, attempts to establish (broaden) control over the main financial flows in the Russian economy and, broadly speaking, guaranteeing that businesses depend upon government institutions – despite any decisions concerning deregulation, administrative reform and privatization plans.

This policy may result in the formation of a **model for ‘state capitalism’** characterized by a combination of the following:

- significantly expanding the sphere of application of the standard mechanisms of state entrepreneurship;
- creating favorable conditions for the functioning of a narrow range of loyal private companies which have acquired a reputation for being ‘state-oriented’ and relying on the support of the highly centralized state machinery that is controlled by the President (including the legislature and the judiciary);
- using (selectively) show trials and punitive actions against economic entities that fail to fit into the model;
- drawing a dividing line between the national interests of Russia and the inviolability of the private property principle.

It is worth noting here that the notion of ‘state capitalism’ in its traditional sense does not embrace all of the specifics of the model under construction. ‘Bureaucratic capitalism’ would, perhaps, be a more accurate term with respect to the realities of modern Russia. The current system differs essentially from the so called ‘oligarchic capitalism’ of the 1990s, when the relationship between big business and the authorities was based on the direct involvement of major financial and industrial groups in formulating the most important political decisions. Another characteristic was that they were imposing upon the authorities those decisions that yielded direct commercial benefits.

Since 2000, we have been experiencing the opposite trend: the authorities have been noticeably neglecting the interests of private business in general, while imposing their own rules of the game; these are being enforced by enacting various levers. The YUKOS case has drawn the line under the 'oligarchic' era. Repeats of that scenario are quite possible, and the private companies need to take certain protective measures to avoid them. While the level of resistance remains rather low, this standoff will not end overnight. Therefore, in the mid-term the number of judicial actions questioning the legality of some privatization deals, as well as the acquisition of assets, will most likely grow.

But the 'state capitalism for cronies' policy may naturally bring Russia back to the situation of the 1990s. The problem is that the system under construction leads to the emergence of new potential 'oligarchies.' It is quite likely that upon the completion of the consolidation (return) of assets and the re-routing of financial flows of the biggest natural monopolies and state holding companies, the strengthening of the 'power centers' in various industries, together with the formation of pro-state inter-industry alliances, their CEOs will be given the green light for expansion into the private sector and the creation of their own groups.

There is no clear distinction between a policy aimed at strengthening state control and property expansion (which corresponds to the classical idea of 'state capitalism'), and the creation of 'crony capitalism' based on tightly intertwining interests of the state authorities and certain business entities. For that reason, the ultimate goals of that expansion are particularly important — is it the strategic interests of Russia as viewed by the initiators of this expansion, or are the goals simply the trivial greed of gold and enrichment through property redistribution?

A policy of state expansion has never been distinctly pronounced. However, the trend toward 'state capitalism' became especially obvious in 2003. Time will tell whether this was just an election-year trick, or the beginning of a larger-scale initiative until 2008. Whatever the case may be, property rights' protection, judicial reform and effective law enforcement will continue to be pressing issues.

Business to Replace Geopolitical Ambitions

Transit services as a means of reviving Russian economy

Vladimir Milov

Russia's global influence to a great extent depends on its role in the international division of labor. The country has mostly been a producer and supplier of raw materials — they account for nearly 80 percent of its exports. At the same time, Russia mostly imports high added value products (machinery, equipment, and consumer goods), and the balance of its export services and technologies has been steadily negative. Crude oil and gas (55 percent), metals (around 19 percent), and timber (around 5 percent) have been the main export commodities. The need to do away with the economy's dependence on the export of natural resources has been a recurring theme in the president's annual state of the union addresses, as well as in the government's economic development programs.

What is wrong with specializing in the export of natural resources (mostly oil and gas)? Many analysts insist that the prevalence of raw materials amongst a nation's exports can be used as a lever for exercising its global influence. Since the demand for oil and gas in the developed nations (the biggest importers of these commodities) is expected to grow, and Russia has the world's biggest gas and oil reserves among non-OPEC member countries, it can become a stable supplier of oil and gas to the Western nations and China. This would facilitate Russia building a stronger economic relationship with the developed nations.

How justified is this strategy? First, the world is unlikely to face shortages of the main natural resources in the future, while the

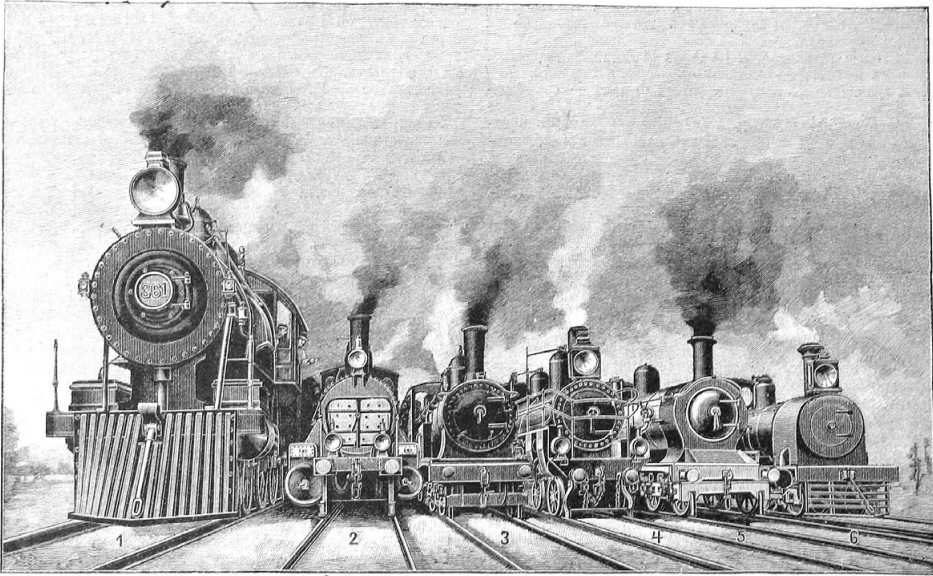
Vladimir Milov is President of the Institute of Energy Policy.

development of alternative energy technologies (such as fuel cells using hydrogen) could significantly change the demand for these commodities. Also, the currently favorable situation with oil and gas exports is due to market rigs and contingencies (irregular oil supplies from Iraq, Nigeria and Venezuela); it does not reflect shortages of energy resources. The unprecedented increase in global natural resource prices over the past five years is economically unfounded – they may remain at the same high level for some time, but Russia should not set its hopes on that.

Europe – the most diversified market in the world, with a high level of competition – remains the main consumer of exported commodities. The European Union – which accounts for nearly 98 percent of Russia's exports of crude oil and gas to countries beyond the CIS – has declared the diversification of the sources of its oil and gas supply imports as a goal of its energy policy. In particular, the EU seeks to reduce its dependence on oil and gas imports from Russia (on account of the EU expansion, this year Russian oil supplies will make up 33 percent of Europe's net oil imports, and gas supplies will stand at more than 50 percent).

Second, according to the existing foreign trade model, Russia's domestic consumer demand is largely satisfied by added value created abroad. Dependence on the imports of high-quality equipment, technologies and consumer goods poses a threat to Russia's economic security, and keeps it technologically undeveloped. This sort of specialization in foreign trade may eventually turn Russia into a second-rate economy, and Russians risk losing potential jobs for, as mentioned above, the bulk of added value (and, therefore, jobs) continues to be created abroad.

Is it possible for Russia to radically alter its role in the world economy? If the answer is yes, it will not be easy. The products of the Russian manufacturing sectors can most effectively compete in third-world countries. The demand for Russian weapons and military hardware is limited. The ongoing brain drain from the country seriously undermines the base for developing Russia's hi-tech sectors. In terms of the key criteria determining a nation's competitive-



1. The United States 40,100 miles	2. Germany 6,500 miles	3. France 5,600 miles	4. Russia 5,500 miles	5. Great Britain 5,100 miles	6. British India 4,800 miles
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Railway network length in major countries of the world.
Illustration from the reference book *Russia: Past and Present*, 1914

ness (such as labor productivity and the efficient utilization of resources), Russia is lagging behind other emerging markets. The Russian food industry has been inspiring a certain degree of confidence recently, but this is a sector where Russian goods will inevitably face particularly tough protectionist measures abroad. Therefore, Russian food producers will be hard-pressed to find capacious markets outside the country. The situation can be alleviated only through international legal instruments, but Russia is still ‘disfranchised’ in international trade: due to disagreements with the EU, Russia’s accession to the WTO seems to be delayed for an indefinite time.

Incremental changes in expanding the exports from non-resources sectors are possible, though. But this can be achieved only if the state invigorates its structural policy, including by resolutely pursuing structural reform. Combined with Russia’s integration into international legal institutions regulating trade relations, this policy implies the support for competitive high-tech export sectors of the economy and creation of incentives for more efficient use of economic resources. So far, the debates about the industrial policy in Russia have led

nowhere (the Cabinet prefers to stimulate economic development exclusively through tax and foreign exchange rates). Structural reform in the energy and transport sectors has virtually stalled. Besides, it has become obvious that the WTO is not particularly keen on seeing Russia in its ranks. The situation may gradually improve, but this will require an understanding of the country's present whereabouts and will take quite some time. Meanwhile, the export structure has remained unchanged over the past seven or eight years.

DORMANT OPPORTUNITIES

Russia has a natural potential for fundamentally modifying its foreign trade structure since it is the only genuinely Eurasian nation. How realistic are the hopes that Russia's role will change in the international division of labor? Russia's geographic location as a transit nation is unique. The shortest transport routes from Europe to Central Asia and the Asia-Pacific region – the world's key economic regions, with trade volumes between them and Europe steadily growing – extend across Russia.

Russia can be a competitive transit nation. Transit across Russia means the fastest shipments possible, compared with all of the alternative routes. There are also other advantages: Russian transport routes have a solid reserve of throughput capacity, while transit cargoes shipped via Russia cross fewer borders than alternative onshore routes.

Ignoring these potential reserves would be severe short-sightedness. However, this potential has not been tapped to date: currently, Russia's export of transport services yields only around \$3 billion.

How much will Russia benefit from its transit services on the Eurasian route? For many nations, export of transport services is a key source of foreign trade revenues. For example, the Netherlands and Hong Kong receive \$20 billion and \$13 billion respectively in export revenues from transport services. They have small territories yet they have successfully pursued strategies aimed at promoting the development of transport hubs, effectively serving transport flows linking the world's major economic centers. They sell services that are comparable to, for instance, exports of oil, gas or metals (taken

as separate groups of commodities) from Russia. As a result, the share of transport services is quite substantial in those countries' national export structure, and they are on the top ten list of the world's biggest exporters of paid services (Russia ranks 31st).

In December 2003, the Russian Cabinet approved a draft of the country's new transport strategy. It provides for introducing dramatic changes in Russia's foreign trade specialization in the coming 10-12 years. As a key element of this strategy, the government has set the goal of implementing the country's transit potential by developing a network of international transportation routes running across Russia. These include:

- the Trans-Siberian corridor running from Russia's Far Eastern ports to border crossings and ports in northwest Russia. This route is seen as an alternative to traditional sea routes used for container shipments from Southeast Asia around India and via the Suez Canal to Europe. Even without an upgrade, the Trans-Siberian route can provide for the shipment of up to 150,000 containers a year and yield up to \$1 billion annually. In the future, its capacity may reach 300,000 containers with revenues reaching \$2.5 billion a year. To bring the Trans-Siberian corridor into accord with modern requirements, line communications facilities will have to be further developed and Far Eastern and Northwestern seaports will have to be upgraded to link them with international services lines;

- the North-South corridor intended for shipments between the Persian Gulf nations, India and Pakistan across the Caspian Sea with Eastern and Central Europe and Scandinavia. Its potential annual capacity is 15-16 million tons of cargo, which could yield Russia more than \$2 billion in revenues;

- the Arctic Sea route. Despite the technical difficulties of navigating the Arctic, geographically it is the shortest route linking Europe with the Far East and North America's west coast. Potentially, in addition to cargo transit, it could carry Russian exported goods that are now supplied to Southeast Asia by the southern sea route via the Suez Canal.

Other transit projects call for opening ferry lines on the Caspian and the Baltic Seas, a corridor for supplies from the U.S.

Pacific coast to northern China via Russian Far Eastern ports, and cross-polar flight routes between airports in North America and Southeast Asia.

By implementing the transit potential of the Eurasian routes, Russia would gain an extra \$8-9 billion a year in 2007-2008, and \$20 billion a year by 2015 (given the projected growth of shipments on the Eurasian routes). It means that transit services can, in fact, turn into a major source of export revenues, second only to oil and gas export revenues. Furthermore, Russia would receive a serious cushion against risks related to the potential deterioration on the world commodity markets. The conditions would be created for dramatically changing the country's role in the international division of labor by turning it into a Eurasian transit nation. The opportunities for exporting Russian high added value goods to South Asia and the Asia-Pacific region – the fastest growing markets – would substantially expand. The development of the Eurasian transport routes would give an impetus to developing telecommunications, increasing manpower and cargo mobility, revitalizing industrial and business activities, and bring other economic benefits.

The international transport corridors program provides for building ports, terminals, railways and motor roads. Nearly 80 percent of the Russian population live in areas close to the international transport corridors, and the program's implementation would create more than 100,000 new jobs there.

NEW COMPETITIVENESS STRATEGY REQUIRED

How can such a maneuver help modify Russia's role in the international division of labor? For a country supplying raw materials to the world market, the threat of finding itself in the periphery of the world economy – or even in economic isolation – is much greater than for a country that is economically based on international freight traffic. There are many raw material suppliers to the world market, with new suppliers of oil (Kazakhstan, Brazil, Gambia, and Angola) and gas (Trinidad and Tobago, and Qatar) emerging today. Competition has been increasing in the com-

modity markets. If Russia builds international transport corridors, it will be able to cancel the negative balance of its export services and generate a steady demand for services produced in Russia – with subsequent growth in jobs, capital inflow, etc.

Until now, however, the Trans-Caucasian nations, above all Georgia, have led the way in this sphere. Lacking generous natural resources, but being favorably located for transit, Georgia has drawn the attention of the major global geopolitical players – the EU and the United States – and is now assigned a key role in the ambitious Eurasian transit projects – TRASECA and the Baku-Tbilisi-Ceyhan oil pipeline. Unfortunately, those routes bypass Russia.

Already today, competition for future Eurasian freight traffic is increasing. The TRASECA project, for example, has been launched on the initiative of 14 countries, together with EU support. Initiated in 1994, this project is aimed at creating a Europe-Caucasus-Asia complex transport corridor that will run along Russia's southern borders and bypass its transport facilities.

The main rival route is via the Indian Ocean and the Suez Canal. Even though it offers a substantially slower shipping rate, this route has undisputed advantages: it produces no problems associated with trans-shipping, border and customs control. Unless there emerge serious problems around the Suez Canal's throughput capacity in the near future, the route will be virtually beyond competition for Eurasian shipments. But for cargoes requiring rapid shipment, land routes have no alternative. In this respect, TRASECA is the primary rival to the Russian transit network.

For a number of reasons, Russia presently cannot offer a more competitive route. Two reasons look particularly important. First, the existing transport system needs modernization. Its network of highways and terminals has low efficiency and requires an annual investment of approximately \$2 billion; the state will have to provide the funds for capital investment in the core infrastructure, as the rates of return are low while risks are particularly high. To motivate private investors, special legislative instruments (concessions, long lease) and tax regimes, which are now lacking in the Russian legislation, will have to be applied. The present railway

management system is so archaic that shipment by rail is four or five times slower than it should be, given its high potential (the nominal cargo shipment speed is high). This situation nullifies all the advantages of shipments across Russia, and provides another argument for the reform of the railway transportation system which would make it a separate responsible sphere of business. This system should be able to adequately serve any cargo carriers – not just those of the Russian Railways Co.'s – on nondiscriminatory terms.

Second, the legal regulation for transit cargoes has to be modified. Border and customs procedures must be facilitated, while controls for ensuring safe shipping must be increased. High cargo safety risks, together with the unpredictable actions of the border and customs authorities, remain the main obstacles to shipments across Russian territory, prompting shippers to give preference to other transport routes.

Russia has much to do in order to improve its image in terms of the freedom of shipment; it should reject the strategy of monopoly on transport flows and replace it with a competitive strategy. It should make its transport services market attractive. Certainly, it is inadmissible to take advantage of control over transit in order to attain geopolitical goals. It was not accidental that when launching the TRASECA project in the mid-1990s, the EU officials openly stated that the project's goal was to create a serious alternative to Russia's transport monopoly, which had emerged in Soviet times, and strip Russia of the possibility to block supplies to Europe (as it happened, for example, when borders with Azerbaijan and Georgia were shut in the wink of the 1994-1996 Chechen war). Any speculation on Russia's geopolitical intentions will harm its prospects for creating a Eurasian transit corridor.

The benefit of Russia becoming a full-fledged Eurasian economic power is obvious. Therefore, the idea of a Eurasian transit corridor running through Russia deserves the special attention of the government. Remaining idle on this subject would mean missing an opportunity for promoting Russia's economic development in an extremely promising sphere of international economic specialization.

The Mafia, the Law and Radicalism

Vladimir Ovchinsky

“You are all future jailbirds” was a slogan addressed to the business magnates whom the Russians refer to as the oligarchs; it became a leitmotif of the December 2003 Russian parliamentary elections. The slogan adequately reflects the mood that is presently dominating Russian society, as the population generally feels more hostility toward the big business and the wealthy than it had for the former Communist Party *nomenklatura* back in the rebellious August of 1991.

The root cause of this new type of social radicalism lies, first and foremost, in the feeling of being deceived. This sentiment is currently shared by millions of people, whose aspirations have not come true. Nobel Prize winning economist, Joseph E. Stiglitz, compares the current level of inequality in Russia with the inequality in Latin American societies. There is a difference, though: in the Latin American countries, the inequality has evolved from its half-feudal legacy, whereas in Russia the inequality has been developing over the last fifteen years.

THE MAFIA AS AN OBJECT AND SOURCE OF RADICALISM

People at the grassroots level have acquired the conviction that the mafia – in the broadest sense of the word, it is an agglomeration of gangsters, racketeers, thieves, swindlers, corrupt officials, in

Vladimir Ovchinsky, Doctor of Science (Law), Major-General of the Police (Ret), is an advisor to the Chairman of Russia’s Constitutional Court, and member of the Editorial Board of *Russia in Global Affairs*.

association with businessmen who resort to their services – as opposed to narrowly viewed family-based or clan-based criminal communities, is the major source of deceit. In the era of Mikhail Gorbachev's *perestroika*, the people traditionally associated the mafia with members of the Communist Party apparatus, the so-called *nomenklatura* – a tightly interconnected circle of people largely held together by internal corporate relationships. The perceptions of the mafia have changed since then, and it is primarily associated with oligarchs and democratic reformers. Right-wing political parties did talk extensively about fighting organized crime and corruption during the election campaign, but their proclamations were not radical enough for the radically-minded society, and most of the people found the talk about “future jailbirds” and “executions by firing squad” more acceptable than yet more promises to “pass new laws that will be more liberal than the old ones.”

Society's extreme repulsion of the democratic reformers, so vividly manifested by their defeat in the election, is in many ways a reaction to the radical economic reforms. This is only natural, given the specificity of the society that has taken shape as a result of the transformation. Consider, for example, a report on Russian organized crime that was put together by the U.S. Center for Strategic and International Studies. It characterizes Russian society as a criminal-syndicate type, meaning that the state machinery is controlled by tightly interconnected corrupt officials, unscrupulous businessmen and criminals. International financier George Soros describes it as predatory capitalism, whereas Joseph Stiglitz describes it as a capitalism of clans and mafias, which he blames on the Russian reformers, the West in general, and the major international institutions – the IMF and the World Bank. Russian experts use another broad term – “the criminal community.”

GUILLOTINE AGAINST THE MAFIA

The popularity of anti-mafia radicalism in the public's mindset has reached the point where even scholars have been enchanted by the lust for blood and the idea of punitive measures, complete with severed heads rolling down from the scaffold. One such example

is found in a textbook entitled *Criminal Penology*, whose author, Professor Oleg Starkov, suggests the following:

“A war on crime is a priority of the day, and it stipulates that the parties engage in a deadly armed fight. First, there is a need for a military operation by a National Guard or, before it is established, by special units that have the experience of combat actions, for example, in Chechnya. Those units shall be committed to the Constitution and the State Duma, and shall carry out total physical destruction of tracked, registered and well-evidenced leaders of criminal groups. These operations shall be carried out within a twenty-four hour period, and will remain under the control of the prosecution officials. This is the only feasible way of implementing the idea of society’s ‘necessary offensive,’ as well as rehabilitating the sphere of punishment. The legal foundations for such a program must be based on the articles of the Criminal Code specifying ‘forced attack’ and the ‘necessary defense of society’...

“In the second phase, an advanced program of attack on crime must include the arrest of all regular members of criminal organizations from the level of ‘soldiers’ and above, if such people were not eliminated in phase one. It will involve all the actions presupposed by the law on fighting organized crime, which will preclude interference by corrupt justice and government officials. On the basis of gathered evidence and the presentation of proof, the latter officials must be subjected to a variety of punishments. These will include the death sentence (a predominant type), sentences for life in prison, and the lengthiest possible prison terms.” (Oleg V. Starkov. *Criminal Penology*. Moscow: Ekzamen Publishing House, 2004, p. 96).

No doubt, these stipulations would rally massive support, should they be put on a national referendum, but the supporters of such radical concepts generally have a very vague idea of how the practical implementation of the war on organized crime would look.

The total physical destruction of exposed leaders and rank-and-file members of criminal organizations presupposes that the ones who propose such a plan have a clear understanding of the form and structure of the criminal organizations. What do we mean by “organized crime?” Almost twenty years of studying the organized crime

phenomenon in the former Soviet Union (the Soviet Interior Ministry and the KGB began using terms such as “organized group,” “thief get-togethers,” and “criminal pools” in their confidential documents in 1984 and 1985), and then again in the reformist period, have failed to produce a clear and practically operable set of standards in this area. Russia’s Criminal Code, revised in 1996, provides a somewhat abridged notion of an “organized group” and introduces the term of a “criminal organization (community)” without any clear definition. The Code’s authors ignored the Exemplary Legislative Act on Fighting with Organized Crime that the Inter-Parliamentary Assembly of the Commonwealth of Independent States had endorsed in 1996. Incidentally, that document did contain definitions of a “criminal organization” and “criminal community,” which the Russian Criminal Code is badly wanting. Nor does the Russian legislation specify which actions fall into the category of “corruption,” although Russia has signed (but not yet ratified) international agreements that fully explain the essence of this notion. These are the UN Convention Against Transnational Organized Crime (2000), the UN Convention Against Corruption (2003), and the Council of Europe’s Criminal Law Convention on Corruption (1999).

This legal uncertainty admits of rather broad interpretations of such concepts in various circumstances. For instance, it allows for incriminating participation in organized crime not on the basis of law but on the basis of a “revolutionary consciousness.” If a criminal investigation is targeted on the governor of a Russian constituent territory or a city mayor, for example, the operatives or investigators may claim that a “criminal community” includes the entire administration of the region or city, as well as businessmen or officials from other regions who have contacts with that administration.

The same thing is happening with regard to private businesses. The irony is that virtually any corporation in Russia can be treated as a potential, or real, criminal organization, and there is a scientifically grounded basis for this. Since the 1970s, organized crime in the U.S. has been considered a model of enterprise (see *Criminology*, ed. by G.F. Shelley). Russian researchers went even

further than this. A monograph entitled *The Financial and Legal Aspects of Criminality at Holding Companies* discusses almost all the holding corporations as the largest criminal organizations which dominate many sectors of the national economy (V.F. Gaponenko, A.B. Melnikov, N.D. Eriashvili. *The Financial and Legal Aspects of Criminality at Holding Companies*. Moscow: UNITY-DANA, 2003). By instituting criminal cases against executives from the MOST, SIBUR and YUKOS corporations, the Russian Prosecutor General's Office took the researchers' concept of counteracting an "enterprise as a form of organized crime" quite literally, and moreover, applied it in practice.

If Prof. Starkov's concept of fighting the mafia is put into practice in the conditions of imperfect laws, it may lead to the demise of all those who work in regional and municipal administration or in management of holding companies that have fallen under suspicion. In case this practice is applied to heads of individual departments of law enforcement agencies, the entire departments will be destroyed. This brings to mind the repression of the so-called "werewolves in police uniforms." Analogies with some aspects of 20th century Russian history creep into mind, the only difference being that in Stalin' time the marked individuals were called "the foes of the people;" today they are called "members of criminal communities."

SOLDIERS OF THE MAFIA AND FIGHTERS WITH THE MAFIA

The Russian radicals believe that one thing can oppose organized crime and corruption: it is only the "healthy forces of society," argue the advocates of the hard line. Prof. Starkov believes such people can be found in the special forces who have gone through the trials and tribulations of the Chechen war. Others tend to place their trust in the veterans of the Afghan war of the 1980s. But the truth is that a rather significant number of people from those two categories, who ostensibly resist moral degradation, have themselves fallen under the yoke of criminal groupings. Many Russians can still recall the terrifying showdowns between the top executives of foundations for the veterans of the Afghan war, and the killing

spree in St. Petersburg by former servicemen of special forces of the Defense Ministry's Main Intelligence Department (GRU).

The academics who study Russian criminology have come up with an explanation as to why the mafia organizations have accumulated such impressive power. Dr Sergei Inshakov, a lawyer, writes in this connection: "Criminal organizations that wage mortal fights against their adversaries have proved to be most viable in the process of a criminal evolution. In strict compliance with this law, mafia organizations are always commanded by strong individuals who violently resist anything that may pose a threat... Survival of the mafia organization hinges on the strict performance of the crime bosses to the positions they occupy... The accidental accession of individuals to those positions is practically ruled out... The same goes for any kind of protectionism in the process of appointment to those positions... Government service has a far more complex mechanism of evolution. The most viable ones in that system are not those who wage deadly fights or who are loyal to their system, but those who renounce fighting... A bribe-taking official has more chances to survive than an advocate of honor and decency." (S.M. Inshakov, *Foreign Criminology*, 2nd edition. Moscow: UNITY-DANA, Law and Legislation, 2003, p. 307).

This is a somewhat ideal picture, however, since the majority of mafia leaders do not show any signs of being extraordinary. Many of these individuals, including bandits and black economy operators, often betray their 'brethren in arms' to the law enforcement agencies — either from considerations of the material rewards or out of petty selfish calculus (to survive and not to end up behind bars). Protectionism in the criminal world is also rife. Even the so called 'thieves-in-law' (guardians of the thieves' code, in the criminal hierarchy) now buy or even 'inherit' this status, as distinct from the former times when they were 'enthroned' because of the merits they bestowed to the criminal community.

The problem in confronting these groups and individuals derives from the sporadic and frequent reforms of the law enforcement agencies and secret services, as well as rotations of their members. This factor has brought accidental people into profes-

sional detachments that are entrusted to fight against crime and has led to a situation where the people appointed to fight against the mafia often start working for it.

FROM LEGAL ISOLATIONISM TO LEGAL INTEGRATION

Nevertheless, it is possible to emerge victorious from the fight against the mafia without the use of radical instruments. But in order for this to happen, Russian legislation must contain provisions that conform to international legislative documents rather than simple populist slogans. This means, first of all, an early ratification of the aforementioned UN Conventions and the Convention of the Council of Europe. Their ratification presumes a harmonization of Russian laws with them, even those standing outside the legislative scope of the Criminal Code, the Code of Practice, the Administrative Code, and the Code of Search and Operative Measures. For example, the UN Convention Against Corruption stipulates, among other things, that the signatory countries take due measures to ensure a high degree of transparency in managing and accounting of public finances. Transparency-building measures must embrace the endorsement of national budgets, a timely submission of reports on revenues and spending, a system of accounting and auditing standards, and the mechanisms of their supervision. The Convention also requires measures to form an adequate system of procurements and greater transparency in the financing of political parties and selection of candidates for elected posts. Besides, it requires the building up of schemes for training specialists who will occupy the public positions most vulnerable to corruption.

The UN Convention Against Corruption is targeted, above all, at exposing and halting the international transfers of illicit assets by freezing the transfer operations, confiscating the revenues from criminal transactions, and returning those revenues to the countries where the money originated.

Presently, however, Russian legislation stands apart from international legal standards, marking a certain legal isolationism. It is difficult to produce a different assessment of the novelties introduced

into the Russian Criminal Code in late 2003, right at the time when the UN endorsed its Convention Against Corruption. Alongside the new provisions that really liberalized the criminal law, the authorities scrapped property confiscation as a penal measure, replacing it with fines varying from 500,000 rubles to a million rubles. In practical terms, this means that a criminal who has stolen U.S. \$100 million from the state and laundered the money through offshore companies can get away with a fine amounting to slightly more than U.S. \$30,000, and the state will consider the damage forgiven. The initiators of those amendments explain that the lifting of the property confiscation clause from the Criminal Code is made up for by provisions in the Code of Practice. Indeed, Article 81 (Material Evidence) states that the money and valuables obtained illicitly shall be subject to being placed under state control upon a verdict by the court. The difference is, however, that the latter stipulation applies only to money and valuables, which the courts classify as material evidence, i.e., which are found to have been obtained illicitly, while the property confiscation clause permits the confiscation of all property obtained by an individual whose guilt had been proved.

The abolition of the property confiscation clause runs counter to Russia's obligations under several international acts. The Council of Europe's Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime interprets "proceeds" as "any economic advantage from criminal offences," and in the UN Conventions Against Transnational Organized Crime and Corruption "proceeds of crime" mean "any property derived from or obtained, directly or indirectly, through the commission of an offence." This is a far cry from the actual definition of 'material evidence.'

To sum up, the narrow meaning of 'illicit revenues,' which the Code of Practice interprets as 'material evidence,' was made up for by the property confiscation clause in the Criminal Code before the December 2003 amendment. But the balance between the two codes has been upset, and Russia has been pushed to the sidelines in its efforts to fight organized crime and corruption together with the international community. With the

amendment endorsed, many procedures of cooperation in the field of confiscations, especially in the handling of confiscated property and revenues, amounted to nothing. Let us consider the above-mentioned \$100 million that was (hypothetically) stolen. In that case, the individual who placed the money on an overseas bank account will be able to claim it once he pays a fine and serves a prison term.

The reintroduction of confiscation clauses into the Criminal Code, and the assimilation of international mechanisms of confiscation in the Code of Practice, is an immediate goal for Russian lawyers in the struggle against corruption and organized crime. This is a far from simple task, for it will require the revision of ideological principles linked to economic reform. One of those principles involves certain misgivings that the authors of liberal reforms had about tough laws against organized crime and corruption – similar to the RICO (Racketeer Influenced and Corrupt Organization) laws adopted in the U.S. in the 1970s. RICO specifies a set of legal instruments aimed at curbing extortion and corruption and weeding out organized criminal communities. It also provides for the confiscation of property from the members of criminal groups, the liquidation of the enterprises they control, and many other things.

Foreign experts who advised on the reforms in Russia bluntly told the reformers that the introduction of RICO in this country would not facilitate its progress toward a free market economy, as the sanctions against collusion might entail a restoration of the worst traits of the Soviet legal system – the iron fist of executive power and arbitrary confiscations (Martens, F.T., Roosa, S.B. Exporting RICO to Eastern Europe: Prudent or Irresponsible? In: *Journal of Contemporary Criminal Justice*, No. 4/10, 1994, pp.267-289).

The advice was heeded and the property confiscation clause vanished from the Criminal Code. The initiators of the change clearly ignored the fact that the RICO provisions for confiscating any profits or property obtained by a criminal community or its separate members were also featured in the UN Conventions Against Transnational Organized Crime and Against Corruption.

According to the international legal practice, illicit profits can be confiscated only on the basis of anti-laundering law. Some may think that Russia has done much toward that end in recent years. Indeed, it has passed a federal law and set up a specialized agency, the Financial Monitoring Committee under the auspices of the Finance Ministry. The committee has been nicknamed ‘financial intelligence,’ but the problem is that it does not fall into the category of intelligence bodies, the way similar organizations in foreign countries do. The committee does not have operative and investigation functions – it cannot embed its agents, perform electronic monitoring of negotiations, organize street surveillance, etc. What it can do is use official data of the organizations that report to it. So it is little wonder that the committee has displayed less efficiency than its predecessor – the Inter-Departmental Anti-Laundering Center that reported to the Main Department for Economic Crimes at the Russian Interior Ministry. The latter did have operative and investigation functions, and it seems that providing these functions to the Financial Monitoring Committee would be highly beneficial for the struggle against organized crime and corruption.

The introduction of international legislative standards in the struggle against organized crime and corruption would be a good remedy for anti-mafia radicalism, but one must recall that adjustments in the law will be successful only if legal changes proceed in parallel with the revitalization of the judiciary.

In a country where the slogans like “Down with the rich” or “Divide the wealth equally” are popular, the confiscation mechanism may become one more weapon in the radicals’ arsenals. In the absence of independent and uncorrupted courts, not to mention weak public control over the activity of law enforcers, the struggle against organized crime may easily degrade into settling accounts, violations of the law and encroachments on human rights. No doubt, successful counteraction to the mafia or any other criminal entities will eventually receive better legislative support, but any anti-crime laws, however correct and efficacious, will have real effects only when their application is unbiased and competent.

Window to Europe



Russia's pavillion at the Paris World Exhibition, 1900.
Illustration from the *Niva* magazine

“ On his own initiative, Silvio Berlusconi has tried to win favor with President Putin of Russia by promising him EU membership. This is unwise. We should not feel ashamed to recognize that borders exist. The European Union should not raise expectations which it has no desire to fulfil. Foreign policy is not a matter of being nice to others. It is a matter of securing one's interests ”

Frits Bolkestein. *The Limits of Europe*. 2004.
Frits Bolkestein is a member of the European Commission
for Internal Market, Taxation and Customs Union.

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Is the Europeanization of Russia Over?

Timofei Bordachev, Arkady Moshes

Relations between Russia and the European Union have reached the point when the developments of the recent years should be critically reassessed. Both Russia and the European Union are dissatisfied with the general state of their relationship, as well as with each other's actions in specific situations.

The first signs of this discontent became apparent during discussions over Russia's Kaliningrad Region following the EU's enlargement. The controversy centered around the ability of Russian citizens to freely travel between the region and the Russian mainland. Russia and Europe realized for the first time that, despite the ambitious integration agenda, they not only spoke different languages but also failed to accept the intrinsic logic of each other's actions. Later, President Vladimir Putin sharply criticized the European Commission for its unyielding position at the talks on Russia's accession to the World Trade Organization. He accused the Brussels bureaucracy of "attempting to arm-twist Russia." Following this scandal, there arose the diplomatic conflict over the settlement of the Transdnistria problem. That was the first time the Europeans clearly demonstrated to Moscow that it could no longer consider itself absolutely free in taking independent actions within the post-Soviet space.

Timofei Bordachev is a deputy editor-in-chief of *Russia in Global Affairs* and the research programs director of the Council on Foreign and Defense Policy;

Arkady Moshes is the director of the Russia-EU Program at the Finnish Institute of International Affairs and a research fellow with the Institute of Europe of the Russian Academy of Sciences.

It became absolutely clear that Russia-EU relations entered a most complicated period when Russia took a tough stance on the extension of the 1994 Partnership and Cooperation Agreement (PCA) to the new EU member states, and the European Commission and European Parliament made highly critical statements against Moscow.

THE CRITICAL MASS OF PROBLEMS

Who is to blame for the emerging problems? It is obvious that each side has its share of responsibility. Russia appears not to be ready to fulfill the obligations it assumed under the PCA. Moscow has failed to establish a system of interaction with its neighbor that corresponds with the EU's magnitude. Likewise, the European Union has proven itself incapable of building a relationship with Russia as an equal strategic partner that consistently seeks solutions to its own foreign policy tasks and observance of its national interests. The new Russia that emerged in the last four years does not conform with the existing Europeanization concept, according to which Moscow should gradually adopt the principles suggested by the EU as regards a nation's domestic and foreign policy. Russia is not willing to adjust its policies to the EU requirements. In some fields (for example, with regard to the ratification of the Kyoto Protocol), Russia's goals for its modernization run counter to the terms of cooperation put forward by the EU.

At present, there are several serious knots of discord between Russia and the European Union.

First, the parties differ in their approaches to the energy issue. In the second half of 2003, it became obvious that the Russian government intended to maintain its strategic control over that sphere of the economy. Last year the Russian government upset the EU by making it obvious that it realized the extent of its mineral resources and that it was ready to use the energy lever in its foreign policy. Meanwhile, over the last few years the problem of energy safety has evolved into one of the most vital issues for the European Union. However, the promising project of establishing

an energy dialog with Russia has stalled; nothing is yet clear about European plans for investing in gas and oil production.

Second, Russia and Europe have been increasingly divided by problems associated with the post-Soviet space. Moscow's projects for economic integration between the member states of the Commonwealth of Independent States, and its own strategy of settling local conflicts, did not receive a positive response from the EU. On the other hand, the European Union has to intensify its policy toward countries in the western part of the CIS and in the South Caucasus, since following EU enlargement these regions will become the Union's immediate neighbors. Simultaneously, the European project attracts the attention of the elites in a majority of post-Soviet states – a factor that greatly increases the rivalry between Russia and the European Union.

Just one example: the EU is intensifying its pressure on the Moldovan leadership in order to enforce its own plan for settling the conflict in Transdnistria without the active participation of Russia. This conflict is regarded by Brussels as a good way to field-test the instruments of its general foreign and security policy.

Third, the accession of Central and East European countries to the EU may also bring their traditionally strong anti-Russian sentiments to the European Union policy. Some new members of the EU will probably attempt to get financial and political dividends due to their status of 'pseudo-frontline' territories; they will predictably embellish their concerns about bordering on the allegedly unfriendly state. Furthermore, the new EU members may attempt to act as the 'lawyers' of the CIS countries in Wider Europe – naturally, to Russia's discontent.

Fourth, the shortage of diplomacy has become a problem. On the one hand, Moscow's seeking to minimize its economic losses as a result of the EU expansion has come as a surprise to Brussels. (It should be admitted, though, that it is rather odd that Russia's 14-point list of concerns emerged only in January 2004, not a year or a year and a half earlier.) On the other hand, bureaucratic Brussels does not regard Russia's negotiating course as adequate. The EU is annoyed at Moscow's constant attempts to interconnect problems

that are not directly related to each other. As a result, even relatively simple questions remain unresolved, thereby increasing the potential for a major conflict. What is more, the West knows from experience that after Moscow's stern statements about the inadmissibility of the EU conditions and threats to take countermeasures (which are usually not realized), it eventually gives in and presents a limited and 'realistic' list of demands. In any case, Brussels is prepared to consider the 14-point list as merely a "technical list" because it does not really think that the European Union should compensate an outside state (especially a non-member of the WTO) for any negative consequences that may result from the Union's purely internal decisions. Besides, Russia already has set a precedent by giving its consent to the automatic extension of the PCA to the new EU member countries (as happened in 1995, when Austria, Finland and Sweden became EU members).

Fifth, primary integration projects, such as establishing an energy dialog or creating four common spaces, are at a standstill (at the Russia-EU summit in Rome on November 6, 2003, the parties agreed to start forming a common economic space; a space of cooperation in the field of external security; a common space of freedom, security and justice; and a space of research and education, including cultural aspects).

The negotiations on Russia's accession to the WTO have been difficult. This is partly due to the extremely high initial expectations, and partly because Russia has proven to be unprepared to fulfill its obligations. A glaring example is Moscow's stated intention for unilaterally bringing its domestic laws into accordance with the European ones, which was agreed upon in Article 55 of the PCA in 1994. However, in practice there has been no progress in this direction for ten years, which has naturally aroused the irritation of the law-abiding Europeans. It can be questioned whether Russia was right in assuming those obligations, but refusing to fulfill them without an official denouncement, in the EU's opinion, cannot be justified by any circumstances. The same is true with respect to the Kyoto Protocol, opening of the banking and insurance services market,

and other questions, on which Russia's positions were essentially perceived as obligations, if not formal ones.

From the EU's point of view, Russia has no desire to take into account its interests or the interests of its member countries and economic agents. For example, Moscow is in no hurry to alleviate the Europeans of their worries over environmental issues or maritime safety. It does not provide its regions with sufficient freedom in foreign economic activity — and that is precisely what European businesses are pressing for, since they do not want to operate exclusively via Moscow. Furthermore, Russia has been toughening its visa procedures for EU citizens.

And, finally, EU relations with Russia are influenced by the squabbles inside the EU. The Iraqi war has demonstrated the inability of the European Union to draw up a uniform policy toward the U.S., while the November 2003 Russia-EU summit has brought to light the same problem with respect to Moscow. But if the EU, which, following its enlargement, it will control over 50 percent of foreign trade with Russia, fails to shape its relations with Russia in a preferable or, at least, an acceptable way, will be nothing but an economic community with a limited list of police functions. If this is the case, then all arguments about the EU's global role will be just idle talk.

Attempts by the Europeans to overcome their internal crisis make them seek ways to show their efficiency, for example, in their relations with Russia. The incomplete settlement of the situation in Chechnya, and Russia's thorny political processes provide the European intellectuals and politicians with an excellent opportunity to show their worth in defending democratic norms and human rights. The Old World does not seem to get tired of criticizing Russia. It incessantly calls for taking a harder position — and even adopting sanctions — against Russia.

TOWARD A NEW MODEL OF MUTUAL RELATIONS?

Against this background, attempts are being made in the European Union to revise the basic parameters of its relations with Russia. In

December 2003, the European Council instructed the Commission of the European Communities to assess the state of the EU's Russia policy and offer recommendations on how to improve it. The EU Council of Ministers was asked to consider the Commission's proposals and make its conclusions. The European Parliament decided to formulate its own position as well.

These efforts resulted in three documents approved by the EU official bodies: a report of the European Parliament Committee on Foreign Affairs, Human Rights, Common Security and Defense Policy, Communication from the Commission to the Council and the European Parliament on Relations with Russia, and Conclusions of the European Council on Relations with Russia.

These documents clearly differ from each other by their tone. The European parliamentarians gave an unambiguously negative assessment on the lead up to, and the results, of Russia's State Duma elections, the settlement process in the Chechen Republic and the question of human rights there, the status of mass media and law enforcement practices in Russia, and Moscow's role in Transcaucasia and Moldova. The report points out that "Chechnya is not only an 'internal affair' to Russia because violations of human rights are self-evidently threats to international security." The report draws special attention to Russia's reluctance to extend the 1994 Agreement with the EU to the countries in Central and Eastern Europe that are to join the European Union, and to Russia's delay in ratifying border treaties with Latvia and Estonia. Finally, the parliamentarians called for a better coordination of actions by individual states and pan-European institutions with respect to Russia.

The Communication document contains much less emotional assessments of Russia's internal developments and relations with the EU. In particular, the Commission stressed the need to continue with the dialog on the creation of four common spaces. At the same time, the document drew attention to the latest elections to the State Duma and an assessment by the OSCE and the Council of Europe. It restated concern over the human rights situation in the Chechen Republic.

The Commission proposed a more efficient policy for protecting the basic interests of the European Union. These are the ratification of the Kyoto Protocol, maritime and nuclear safety, readmission negotiations, the facilitation of humanitarian aid delivery, the ratification of border agreements with Latvia and Estonia, the extension of the PCA to the countries that are to join the EU, Siberian overflight payments, cooperation in the exploration of outer space, energy sector reform, and Russian safeguard measures. The Commission intends to improve the coordination of the EU members' policy vis-à-vis Russia.

The Commission recommended the EU Council to “move away from grand political declarations and establish an issues-based strategy and agenda.” The Euro-bureaucrats pointed out that “Russian practices run counter to universal and European values,” as well as to the basic goals of cooperation. The Communication proposed “drawing up an objectives paper for Summits, which should clearly draw ‘red lines’ for the EU, positions, beyond which the EU will not go,” and presenting a “draft joint Action Plan to Russia covering all four [common] spaces.”

However, the final word belonged to the EU Council which met in Brussels on February 23 in the foreign ministers format. The Council's conclusions expressed the EU's resolve to build “a genuine strategic partnership with Russia based on equal rights and obligations, mutual trust and an open and frank dialog.” It also stated that the EU “has a strong and genuine interest in an open, stable and democratic Russia.”

The Council said the European Union is “open to discuss any of Russia's legitimate concerns over the impact of [EU] enlargement,” but added that “this shall remain entirely separate from PCA extension.” The Council pointed to the need to identify and formulate EU interests, objectives and priorities in its dialog with Russia.

All the three official documents expressed dissatisfaction with the state of EU-Russia relations, criticized the EU's ability to conduct a single and well-coordinated policy vis-à-vis Russia, and recognized the need to continue the course toward Russia's inte-

gration through joint long-term projects, such as the creation of four common spaces.

In contrast with the EU's previous official statements, the documents call on the European Union to build relations with Russia on the basis of an increased rationalism, proceeding primarily from its own interests. Until recently, the EU official bodies did not mention EU interests as the basis for their negotiating positions. On the contrary, the EU always emphasized a community of interests between the European Union and Russia.

In other words, this new approach of the EU is of a dual nature. On the one hand, the dissatisfaction is accompanied by the desire to improve and develop, rather than freeze, its relations with Russia. On the other hand, the EU has already shown signs of a readiness for decreasing the significance of this mutual relationship; a diplomatic conflict is not out of the question should events not develop in accordance with the EU's scenario.

The resolute tone of the EU's latest official documents is, to a certain extent, part of its negotiating strategy. The discussion of vital issues, such as the ratification of the Kyoto Protocol, Russia's accession to the WTO, and PCA extension, provokes excessive emotion on both sides. However, the number of the adopted documents and their content suggest that the EU may adopt a new policy vis-à-vis Russia.

What conceptual fundamentals may underlie this policy?

The EU still holds to the model where Russia accepts basic European norms and values, that is, its Europeanization. Therefore the European parliamentarians dismiss the idea of building relations with Russia according to the 'Chinese model,' i.e. exclusively in the economic field.

At the same time, this approach is already coming into obvious conflict with the new policy of upholding Europe's own interests. The idea that Russia's integration into Europe is possible in principle, and that Russia could become a member of the community of nations sharing similar values, has been circulating throughout Europe, although it has never prevailed. Now it is becoming increasingly weaker. The edifice of common interests

has been built on the basis of common values, but if values differ, then the community of interests weakens. This is the scenario we are now witnessing. There is a growing sentiment that Russia is *unintegrable* in principle and that it remains a natural partner (and rival at the same time) outside the European space.

In part, Russia itself feeds this sentiment by demanding a free hand in its foreign and domestic policies, by stipulating its special interests in Central Asia and in the Caucasus, and by defining the EU solely as its security partner in Europe in the context of Russia's mid-term strategy. This approach paves the way for the principles of traditional *Realpolitik*, as opposed to the integration euphoria that was popular ten years ago.

In the opinion of many people in Europe, the dividing line between integrable and unintegrable spaces lies along Russia's western border. This factor causes the European Union to initiate the development of an alternative project in the western part of the Commonwealth of Independent States, and decrease Russia's influence in Belarus, Moldova and Ukraine. The EU ceases to take into consideration Russia's interests in this region. In the next few years, the EU may deliberately torpedo Russian integration projects in the western part of the CIS.

The interpretation of a common border function is changing, too. The course toward developing transborder cooperation with Russia is gradually giving way to a *border management* policy. Whereas earlier the EU emphasized the effect of its ongoing integration on relations between people living on different sides of the border, today the border is again viewed as a dividing line, which will remain so for an indefinite period of time.

The idea of establishing a visa-free regime between Russia and the EU – without which a common economic space will remain just a declaration – has been shelved. Instead, visa procedures have been simplified for certain groups of citizens. The Europeans have repeatedly initiated discussions about the demarcation of the Ukrainian-Russian border and the establishment of a tougher border regime there. This would build an additional symbolic wall between Russia and Europe.

A NEW OLD MODEL

The EU's 'new' model for Russian-European relations features the same dual nature between the parties, which they have had in the last decade. On the one hand, the EU declares its wish to create, together with Moscow, something really common. In order to achieve this goal, Russia must adopt European values. In reality, however, when it comes to practical issues that are of importance to the Europeans, the official EU bodies treat Russia as an outside partner, whose interests often do not coincide with those of Europe. The bargaining between the parties would be more appropriate for EU relations with non-European China, or perhaps Japan, than for its relations with a country which ten years ago proclaimed its fundamental choice in favor of Europe.

Yet, the EU keeps insisting that the PCA is the cornerstone of its relations with Russia, and that its objectives are still relevant. This agreement has a pronounced integrationist nature based on the need for Russia to adopt European values. And it is Moscow's regular failures in this respect that arouse the main criticism on the part of the EU.

A 'partnership' of this kind is simply doomed to the cyclic reproduction of crises. In 2002, it was the transit of Russian citizens to Kaliningrad; in 2003, it was Russia's future accession to the WTO; in 2004, it is PCA extension. In the future, conflicts may emerge over the fate of Belarus and Transdnistria, for example.

There is something schizophrenic about the Russian-European relations, because neither party wishes to openly admit that they represent absolutely different political and economic systems. Therefore, their integration is unfeasible, at least in the mid-term. And if there is no chance for Russia's membership in the EU, why should Moscow adopt its political and legal standards?

IS THERE LIFE AFTER THE PCA?

An unbiased analysis of present Russia-EU relations shows that both sides lack a strategic vision of the future. The new cooperative initiatives of the parties, whether it is a free trade zone, an energy dialog or a common economic space, remain stuck within

the framework of the formal integration model of the early 1990s, which has repeatedly demonstrated its ineffectiveness.

Perhaps, it is time to switch to a more pragmatic model and to revise the very ideology underlying Russia-EU cooperation. Russia could waive its repeatedly declared argument about its European identity since it cannot be formalized by the country's accession to the EU. In turn, the European Union would give up its doctrine of Russia's Europeanization, the backbone of its policy in recent years. (The U.S. record, for example, shows that democracy and a market economy can get along fine with, say, the death penalty.)

A change of the paradigm – from integration to cooperation in a specific field – would help clear the relations of excessive political rhetoric and make them more oriented toward practical results. There is a very big danger here, though, namely with a potentially negative interpretation of pragmatism. Some view pragmatism as purely utilitarian relations based on the 'scratch-my-back-and-I-will-scratch-yours' principle. Such a model bears a strong resemblance to the former relations between the European countries and the Soviet Union. The import of Soviet oil and gas did not prevent the Europeans, together with the U.S., from fighting the Kremlin on the Cold War fronts.

Superimposing that discarded model onto the 21st century situation will produce a dismal picture. Today's interaction, despite all of the complications, is aimed at strengthening a constructive interdependence; nevertheless, this relationship will give way to cooperation out of despair. Europe is unable to quickly replace Russian resources with any other source. However, the EU will undoubtedly seek to reduce its dependence on Russia through developing alternative sources of hydrocarbons. In practice, this will mean not investing in the construction of new facilities in the Russian energy infrastructure, such as the North European gas pipeline, which was signed into life in 2003.

In the political realm, the European Union will try to increase its influence in Central Asia and the Caspian region, and bring local resources into the world market. The U.S., which generally

is suspicious of European activity in strategic regions beyond the Old World, will nevertheless support them in this case since the maximum diversification of natural resources meets its own interests. Moscow will be hard-pressed to find other 'general partners': its territorial dispute with Japan will hardly be settled in the mid-term, while the ability and, more importantly, the desire of China to participate in major modernization projects in Russia raise big doubts.

The policy of pushing Russia to the periphery of international politics will make its enclosure in the god-forsaken region of northeast Eurasia a reality. This will give Russians the impression that they are living in a besieged fortress – with all of the ensuing political and economic consequences.

There is another scenario: the parties will give up the idea of their political and legal integration and preserve close and constructive interaction. A necessary prerequisite for that is Russia's accession to the World Trade Organization. Many of the deadlocks that cloud Brussels-Moscow relations could be broken if the parties were guided by WTO principles. These principles help Europeans reach compromises with Japan and the U.S., for example, although their disputes occasionally develop into trade wars.

The situation has turned into a vicious circle, though. The uncompromising position of the Europeans hinders the conclusion of the talks on Russia's accession to the WTO. An agreement on this issue would pave the way for the further development of relations. In any case, Russia will have to actively conduct liberal reforms, open up some of its economic sectors (banking and insurance), and harmonize its legislation with that of Europe, at least in certain aspects.

The idea to create four common spaces, even though it was born within the framework of a defective model of relations, has an immense practical potential. But it should be completed and implemented not by bureaucrats. Oftentimes they are not qualified to handle such a task, and only address this issue because it is their official duty. The initiative must come from the business community, whose interest is obvious, as well as from the intellectual

communities of Russia and Europe. Otherwise, this issue, of strategic importance to both Russia and the EU, may get bogged down in idle rhetoric and never be resolved.

Russia and the EU may pattern their relations, in the long term, after the 'Norwegian model.' Norway, Iceland and Liechtenstein, which are not EU members, build their relations with the EU on the Agreement for the European Economic Area. Russia would be rewarded for its reforms with an ability to share with the EU the European four main freedoms of movement – the movement of goods, services, capital and people. The 'Norwegian model' also provides for a limited participation of an EU partner in preparing EU legislative acts at the pre-drafting stage.

The above, however, is not an issue of our immediate future. Presently, the most pressing issue is a mutual discussion concerning the entire range of accumulated problems, as well as the prospects for future Russian-European relations.

Administrative bodies of Russia and the European Union must be relieved of the duties they are not supposed to be performing, that is, drafting a strategic agenda. A strategy for mutual relations should be worked out by a non-governmental forum, which would start open, impartial, sometimes undiplomatic discussions. The discussions will help to identify potential sources of crises and reach mutual consensus on the future of Russia-EU relations. Step by step, the parties must create a mechanism for the civilized lobbying of interests, which would replace the existing model, which only succeeds at reproducing crises.

Nobody will benefit from the end of Russia's Europeanization. For Russia, it would mean finding itself on the sidelines of international politics and having little chance for successful modernization. For the EU, it would imply the collapse of a major European project, which will always remain incomplete without Russia's natural and stable participation.

Russia and EU: Proficiency Essential

Vassily Likhachev

In June 2004, the Russian Federation and the European Union (EU) will acknowledge the ten-year anniversary since the signing of a fundamental document known as the Partnership and Cooperation Agreement (PCA). This is a good opportunity for critically assessing this document, as well as charting a course for the development of a regulatory framework of cooperation between Russia and the EU.

It has become obvious that the PCA must be further expanded and specified with regard to past experience. The fundamental changes underway both in Russia and the EU demand that their joint activities be amended. A new level of cooperation could be achieved through formulating a Strategic Partnership and Cooperation Declaration. However, we do not need another general political document that we have had in

abundance in the last decade. The declaration designed to strengthen the international peace, security, law and order should provide a long-term and, at the same time, detailed vision of our joint objectives.

In drawing up new plans and modes of integration, Russia and the EU rely on the world's experiences available to them. As an illustration, both sides carefully analyzed the principles underlying the EU's trade and economic relations with the member states of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), as well as the cooperative methods within the frameworks of the Latin American associations, such as MERCOSUR (the Southern Common Market) and the Andes Community while developing a concept for the Common European Economic Space. This approach tes-

Vassily Likhachev, Doctor of Science (Law), Professor, is an Ambassador Extraordinary and Plenipotentiary of the Russian Federation, Russia's permanent representative to the European Communities in 1998-2003.

tifies to the openness of the Russia-EU partnership, and its close ties with other agents of world politics and economy.

The dialog between Russia and the EU has not always been smooth, and recently the partners have been facing some troublesome issues. Among the factors complicating Russian-EU relations is the extremely tough stance taken by the EU delegation concerning Russia's accession to the WTO, the EU's anti-dumping measures which were enforced against Russian exporters (as many as 11 antidumping regulations have been imposed on Russian goods by the EU), and some differences in particular political assessments, specifically concerning the situation in the Chechen Republic. Many regulatory documents which directly involve Russia's interests are prepared without its participation, as was the case when a list was drawn specifying the conditions of Russia's participation in the Balkan operation, under the auspices of the EU. On another occasion, Moscow suggested that a negotiating group be established to settle the transit issue between Kaliningrad and the Russian mainland – Brussels responded with an adamant refusal. Later, however, Brussels conceded to the proposal and both sides successfully agreed to a solution that respect-

ed the sovereignty of the Russian Federation, Lithuania and the Schengen rules. This example shows that cooperation between Russia and the EU can be effective only when it is governed by international law rather than the whims or rules of one of the negotiating sides.

An analysis of the successes and failures of the joint activities between Russia and the EU highlights some of the specific measures that should be taken in the future in order to strengthen this partnership. First and foremost, Russia and the EU must improve its legal basis which now lacks several important provisions, such as the methods and conditions of cooperation in countering international terrorism. Russia and the EU must better consider their mutual interests and needs while monitoring their law enforcement capabilities; this would significantly facilitate new lawmaking initiatives, as well as future cooperation in the realm of international legal codes. Such monitoring should embrace all of the spheres that are presently under the supervision of nine sub-committees – trade and industry; energy, environment, science and technology; human resources; transport, telecommunications and space; mining industry; intellectual property rights; customs and cross-border

Russians in Europe: 70 years ago and now



1934. Russian unemployed emigrants in Paris:
– I keep hoping to find a million franks on the street.
– You'd better move to London. You'll profit more, if you find a million pounds.
A cartoon from an emigrant newspaper



2004. Russian fans of the Chelsea Club at a football match in London. Russian billionaire Roman Abramovich bought Chelsea Football Club in a deal worth £140 million.

cooperation; agriculture and consumer protection; financing. This process should involve the Russian regions and individual EU member states, as well as members of the European Parliament and the Federal Assembly of the Russian Federation (RF). It is time the parties draft such important documents as the Agreement on Promoting Economic, Technical and Cultural Cooperation between the Russian Federation Regions and the EU, the Agreement on Russia-EU Cross-Border Cooperation, and the Agreement on Cooperation between the RF Federal Assembly and the European Parliament.

The two sides should give more attention to the important process of regionalization that is currently underway across Europe. To make the most of the opportunities provided by this process, closer ties should be encouraged between the Russian parliament and the EU Committee of the Regions. Furthermore, the partners should fully use the potential of the Council of the Heads of the Russian Federal Entities, as well as that of the seven Russian federal districts governed by the President's plenipotentiary representatives. In the long term, Russia and the EU should work to set up a Council of Russian and EU Regions, prepare joint initia-

tives within the framework of the European regional policy and submit them to the Council of Europe, the Congress of Local and Regional Authorities and the Assembly of European Regions. The regional policy is the second largest budget item in the EU long-term program (2007-13) that is currently being discussed by the European Commission. So, Russia can receive tangible benefits from its participation in regional cooperation, as well as through joint regional projects.

Expanded cooperation between Russia and the EU requires that the institutional framework of the partnership be reinforced and the structures of political interaction optimized. In May 2003, this process was launched at the Russia-EU summit held in St. Petersburg. The participants decided to transform the Cooperation Council into the Permanent Partnership Council. In the near future both sides should agree upon its status and a schedule of dialog between the foreign ministers of the Russian Federation and the EU member states. Other structures should be disintegrated. For example, cooperation in the field of law enforcement has grown so significantly that it obviously requires the establishment of a separate structure. The coordination between various

participants in the Russia-EU dialog – such as the different governmental agencies, regions and economic agents – would be facilitated if a commission for European integration matters is established under the Russian president, which would first function as a public organization and then as a state agency.

Finally, we must not ignore the role that St. Petersburg has traditionally played in European politics and culture. The political dialog would undoubtedly benefit if the Neva-based city hosted a center of parliamentarism to bring together lawmakers from Russia and the EU member states. This concept could be put into practice on the model of the Parliamentary Assembly of the CIS member nations already in operation. Diplomacy is another field where it is necessary to take important steps toward strengthening the partnership between Russia and the European Union. It is true that Russia's foreign offices in Europe, such as its embassies, consulates, and permanent missions to the international organizations, have not been used to their fullest potential, while the RF permanent mission to the European Communities in Brussels, which is a sort of a Russian outpost in the heart of united Europe, needs to be substantially reinforced in terms of

its personnel and logistics.

Business circles can play a significant role in invigorating the Russia-EU dialog. By way of illustration, the roundtable meetings of industrialists of Russia and the EU have already started discussing cooperation in the energy, transport, information technologies and investment fields. In the future, it would be expedient to conduct roundtable meetings in Russia's regions in order to discuss vital economic problems there.

Based on the standard regulatory framework and the practice of lobbying interests in various EU structures, Russia should work out a system of effective representation of its businesses in Brussels. With this aim in view, the partners should organize, within the framework of the TACIS program, a series of workshops in Brussels and Moscow that would involve experts from the European Commission, the Russian Chamber of Commerce and Industry and some other associations of industrialists. The relations between Russia and the EU are at a stage which requires highly proficient specialists with cutting-edge knowledge in those fields which pertain to European integration. Thus, the primary task facing Russia is the improvement of the interregional departments of higher educational institutions that deal with

European law, economics of the European Union, etc. An invaluable contribution can be made by Moscow State University; Moscow State Institute of International Relations; St. Petersburg, Kazan and Rostov universities; the Diplomatic Academy of the RF Ministry of Foreign Affairs. It would be useful to set up, via the TACIS program, an All-Russian Center that would specialize in EU documentation. In order to achieve these goals, it would be beneficial to draw the support of Russia's Ministry of Foreign Affairs (specifically, the Secretariat of the RF Governmental Commission for Cooperation with the European Union), the Ministry of Economic Development (the Department of Trade Policy and Multilateral Negotiations), the EU Documentation Center of Moscow State University, and the Institute of Europe of the Russian Academy of Sciences.

Work on strengthening Russia-EU cooperation should be carried out on a regular basis. This will help make the Russian-European partnership – based on a profound analysis of emerging problems, together with the shared principles of responsibility and the observance of international legal norms – an efficient and influential institution within the international system.

The Birth of New Europe

A View from Lithuania

Algirdas Brazauskas

Since the late Middle Ages, Lithuania has not had such a high level of participation in European affairs that it will receive after May 1, 2004. No one doubts that our country is capable of making its own truly creative contribution to the building of a united Europe.

The European Union, which is to open its doors on that day to ten new member states, is entering a markedly different era in its history. Although we have been painstakingly preparing ourselves for the expansion of the EU for a long time, this event signifies a serious challenge to all of Europe – a challenge not only to the current and future members of the EU, but to its neighbors as well, including Russia. Changes that are taking place in the Old World are kind of a flexibility test for all states, a check of their ability to exploit the opportunities provided by the expansion of the European integration zone.

Lithuania is joining the European Union with its own unique heritage: a rich and diverse legacy of good-neighborly relations with Russia, as well as a high level of cooperation with the Russian regions. That is why we intend to actively use our knowledge and experience in helping our EU partners plan and implement initiatives relating to our Eastern neighbors and, above all, to Russia. We have learned from our own experience that by showing respect for each other's interests and positions, both Lithuania and Russia are capable of finding mutually acceptable answers to questions

Algirdas Brazauskas is Prime Minister of the Lithuanian Republic.

which are being posed by the rapidly changing global situation. This mutual respect helped our two countries with the negotiation process concerning Russia's Kaliningrad Region. At that time, we had the opportunity to prove that if the participants are positive and act pragmatically, the goal of the negotiations will surely be attained. Finally, the obligations undertaken at the negotiations were fully met, and Russia secured the right for its citizens to travel freely to Kaliningrad.

This positive experience should be extended further in order for our countries to accomplish other no less significant tasks. It is very important that the negotiations concerning Kaliningrad transit have attracted international attention to problems of the Kaliningrad Region. Today, all interested parties (Lithuania, the EU and Russia) clearly understand that the future of the Kaliningrad Region depends, in the first place, on the rate of its social and economic development. Russia and the European Union should sit down at the negotiating table again in order to reach an agreement on the common long-term strategy for developing the Kaliningrad Region. Such a strategy should provide for the implementation of ecological, infrastructural, economic and social projects that will contribute to overcoming the gap in economic development between this Russian territory and the EU member countries which surround it.

Lithuania is prepared to actively participate in the development and implementation of such a strategy. We have already established the structures needed for interaction on all levels: the Lithuania-Russia Council on long-term cooperation between regional and local authorities of Lithuania and Russia's Kaliningrad Region, as well as a parliamentary forum. These institutions are to play a major role in solving the practical questions of cooperation, as well as serve to strengthen mutual understanding. The most important aspect of these developments is that the initiative derives from the citizens and non-governmental organizations of both countries. Lithuania is prepared to share its Kaliningrad experience with Russia's North-West as a whole. We have stated this on the highest level and we hope that Vilnius'

intent will get an appropriate response and support from Moscow. After all, the value of cooperation and mutual understanding will increase many times over after May 1, 2004. At this time, Lithuania, as a full-fledged member of the European Union, will be able to participate in the establishment of a common position of the EU member states, and make decisions concerning its relations with Russia.

The expansion of the European Union provides new opportunities for economic development, and Lithuania has a number of attractive things to offer foreign investors. Its geographic location permits Lithuania to place extra emphasis on its transit services, as there are two international transport corridors running through the country: a well-developed network of highways, as well as the non-freezing port of Klaipeda. Furthermore, there exists a stable macroeconomic environment in Lithuania; its significant industrial potential is augmented by highly qualified and relatively inexpensive human resources. The information technology sector has been rapidly developing over the last few years.

Even before joining the EU, investment by its member states in the Lithuanian economy accounted for 60 percent of all foreign direct investment. As Lithuania's integration into the EU is proceeding, the interest of Russian investors is also getting stronger. Businesspeople from the two countries enjoy special personal contacts; they understand the mentality of each other and know well the situation in the economic sectors of both countries that are of interest to them. Currently, Russian investment accounts for only 6 percent of foreign direct investment in the Lithuanian economy, but the trend toward greater growth is becoming obvious. And the reason is absolutely clear: by investing in Lithuania, Russian products and services are actually joining the EU single domestic market which boasts some 450 million consumers.

About 1,000 Lithuanian-Russian joint ventures have already been registered in the country. The YUKOS oil company has invested in the Mazeikiu Nafta refinery and the Mazeikiu Elektrine enterprise, Gazprom invests funds in the Lietuvos Dujos and Kauno Elektrine enterprises, the Russian mineral-

and-chemical company Eurokhim provides funds to the Kedainiai enterprise of chemical fertilizers Lifosa, while the Russian commercial bank ConversBank invests in the Lithuanian commercial bank Snoras. These are just a few examples of the successful economic cooperation between our respective nations.

In its turn, Lithuania is implementing various investment projects in the Kaliningrad Region. For example, a plant to manufacture Lithuanian refrigerators with an annual output capacity of 350,000 was commissioned on March 9, 2004. Over 500 enterprises with the Lithuanian capital have been set up and are in operation now in the Kaliningrad Region. These facts prove that the region as a special economic zone is attractive to foreign investors. The proximity of the European Union should result in providing more incentives for these processes. The decision on the future of the special economic zone should be made, of course, by Russia itself with all things considered. But it is worth remembering that any significant change of business terms in the region may adversely affect the inflow of foreign investment.

The trade turnover between Russia and Lithuania has been constantly on the rise and its annual volume has exceeded €2 billion. But the potential of the economic relations will not be fully reached until important regulation norms are introduced. These must include agreements on avoiding double taxation, and stimulating and protecting investments, which Russia has not yet ratified. We hope that those issues will be settled in the nearest future.

The expansion of the European Union will in no way significantly change the conditions of trade between Lithuania and Russia. The price of imports from Russia to Lithuania will increase by only 1.7 percent on average. On the other hand, the price of Russia's exports to the new EU member states will fall by 4.0 percent on average, since countries such as Poland, the Czech Republic, Hungary now levy higher import taxes than the European Union. According to the estimates of the European Commission, the overall cutback will total about 300 million euros. The EU expansion will make the single European market more accessible to Russian exporters and investors. Common rules

of trade, uniform customs tariffs and procedures will be applied to Russian exports in all 25 countries.

I can guarantee that Lithuania will be one of the most active supporters and initiators of developing trade and economic relations between the EU and Russia. Even before its final entry into the Union, Lithuania supported negotiations on free trade between the EU and Russia immediately after it joins the WTO. I think that all the other new members of the European Union will take a similar stand as well.

I would like to make a few separate remarks on Lithuania's prospects in the expanded European Union. There is no doubt that its membership in the EU will reveal noncompetitive sectors of its economy. Some people are bound to be disappointed. As it exists in any business, those who are able to adapt to new conditions, and seize new opportunities for competition in the large and free market, will have more to gain. And Lithuania is ready for the challenges involved in its membership in the EU.

The European Union is a vast, multi-level organization with an elaborate structure. That is why it is only natural to ask the question: Will the voice of such a small state as Lithuania be heard? The differences in interests of the large and small members of the European Union become especially acute when questions concerning the future institutional structure of the EU are being discussed. As a participant in the Intergovernmental Conference, Lithuania is trying to find a compromise on the future model of the EU. Looking back on history, we may conclude that the worries of the small states are groundless. The very concept of the European Union repudiates the domination of any country, while providing the conditions for an indispensable mutual consent. The spirit of compromise which permeates the entire decision-making process inside the European Union, combined with the high degree of independence of the European Commission, creates the necessary prerequisites for the protection of the interests of the EU small member states on an all-European level. Besides, the economic and political life of the EU is so diverse that various coalitions of interests constantly continue to emerge. No one is

surprised, for example, when states of the South form a coalition with countries of the North on some question, and donors reach a consensus with aid recipients. The classical model of “the big against the small” just does not work in the EU. And precisely because of the close integration within the European Union, its small member states have been able to raise the level of their influence and made up for the political and economic might of Europe’s great powers.

Lithuania’s immediate task is to use the successful experience of others and to learn “the EU’s navigational skills.” The process of preparing for its membership was not easy for Lithuania but, nevertheless, it succeeded in coordinating its actions with the European Commission so that they agree with the criteria of the European Union. I have no doubt that henceforth we will be able to assert our interests even more effectively.

The so called ‘Euroskeptics,’ of whom there are plenty in Lithuania as well, often express concern that membership in the EU may destroy the country’s national identity and turn it into a faceless eastern province of the European Union. A thorough analysis of other states’ experience proves otherwise: the membership will provide us with new opportunities for preserving the original authenticity of our people, their culture and language. Incidentally, starting May 1, Lithuanian will become one of the official languages of the European Union. At present, not a single member of the European Union is threatened with the loss of national self-consciousness. A rapid economic development, together with the growth of wellbeing in all the EU states, creates the favorable conditions for strengthening our individual national cultures.

By accepting ten new members, the European Union launches upon a new political era. Europe’s life will become more diversified. We will have to coordinate the interests of the states with different degrees of economic development and reach agreements on the EU’s further advancement in various directions. Serious challenges to the new members will include problems of integration into a single domestic market, effective use of the EU assis-

tance, and the growth of competition. It is important that we determine priority spheres for financing within the new long-term budget of the European Union for 2007 to 2013. If we fail to provide financial support to such ambitious projects as the Lisbon strategy, which is intended to raise the competitiveness of the EU, or fail to invest in linking the energy, transport and communications networks of Eastern and Western Europe, then we will not be able to completely capitalize upon the opportunities provided by European integration.

My experience as a politician has convinced me that a successful economy is the key to positive political processes. Europe is no exception to this rule. And I am absolutely certain that today's efforts by the EU member states to stimulate economic development will inevitably gain all of us political dividends in the future. And the role of the EU within the international arena will increase proportionally to the growth of its economic strength.

We proceed from the understanding that Russia is an integral part of Europe – historically, politically and culturally.

We are convinced that only Russia's consistent integration with the main European institutions – an integration based on common ideas and values – may guarantee real safety and prosperity on the continent.

We will concentrate our intellectual and political resources to build a united, safe and prosperous Greater Europe, stretching from Reykjavik to Sakhalin.



R.U.E
RUSSIA IN THE UNITED EUROPE

**Committee "Russia
in the United Europe"**

**Russia, Moscow 101000,
Luchnikov Pereulok, 2
Phone: +7 (095) 206-8998
Fax: +7 (095) 206-8997**

**E-mail: mail@rue.ru
<http://www.rue.ru>**

Behind the Great Wall of China



Chinese military musicians.
Illustration from the *Niva* magazine, 1900

“ It does not matter under which banner China’s future long-term development will be conceived – Communist, socialist, modernist, reformist or globalist – the options will boil down to a well-known Chinese maxim: ‘A strong state – rich people’ ”

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An Invaluable Relationship

Sergei Prikhodko

China has lately been in the focus of the Russian mass media. This increased attention can partly be explained by the upcoming 55th anniversary of the establishment of diplomatic relations between the two countries, due in 2004. However, the main reason is the consistently growing interest in our southerly neighbor.

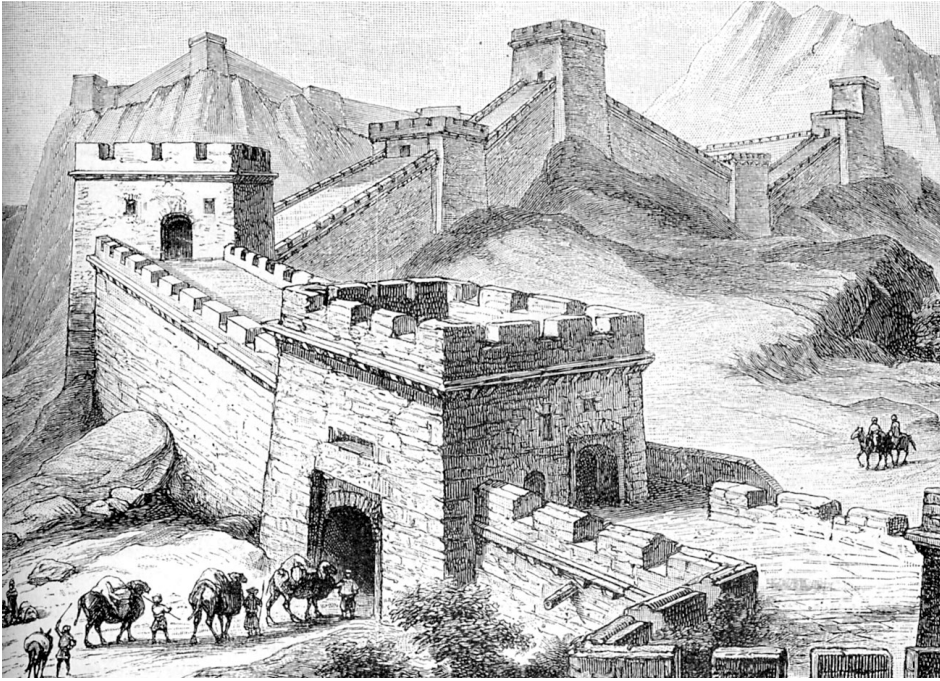
Today's China is a rapidly developing state which is rightly viewed as a political power center and a driving force of the global economy. There are serious grounds for stating that by the middle of the 21st century China will become a world leader.

Already, China boasts the world's sixth largest economy and fourth largest foreign trade. In 2003, China's gross domestic product increased by 9.1 percent, and its per capita GDP exceeded U.S. \$1,000 – for the first time. The country plans to quadruple its GDP by the year 2020 from its present figure, bringing it to over U.S. \$4 trillion. This goal is quite feasible, provided that China maintains its present economic growth rate.

Given such a potential, China is a country to be reckoned with by every nation, even ones that are not interested in China's prosperity and stability. There is barely a government in the world that has not thought about how it should build its relations with Beijing in the new century. As a rule, the choice is in favor of broad cooperation in all areas.

Russia, too, has made a choice, although it was not easy. Russian-Chinese relations have seen their share of ups and downs

Sergei Prikhodko is Aide to the Russian President and a member of the Editorial Board of *Russia in Global Affairs*.



The Great Wall of China.

E.v. Seydlitz. *Grosses Lehrbuch der Geographie*, Breslau, 1905

over the last few centuries. In the not so distant past, there have been periods when these relations were strained; occasionally they exploded into open confrontation. It took many years, a high level of political wisdom and the will of the leadership from the bordering nations in order to find an optimum model for interstate contacts. This model fully meets Russia's and China's national interests and the interests of durable peace and security across the globe. Moving step by step, the two countries in 1996 came to the agreement that in the 21st century they can and must be strategic partners.

This new quality of bilateral relations was formalized in the Treaty for Good Neighborliness, Friendship and Cooperation, signed by Russia and China on July 16, 2001. The treaty formulated the main principles and guidelines for the two countries' interaction in the long term, and laid the foundation for the further development of relations between Moscow and Beijing.

Russia and China entered the third millennium having made several major achievements, among them the solution of their bor-

der dispute bequeathed by former times. The two countries share one of the world's longest land frontiers which stretches for over 4,300 kilometers. Considering geographical and historical factors, of major importance is Article 6 of the Russian-Chinese treaty, which unequivocally states that the parties have no territorial claims to each other. As for the continuing negotiations on two small sections of the border, it seems that we can expect their successful conclusion in the near future.

Over the last 15 years, the two countries have laid a solid legal foundation for bilateral interaction. Since 1992, they have concluded more than 180 agreements at the interstate and intergovernmental levels. Fifty-five pairs of regions and cities in Russia and China have signed agreements which call for mutual cooperation in different fields. Eight intergovernmental subcommissions and 25 standing working groups have been set up in the economic, scientific and technical fields, while five subcommissions work in the social and humanitarian spheres.

This comprehensive mechanism of consultations ensures a steadily increasing range of bilateral economic cooperation and trade, which are acquiring ever more civilized forms. In the 1990s, annual bilateral trade between the two partners stood at U.S. \$6 to 8 billion, in 2003 it reached U.S. \$15.7 billion. Unlike in previous years, over 80 percent of Russian-Chinese trade is now done in the non-state sector.

Russia and China have fundamentally improved their cooperation on the international stage. Their approaches to practically all major issues in global affairs are beginning to merge, thus enabling them to closely coordinate their foreign-policy efforts and act jointly or side-by-side in order to uphold their vital interests more effectively and strengthen their international positions.

However, it is too early to say that there is a national consensus in Russia regarding the present and future prospects for good relations with China. The Russian mass media regularly publishes dire forecasts about the "imminent threat" facing Russia in general and its military and economic security in particular. The Russian people know very little about everyday life in contempo-

rary China. Although business contacts between Russia and China, including shuttle and border trade, have been stepped up, cooperation in humanitarian, cultural and other fields has been decreasing. Beneficial contacts between public and political organizations are now only occasional. As a result, the Russians know more about Britain or France than about neighboring China. This factor largely explains the persistence of historical stereotypes.

Russia cannot deny that problems do exist in its relations with China. And can it be otherwise when the two great neighbors have interests that often overlap? Naturally, Russia must not close its eyes to the disagreements and obstacles which impede the development of full-scale cooperation with China in all spheres. These obstacles must be seriously analyzed and removed, especially since the high level of mutual trust and understanding between the two countries allows them to openly discuss all types of sensitive issues and find compromise solutions.

At the same time, Russia must keep in mind the existence of a 'red line,' beyond which trespassing is inadmissible. This must be heeded in regard to the norms of our interstate relations, as well as the national interests of Russia itself. For example, political stability inside China is not a subject for idle speculation, and it can only be viewed as inappropriate when some politicians and unscrupulous businesspeople attempt to play on the issue of Taiwan. Russia is not going to revise its firm policy on Taiwan. The support of China's stable development serves Russia's strategic state interests.

Much is to be done in developing trade and economic ties between the two countries, and the present structure of bilateral trade needs to be improved. The share of high-tech products involved in this trade does not correspond to the industrial potentials of the Russian and Chinese economies. It is time for Moscow and Beijing to abandon primitive bartering and develop modern forms of economic and investment cooperation, as well as the transport and inter-bank infrastructures. It is also vital that the countries work to enhance the ties between the small and mid-size businesses.

Many problems are yet to be solved in cooperation in the fuel/energy sector. The desire of our Chinese partners to meet

their rapidly growing demand for energy resources by increasing guaranteed Russian supplies is understandable. Yet there should be no haste in addressing this issue. This area of interaction is of strategic and long-term importance and requires billions of U.S. dollars in investment. The parties must continue to search for balanced answers to these questions without resorting to emotion.

The Russian citizens who are living in bordering areas with China are naturally more concerned with local problems, such as illegal migration, poaching being committed by Chinese citizens on Russian territory, environmental pollution, and so on. The ecological problem may become the greatest problem of them all. The rapid growth of the Chinese economy is accompanied by increased attacks on the environment. Deforestation, together with the ensuing destructive floods and soil exhaustion, could eventually grow into a transborder problem, which could be solved only with a high degree of cooperation between the two countries. It seems that China is prepared for this dialog.

Although the migration problem does exist in Russian-Chinese relations, its dimensions should not be overestimated, as the Russian mass media tends to do. According to reliable estimates, the total number of Chinese citizens now permanently living in Russia hardly exceeds 150,000-200,000 people. And the official figures of the latest Russian census indicate a much smaller number – 35,000 people.

There are no grounds for suggesting that the Chinese government ‘prompts’ its citizens to move to Russia, especially illegally. Russia and China are now organizing a special working group which will address migration problems with the goal of arriving at a comprehensive solution to the issue.

Another very important area of cooperation involves the law enforcement bodies of the two countries. Their joint efforts will help to effectively counter various threats posed by organized crime and corruption. Furthermore, it will help to make the lives of average citizens more secure, as well as establish ties between the economic entities operating in the border areas.

Problems that arise in Russia’s relations with China often are the reverse side of the fast development of bilateral interaction.

However, instead of dramatizing the differences, the parties should develop a systematic approach for their settlement.

It is very important to strengthen the social basis of Russian-Chinese relations by promoting people-to-people contacts, developing tourism, strengthening interregional and transborder relationships. It is also essential that the two countries increase their interaction in the social and humanitarian areas, in culture, the sciences and the mass media. These efforts will be our contribution to eliminating many false stereotypes regarding the perception of China, which still exists in the minds of many Europeans and Americans.

These stereotypes stem from the uncertainty about the potential conduct of a 'strong China' on the international stage after it has carried out its grandiose modernization plans and become an economic, technological and military superpower. The last 20-odd years have shown that as China is rapidly developing, its foreign policy has become more balanced and oriented toward integration into the world economy; this has enhanced its level of cooperation with various countries. There are good grounds to believe that this tendency will continue. As China's competitiveness increases, it increasingly upholds and advances its national interests. This is a natural process, and the only normal reaction to it from other states, including Russia, should be enhancing the effectiveness of their own policies while developing constructive interaction with China in various fields.

The potential for economic interaction between Russia and China is tremendous, and its realization will determine the economic future of the entire Eurasian and Pacific space. If we look at Russian-Chinese relations in a global context — through the prism of the global situation, and from the point of view of the vital interests of the two countries — we will see that a strategic partnership between Russia and China, and one that is based on trust, will be an enduring value in the 21st century. It will serve as the bulwark for an equitable, democratic and multipolar world order, which is now being built. The success of this relationship is of vital importance for international peace and security, as well as for the tranquility and wellbeing of the two great neighboring nations.

China Today: Challenge or Opportunity?

The rapid economic development of the People's Republic of China is raising serious questions for Russia. The Chinese challenge is not so much an obvious, or rather imaginary, threat that powerful China may pose to Russia. The problem is much broader and stems from Russia being unprepared to assess the development of its large neighbor and to apply instruments of interaction that would be adequate to the situation inside China, and in the world.

The new China is beginning to play a major role in world policies and the world economy. This factor requires that Russia cease viewing it as a secondary state or as a threat. Russia needs to adopt a straightforward and comprehensive strategy with regard to China. Thus far, Russian-Chinese relations in politics and in international security have been reduced to declarations reflecting the two countries' similar, and largely outdated, views on critical international issues, such as the future of the United Nations or the concept of state sovereignty in the 21st century. Russia and China should now proceed with continuous interaction at various levels and in large projects. This could include the development of depressive areas in Russia's Far East or the formation of an international security system.

This publication summarizes the situation analysis conducted by the Council on Foreign and Defense Policy and the Institute on Foreign and Defense Policy, and headed by **Sergei Karaganov**. The text material was prepared for by **Timofei Bordachev**.



XIAOKANG SOCIETY
AND POTENTIAL OF INSTABILITY

Almost two decades of reforms in China have brought about essential changes in its society and, at the same time, produced unprecedented problems, the kind of which the Chinese leadership had never faced before. On the heels of great success have followed new difficulties and disproportions. In other words, the ‘new China’ is a challenge not so much for its neighbors or external partners as for its own government.

It does not matter under which banner China’s future long-term development will be conceived – Communist, socialist, modernist, reformist or globalist – the options will boil down to a well-known Chinese maxim: “A strong state – rich people.” Today, the way toward the implementation of this maxim lies in the “comprehensive construction of a *xiaokang* (modestly prosperous) society,” which the Chinese leadership believes will considerably consolidate its “strength.” If implemented, this strategy will transform China from a regional power, gradually increasing its influence in the world, into a global power capable of influ-

encing the international community “even more actively and constructively.” To this end, China plans to quadruple its gross domestic product by the year 2020 from its 2000 figure.

The latter part of the above formula involving “rich people” has been given a broader interpretation. Now it means not only a marked increase in living standards (to the level of countries with a medium income, but also the elimination of dire poverty that has hit a large part of the rural population.

At the same time, China’s high rates of development over the last few years have aggravated a potential for instability. The experts are in agreement that the warning signs of crisis are already manifest at many levels, but they can still be overcome or controlled. The following factors have been cited as the causes behind the crisis phenomena.

First, the Chinese society and economy are still in a transitional phase. The country has retained elements of an authoritarian system, while social stratification and the development gap between the urban and rural areas have been increasing. There is an obvious conflict between free market relations and the Communist Party’s monopoly on power. China possesses no institutions that can uphold the interests of the new social groups that have emerged since the reforms were enacted. These circumstances have resulted in the ongoing covert, illegal and uncontrolled seizure of power by the new elite, as the Chinese oligarchs are infiltrating local government bodies.

The 16th National Congress of the Chinese Communist Party, held in Beijing in November 2002, confirmed that the party does not have a straightforward and transparent strategy for the political reform of its society in the wake of the economic reforms. This is, perhaps, the main conflict inside Chinese society. To consolidate its power in a country with a population of over one billion people, the Communist Party must keep the economy growing. As long as it is able to cope with this task, its positions will remain strong.

The main factors of China’s economic growth are its integration into the world market, the liberalization of its national finan-

cial market, the privatization of the state-owned enterprises and the growth of private capital. Meanwhile, economic development that is organized along these lines inevitably brings about a conflict between economic pluralism and the one-party monopoly on power. This conflict is fraught with a political crisis, although this option cannot be ruled out. The Chinese Communist Party has a chance to use its monopoly on power in order to ensure social stability, which would help overcome or postpone a potentially acute crisis as the Chinese economy grows and the government initiates ongoing reforms.

Second, many members of the Communist Party's old leadership are displaying resistance, although weakening now, to the policy of accelerated reforms. China's accession to the World Trade Organization requires liberalizing the political, or, at least, the administrative system of China. This further increases the pressure on the traditional government agencies.

Third, the ambiguity of the goals of China's development is becoming ever more noticeable. "A strong state — rich people" slogan, used by various regimes in various state systems, is now undermined by the policy of "uneven development" proclaimed years ago by Deng Xiaoping. This policy inevitably produces gaps in development between different social groups and regions and, in the long run, undermines the stability of the entire country.

The status of the social classes in China has turned upside down. The working class, which at one time was the basis of the pre-reform system, has lost everything. Previously, poverty was seen only in the rural areas. Today, according to Asian Bank figures, the number of Chinese city dwellers with an income even less than the low subsistence level has reached 37 million people, eight percent of the country's urban population. These include, above all, unemployed or partially unemployed people working at unprofitable or inefficient state- or collectively-owned enterprises, as well as people unable to earn a living for health or domestic reasons.

Unemployment continues to soar. In the urban areas, these figures may have reached ten percent of the population. The

annual seven-percent growth rate of the GDP helps create approximately ten million new jobs per year. However, China has an annual demand for 25 million new jobs. The immediate factors behind this demand include the increase of workers dismissed from state-owned enterprises, and the registered unemployed people. Chinese unemployment has approached a socially and politically dangerous point, especially in old industrial areas, such as North-East China which borders on Russia. In the Liaoning Province, according to the 2000 census in China, unemployment

has reached 17.68 percent. The social security system in the country is poorly developed and cannot compensate for the consequences of the reforms, while the Chinese leadership continues to reduce social spending in order to increase the country's competitiveness.

The rapid growth of the Chinese economy has resulted in an equally fast stratification of its society and, since the mid-1990s, its polarization. The latter has reached dimensions that are

already threatening social and political stability. This is resulting from huge gaps in remuneration, the growth in illegal incomes and rampant corruption. According to 1999 figures on the state of 16 major industries of the Chinese economy, the highest wage exceeded the lowest one by 245 times. Considering other sources of income, this figure increased by at least 100 percent. China's 50 wealthiest people own 25 percent of all property in the country. The Gini Index, which shows the gap in income between the wealthy and the poor, has already surpassed the threshold that is considered to be tolerable.



Illustration from the *Niva* magazine, 1900

During an exchange of views on exactly what role the Chinese peasants may play in a crisis, most of the experts agreed that the rural population is a source of instability. However, this factor does not pose an immediate threat since the Chinese peasants are timid and backward and live in poor conditions.

The increasing gap between the rural and urban areas is the main obstacle to China's balanced social and economic development. The rural areas receive much less investment than the urban areas (this also refers to building loans). Since the mid-1980s, when the economic reforms moved from the rural to urban areas, the gap in incomes of the urban and rural population has been steadily growing, despite the increasing percentage of non-farm earnings in the rural population's income. In 2002, a peasant's net average annual income stood at 2,366 yuans (about U.S. \$300) which, according to UN standards, is below the poverty line (poverty index) – U.S. \$1 a day. More than half of the rural population (52 percent) earn less than 2,000 yuans a year, while 14.6 percent earn less than 1,000 yuans.

Another destabilizing factor mentioned by the experts was the side effects of the fast urbanization of the Chinese society, which has brought about the emergence of a large social group of people who have lost their traditional roots. This part of society, plus the working class which is rapidly becoming impoverished, can become the main source and scene of social and political upheavals.

RESPONSE OF THE AUTHORITIES

Most of the experts were confident of the Chinese ruling elites' ability to control the situation in their country and find the means for solving their present problems for the next few years.

China is now ruled by a group of technocrats who understand the problems of the country and are ready to address them, relying on carefully planned programs. The excessively technocratic approach of the Chinese leadership to the reforms, which does not fully take into account their social and, possibly, psychological effects, should not be viewed as a systemic problem, though.

Besides, China is relatively protected from the cultural and political influence of the West, which played a crucial role in the Soviet Union's collapse. From a cultural perspective, China does not consider itself part of the West, therefore, its reluctance to imitate it, and its more stable national consciousness. The experts discussed the sharp rise in the number of publications in the West which predict catastrophic developments for China in the foreseeable future. Twenty-five percent of the experts explained it by attempts to play down the attractiveness of the Chinese market. Another thirty-five percent attached this increase to fears of China's growing political role and by the wish of some countries, especially the United States, to halt China's political capitalization. But a higher percentage of the experts agreed that this was not an anti-Chinese policy, or a reflection of anti-Chinese sentiments, but a result of the greater openness characteristic of today's China as a whole and broad discussions of its problems and future, which naturally provides more negative information for experts studying China. At the same time, these discussions assist the search for solutions to problems and therefore reduce the probability of a systemic crisis.

The experts were divided over the probability of a split in the Chinese leadership. Several participants saw the possibility for a conflict inside the government at the 17th National Congress of the Chinese Communist Party, due in 2007. This conflict may result in a removal from power of the 'old' elite personified by Jiang Zemin, or in a counter coup in which the conservatives would only consolidate their positions. However, 75 percent of the experts agreed that a counter coup, and the adoption of a more conservative and marxist policy, are highly unlikely.

The experts concluded that in the next four to six years China is not going to face a systemic crisis that would paralyze or ruin its government institutions. At the same time, a majority of the experts agreed that in the long term (7 to 15 years) the probability of such a crisis in China will grow, and if the Chinese authorities fail to reverse the developments, the country may be hit by a serious crisis. The probability of a systemic crisis during that peri-

od of time is not ruled out by 50 to 60 percent of the experts (the gap in percentage is explained by the experts' different interpretations of the notion 'systemic crisis').

A CHANGING CHINA IN A CHANGING WORLD

In the next five years China's economic growth rate is expected to be high and is estimated to be eight percent of the GDP per year. Yet China will not be able to approach the level of economic and technological development of the U.S.A., Japan or Europe. It may achieve occasional technological breakthroughs but the general level of the Chinese economy will impede the country's development.

China already plays a serious role in the world economy and takes an active part in the globalization processes. However, the extent of its participation is not great enough for a crisis in China to have a major effect on the world economy. The negative effects from such a crisis in the medium term may manifest themselves only at the regional level. This crisis would seriously affect Russia only if the situation in China becomes irreversible, that is, if the state begins to disintegrate, and the Chinese population begins to migrate en masse. This is a possible scenario in the foreseeable future (in seven and more years).

The further development of the market economy in China, which is a must for the Chinese Communist Party if it wants to remain in power, makes inevitable China's growing openness with the world. China will increasingly develop interdependence with the rest of the world and heightened participation in the international integration processes. As China grows increasingly 'internationalized,' its military threat — already insignificant — will continue decreasing. China's economic achievements reduce the probability of a conflict with Taiwan.

Most of the experts believe that in the long term the Chinese leadership will not sacrifice economic progress in favor of a sharp increase in the country's military might, and will only modernize its available military potential. Therefore, China does

not and will not pose a serious security threat to Russia. Moreover, Russia is deeply interested that China entertains no serious fears for its security, nor fears an external threat (on the part of the U.S.).

China's growing economic might and involvement in the world market has prompted its leadership to alter its foreign policy, bringing it closer to the model accepted by the leading international actors (the U.S., Europe, Russia and Japan). The Chinese diplomats are shifting to a forthright approach to international issues, including the North Korea problem. Some of the experts described this change in China's foreign policy as a result of its growing awareness of its might. However, such conduct can pose a threat only to much weaker partners.

China seeks to play a more active role in international political and economic projects. Although all integration projects in the Asia-Pacific Region have only a declarative dimension, China's interest in them has been growing. China's accession to the WTO reflects the evolution of its position on economic globalization and the integration of its economy into the world economy. Examples of this evolution include the proposal to establish an ASEAN+3 free trade zone, which would involve the ASEAN countries plus China, South Korea and Japan; as well as China's participation in the regular meetings of finance ministers and CEOs of the central banks in East Asia, which discuss the introduction of a common regional currency, activities of the central regional bank, and other issues. Another sign of the changes in China's attitudes was witnessed by the attendance of its officials at the Group of Eight summit at Evian in 2003. The experts pointed out that most of the above actions would have been inconceivable even two or three years ago, and that the process of making the Chinese foreign policy 'international' and open was proceeding faster than could have been expected.

In the sphere of international security, China is not yet ready to propose a new agenda. Beijing still prefers to rely on 'good old' ideas, such as 'the leading role of the UN' or the 'inviolability of state sovereignty.' This position is already more than

the traditional policy of non-involvement but still less than a position befitting a great contemporary power. Considering the rapid rate of changes in China's foreign policy, its modernization may prove very fast.

RUSSIA AND CHINA: ANALYSIS OF THE AGENDA

The main characteristics at this stage of Russian-Chinese relations in international affairs is the coincidence of the two countries' positions on the UN role, which both Moscow and Beijing believe must remain active, as well as their preference for the traditional interpretation of the notion 'state sovereignty.' Some of the experts noted, however, that this joint agenda has grown obsolete and is not adequate to the 21st century challenges. Second, it does not reflect China's increased influence on the international stage, and third, it does not include vital problems of mutual interest. For example, Russia and China have different views on the Shanghai Cooperation Organization. The Chinese leadership views the SCO as an important project that could serve as a pilot attempt to implement regional integration involving China. However, Russia's reception of the project has been lukewarm.

China is now actively looking for a new model for its global policy. This process is gradual and not at all obvious. But this factor makes it even more important for Russia to develop a broad dialog with the Chinese elite in order that it may influence a mutual search for answers to the new global agenda.

Russia and China are already competing in the import of capital. China is now a more attractive country for investment, and the planned liberalization of China's stock market may make it even more attractive than Russia.

In the energy sector, China depends on Russia and needs more supplies of Russian energy resources. However, Russia would like to diversify its exports to China, which now consist mostly of raw materials. In some areas (e.g. hydro power engineering) China has given obvious preference to Russia's rivals. China seems to be quite happy with the present structure of its

imports from Russia. But Russia, too, has not been making any serious efforts to modernize its economic relations with China. The two countries have not launched a single large-scale economic project (arms trade is the only exception), while projects so far proposed for joint implementation look rather vulnerable from the point of view of profitability.

Commenting on military-technical cooperation between the two countries, the experts agreed that within the next eight to ten years Russia may lose its monopoly on the Chinese market. Arms sales to China have in the last few years been a major source of funding for key sectors of the Russian defense industry. Now, however, China has begun to reduce its purchases of Russian arms, launching instead licensed or own production of weapon systems and spare parts. The prospects for joint Russian-Chinese projects in military-technical cooperation are slim. This factor runs counter to global tendencies in this field of economic relations, and does not allow China to fully tap the opportunities for establishing a broad partnership with Russia.

The experts pointed to the need for Russia's multifaceted and straightforward strategy with regard to China, and that Russia has yet to define its attitude to the new China. The absence of a clear-cut position makes it difficult to suggest that Russia's foreign-policy decisions are based on a comprehensive strategic approach. Indeed, Russia's policy is partially reactive (responding to each particular challenge) and partially a continuation of the Soviet Union's line in the last few years of its existence.

As concerns the prospects of Russia's Chinese policy, Russia should not seek a rapid rapprochement with China. This mutual relationship must be balanced and take into account Moscow's specific interests in the Asia-Pacific Region, as well as China's relations with the U.S. and other Russian partners. At the same time, Russia should not seek to play an active role in a situation when Chinese-U.S. relations may become strained.

There are two factors that may compensate for the increasing imbalance of strength between the two countries. The first is Russia's potential as a nuclear state. The second is the growing

possibility for attracting Japan, the U.S. and South Korea for the development of Russia's Far East. This project, if implemented jointly with China, may assume a still greater dimension and help integrate the entire region (Russia's Far East, North-East China, both Koreas, and Japan).

Next, there is the question of a pipeline for transporting Russian oil to major countries in the Asia-Pacific Region. The panel of experts concluded that – from the political point of view – the best solution would be the construction of a single pipeline from Angarsk, which would then fork toward the Russian port of Nakhodka and China's Daqing. Another possibility involves building two separate pipelines to those destinations. The experts argue, however, that Russia does not yet have enough oil for these pipelines to operate at full capacity.

Several experts argued that a decision not to build an oil pipeline to Daqing would seriously undermine Beijing's trust in Moscow. It would strengthen suspicions that Russia's Chinese policy is being led by Washington and Tokyo which, it is believed, seek to weaken the Chinese economy and keep China dependent on Middle Eastern oil. The construction of an Angarsk-Daqing oil pipeline may help launch large-scale industrial cooperation between North-East China and Russia's Far East. It could also facilitate a major integration project in the whole of Northeast Asia.

Proponents for the construction of a pipeline to Nakhodka argue that it would boost the development of the region that is now deteriorating. Such a decision, it is argued, would create conditions for filling the economic, social and geopolitical vacuum which is threatening Russia's interests. Also, oil can be transported from Nakhodka on to North-West China, where it would breathe life into inactive oil refineries.

The experts noted that the pipeline to Nakhodka may attract advantageous Japanese loans and assist Russia's attempts to enter the Japanese and U.S. energy markets. Furthermore, the pipeline would provide the impetus for implementing the international development of the depressive areas in Russia's Far East and East Siberia.

The panel failed to reach a consensus as to which route is more preferable. Most of them gave preference to the Angarsk-Nakhodka route. An overwhelming majority of the experts concluded that the choice of this route is more probable for political reasons. At the same time, they said it would be unwise to rule out the construction of a pipeline to Daqing.

The participants in the situation analysis included: **Yakov Berger**, senior researcher at the Institute of Far Eastern Studies (IFES); **Timofei Bordachev**, vice-president of the Institute on Foreign and Defense Policy; **Olga Borokh**, IFES leading researcher; **Anatoly Vishnevsky**, head of the Center for Demography and Ecology; **Vagif Guseinov**, director general of the Institute of Strategic Assessment and Analysis; **Alexander Lomanov**, IFES leading researcher; **Sergei Luzyanin**, professor at the Institute of International Relations (MGIMO); **Alexander Lukin**, director of the Institute of Political and Legal Studies, MGIMO professor; **Fyodor Lukyanov**, editor-in-chief of *Russia in Global Affairs*; **Konstantin Makienko**, deputy director of the Center for Strategy and Technology Analysis; and **Vassily Mikheyev**, IFES deputy director.

Proliferation Without Borders



Gunman of the times of hetman Mazepa.
Illustration from the *Ukrainian Heritage* album, 1900

“ Who amongst the advocates of nuclear games can stand up and tell us to whom we should sell or pawn all of Ukraine’s property, just to obtain a nuclear arsenal for ourselves and make ‘happy’? ”

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Horizontal Proliferation: New Challenges

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The proliferation of nuclear weapons (nuclear proliferation), which is defined as an increasing number of non-nuclear states and, possibly in the future, non-state organizations, gaining access to nuclear weapons, is in the focus of the international security agenda. It is a top priority issue in the official national security policies of the United States, Russia and many other leading countries in the world. Efforts to check nuclear proliferation involve the intensive work of secret services, the use of force against individual states and even large-scale military operations. The efficiency of these efforts is crucial for the world's prospects and for global security in the foreseeable future.

The buildup of nuclear armaments by the largest states, concomitant with the desire of an increasing number of non-nuclear countries to obtain them, have remained closely interconnected phenomena. This is why any nuclear arms race is often described as nuclear proliferation: there exists 'vertical' proliferation (a nuclear buildup by the leading nuclear states) and 'horizontal' proliferation (an increase in the number of countries having nuclear armaments in their armies).

NEW PHASE IN PROLIFERATION

The world is entering a fundamentally new stage in the proliferation of nuclear weapons – the most destructive and dangerous of WMD.

Alexei Arbatov is a Corresponding Member of the Russian Academy of Sciences and Director of the Center of International Security, Institute of the World Economy and International Relations, Russian Academy of Sciences.

Following the end of the Cold War, when the two superpowers ceased to be enemies and their ideological and geopolitical rivalry gave way to broad cooperation, the campaign against proliferation enjoyed several major achievements. Those years were marked by an unprecedented growth of the United Nations' authority and the role of its Security Council, as well as by a huge expansion of UN peace-keeping and humanitarian operations. In the early 1990s, about 40 new member countries joined the Treaty on the Nonproliferation of Nuclear Weapons (NPT), among them France and China. In 1995, the Treaty was extended for an indefinite time, and only five countries have remained outside it – India, Pakistan, Israel, Cuba and the Cook Islands. Seven countries gave up their military nuclear programs and the nuclear armaments they had previously possessed, while others had them removed by force (Brazil, Argentina, Ukraine, Belarus, Kazakhstan, South Africa, and Iraq).

However, in the late 1990s, nuclear proliferation gained momentum after India and Pakistan carried out a series of nuclear tests in 1998. The tests sparked serious and well-grounded fears over the military nuclear programs being conducted by North Korea, Iran and several other countries. Suspicions with regard to Iraq's nuclear program served as a pretext for, if not the cause of, the U.S. war against that country in 2003, although no nuclear weapons have been found in Iraq since the end of the military campaign. At the same time, North Korea declared its withdrawal from the NPT and its ability to quickly develop nuclear weapons. In Iran, facilities for enriching natural uranium were discovered which Teheran had been concealing from the International Atomic Energy Agency in violation of the NPT.

It also turned out that Pakistan (and, perhaps, some other countries as well) was engaged in an active secret trade in nuclear technologies and materials with Iran, Syria and North Korea. Furthermore, Libya was conducting a secret military nuclear program which it has now proposed to shut down in exchange for the termination of UN sanctions that have been imposed against it. Japan, South Korea, Taiwan, Syria, Egypt and several other countries keep a close watch on the conflicts involving North Korea and

Iran and prefer to leave open the issue of their future nuclear status. International terrorist organizations display a keen interest in nuclear weapons and have already started blackmailing governments (in particular, by spreading rumors that they have bought portable nuclear explosive devices from Ukraine for subversive purposes).

There are many reasons for the growing proliferation process. Its new stage was caused, above all, by the transfer of international conflicts to the regional level, and by the superpowers' decreased control over global developments, together with their decreased involvement in regional affairs. At first, this factor contributed to their interaction in various fields and enhanced the role of the United Nations, including the realm of nonproliferation. But as antagonisms between the superpowers increased in this area of international politics and technical cooperation, regional conflicts and the proliferation process went beyond their control.

The new stage is characterized by an information revolution, broader access to nuclear power specialists, technologies and materials, formation of a nuclear black market, technical progress and the proliferation of dual-use technologies and materials.

As distinct from the Cold War years, public opinion in the U.S., Western Europe and Russia has overcome its fear of nuclear weapons and no longer worries about nuclear disarmament prospects. The sign of the new era is Washington's policy of dismantling the nuclear disarmament regime and process and placing more reliance on nuclear armaments in furthering its national interests. Russia, after numerous protests, has chosen to tolerate this policy, however reluctantly. The proliferation process has been aggravated by the unilateral use of force abroad by the U.S. and its allies. Those attacks prompt potential victims of the U.S. military to seek nuclear weapons in order to defend their security.

DEFICIENCIES

OF THE NONPROLIFERATION TREATY

The Nonproliferation Treaty, the fundamental document in this field which was signed in 1968 and which entered into force in 1970, has clearly divided all nuclear and potentially nuclear pow-

ers into ‘legitimate’ (those possessing nuclear weapons by right) and ‘illegitimate’ (all the others that have no right to develop nuclear weapons of their own). The NPT says that “for the purposes of this Treaty, a nuclear-weapon State is one which has manufactured and exploded a nuclear weapon or other nuclear explosive device prior to January 1, 1967” (Article IX, Point 3). Therefore, all countries that “missed the deadline” for whatever reasons, are regarded as ‘illegitimate’ nuclear powers.

And although France and China joined the NPT only in the 1990s, the Treaty included them as legitimate nuclear-weapon states since they tested nuclear weapons before 1967 (France accomplished this in 1962, and China, in 1964). From the point of view of the NPT, nuclear proliferation was started by India, which became the first country to explode a nuclear device after January 1, 1967 (in May 1974, to be more precise). India declared at the time that it had tested a “peaceful nuclear device,” but the NPT makes no such distinction between nuclear devices. In May 1998, India, and later Pakistan, became the first non-signatories to the Treaty to openly test nuclear weapons. These countries can be considered the “legal” initiators of nuclear proliferation. However, they would hardly agree with such a claim, just as the other “illegitimate” actual or potential possessors of nuclear weapons – Israel, North Korea, Iran, and others – would not, and with good reason.

Indeed, the five ‘legitimate’ nuclear powers developed their nuclear weapons earlier than other states, and by 1968 three of them (the United States, the Soviet Union and Britain) had agreed to their positions on the NPT. As a result, the Treaty defined January 1, 1967 as the cut-off date, beyond which any new nuclear state would be considered illegitimate. However, such a position can be viewed as arbitrariness on the part of the great nations. From the point of view of “illegitimate” nuclear states, there were no grounds to make the legitimacy of their nuclear programs dependent on the time frame set down by the military programs of the ‘Big Five’ nuclear states, or on the rate of their negotiations on the NPT provisions.

This flaw of the Treaty, which has formalized the inequality of the different categories of signatories, is a permanent weak link in

the entire structure of the nonproliferation regime, as well as a target of just criticism and speculative attacks by the non-nuclear states and/or non-signatories to the NPT.

There are also other shortcomings and contradictions in the foundation of the nonproliferation regime and its main elements: the NPT and related agreements, institutions and mechanisms for coordinating states' interests and efforts (the IAEA, the Zangger Committee, the Nuclear Suppliers' Group, etc.).

One deficiency of the nonproliferation regime is based on the assumption that the development of nuclear weapons can be a natural derivative or by-product from the legal development of non-military nuclear power engineering and science. According to this assumption, strict control by the legitimate nuclear powers and international organizations over supplies of nuclear materials and technologies will make it possible to clearly distinguish between the peaceful employment of nuclear power from military purposes. However, the countries that had nuclear programs have always known what kind of nuclear energy employment – peaceful or military – they needed in the long run, with the possible exceptions of Brazil and Argentina whose nuclear programs did not have straightforward goals.

When a nation's efforts at achieving nuclear capabilities were peaceful, acquiring the highest technological and industrial levels, together with the extensive freedom in processing and using nuclear materials, did not tempt it into developing nuclear weapons (West Germany, Italy, Sweden, Japan, South Korea, Canada, and others). If its goals were militarily related, it would seek its objective in a purposeful way, not “in addition to” peaceful nuclear engineering programs. The military motives do not derive from economic benefits; therefore promises of economic benefits in exchange for the renunciation of nuclear weapons (stipulated in the NPT) have proved to be a weak lever of influence on national policies.

Some of these countries (Israel, India and Pakistan) “honestly” chose not to join the NPT and conducted their own military nuclear programs. Others (Iraq, Iran and North Korea) apparently joined the Treaty to obtain political cover for their programs

and easy access to information, specialists, technologies and materials for achieving their long-term military goals. The IAEA's control was not enough to prevent military nuclear programs or the transfer of the technologies, materials and experts of peaceful programs into military-related projects. The 1997 Additional Protocol to the NPT, which gave the IAEA the authority to inspect any facility in a signatory non-nuclear country, could impede such violations but could not fully prevent them.

Countries seeking to obtain nuclear weapons may even declare their withdrawal from the NPT, having first taken avail of the material benefits provided by the Treaty for advancing their military programs. Pyongyang's withdrawal from the Treaty showed that such a move may not necessarily entail international sanctions. Moreover, North Korea used it as a trump card in its bargaining with the world's largest powers for economic and political concessions. It seems that Iran – which in late 2003 agreed to join the Protocol under pressure of West Europe – has begun a similar political game concerning Protocol's requirements and even its NPT membership in order to receive more opportunities for developing its nuclear program.

Factors that prompt the leaderships of non-nuclear countries into developing nuclear weapons include security considerations, the wish to bolster their international and domestic prestige (in particular, from pressure within their domestic circles), and receive foreign-policy concessions from other states. The NPT does not counterbalance either of these factors: it does not offer any tangible benefits for renouncing the acquisition of nuclear weapons, i.e. it does not provide for security guarantees that would outweigh losses incurred in such renunciation, nor does it envision serious punishment for military nuclear activities.

This particularly refers to the security factor as a motive for joining the nuclear club. For example, Israel reportedly proposed to abandon its nuclear weapons in exchange for U.S. security guarantees that would be equal to Washington's NATO commitments – including nuclear guarantees. However, the conclusion of such a formal security agreement with Israel would damage

Washington's relations with the Arab world and its oil interests in the Middle East.

It would be even more politically awkward to offer effective security guarantees to authoritarian regimes, unstable domestically and outwardly aggressive. This would especially include those nations that are suspected of having connections to international terrorism and secretly developing nuclear weapons. However, it is such regimes that fear an external threat and seek nuclear status more than other countries. Sanctions and the threat or use of force by the great powers, especially when it is done without UN approval (as was the case with Iraq in 2003), produce undesirable results by multiplying the incentives for threshold countries to obtain nuclear weapons.

Another major deficiency of the NPT is that it failed to account for the correlation of interests of countries supplying and receiving materials and technologies for peaceful nuclear energy projects. It was assumed that the wish of recipient countries to engage in peaceful nuclear engineering would be so strong that they would assume verifiable obligations not to develop nuclear weapons. In practice, however, the world market for nuclear materials and technologies, which yields exorbitant profits, has become a scene of tough competition for the exporters, not the importers. This factor has had two grave consequences for nonproliferation.

First, in a bid to win more markets, supplier states were not very particular about buyers' intentions and programs, about the observance of IAEA guarantees, the insufficiency of mechanisms for controlling exports and imports (with regard to Iraq, North Korea or Iran, for example), and even about the non-participation in the NPT of some importer countries (as was the case with Israel, India, Pakistan and, formerly, Brazil). Moreover, some of the main exporters remained outside the Treaty (France and China), while several still do so to this day (India and Pakistan). Furthermore, reports about the military nuclear programs being conducted by some recipient states (as well as their vast natural energy resources, which makes the development of nuclear engineering unnecessary), did not stop exporters from closing deals with importers, such as Iraq and Iran.

The other unfavorable consequence of the NPT is the lack of

mutual understanding among the supplier states. It often happens that when pressure is applied to a particular supplier state by another, causing the latter to reduce its supplies to one or another country, this is often viewed as not genuine concern for nuclear nonproliferation, but rather an attempt to remove a rival from the market. In 1994, the U.S., South Korea and Japan secured the termination of Russia's nuclear energy cooperation with North Korea under the pretext that Pyongyang might use Russia's supplies to develop nuclear weapons of its own. However, soon thereafter a contract was concluded for the construction of a nuclear power plant of the same type under their control, with allegedly more effective IAEA guarantees. (Later, the project, named KEDO, was halted and North Korea openly resumed its military nuclear program; in January 2003 it withdrew from the NPT.)

Naturally, Moscow perceives Washington's strong pressure against any further construction of Iran's Bushehr nuclear power plant as a wish to oust Russia from the Iranian market in order to take its place. Despite evidence that Teheran is conducting a military nuclear program and developing missile technologies (with Pakistan's and North Korea's assistance), the Russian leadership strongly resists the U.S. pressure, even though this situation may damage Russian-U.S. relations in other fields.

The third deficiency of the NPT is that it proclaims nuclear nonproliferation to be the top priority of international security, along with nuclear disarmament. Ideally, this must be so, provided all exporter countries give up the double standards policy. In reality, nuclear nonproliferation is given a different priority in national security agendas of various countries. Its priority is higher in the United States than it is in Russia, China and certain West European suppliers, not to mention the new exporters (Pakistan, India and North Korea). Apart from the nonproliferation regime, countries may have other, often more 'preferable,' foreign-policy interests. In the United States, for example, support for Israel is more important than damage from its non-official nuclear status for the nonproliferation regime. For Russia, the economic and political benefits from cooperation with India and Iran matter

more than nonproliferation. The same logic applies to the U.S. cooperation with Pakistan (at least until recently, when Islamabad's secret nuclear exports became known to the public).

So the opinion that the NPT has little influence on nuclear proliferation is not groundless. The Treaty has been joined mostly by countries that have no intention of developing nuclear weapons. As for those countries that had such intentions, they simply chose not to join the NPT (which has not affected their nuclear imports from the supplier countries), or joined the NPT while simultaneously conducting military programs secretly from the IAEA. By choosing such a course, the latter reserved the possibility to denounce the Treaty and openly acquire nuclear status – without fearing serious sanctions.

Thus, the main shortcomings of the NPT are: the absence of reliable security guarantees for non-nuclear countries in exchange for their decision not to develop nuclear weapons; the vagueness and weakness of sanctions against nations that choose not to join the NPT, or those member-countries that violate its conditions or denounce it; the insufficient effectiveness and obligation of verification mechanisms; the possibility of obtaining full-cycle nuclear technology within the NPT framework, which facilitates the accumulation of weapon-grade materials (including the enrichment of natural uranium and the recycling of spent fuel for extracting plutonium).

And finally, the most important point: the “legitimate” nuclear powers, which built the NPT on the concept of inequality of the participating states, have not only failed to compensate the other nations' damage with security and economic benefits, but have aggravated this segregation and instigated third countries to make the nuclear choice.

MILITARY NUCLEAR PROGRAMS AND NEGOTIATIONS OF THE GREAT POWERS

Since nuclear weapons possess virtually unlimited destructive might with horrible secondary effects, they are mostly viewed not as a weapon for use in war, but as an instrument of political pressure or deterrence. In this sense, the great powers consider nucle-

ar weapons a very effective tool for ensuring their national security and interests. Naturally, under certain circumstances, non-nuclear countries may wish to obtain this kind of weapon as well. Nuclear deterrence always stimulates nuclear proliferation.

This relation also works in the opposite direction. Nuclear proliferation does not only broaden the 'nuclear club,' but it also regenerates nuclear deterrence as a model for military-political relations between countries. Even when political relations between certain countries change fundamentally and they cease to view each other as enemies (as Russia and the United States did after the end of the Cold War), their nuclear and other forces remain in a state of strategic deterrence. Eventually, they acquire new enemies and new targets as a result of the proliferation of nuclear armaments and their delivery vehicles. In turn, this factor may destabilize strategic relations between former enemies and cause them to place more emphasis on nuclear deterrence.

For example, in December 2001, the U.S. decided to build a National Missile Defense system in order to protect itself from states that may obtain nuclear missile armaments; Washington's withdrawal from the 1972 ABM Treaty six months later forced Russia to increase its reliance on nuclear deterrence. Moscow extended the operational service life of its intercontinental ballistic missiles with multiple, independently targeted re-entry vehicles, and purchased several dozen such missiles from Ukraine's stock as well. Furthermore, Russia was keenly sensitive about Washington's program for developing small nuclear munitions, which, it claimed, were being developed to penetrate the underground bunkers of terrorists and 'rogue nations.' Russia perceived this program as a threat to its own strategic facilities, and one that would require that it restructure its command and control system and revise its approach to the deterrence of different types of threats.

The vertical proliferation reached its peak in the late 1980s when the Soviet Union and the United States each possessed 10,000 to 12,000 nuclear warheads in their strategic forces. Coupled with their tactical nuclear arsenals, this figure reached 30,000 to 40,000 munitions in each of the states.

The horizontal proliferation has over the last 50 years covered nine countries (the U.S., the Soviet Union, Britain, France, China, Israel, South Africa, India and Pakistan). The collapse of the Soviet Union produced four new nuclear states (Russia, Ukraine, Belarus and Kazakhstan). Later, three of them turned their nuclear weapons over to Russia. Another four countries (South Africa, Brazil, Argentina and Iraq) made attempts to develop nuclear weapons of their own, but later gave up such attempts for one reason or another. Two countries (North Korea and Iran) are considered to be threshold states, i.e. those on the verge of obtaining nuclear weapons. If they “cross the line” then it is possible – in a worst-case scenario – that many more countries may join the nuclear club in the subsequent 10 to 20 years (Japan, South Korea, Taiwan, Syria, Libya, Egypt and Saudi Arabia). Malaysia and Indonesia have also been displaying interest in the nuclear issue of late, while Iraq, Brazil, Argentina and some more countries may resume their nuclear programs.

Although nuclear deterrence and nuclear proliferation are closely interrelated, they are not equal factors in international security. In the Cold War years (since the late 1940s until the late 1980s) nuclear deterrence was in the center of the world’s attention. Everyone believed then that the most horrible hypothetical threat to the world was a global nuclear war between the two opposing blocs that would be set off by a deliberate attack from one of the belligerents (the late 1940s-early 1960s), or by an uncontrolled escalation of a regional crisis which would involve the great powers (since the mid-1960s to the mid-1980s).

After the end of the Cold War, the situation quickly changed. Nuclear deterrence, at least between Russia and the U.S., moved into the background. Although the two countries still preserved thousands of nuclear warheads, their nuclear stockpiles were decreasing and programs for their renovation were curtailed. Still more important was that Moscow and Washington ceased to be the main geopolitical rivals on the international scene and the probability of war erupting between them actually decreased to nil.

The threat of a nuclear showdown between the superpowers has given way to the proliferation of nuclear and other weapons of mass destruction, as well as to the proliferation of missile technologies. Furthermore, an increasing number of non-nuclear states have since been developing nuclear and missile materials and technologies or are seeking to obtain them. The nuclear weapons of China, India and Pakistan (and the delivery vehicle capabilities of Britain and France) have been augmented in absolute figures and in relative proportions compared to the decreasing arsenals of the two largest nuclear powers.

The dialectics of nuclear deterrence and proliferation was reflected in the arms limitation and disarmament processes. The world's major powers, fearing a nuclear war, sought to stabilize mutual deterrence; this striving created the prerequisites for agreements on nuclear arms limitation and reductions. Already at the initial stage of this process (after the conclusion of the 1963 Limited Nuclear Test Ban Treaty), the great nations came to the conclusion that the main precondition for the limitation and reduction of their nuclear weapons was the termination of nuclear proliferation which, in turn, was made conditional in the NPT for nuclear disarmament.

The interrelation between 'vertical' and 'horizontal' disarmament was legally sealed in the famous Article VI of the Treaty, according to which the nuclear states undertook to "pursue negotiations in good faith on effective measures relating to cessation of the nuclear arms race... and to nuclear disarmament." Soon thereafter (in 1968) such negotiations really began. After the conclusion of the NPT in 1968, the great powers made headway in their dialog on nuclear weapons (the ABM Treaty, SALT-1 and SALT-2, the Treaty on the Elimination of Intermediate-Range and Shorter-Range Missiles, START-1/2/3, etc.). However, during the same years, in the 1970s-80s, the two superpowers increased their nuclear arsenals five or six times over (even if we count only the number of warheads in their strategic forces). It was only in the 1990s that the nuclear arsenals began to be significantly reduced (by 50 percent under the START-1 Treaty). The limitation of nuclear armaments was viewed as a goal requiring much

time and effort — figuratively speaking, as the central edifice of international security, while the NPT was regarded only as an extension onto this building. Right up to the early 1990s, the Treaty remained in the background of the great powers' interaction on nuclear arms matters.

The end of the Cold War made the United States and eventually the other nuclear powers, including Russia, change their priorities. In the mid-1990s, the international security agenda focused on the nonproliferation of nuclear weapons and their delivery vehicles, the strengthening of the NPT regime, its institutions (IAEA) and additional agencies and mechanisms, the Missile Technology Control Regime, and export control measures. Despite great difficulties, the NPT signatories agreed in 1995 to extend the Treaty for an indefinite time. In 1996, the Comprehensive Nuclear Test Ban Treaty was signed, which was viewed not only as a measure of 'vertical' nuclear disarmament among the great powers but also as a parallel mechanism for strengthening the NPT regime, which would deny non-nuclear countries access, direct or indirect (for example, following India's nuclear test in 1974), into the nuclear club. In 1997, the Additional Protocol to the NPT was signed, which has extended the IAEA's right to inspect suspicious facilities in non-nuclear countries.

The horrible tragedies in New York and Washington on the morning of September 11, 2001, showed to the whole world a glimpse of the worst-possible proliferation scenario, in which nuclear weapons would fall into the hands of international terrorists who would use them to plunge the entire civilized world into shock and chaos. It seems unquestionable that further WMD proliferation and the danger of its merger with international terrorism (so called super terrorism or catastrophic terrorism) will continue to be a priority issue in Russian-U.S. relations, as well as in the cooperative efforts of the nuclear powers and nuclear suppliers, in UN activities, and in the practice of using force in international policies.

However, so far the policies of the great powers in these fields have been creating more problems than solutions, in other words, they are subscribing a 'remedy' that is worse than the disease itself.

As has been mentioned above, the nuclear states' policy was inconsistent and lacking coordination in their nuclear supplies and general political line toward 'illegitimate' nuclear and threshold countries. Equally problematic are Moscow's and Washington's positions on military nuclear programs and negotiations on the limitation and reduction of these weapons.

However, the point is not that the great powers do not formally fulfill their obligations stemming from Article VI of the NPT, which is devoted to nuclear disarmament. Contrary to popular belief, during the 1990s the U.S., Russia, Britain and France cut the number of nuclear warheads in their strategic nuclear forces by more than 50 percent, and considering reductions in their tactical nuclear forces, the nuclear arsenals of the four countries decreased by five times. The problem is that, although the great powers have been withdrawing outdated nuclear armaments from service en masse, they continue modernizing their nuclear weapons and have assigned a greater role to these weapons in their military doctrines, placing emphasis on weapon systems that are intended for real combat employment.

Despite Washington's repeated official declarations that Russia and the United States are no longer enemies, its effective operational plans and targets on the Russian territory for nuclear attacks have actually remained unchanged, and it continues to add an increasing number of facilities to its list of targets in China and other countries. This factor sets clear boundaries on the prospects for the elimination of nuclear weapons. This is why Washington has declined to reduce its strategic nuclear forces further than 2,000 warheads (plus 1,500 warheads kept in storage). Moreover, the U.S. is developing new low-yield nuclear munitions, allegedly for destroying underground targets, storage facilities and bunkers of terrorists and 'rogue nations.' To this end, Washington is making preparations for a possible resumption of nuclear tests in Nevada.

Today, there is a distinct difference from the official Soviet propaganda of the Cold War times, which called for nuclear disarmament. Today, in democratic Russia, which is building a market economy according to the Western model and attracting large-

scale foreign investment, the maintenance of nuclear weapons targeted, above all, on the West, enjoys the unanimous public support of the government, the political and strategic elites and the entire nation. Moreover, in contrast to the Soviet Union's 1982 declaration that Moscow would never be the first to use nuclear weapons, the cornerstone of Russia's present military doctrine is the principle of first use of nuclear weapons in extraordinary circumstances. Russia has adopted programs for the 'balanced' modernization of all the components of its strategic triad, and will not listen to proposals for negotiating on tactical nuclear armaments; it seems like Russia is planning their extended renovation.

Obviously, the U.S., Russia, Britain and France firmly intend to maintain powerful and effective nuclear forces for the foreseeable future, while China, which began from a lower level, has been steadily increasing its strategic potential.

Still more worrying is the state of the proliferation regime and the process of limitation and reduction of nuclear weapons. This structure, built with so much difficulty for almost 40 years, is now being quickly dismantled; on the other hand, the system of mutual nuclear deterrence is not only being perpetuated but will probably grow increasingly unstable and unpredictable in the future.

In May 2002, the United States officially withdrew from the 1972 ABM Treaty which had been the cornerstone of central nuclear disarmament for the past 30 years. Instead, Russia and the U.S. signed a general document for cooperation in building a strategic antimissile system, which has never been translated into life. The ABM Treaty died together with the START-2 Treaty and the framework agreement on START-3. These were replaced by the Treaty on Strategic Offensive Reductions, signed in Moscow in 2002, which binds the two countries to cut the number of their warheads to 1,700-2,200 within ten years (this was the number of warheads the parties had before the beginning of the SALT negotiations in the late 1960s). However, this treaty is rather an agreement of intent, since it does not stipulate any rules for counting warheads, nor a reduction schedule, arms elimination procedures or a verification mechanism.

The attitude to nuclear disarmament has changed dramatically. Formerly, nuclear nonproliferation was viewed only as a condition for central nuclear disarmament (along with transparency measures, a nuclear test ban, non-deployment of weapons in outer space, reductions in conventional armed forces, etc.). Now nuclear disarmament is often seen as ‘romanticism’ from the Cold War times. The U.S. has actually given up the idea of disarmament and refused to discuss further measures to cut strategic nuclear forces after the 2002 Moscow Treaty has been implemented. Washington has waived the Comprehensive Nuclear Test Ban Treaty and claims its right to the pre-emptive use of nuclear weapons, including the ‘clean’ sub-kiloton warheads it is developing for destroying fortified bunkers deep underground. The U.S. is speeding up its program for building a strategic and a tactical ABM system and is making much effort to develop space weapons. Russia is following suit – after loud protests – with reservations and serious disagreements at the official political and military levels.

In the eyes of some non-nuclear states this policy of the great powers only confirms the necessity and indispensability of nuclear weapons, thus boosting nuclear proliferation. Of course, contrary to the logic of Article VI of the NPT, the interrelation between vertical and horizontal proliferation is not a “two-way street,” and even active nuclear disarmament measures by the great powers do not guarantee the termination of proliferation. Central nuclear disarmament does not make unnecessary serious efforts in the field of nonproliferation. However, at the same time, it is absolutely obvious that an opposite military-nuclear policy of the great powers undermines the prospects for a non-proliferation regime.

Apart from reductions in nuclear weapons, this refers, above all, to the Nuclear Test Ban Treaty which could become a mechanism for co-opting ‘illegitimate’ nuclear states – India, Pakistan and Israel – into the NPT regime. Then joint international pressure on other threshold countries would force them to join the Nuclear Test Ban Treaty and thus deny them the most impressive and unambiguous way to obtain nuclear status.

In this context, the initiative to implement small nuclear munitions against 'rogue nations' and terrorists seems rather absurd. If an underground bunker has been located (which is a prerequisite for using small nuclear munitions), it can be destroyed with precision-guided or high-yield conventional weapons, or by a special task force – especially if the great powers cooperate and have approval of the UN Security Council. Furthermore, radioactive contamination of a given area can be avoided only if a nuclear munition (even if its yield does not exceed 0.2-0.5 kilotons) penetrates the earth to a depth of about 200 meters, which does not seem technically possible. Otherwise, the radioactive contamination from the employment of such nuclear weapons would far outweigh the dubious results of such an action, to say nothing of the political and humanitarian fallout. Suffice it to recall the scandals over the employment of uranium-core munitions in Yugoslavia and Iraq.

As the situation stands, further nuclear proliferation is highly probable. The danger of this process is not only an increased probability for the employment of nuclear weapons as the number of conflicting nuclear states grows. The problem is more serious: a majority of the new nuclear states will not have highly-survivable delivery vehicles, reliable attack warning systems and command and control systems; the political situation in these countries often is unstable; and there is a high probability of civil wars and coups in these regions. The risk of a first or pre-emptive strike and the employment of nuclear weapons by those states is much higher.

The chances that nuclear materials or munitions from these countries will voluntarily or involuntarily fall into the hands of terrorist organizations will rise dramatically due to the peculiarities of their foreign policies and political situations. There exists a high level of corruption in their civilian and military organizations, while the security services and facilities for guarding and controlling nuclear munitions and materials remain unreliable and unprofessional.

There are enough grounds to say that the next stage in the proliferation process will not simply entail an exponential growth in the threat of nuclear weapon employment, but will make this

employment in the foreseeable future inevitable as many risk factors will overlap.

PROSPECTS OF THE NUCLEAR DETERRENCE REGIME

The dialectics of nuclear deterrence and proliferation is well in line with Hegel's classical laws. Initially, nuclear deterrence (as a policy of indirect employment of nuclear weapons for political purposes) gave rise to proliferation, as more and more countries sought to use the fruits of deterrence for serving their own interests. However, as an increasing number of countries obtained nuclear weapons, deterrence grew vague, unstable and contradictory. This tendency was explained by the increased versatility and inherent paradoxical qualities of deterrence. These are the ambiguity with regard to the possibility of the first use of nuclear weapons, and the dubious rationality of some of the fundamental premises within the concept of deterrence.

The final stage of proliferation — access to nuclear weapons by non-state entities (terrorist organizations) — will put an end, once and for all, to nuclear deterrence as a doctrine for protecting one's national security. Terrorists need nuclear weapons not for the purpose of deterrence, but for direct employment, as well as blackmailing states or the entire civilized world.

In turn, nuclear deterrence is futile against terrorists, as terrorists have no territory, industries, population or a regular army that might be targets for retaliation.

Deterrence (the threat of retaliation) in combating catastrophic terrorism can be effective only against countries supporting terrorism and providing terrorists with a safe harbor. However, few countries would openly support terrorists possessing nuclear weapons. Besides, a nuclear strike against any state, even a 'rogue nation,' would be too strong a "remedy," considering its consequences and the political shock it would create around the world — if the *corpus delicti* is not absolutely obvious. Very indicative in this respect was the international community's reaction to the poorly-grounded U.S. operation in Iraq in 2003, although it involved only conventional forces and caused minimum collateral and material damage.

Efforts to combat nuclear terrorism mostly require special operations and intelligence in order to hunt down and neutralize terrorist leaders, organizers and ideologists, as well as to destroy their material and financial infrastructures. Additionally, there is the need to protect the many nuclear power engineering facilities, as well as these facilities for storing nuclear munitions and materials. Finally, and most importantly, there is the need for strengthening the nuclear nonproliferation regime. The key role in these efforts must be the high level of cooperation between the great powers and regional countries participating in the antiterrorist efforts. But if the great powers resort to a nuclear threat, let alone employ nuclear weapons, that would be a disservice to this cooperation.

Attempts to defend oneself against proliferation and terrorism by taking unilateral military actions, like those taken by the U.S. which may be followed by other leading nations, undermine the foundations of the relations of stable mutual deterrence between the great powers, as well as the arms limitation and disarmament regimes. The destruction of these vital regimes will destroy the NPT – the pillar of the nonproliferation mechanisms.

In order to avoid such developments, the U.S., Russia and other great powers must correct the historical mistake of the last decade with regard to the limitation of nuclear armaments. It is not enough to cease to be enemies to abolish mutual nuclear deterrence as a basis for strategic mutual relations – these countries must become full-fledged military-political allies. If this is possible, they must quickly and in coordination reduce their nuclear armaments of all types to the lowest possible levels (several hundred warheads for each country) and build joint antimissile and air defense systems, command and control systems, informational support systems, rapid deployment forces, and so on.

If these measures are impossible for political reasons, then they should return to strong treaties which call for verifiable reductions and limitation of the strategic nuclear forces (initially to no more than 1,000 warheads) and tactical nuclear weapons (for example, they could be stored on their national

territories); agree on new limitations on the development of antimissile defense systems (which would guarantee their employment against “illegitimate” nuclear states, rather than against each other); develop technical cooperation in developing theater antimissile systems and in harmonizing their monitoring and missile attack warning systems.

But the countries must not remain poised in midair: neither enemies nor allies; neither deterrence nor something substituting for it; neither treaty-based arms limitation nor an arms race. Apart from building mutual confidence and certainty, the strengthening of central strategic stability would facilitate cooperation between the great powers in other security fields, and, most importantly, in nonproliferation. The Comprehensive Nuclear Test Ban Treaty must be put into effect immediately as it is the main point of intersection between central and horizontal nuclear disarmament.

Serious efforts should be made to strengthen the NPT regime. For example, non-nuclear parties to the Treaty and all nuclear importers, even those beyond the NPT framework, must be made bound to join the 1997 Protocol. Recipient countries must no longer be sold technologies for enriching uranium and recycling spent fuel for extracting plutonium. Simultaneously, they must be given guarantees for the supply of nuclear fuel and for the removal or safe storage of spent fuel from nuclear power plants. The existing elements of the nuclear cycle in the non-nuclear countries must be mothballed and later dismantled; it will be necessary for these countries to be paid adequate compensation for this. More rigid international control must be established over research nuclear reactors, the supply of nuclear materials for research purposes, their storage, and reports on available stocks and any shipment. In turn, the great powers must stop producing and building up reserves of weapon-grade plutonium and place respective production and storing facilities under IAEA control.

More effective efforts must be made to regulate the competition between the main supplier countries with regard to their

export policies. These countries should pool efforts in new export projects in order to allay mutual mistrust and to turn the nuclear market into an exporters' rather than consumers' market. The activities of the Nuclear Suppliers' Group and the Zangger Committee must be formalized in binding agreements which would provide for verification mechanisms and sanctions for violations (these agreements may borrow from, for example, the Convention on the Prohibition of Chemical Weapons). Another important issue on the agenda is working out a legitimate common strategy, methods and means for counter-proliferation (including the interception of illegal nuclear supplies) and for combating international terrorism and regimes supporting it covertly or overtly.

Finally, the complex political problems and conflicts between the main nuclear exporters must be resolved. In particular, new guarantees must be worked out for the external security and economic encouragement of some countries in exchange for their giving up nuclear weapons, even if these countries are not attractive politically. It must be clearly understood that the nonproliferation strategy pursues the very specific goal of combating the nuclear threat, rather than planting democracy and prosperity everywhere. The latter goal requires an absolutely different amount of effort and time.

There is no denying that at present the above proposals look utopia, at best, or high-sounding nonsense, at worst. There are few grounds for optimism, since the actions of the great powers, nuclear exporters and importers often conflict. And still, there is yet hope that the strongest states, with the support of the entire international community, will adopt a new system for organizing nuclear security without being forced to do that by the shock of the first real employment of the 'Judgement Day weapon' since August 1945.

Russia-U.S. Interaction in WMD Non-Proliferation

Vladimir Dvorkin

Since the emergence of new Russia, the nation has maintained an unequivocal position on non-proliferation issues. This unambiguous and consistent attitude should be largely attributed to the consensus of the main social and political forces in Russia on these issues.

Russian analysts have been emphasizing that Russia, unlike the United States, has ratified the Comprehensive Nuclear Test Ban Treaty. It also proposed, much earlier than the United States, substantial cuts in strategic offensive weapons, which is the core of the Nuclear Non-Proliferation Treaty (NPT). Russian analysts have reiterated this country's invariable and strict compliance with the spirit and letter of the NPT. This is notable because of the extremely adverse environment that emerged following the breakup of the Soviet Union, together with the resultant long-term economic crisis.

Presently, the Russian analysts believe that U.S. President George W. Bush has noticeably eased his pressure for an all-out, uncompromising struggle against WMD proliferation. However, Joseph Cirincione, the Carnegie Endowment's Non-Proliferation Project Director, noted that Washington continues to regard the risks of WMD proliferation as extremely serious. The Bush administration seemingly doubts the efficiency of the non-proliferation regime: against the backdrop of the significant efforts to establish it, there have been little tangible results to show for this work. This may explain why the U.S. administration has opted to resort to the pre-

This publication is a condensed version of a survey of Russian and U.S. policies in WMD non-proliferation by **Vladimir Dvorkin**, Head of Research of the Center for Strategic Nuclear Forces. For full text see: www.globalaffairs.ru

emptive use of force. Speaking about U.S. priorities with regard to budget allocations, Cirincione showed that the Counterproliferation Program has become the leading source of expenditures – it now totals \$8 billion, in contrast to \$1.5 billion earmarked for non-proliferation programs.¹

Moscow has also developed new policies toward counterproliferation, which was manifest at the Second Moscow International Nonproliferation Conference held on September 18-20, 2003. Defense Minister Sergei Ivanov, speaking at a major conference of leading Defense Ministry officials attended by President Vladimir Putin, contemplated the theoretical possibility of pre-emptive non-nuclear strikes against WMD offenders.

All these factors are indicative of Moscow's and Washington's drift from non-proliferation policies, which relied on the control and observance of the existing non-proliferation regimes, toward more practical steps to prevent WMD ending up in the wrong hands.

NUCLEAR NON-PROLIFERATION

In order for the NPT to remain effective, it is not so important for the United States and Russia to necessarily conclude treaties to reduce strategic offensive arms; what is important is that they *actually reduce* them, even if this means unilaterally. Analysts have been quoting the statement that five nuclear powers (the United States, Russia, Britain, France and China) agreed upon in early May 2000, in which they pledged to take further unilateral measures to reduce their nuclear arsenals.² Such unilateral moves are crucial for keeping the NPT operable at a time when bilateral or multilateral negotiations have stalled.

In this sense, the Moscow Strategic Arms Reduction Treaty (START) may be regarded as a treaty in its original meaning only with certain reservations. This is because the Russian and U.S. presidents had put their signatures to unilateral strategic arms reduction plans long before the new treaty was ready for signing. Nevertheless, it has been continuously emphasized that START is a mandatory, albeit insufficient, condition for the NPT to remain active.

Non-strategic nuclear arms reductions are no less important for attaining this goal. Official statistics about the number of non-strategic warheads that Russia and the United States possess are not available; unofficial statistics on the types and overall number of warheads vary considerably. In 1991, the Soviet Union was said to have 15,000 to 21,000 such warheads and the United States, around 10,000. Under the 1991 initiatives, the nuclear warheads were removed from operational status and transferred to central storage facilities. According to the same sources, Russia presently has 3,500-3,800 warheads, and the United States has 1,100-1,670 non-strategic nuclear warheads.³

However, non-strategic nuclear arms control would invariably encounter obstacles incommensurate with those that the sides had surmounted in the process of START negotiations. The main obstacle is the complexity of exercising non-strategic nuclear arms control. The STARTs are based on regulations of counting and control, above all, of the number of delivery vehicles with warheads deployed in specific areas. With non-strategic weapons, this rule is hardly workable since the delivery vehicles employed in this case are basically dual-purpose ones; they have no distinguishing features or permanent locations.

The issue of non-strategic nuclear arms control was last brought to a focus in 1997, when the U.S. and Russian presidents met in Helsinki. Ever since, the differences over the ABM treaty have kept the issue suspended, although Moscow has never shown reluctance to continue the dialog.

Russian defense and foreign ministry officials have repeatedly stated that the main obstacle to non-strategic nuclear arms control remains the U.S. nuclear arms deployed in Europe. The United States is the sole country that has nuclear arms deployed in other countries, with the safety of those arms being much lower than the nuclear arms located on the territory of the United States.⁴

Over a brief period of time, the arguments for preserving the U.S. non-strategic nuclear arms in Europe underwent a considerable transformation, which certainly did not go unnoticed by Russia. In 1994, former U.S. Deputy Defense Secretary John

Deutch explained this transformation by arguing that, due to the economic crisis and changes in its domestic policy, Russia was unlikely to restore its conventional weapons to the level of the Cold War period; its return to a more aggressive nuclear policy would be less costly. Thus, if the situation in Russia deteriorated, the U.S. was most likely to counter a nuclear threat.⁵

It is noteworthy that such policies toward non-strategic nuclear arms have met with more elaborate criticism in the United States than in Russia. The critics argue from the belief that, due to the end of the Cold War, non-strategic nuclear arms have lost their relevance. In the event of a hypothetical worsening of the situation in Europe, the risk of nuclear arms being used against U.S. allies will be fully outweighed by the strategic nuclear forces of the United States, as well as by French and British nuclear forces.

The Director of the Center for Non-Proliferation Studies at the Monterey Institute of International Studies, William Potter, believes that a withdrawal of the U.S. tactical weapons from Europe will in no way weaken the U.S. guarantees. On the contrary, this measure will enhance the deterrence effect as provocative weapons will be removed from the region, thereby widening the gap between conventional and nuclear armaments.⁶

Efforts to strengthen the NPT may suffer a considerable setback from a relatively new trend in the U.S. nuclear policy, which is currently the focus of discussion by Russian government officials and analysts. This setback concerns the R&D efforts to create low- and extra low-yield nuclear warheads. These weapons would be capable of piercing soil, concrete and rock structures in order to destroy WMD storage facilities in so called 'rogue states' where there is a threat of WMD employment against the United States or its allies. Opinions have been voiced in the United States about the possible termination of the 1994 law banning the creation of nuclear warheads with yields under five kilotons. Such low-yield warheads would actually erase the borderline between nuclear and conventional arms. For example, Paul Robinson, Sandia Laboratory Director, said in March 2000 that nuclear armaments that are leftovers of the Cold War era are much more powerful than is required by the deterrence

policies which were adopted in the contemporary multipolar world due to the growing threat of WMD proliferation.⁷

The lack of advanced decisions and transparency in matters concerning Russian and U.S. non-strategic nuclear arms reductions, as well as the presence of this class of U.S. weapons in Europe, will most probably remain on the agenda at all levels for quite some time. This factor can by no means facilitate nuclear non-proliferation efforts. The potential emergence of extra low-yield piercing warheads will provoke further drifts in the positions of the countries involved.

The expert communities in Russia and the United States share an understanding that the current threats to the NPT are rooted in the uncertainty over the nuclear status of Iran and North Korea. Furthermore, there is evidence that Saudi Arabia may acquire a nuclear capability. The news has been leaked to the media that Saudi Arabia is prepared to buy nuclear warheads; this possibility looks quite realistic. Some analysts maintain that Saudi Arabia will never agree to remain without a nuclear potential. If Saudi Arabia's relations with Washington are disrupted, Saudi Arabia will not be able to stay without a nuclear umbrella. Relations with the United States have been worsening ever since Sept. 11, 2001. Fifteen of the nineteen terrorists who attacked New York and Washington were Saudi citizens. Saudi Foreign Minister Saud al-Feisal admits that "the growing misapprehension of his country by the U.S. may create an unsurpassable abyss in the relations between the two countries."⁸

As concerns Iran, Russia and the United States are unanimous in the conviction that it must not be permitted to acquire a nuclear capability. However, their positions differ with regard to Russia-Iran cooperation in commercial nuclear energy programs and the sale of conventional weapons.

Work is already underway in Iran to create what may eventually prove the region's most powerful missile potential. It would enable Iran to produce ballistic missiles of different types. The fact that missile programs are pegged to the development of weapons of mass destruction is fairly obvious to experts and relevant not only to Iran.

The main reason is that ballistic missiles feature low target accuracy, particularly at long ranges; so their use with convention-

al warheads is not feasible in terms of cost-efficiency. Even advanced U.S. and Russian missiles, having far greater accuracy, are not regarded as delivery vehicles for conventional warheads. Effective use of ballistic missiles can be ensured only by equipping them with WMD warheads, above all nuclear ones. This is the main incentive for acquiring nuclear arms by third world countries.

The attitude of the Russian and U.S. leaders to the creation of a nuclear power industry in Iran has proven very hard to coordinate and will largely depend on Iran's policy. If Iran does not suspend its uranium enrichment program, as was stated by the Iranian Foreign Minister Kamal Kharazi, by the excuse that this country is surrounded by nuclear powers (India, Pakistan and Israel) which have abstained from signing the NPT, Russia and the United States may take closer positions to resist Teheran's plans.

Similarly, controversies between Moscow and Washington may be minimized if the October 2003 meeting of the Iranian, British, French and German foreign ministers in Teheran proves fruitful. At that meeting, Iran signed a declaration containing a pledge to fully cooperate with the IAEA and sign the IAEA Additional Protocol.⁹

Indeed, Iran was reported to have suspended its uranium enrichment program on November 10, 2003; later that day it addressed the IAEA declaring its consent to sign the IAEA Additional Protocol.

As regards North Korea, Russia and the United States have coordinated their approaches within the framework of the Beijing agreements, but these attitudes will most likely drift apart if the negotiations fail and North Korea declares itself a nuclear state.

MISSILE TECHNOLOGY CONTROL REGIME

Moscow and Washington strictly follow their commitments under the Missile Technology Control Regime (MTCR); however, the scale of such control varies, while both countries have equally retarded measures that could have made the MTCR more effective.

Russia focuses on the observance of missile technology non-proliferation by domestic manufacturers under a diversified export control system that President Vladimir Putin supervises personal-

ly. After President Putin approved the *Regulations on the Statute of the Export Control Commission of the Russian Federation* on January 29, 2001, the mass media described him as “the initiator of an export control system in Russia.”

As he discussed non-proliferation and export control issues with U.S. National Security Adviser Samuel Berger, Putin said: “Russia has convincingly demonstrated its commitment to enhancing export controls and preventing the proliferation of weapons of mass destruction... However, to our great regret, the U.S. sanctions imposed on a number of Russian enterprises and institutes remain the issue of the day. I do hope it will be resolved soon.”¹⁰

The United States, in addition to controlling its own corporations, exercises global monitoring of all transfers of missiles and missile technologies and puts on record hundreds of violations, or suspected violations, of the missile technology control regime.

Analysts believe that more detailed information is required about the industrial potential and missile programs of Iran and North Korea. This includes the current state of research and development, missile characteristics, their equipment, progress in flight tests, and prospected dates for adopting the missiles for service.

It is believed that the highest quality of information may be achieved if Russian and U.S. information and intelligence systems are used comprehensively. In this respect, the policies of former and current Russian and U.S. administrations look incredibly lacking.

In 1998, Russian President Boris Yeltsin and U.S. President Bill Clinton made a joint decision for establishing a center in Moscow for exchanging information about missile launches. The center was intended not only to provide warnings of unintentional launches from both countries, but also to monitor missile launches made from the territories of other countries, as well as from sea and ocean areas. Such measures would have permitted the exercise of impartial control over missile programs, first and foremost in unstable regions, and concerted action. A venue for the center was chosen, human resources needs identified, and functional duties of its staff and equipment described. However, for over five years now, the center has been unable to start operation.

Russian Foreign Ministry officials explain the halt in the project by a lack of agreement concerning civil responsibility for possible damages, as well as certain tax questions.

Another, more serious but less obvious, obstruction is the resistance of Washington and, to a certain extent, of Moscow, to the joint analysis of potential missile threats from the third world countries.

A few years ago, the CIA reported that missile threats to the United States from the so called 'rogue states' might become a reality not earlier than 2015. This projection practically coincided with the opinion of Russian specialists. However, not everybody in the United States was eager to agree with this assessment. Soon thereafter, in July 1998, a commission under incumbent Defense Secretary Donald Rumsfeld delivered a report which said that these threats may become real as early as 2005. President George Bush Jr. used this assessment as a powerful argument for withdrawing from the 1972 ABM treaty and escalating efforts to start full-scale work to develop plans for deploying anti-ballistic missile defenses.

Repeated proposals for setting up a joint group for assessing nuclear threats received the cold shoulder. Anti-ballistic missile defense advocates in the United States rejected the idea as unacceptable, while Moscow was afraid that the joint assessment of nuclear threats would be tantamount to the recognition that missile threats to the United States were real; this would undermine stability of the ABM treaty.

A missile threat to the United States cannot emerge overnight. There has to be a long period of preparations and flight tests — something that is impossible to do covertly. The year 2005, predicted as the time when a threat to the U.S. mainland will materialize, is quite near. Therefore, it would be appropriate to address Mr. Rumsfeld and his team with a question: "Where are the intercontinental ballistic missiles in North Korea, Iran and other countries that the United States calls 'rogue nations'?"

In the meantime, a center for the exchange of information about missile launches could have provided unbiased, technically confirmed data about missile and missile technology proliferation, especially since Russian early warning systems deployed in the

south are capable of providing real-time information about missile launches from the 'belt of instability.' No other system or means available to the United States can do that.

As for missile technology proliferation, the MTCR has largely coped with its role of missile technology transfer from one country to another. However, the MTCR is not a legally binding agreement, so it cannot create a universal legal regime in the sphere of missile technology similar to that existing in the sphere of nuclear weapons non-proliferation. As long as the MTCR remains legally unbinding, the implementation of its principles in the domestic legislation of the participating countries will continue to be of critical importance. Russia is believed to serve as an example: since August 2001 it has been implementing Presidential Decree No. 1005 *On the Authorization of the List of Equipment, Materials and Technologies That Can Be Used to Manufacture Missile Weapons and to Which Export Control Applies*.

There has been no support so far for the idea of creating a global system of missile technology control, which Russia proposed at the G-8 Summit in June 1999. This global system would restrict and deter missile proliferation and establish a set of rules for countries possessing missile weapons and related technologies.

CHEMICAL WEAPONS DESTRUCTION

Chemical weapons are believed to be more dangerous when used by international terrorist organizations than as weapons of conventional warfare. Therefore, the disposal of chemical weapons is regarded as a key measure for preventing these armaments from falling into the hands of terrorists.

In March 1996, the Russian government adopted a federal program, *Destruction of Chemical Weapons Stockpiles in the Russian Federation*, which provided for the disposal of nearly 40,000 tons of chemical weapons by the year 2009. However, economic difficulties made the program unfeasible. Its revised version set the chemical stock disposal deadline at 2012.

The cooperation between the United States and Russia in the area of eliminating Russia's chemical arsenals began in 1990 with the sign-

ing of the U.S.-Soviet Agreement on Destruction and Non-Production of Chemical Weapons and on Measures to Facilitate the Multilateral Chemical Weapons Convention. American assistance began to arrive in real terms after the endorsement in 1991 of the Nunn-Lugar Cooperative Threat Reduction (CTR) program and the enactment of the 7-year agreement between the U.S. Department of Defense and Russia's presidential Committee on Conventional Problems of Chemical and Biological Weapons on safe, reliable and ecologically sound disposal of chemical weapons. At the time, the U.S. side did not put forward any conditions that could stall the agreement's implementation. The U.S. assistance was declared to total \$286.5 million. It was later that political restrictions were imposed and special requirements set.

For all its usefulness, the program had a few weaknesses, namely:

1. The size of the assistance is approved by the U.S. Congress annually, which hampers long-term planning due to the danger of a sudden stoppage in the project.

2. The assistance is provided in the form of equipment supplies and payments for U.S. companies' services, not as direct funding of the Russian program. U.S. companies engage Russian organizations on a contractual basis.

3. The assistance does not cover the real expenses incurred on the territory or in the interests of Russia. Between 1992 and 1999, Russian organizations received a total of \$25 million. A sizeable part of the funds was used to cover U.S. administrative and other technical expenses.

Such deficiencies are characteristic also of other programs, above all, those related to the scrapping of strategic offensive arsenals. U.S. experts refer in this case to U.S. legislation. Notwithstanding regrets about the United States' increased spending on Russia's chemical weapons destruction program, the efficiency of the U.S. assistance can be objectively assessed only after the work is completed.

A far more serious barrier to U.S. assistance was put in place by the October 1999 decision by the U.S. Congress to freeze the funding of chemical weapons destruction projects in Russia; the deci-

sion appeared to be the major reason for a halt in the Schuchye facility construction. This happened in early 2002, after the Bush administration declined to confirm that Moscow had been stringently abiding by the Chemical Weapons Convention. Apart from bringing to a standstill a number of old programs, the decision by the U.S. Congress stalled action on several new projects aimed at reducing the threat posed by existing WMD arsenals.

Debates over the reasons behind the situation around the Schuchye facility, for which the blame has been alternately laid on Russia and the United States, continue unabated. The problem was discussed during George Bush's visit to Russia in May 2002. In January 2003, President Bush signed special orders to release frozen funds to help Russia in implementing its program for the elimination of its nuclear, chemical and biological weapons. Earlier, the U.S. Congress had approved a bill giving the president the right to circumvent legislative restrictions on financial assistance to other countries, including Russia.

The president's right to circumvent legislative restrictions is only temporary – in respect of the Nunn-Lugar program it is valid for three years. As regards U.S. assistance to Russia in the destruction of its chemical weapons, the right is valid for one year only (it actually expired on September 30, 2003). Richard Lugar maintains that for the project to be implemented successfully it is necessary to extend the right before the end of the year. He welcomed President Bush's special orders to free the funds as they provide for both completing many ongoing projects and launching new ones. In his view, Bush's special orders mean that the elimination of Russia's nuclear, biological and chemical arsenals can now continue.¹¹

Moscow appreciated President Bush's decision to release more than \$310 million in frozen funds to continue financing the construction of the Schuchye facility. Sergei Kiriyyenko, head of the State Commission on Chemical Weapons Destruction and the Russian president's plenipotentiary representative in the Volga District, has pointed out that during his visit to the United States on a mandate from Vladimir Putin in 2002, he reached agreement with the U.S. side that a decision to unfreeze funds would “unlock that year's allocations together with the unspent balance of the previous years.”¹²

Therefore, the resumption of Russian-U.S. cooperation in the destruction of chemical weapons inspires optimism, albeit limited by the U.S. Congress' recurrent debates over the feasibility of providing a new tranche.

* * *

Over the past two to three years, Russian-U.S. cooperation in the WMD non-proliferation sphere has grown particularly close due to the rapprochement of the two countries in the assessment of new challenges and threats, and the emergence of the G-8, with the United States playing the decisive role in assisting Russia to implement its WMD destruction programs.

Whatever differences the United States and Russia may have, coordinating the practical steps of the two nuclear superpowers which possess the world's largest chemical and biological weapons stockpiles, is a must because there is no alternative to their cooperation. To overcome the differences, strenuous efforts will have to be made by the Russian and U.S. governments, scientists, and expert communities. Critical issues will surely require the political will of the two countries' top leaders.

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⁸ Will Saudi Arabia Acquire Nuclear Weapons? *Le Temps*, September 19, 2003

⁹ Judith Perera. Report on a Ministerial Meeting in Teheran.

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¹⁰ An excerpt from President Putin's conversation with S. Berger, ABN. lenta.ru, May 19, 2000.

¹¹ George Bush Releases Frozen Funds to Support Former Soviet Republics. *USA Today*, January 14, 2003.

¹² *Yadernoye Nerasprostranenie*, Vol. 46, Carnegie Moscow Center, Moscow, 2003

Ukraine's Nuclear Ambitions

Reminiscences of the past

Yuri Dubinin

The crisis of the nuclear nonproliferation regime, developing in the face of the growing threat of international terrorism and the desire of some countries to obtain the most deadly of weapons, motivates the international community to find new ways to counteract these developments. In the early 1990s, the author of this article participated in negotiations for the nuclear disarmament of Ukraine, a former Soviet republic which received its full independence in 1991. The 'nuclear disarmament' of Kiev, whose nuclear arsenals exceeded those of Britain, France and China combined, took more than two years of negotiations. The following details reminiscences about those negotiations. I hope our experience will be of use to those who must address similar problems with other countries, in a totally changed global situation.

NEW NUCLEAR POWERS

On July 31, 1991, shortly before the collapse of the Soviet Union, the Soviet Union and the United States signed the Treaty on the Reduction and Limitation of Strategic Offensive Arms (START-1), the first treaty of its kind in history. However, before it was ratified, the Soviet Union broke up, and there emerged four new states armed with nuclear weapons — Belarus, Kazakhstan, Russia (as the successor to the Soviet Union, it inherited the right to nuclear sta-

Yuri Dubinin is an Ambassador Extraordinary and Plenipotentiary of the Russian Federation. In 1994-1999, he was Deputy Foreign Minister of the Russian Federation.

tus) and Ukraine. As a result, the entire project of strategic offensive arms reduction stalled. The START-2 agreement, signed by Russia and the U.S. in early 1993, became a hostage of the START-1 ratification. Meanwhile, the signatories to the Treaty on the Nonproliferation of Nuclear Weapons (NPT) planned to hold a conference in the spring of 1995 to discuss the treaty's extension, and the newly independent countries were expected to join.

Belarus and Kazakhstan made no public claims to nuclear status, and nobody expected any surprise moves from Ukraine, either. The Declaration of State Sovereignty, adopted by the Supreme Soviet (parliament) of the Ukrainian Soviet Socialist Republic on July 16, 1990, proclaimed Ukraine's intention to "become in the future a permanently neutral state that will not participate in military blocs and that will abide by three non-nuclear principles: no entry, no production, and no possession of nuclear weapons." The non-nuclear status was reiterated by the Ukrainian parliament after Ukraine became independent.

On December 30, 1991, the leaders of the Commonwealth of Independent States, established by former Soviet republics, met in Minsk, Belarus, where they agreed that "a decision to employ nuclear weapons shall be made by the President of the Russian Federation by agreement with the leaders of the Republic of Belarus, the Republic of Kazakhstan and Ukraine, and upon consultations with the leaders of the other member states of the Commonwealth." The CIS leaders also agreed that until the elimination of the nuclear weapons deployed in Ukraine was completed, these weapons must be placed under the control of the Strategic Forces joint command in order to ensure their non-employment and disassembly. The deadline for the disassembly was set for the end of 1994, while the deadline for tactical nuclear weapons was July 1, 1992.

On April 18, 1992, the presidents of Russia and Ukraine signed an agreement that stipulated procedures for removing nuclear munitions from the territory of Ukraine to sites in Russia for their further disassembly and elimination. In May, all tactical nuclear weapons were removed from the Ukrainian territory.

Finally, in 1992, Kiev raised the issue of recognizing Ukraine, Kazakhstan and Belarus as parties to the START Treaty by agreement with the U.S. Moscow and Washington supported this proposal. In a May 7 letter to U.S. President George Bush, his Ukrainian counterpart, Leonid Kravchuk, guaranteed the elimination of all nuclear weapons, including strategic offensive armaments that were deployed on the territory of Ukraine “within a period of seven years, as stipulated by the START Treaty, and in the context of the Statement on the Non-Nuclear Status of Ukraine.”

On May 23, 1992, Russia, the United States, Ukraine, Kazakhstan and Belarus signed the Lisbon Protocol, in which all of these countries became parties to the START Treaty. Article 5 of the protocol bound Ukraine, Belarus and Kazakhstan to join the NPT “as non-nuclear weapon states Parties in the shortest possible time.”

The Lisbon Protocol also provided for the START Treaty's ratification, together with the Protocol, by all the five signatories. Russia, Ukraine, Kazakhstan and Belarus were to exchange instruments of ratification with the U.S., and the treaty was to enter into force on the day of the last exchange of these instruments. Ukraine, Kazakhstan and Belarus were also compelled to join the NPT.

Belarus ratified the START Treaty on February 4, 1993, and joined the NPT on August 22. Kazakhstan ratified START on July 2, 1992, and joined the NPT on February 14, 1994. On October 1, 1992, the U.S. Senate gave the green light to the ratification of START, stating that Kravchuk's May 7 letter to Bush was as valid as the provisions of START. On November 4, 1992, the treaty was ratified by the Supreme Soviet of the Russian Federation.

Meanwhile, there appeared alarming tendencies in Ukraine's position. Shortly after the country became independent, it began to revise the principles of its foreign policy and its attitude to nuclear weapons. At first, Kiev dissociated itself from all agreements concluded within the CIS framework, as well as those pertaining to the common military strategic space. None of the military units stationed in Ukraine and armed with strategic nuclear weapons were included in the CIS Strategic Forces.

Moreover, in April 1992, Ukraine absorbed the Strategic Forces units that were stationed on its territory into the Ukrainian army. It should be noted that operational maintenance of nuclear munitions is a complex of sophisticated operations. Emergency operational maintenance of nuclear munitions must be performed at the manufacturer's site. Formerly, the maintenance of munitions was controlled from one center, which was at one of the main directorates of the Defense Ministry of the Soviet Union, and later Russia. However, once the Strategic Forces stationed on its territory were under Ukrainian control, this threw the nuclear munitions maintenance into confusion. The criteria for access to the nuclear munitions became increasingly vague.

On December 11, 1992, Ukraine's Foreign Ministry sent a memorandum on nuclear policy issues to all the embassies accredited in Kiev. In it, Ukraine raised the issue of its "right to own all components of nuclear warheads... deployed on its territory." According to the NPT, the nuclear status of a state implies its possession of "nuclear weapons" or "other nuclear explosive devices." By avoiding these terms in the memorandum and using in their place the words "all components of nuclear warheads," Ukrainian diplomats sought to evade possible accusations that it was a claim to the possession of nuclear weapons – although "all components of nuclear warheads" are necessary for constructing a "nuclear explosive device."

NUCLEAR TEMPTATION

The nuclear issue was the highlight of the Russian and Ukrainian presidents' meeting in Moscow on January 15, 1993. President Boris Yeltsin said Russia was ready to give Kiev security guarantees before Ukraine ratified START-1 and joined the NPT. Those guarantees would enter into force after Ukraine became a party to the two treaties.

The presidents instructed their governments to immediately enter into negotiations in order to resolve the many difficult issues pertaining to the implementation of START-1. These would include the terms for the disassembly, transportation and

elimination of nuclear munitions deployed in Ukraine, and the recycling of nuclear components for use as fuel at Ukrainian nuclear power plants.

I was instructed to head the Russian delegation, and the Ukrainian delegation was led by Yuri Kostenko, the minister of the environment and the leader of the Ukrainian Supreme Soviet's special working group set up to prepare START ratification. Before we met, Kostenko, who was also one of the leaders of the nationalist Rukh party, had said that the negotiations could continue for another 20 or 30 years. But it was obvious to both of us that the nuclear issue, so vital for strategic stability, needed to be resolved within the shortest possible period of time.

I decided against putting forward any demand proposals for Ukraine. There were no alternatives to the plan set forth by Russia, since it proposed the maximum of what it could do. We planned to acknowledge this straightforward approach to Ukraine from the very outset of the negotiations in order to prevent any delay or bargaining chip. We defined the best possible conclusion of the negotiations that would fully meet all of the interests of Ukraine:

- all nuclear munitions of strategic nuclear weapons deployed on the territory of Ukraine would be transported to Russia and disposed of;
- Ukraine would receive fuel for its nuclear power plants as compensation in the amount equivalent to the amount of fissionable materials extracted from the nuclear munitions removed from its territory.

The negotiations began on January 26 at the Irpen rehabilitation center of the Defense Ministry near Kiev. In his introductory speech, Kostenko suddenly announced that Ukraine had a “right to own the nuclear munitions.” The speech contained no more intricate wordings like those used in the Foreign Ministry memorandum (the right to own all components of nuclear warheads). Kostenko said that “Ukraine has made no decision yet as to where the nuclear munitions would be disassembled, and weapon-grade uranium and plutonium recycled.”

Ukraine's statement that it was the owner of nuclear weapons located on its territory was, in fact, a claim to being a nuclear power. In a reply statement, I responded that this statement meant a change in Ukraine's position on nuclear weapons. It signaled a retreat from the commitments assumed by Ukraine in its official acts and in the international documents signed by it within the CIS framework and in Lisbon. Naturally, it was up to Ukraine, as a sovereign and independent state, to decide what policy it should pursue. But Russia, as a nuclear state and a signatory to the NPT, must fulfill its commitments ensuing from the treaty. Namely, it has no right to transfer nuclear weapons or control over them (be it direct or indirect), nor shall it assist or encourage any non-nuclear state in producing or obtaining nuclear weapons in any way. Ukraine had proclaimed itself a non-nuclear state and Russia could not become involved in the change of this status. As for the choice of a site for the disassembly and disposal of nuclear munitions, this issue had been resolved in an agreement on the elimination of tactical weapons, signed by the presidents of the two countries. Therefore, on this issue, the Ukrainian government was revising its obligations as well.

At this point, it was necessary for me to focus on Russia's positive proposals. In particular, Russia expressed its readiness to supply Ukraine with fuel elements for its nuclear power plants, as compensation for eliminated nuclear weapons, in amounts corresponding to the value of fissionable materials that would be extracted from the nuclear munitions removed from Ukraine, minus Russia's expenditures for the munitions' disposal. Russia was also ready to immediately introduce procedures for ensuring the ecological safety of the nuclear munitions on the Ukrainian territory until all of them were removed.

The Ukrainian negotiators obviously felt uncomfortable about making a decision. They asked us not to make public their statement, yet they did not retreat from it. We were hard-pressed to figure out why Ukraine proclaimed that it possessed nuclear weapons: was this an attempt to receive the status of a nuclear state, or a tactical move aimed at reaping the maximum benefits for the liquidation of the weapons?

We divided the negotiating parties into several working groups. One, set up to address issues within the jurisdiction of the defense ministries, was to work out a schedule for removing the nuclear weapons from Ukraine. Another, made of nuclear engineering experts, was to establish the size of compensation for Ukraine. The third group, which was comprised of defense industry experts, was to draft an agreement for the developer's product support of strategic missile systems in service with the Strategic Forces. In the Soviet Union, missiles were made both in Russia and Ukraine. After the Soviet Union broke up, some of the Ukrainian-made missiles remained in Russia, while Russian-made missiles remained in Ukraine. Like nuclear munitions, the missiles could be adequately maintained only by experts from the plants where they had been produced.

The Ukrainian military delegation was led by Deputy Defense Minister Ivan Bizhan. The Russian delegation presented in writing its proposals concerning the schedule for removing nuclear munitions from Ukraine. Our Ukrainian counterparts were not enthusiastic with the proposals, but they had no alternative proposals of their own. Instead, they made ambiguous statements, from which it was not clear whether Kiev was going to fulfill its commitment to eliminate their nuclear weapons.

I read the aforementioned May 7 statement of President Kravchuk to George Bush.

I then approached Bizhan. "The letter speaks about the elimination of all, I repeat, all the nuclear weapons located on the territory of Ukraine," I said. "Can you confirm that Ukraine is going to fulfill what its president wrote in this letter?"

But Bizhan again began to beat around the bush and even reproached us for "talking so much about one and the same issue."

"So, I must know, is Ukraine prepared to eliminate all of its nuclear weapons?"

But the shorter the question the longer the answer.

"Let's stop arguing," I told Bizhan. "Let's have a break, after which you will detail your position on the elimination of nuclear

weapons in Ukraine in writing – the way you see it, so that we may avoid false rumors.”

“This will take time.”

“How much?”

“Well, until morning.”

“OK, let’s start tomorrow morning’s session with a discussion on Ukraine’s official statement.”

In the morning, however, there was no Ukrainian letter, and Yuri Kostenko said that it would take Ukraine at least several days to produce one.

Things were proceeding differently with the group of nuclear engineering experts. The Ukrainian experts frankly stated that they were afraid of miscalculating: they did not have enough data in Kiev to calculate all of the possible variants for compensation in order to select the best option. This was understandable. Russia’s First Deputy Minister for Atomic Energy, Vitaly Konovalov, answered all their questions, yet the Ukrainians requested more and more details.

In the third group, the missile experts had quickly drafted an agreement on procedures for the developer’s product support of the strategic missile systems in service with the Strategic Forces, deployed both in Russia and Ukraine. We agreed to submit the draft agreement to the leaders of both countries, together with a proposal that the agreement be signed by the heads of government without delay and without any linkage to the other issues.

We handed over to the Ukrainian delegation our draft agreement on the servicing of nuclear munitions, which was very simple: Russia would continue to bear responsibility for operational maintenance of nuclear munitions, while Ukraine would provide Russian specialists with the necessary conditions for meeting this end, while ensuring the appropriate security for the facilities and their operation. The Ukrainian delegation responded with their own draft, in which Russia was expected to recognize Ukraine’s right to own nuclear weapons. After discussions at a plenary meeting, the Ukrainian delegation withdrew its draft but declined to accept Russia’s proposal, saying they needed more time for consideration.

The escalation of Kiev's nuclear ambitions grew increasingly evident. Yuri Kostenko was so obviously carried away by the domestic aspects of this crucial problem that its international importance escaped his attention. He believed Ukraine was so strong that it was ready to confront any country. "The Americans tried to exert pressure on us, but we put them in their place," he told me.

The Ukrainian delegation asked us to be restrained in our public comments on the negotiations. However, on February 11, Russia's *Nezavisimaya Gazeta* carried a belligerent interview with Ukraine's Deputy Foreign Minister Boris Tarasyuk, in which Russia's position was distorted beyond recognition. Moscow had no choice but to respond.

On February 16, as had been agreed, Ukrainian nuclear engineering experts arrived in Moscow. Under the arrangements made at Irpen, we turned over to them all the documents on the nuclear munitions and components of missile systems in service with the Strategic Nuclear Forces stationed in Ukraine, and on the recycling of nuclear components. The Ukrainian experts said they needed time to study the documents in Kiev.

On February 24, the working group of military experts had a meeting in Moscow. We expected the Ukrainian delegation to produce a written statement concerning Ukraine's position on the elimination of strategic offensive armaments deployed on its territory, as well as a timeframe for such a move. However, our visitors declined to even discuss these issues. I immediately telephoned Kostenko.

I told him, "The Foreign Ministry of Ukraine maintains that no negotiations should be conducted on this issue. I can do nothing about it."

Furthermore, Kiev refused to sign the agreement on producer's warranty and servicing of missile systems, which we had already reached at Irpen.

In the second round of negotiations in Moscow, we insisted on a clear-cut agreement for ensuring the safety of the nuclear weapons. This issue had to be resolved without delay and could not be allowed to turn into a bargaining chip. In reply, we heard

the same old song: Russia must recognize Ukraine's right to own the nuclear munitions. The issue of nuclear safety was so important to us that, seeing Ukraine's reluctance to work toward a comprehensive agreement, we proposed taking the following specific measures:

- remove targeting data from all nuclear weapons delivery vehicles on the territory of Ukraine before August 1, 1993;
- remove the warheads and nuclear charges of intercontinental ballistic missiles to secured bases in Russia before August 1, 1994, for their subsequent disassembly;
- reduce the alert status of the nuclear warheads on longer-range cruise missiles carried by heavy bombers and remove them to secure sites in Russia before August 1, 1993, for their subsequent elimination.

There was no reply to our proposals. As for the removal of nuclear munitions from the territory of Ukraine (all the munitions, of course), the Ukrainian delegation no longer promised any more written statements and made only vague oral proclamations. One of my partners told me in private: "Of course, Kravchuk is the president of Ukraine. But do you really think he can do everything he wants and fulfill all the agreements he has signed? Times are changing in Ukraine."

As a result, we achieved only one specific result: we once again agreed to sign a document on the servicing of missile systems. We submitted this agreement for approval by the heads of government.

‘CRAWLING TOWARD NUCLEAR STATUS’

On March 10, Ukraine's Supreme Soviet held the first public hearings of the special working group led by Yuri Kostenko. He said that "there is no more serious political group in Ukraine that would absolutely support ratification of the START-1 Treaty or accession to the NPT." It was said at the hearings with regard to the nuclear weapons problem that the Declaration of the State Sovereignty of Ukraine was not a commitment but only a statement of "future" intentions. Also, as a condition for ratifying START-1, Ukraine demanded guarantees that it would receive all

the rights of an international legal entity and an actor in international relations as a nuclear state.

In late August, the Supreme Soviet of Ukraine in a closed-door session discussed proposals for a military doctrine. The Ukrainian government, in a bid to win parliamentary approval for its own draft, proposed keeping 46 of the most advanced SS-24 nuclear missiles in service with the Ukrainian armed forces. The parliament did not support the governmental proposal, but Ukraine's resistance to the elimination of all its nuclear weapons now came from the highest state levels. Then came a statement from 162 Supreme Soviet deputies (more than 30 percent of the MPs), which bluntly referred to Ukraine as a nuclear state. The deputies who signed the statement included my vis-à-vis in the negotiations.

We never received an invitation from Kiev to continue the negotiations. We tried to raise the nuclear issue at meetings between Russian Prime Minister Victor Chernomyrdin and his Ukrainian counterpart Leonid Kuchma in June-July 1993. I was accompanying Chernomyrdin and kept all the papers relating to the nuclear issue at hand. At the appropriate moment, the prime minister raised the nuclear weapons issue and then invited me to report on outstanding problems. The Ukrainians listened to me but evaded serious discussions.

On July 2, there came yet another surprise. The Ukrainian Supreme Soviet passed a document entitled *The Guidelines for the Foreign Policy of Ukraine*. "In view of the dramatic changes that have taken place after the breakup of the Soviet Union and that have determined the present geopolitical position of Ukraine, its plans to become a neutral and non-bloc state in the future, which it proclaimed earlier, should be adapted to the new realities and cannot be considered an obstacle to its full-scale participation in pan-European security organizations," the document said. The security organizations it mentioned included the Conference on Security and Cooperation in Europe, NATO and the Western European Union. Ukraine proclaimed itself "the owner of its nuclear weapons."

On July 3, the Ukrainian Defense Ministry attached the nuclear arsenals located in Ukraine to its 43rd Missile Army. The army commander was ordered to ensure that the personnel of the nuclear weapon technical operation units take the Ukrainian oath. In May 1992, the Ukrainian oath had been taken by the personnel of two nuclear weapons technical operation units of the 46th Air Army, which had over 600 strategic nuclear munitions. The move had given Ukraine control over the munitions, as well as their use. Furthermore, the flight personnel of the strategic bombers had taken the Ukrainian oath, too. This factor, as the chief of the Russian Armed Forces' General Staff Mikhail Kolesnikov noted, provided Ukraine with a capability to use nuclear weapons.

In late July 1993, the Ukrainian defense minister visited the United States to discuss the possibility of Washington recognizing Ukraine's move to a 'transitional nuclear status' from the status of a 'temporary nuclear power.' The visit proved to be a failure. On July 30, the chairman of the Ukrainian parliament's Standing Foreign Affairs Commission, Dmitro Pavlychko, said that Ukraine would retain "partial nuclear status." "Forty-six solid propellant missiles [the most advanced SS-24 missiles] would remain in Ukraine until the Nonproliferation Treaty is revised in 1995," he specified. Commenting on the above developments, General Kolesnikov said that Ukraine was falling into a well-designed pattern of "crawling toward nuclear status."

On August 5, the Russian government released a statement saying that the moves taken by Kiev "are leading to very serious consequences for international stability and security... A dangerous precedent is being created, which nuclear threshold countries may use."

In early August, at a meeting in Moscow between Chernomyrdin and Kuchma, the Russian prime minister convinced his Ukrainian counterpart to receive me in Kiev for continuing the negotiations. In my trip to the Ukrainian capital, I was accompanied by Atomic Energy Minister Victor Mikhailov. By the end of the second day of the negotiations, we had resolved all the issues on our agenda, except for the timeframe for removing

nuclear weapons from Ukraine. We reached agreement on the elimination of *all* the nuclear munitions located in Ukraine, on their disposal in Russia, and on procedures for the settlement of the operations. By way of compensation, Ukraine would receive fuel assemblies for its nuclear power plants. Russia's expenditures for its supplies were to be compensated for with sales from part of the uranium to be extracted from the nuclear munitions removed from Ukraine. Ukraine's right to own the nuclear weapons was no longer mentioned.

The arrangements were formulated in three draft agreements:

- an agreement for the disposal of nuclear munitions;
- the main principles for disposing of nuclear munitions in service with the Strategic Forces stationed in Ukraine;
- an agreement on procedures for the developer's product support of the operation of strategic missile systems in service with the Strategic Forces stationed on the territories of Russia and Ukraine.

This was an important breakthrough considering the growing international concern over Ukraine's nuclear weapons and the ratification of the START-1 Treaty. In early July, at a G-7 summit in Tokyo, presidents Boris Yeltsin and Bill Clinton agreed to assign a tripartite format to the negotiations on START-1 ratification: Russia–U.S.–Ukraine. The first working meeting within this framework was to be held in London immediately after the bilateral negotiations in Kiev. However, we actually managed to resolve all of the issues in Kiev, and I was part of the Russian team that was leaving for London for the tripartite negotiations. Our delegation was led by Deputy Foreign Minister Georgy Mamedov. The U.S. was represented by Deputy Secretary of State Strobe Talbott.

The draft agreements that I brought to London solved all of the primary questions surrounding this grave international problem. It would seem the U.S. negotiator should be happy or, at least, satisfied to hear the news. However, Talbott, in reaction to the positive news, only commented that he would like to discuss the draft agreements with U.S. experts. The latter were more ingenuous and admitted that they did not believe that we would be able to reach

agreement with the Ukrainians without U.S. mediation. When the U.S. experts saw that the draft agreements were solid and did not need any additions or specifications, they congratulated us and said with a smile that there was nothing further to discuss. This was the reason, perhaps, for Talbott's disappointment.

On September 3, the Russian and Ukrainian presidents met at Massandra, in the Crimea, where they quickly approved all three draft agreements which prime ministers Chernomyrdin and Kuchma were to sign, as well as the only remaining outstanding issue – the timeframe for the removal of strategic nuclear weapons from the territory of Ukraine. The parties agreed that the weapons would be removed within 24 months after Ukraine ratified START-1. Naturally, *all* the weapons were to be removed, as was written in the draft agreements. This issue was of crucial importance, so the parties decided to formalize the latter agreement in a special confidential protocol. The moment of truth was quickly approaching. Perhaps, that was why bitter disagreements broke out in Ukraine over the nuclear weapons issue. Defense Minister Konstantin Morozov at a plenary meeting launched an attack against his own president by criticizing the agreements that had been reached. Ukrainian President Kravchuk did not agree with him, and the Ukrainian party that was preparing the final texts of the documents, including the presidential team, made every effort to distort the essence of Morozov's arguments. The diplomatic showdown reached the intensity of hand-to-hand combat. But the Ukrainian delegation failed to change anything in any of the three draft agreements. The protocol on the removal of all nuclear munitions was brief and well-worded, too. Strictly speaking, there was nothing else to negotiate.

I will describe what happened next with a quotation from the Russian Foreign Ministry's September 21 official press release: "The newspaper *Kievskiy Vedomosti* of September 9, 1993, published a photocopy of *The Protocol on the Removal of All Nuclear Munitions of the Strategic Nuclear Forces, Stationed in Ukraine, to Russia*. In this connection, the Foreign Ministry of the Russian Federation is authorized to state the following:

“During the September 3 meeting at Massandra between the presidents of Russia and Ukraine, an arrangement was reached that all nuclear munitions of the Strategic Nuclear Forces stationed in Ukraine would be taken to Russia not later than 24 months since the day of ratification of the START-1 Treaty by Ukraine. The essence of this arrangement is reflected, as evident from the photocopy, in the name of the document, which contains the word ‘all.’ The presidents decided that the document would be confidential and would be signed by the heads of government. Moreover, the prime ministers signed the prepared document in the following wording:

“‘The President of the Russian Federation and the President of Ukraine agreed that, after the Supreme Soviet of Ukraine ratifies the START-1 Treaty, the government of Ukraine shall ensure the removal of all nuclear munitions of the Strategic Nuclear Forces, stationed in Ukraine, to the Russian Federation not later than 24 months since the day of ratification for their subsequent disassembly and elimination.’

“However, Ukraine’s presidential adviser A. Buteiko took advantage of the situation when the documents fell into his hands; he made two alterations to the text, which completely changed the content of the arrangement. The changes are clearly seen in the photocopy published in Kiev: the word ‘all’ was crossed out and after the words ‘the Strategic Nuclear Forces’ the words ‘falling under the treaty’ were inserted. What these corrections meant was that Ukraine (or rather a certain part of the governmental apparatus), contrary to its international commitments, hoped to reserve a part of the nuclear weapons.

“Despite a top-level protest from the Russian Party, the representatives of Ukraine declined to restore the former text. In view of such actions by the Ukrainian Party which are, to put it mildly, unusual for diplomatic practices, the Russian Party officially annulled this Protocol, about which the representatives of Ukraine were immediately informed.

“So, legally, the *Protocol on the Removal of All Nuclear Munitions of the Strategic Nuclear Forces, Stationed in Ukraine, to*

the Russian Federation does not exist as a document, which, of course, in no way affected the essence of the arrangements reached between Russia and Ukraine at the level of the heads of state and government.”

In mid-November, an open crisis broke out in the Ukrainian Supreme Soviet over the START-1 ratification issue. President Kravchuk's proposal to ratify the package of the above three documents received less than 170 votes of the required 221 in a parliamentary vote. On November 18, however, the Supreme Soviet passed a resolution entitled *On the Ratification of the Treaty Between the U.S.S.R. and the U.S.A. on the Reduction and Limitation of Strategic Offensive Arms, Signed in Moscow on July 31, 1991, and Its Protocol, Signed in Lisbon on Behalf of Ukraine on May 23, 1992*. But the government of Russia justly described the resolution as “an outrage upon the important international documents, the basic provisions of which were actually made null and void by the Ukrainian legislators.”

Indeed, the Supreme Soviet came out with a series of provisos. Among others, it proclaimed Ukraine's state ownership of nuclear weapons; turned down Article 5 of the Lisbon Protocol, which contained Ukraine's commitment to join the NPT; declared Ukraine's plans not to eliminate all of their nuclear weapons that remained on the Ukrainian territory, but only 36 percent of the launch vehicles and 42 percent of the nuclear munitions, leaving the rest of the nuclear-missile arsenal to Ukraine.

International law cannot recognize the ratification of a treaty if its provisos are incompatible with its subject and terms. Ukraine formulated a new document which was convenient for certain political forces in Kiev and which had nothing in common with the START-1 Treaty. In view of this fact, the government of Russia declared that the decision of the Supreme Soviet of Ukraine with regard to START-1 could not be recognized. A similar statement was released by Washington.

President Kravchuk described Ukraine's failed accession to the NPT as “a major political mistake” of the Supreme Soviet which “delivered a colossal blow to Ukraine's authority and its interna-

tional prestige.” As the head of state admitted later, “we were on the brink of an economic blockade and international isolation.”

Could Ukraine really have become a nuclear power? Theoretically, yes. The country has the required research and technological potentials to support this technology. But here is what Minister Victor Mikhaïlov, an outstanding authority in this field, wrote in 1994: “It would take many decades for Ukraine to become a nuclear power – and funds which it does not have... One can master anything. But what would it cost!... The entire country worked to build our [Soviet – Y.D.] nuclear complex. Russia’s nuclear complex is now estimated at about five billion dollars. We need corresponding research facilities, specialists with required professional skills, as well as the infrastructure.”

Shortly after the Supreme Soviet’s decision, Leonid Kravchuk made a remarkable statement in a televised interview: “I asked my opponents the question, ‘Who are our weapons aimed at?’ If we are to retarget our missiles, we must choose a target to aim the missiles. Let us suppose that we choose a target. What will the reaction be in a situation where no one aims their missiles at us while we choose an ‘enemy’ to target our missiles? What will be the international reaction and attitude toward Ukraine?”

THE LAST MILE

Despite the unfavorable developments in Kiev, Russia continued to press Ukraine to make decisions that would meet the interests of the international community. On January 14, 1994, tripartite agreements with the presidents of Russia, the U.S. and Ukraine were signed in Moscow. A supplementary document stated Ukraine’s key commitments to completely fulfill its obligations with regard to all the nuclear weapons remaining on the Ukrainian territory, and terms for the supply of fuel assemblies for Ukrainian nuclear power plants as compensation. Security guarantees were granted to Ukraine by Russia and the U.S. once the START-1 Treaty entered into force and as soon as Ukraine became a non-nuclear signatory to the NPT. The United States offered to give

Russia U.S. \$60 million as prepayment to cover Russia's expenditures for the disassembly of strategic munitions and the manufacture of fuel assemblies. The money was to be deducted from payments due to Russia under a Russian-U.S. contract on highly enriched uranium.

The Ukrainian Supreme Soviet discussed the tripartite agreements on February 4, 1994. In the resolution, it withdrew its reservations concerning Article 5 of the Lisbon Protocol, thus opening up the possibility of Ukraine joining the NPT. The government was instructed to exchange instruments of START ratification and increase its efforts to conclude interstate agreements aimed at fulfilling the Supreme Soviet's November 18, 1993 resolution. On May 10, 1994, the prime ministers of Russia and Ukraine signed an agreement for the implementation of the tripartite arrangements reached by the presidents of Russia, the U.S. and Ukraine.

After a series of elections in Ukraine, the process of the START ratification and accession to the NPT had to be completed by the new Ukrainian president, Leonid Kuchma. On November 16, 1994, the Supreme Soviet passed a law on Ukraine's accession to the NPT. However, the law once again contained several reservations, one of which stated: "Ukraine is the owner of the nuclear weapons which it has inherited from the ex-U.S.S.R." The restoration of the long-withdrawn claim again brought back to the agenda the issue of Ukraine's status as an NPT signatory: non-nuclear, as it was bound by its international commitments, or as a new nuclear state. The position of Ukraine's top legislative body was quite clear, however: being the owner of nuclear weapons meant being a nuclear state.

Kiev trumpeted its victory, emphasizing the effort the country's leadership had made in order to overcome the resistance of deputies who opposed Ukraine's accession to the NPT. Kuchma made a passionate speech, saying that it would take at least U.S. \$160-200 billion in investment within ten years to launch the closed-cycle production of nuclear munitions. "Who amongst the advocates of nuclear games can stand up and tell us to whom we

should sell or pawn all of Ukraine's property, just to obtain a nuclear arsenal for ourselves and make 'happy'?" he asked.

Yet, the fact that only a few deputies voted against the law on accession to the NPT indicated that the reservations it contained were so far-reaching that they satisfied even the advocates of a nuclear status for Ukraine. Indeed, what more could the champions of "nuclear games" demand when the law declared that Ukraine was joining the NPT as an owner of nuclear weapons? Recognition by the international community of Ukraine's accession to the treaty on such terms would mean recognition of its nuclear status. That would be their victory.

On the following day, November 17, Russia's Foreign Ministry came out with the following statement: "Moscow appreciates the Ukrainian leadership's efforts to resolve the issue of Ukraine's accession to the Nonproliferation Treaty of July 1, 1968. In this connection, we were satisfied to hear the news that the Supreme Soviet of Ukraine yesterday passed a law on accession to this Treaty.

"At the same time, we cannot ignore the fact that the adopted law stipulated some conditions. The content of these terms makes unclear the status — nuclear or non-nuclear — in which Ukraine is planning to join the NPT... These questions must be answered because the NPT depositaries are now completing the drafting of a document on security guarantees for Ukraine, which are planned to be given to it as a state not possessing nuclear weapons. The importance of clarifying these issues is quite understandable."

Kiev's reaction to the questions put by Moscow was keenly sensitive. However, answers to these questions were demanded not only by Russia but the entire international community. The tensions came to a head at the CSCE summit in Budapest, where Ukraine was to provide the instruments of accession to the NPT, and Russia, the U.S., Britain and Ukraine were to sign a memorandum on security guarantees for Kiev. Ukraine was in a dilemma whether to officially specify its status of a state not possessing nuclear weapons, thus receiving security guarantees, or decline and send the entire range of issues back to the negotiating table.

On the eve of December 5, the day the ceremony was to be held, the parties were engaged in intensive negotiations which continued throughout the night. By the morning, Ukraine had prepared a Foreign Ministry note on its accession to the NPT as a non-nuclear state (not possessing nuclear weapons). The *Izvestia* newspaper wrote on the following day: “When President Leonid Kuchma of Ukraine handed the document on his country’s accession to the Nonproliferation Treaty to Boris Yeltsin, Bill Clinton and John Major, the hall where the CSCE Budapest summit was held gave a sigh of relief.”

Between March 1994 and June 1996, about 2,000 nuclear munitions of strategic weapon systems were removed from Ukraine to Russia for disassembly. In all, considering tactical weapons, about 5,000 nuclear munitions were moved to Russia in almost 100 trains. The START-1 Treaty and the Lisbon Protocol were completely fulfilled. The epic about Ukraine’s renunciation of nuclear status can take a worthy place in the history of diplomacy and serve as an instructive lesson.

Reviews



“Soros’s position is explainable not so much by his longing for a fundamental reform of the system of international relations along the principles of an ‘open society,’ as by his desire to carefully ease pressure inside the bubble of American supremacy”

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The American “Bubble” and Stark Reality

Vladislav Inozemtsev

George Soros. *The Bubble of American Supremacy. Correcting the Misuse of American Power.* New York: Public Affairs, 2004. XIII + 207 p.

George Soros, a foreign exchange dealer and philanthropist, who has spent a considerable part of his life working on the theory and practical implementation of an “open society,” has published several books devoted to what he describes as the “reform of global capitalism.” His latest work on the subject, entitled *The Bubble of American Supremacy. Correcting the Misuse of American Power* is a worthy continuation of that series.

Written at a time of heated confrontation between the liberal and

conservative forces in U.S. politics, this book is far more aggressive (in the good sense of the word) than most of Soros’s previous publications. In it, the author pours criticism on the policies of the current Republican administration, reviews his own achievements in promulgating the values of an “open society” and offers a plan for reform that would help overcome the deepening crisis within the system of international relations.

In the midst of the growing opposition to George W. Bush, who has become something of a sitting duck for criticism, Soros’s book stands out as a remarkably summarized, carefully argued and sharply pronounced disapproval of the administration’s policies.

Vladislav Inozemtsev, Doctor of Science (Economics), is Director of Research at the Moscow-based Centre for Post-Industrial Studies, Editor-in-Chief of the *Svobodnaya Mysl-XXI* magazine, and Chairman of the Board of Advisors of *Russia in Global Affairs*.

First, the author demonstrates that ideological stereotypes and prejudices are impeding an impartial analysis of the U.S. present policies. "Ideology has come to play an abnormally large part in deciding government policy, and the discrepancy between perceptions and the actual state of affairs has also grown abnormally wide" (p. 184). This is the root cause of most miscalculations by the incumbent U.S. administration.

Second, Soros argues that President Bush and his team have been reluctant, or unable, to realize that "although the loss of three thousand innocent lives [in the September 11 terrorist attack] is an enormous tragedy, it does not endanger our existence as a nation" (p. 29) and for this reason did not require a full-scale military response.

The author's claim that "by declaring war on terrorism President Bush has played right into the terrorists' hands" (p. 13) sounds very convincing. Moreover, the terrorists "wanted us to react the way we did, perhaps, they understood us better than we understand ourselves" (p. 181) and this alone is a reason for concern.

Third, having fallen into a trap, says Soros, the Bush administration was reckless enough to declare a senseless "war on terrorism" instead of

hunting down terrorists. Soros maintains, quite reasonably, that the war on terrorism cannot be won, because modern militaries have no idea how to fight against an unidentifiable enemy (pp. 18-19). The "war on terrorism is more likely to bring about a permanent state of war... setting up a vicious circle of escalating violence" (p. 26; for more detail see pp. 20-21). "The war on terrorism as pursued by the Bush administration has actually increased the terrorist threat" (p. 70). For the Russian reader, the strength of these arguments grows manifold. Replace America with Russia, and the name Bush with Putin, and the arguments are equally applicable to the Russian experience.

Fourth, Soros points to the extreme risks of U.S. actions in Iraq, which directly stem from 'the war on terrorism' concept. "I would consider Iraq the last place to choose for a demonstration project [to establish democracy] (p. 58)." America's inevitable debacle in Iraq will foment anti-American sentiments in the region and "prevent future efforts at nation building" (p. 65). As for Soros's opinion on the economic backlash of the Iraqi adventure of the United States and the rest of the world, I shall discuss this topic further.

In a nutshell, Soros is certain that the incumbent U.S. administration is leading the nation up a blind alley. Is this policy due to the foolishness of certain fanatics in this administration?

Soros believes the answer is no. He lists several objective prerequisites that caused the neo-conservative policy to prevail. He points to the United States' unparalleled power, especially in the military sphere, the inability of any single country or bloc of countries to catch up with it (p.p 10-11) and the weakness of international institutions which are actually impeding a concerted multilateral approach to pressing issues. It is noteworthy that the author is very skeptical about the ability of the United Nations, in its present form, to improve international relations. He unequivocally points to "a great unresolved problem: how to protect the common interest in a world consisting of sovereign states that habitually put their own interests ahead of the common interest" (pp. 80-81). The UN Security Council has also discredited itself by its resolutions concerning the former Yugoslavia, by the refusal of its members to intervene in Rwanda, and by the heated controversies that surfaced during the debates on Iraq. The Americans' unilateral actions

have no justification, but they do contain certain logic.

The more formal explanations and opportunities the United States has for unilateral action, the more difficult it will be to bring about a new world order consonant with Soros's ideas. He believes there are two things to be done: Bush's re-election for a second term must be prevented, and the next administration must be offered a clear plan for building a safer world (pp. 74, 188). The details of this plan constitute the greater part of the book. Just as in many other works, Soros's analysis of the current state of affairs is exceptionally convincing. However, his plan of action seems somewhat utopian since the assumptions he proceeds from are rather disputable.

As usual, Soros starts his analysis with an economic aspect of the problem, using the phenomenon of globalization as the point of departure. In contrast to his previous works, however, this time he presents a very narrow interpretation: "For the purposes of the present discussion, I shall take globalization to mean the development of global financial markets, the growth of transnational corporations and their increasing domination over national economies" (p. 83).

In this sense, says Soros, “globalization as defined here is a relatively recent phenomenon that distinguishes the present from fifty or even twenty-five years ago” (p. 85). He also makes a distinction between the contemporary “global capitalist system” and “international capitalism” of the early 20th century (pp. 83 and 89).

Such a view on globalization is indicative of the author’s wish to protect it from increasing criticism, and to emphasize the idea that the existing world order is far from ideal, since it is unable to eliminate even the traditional negative traits. Speaking about global wealth inequality and the disastrous position of the poor countries, Soros says: “These conditions were not necessarily caused by globalization, but globalization has done little to redress them” (p. 95). In his opinion, the appalling degradation of the poor countries that have largely lost the properties of statehood is the most dramatic problem of our time. Soros’s remark that those territories form “an *underclass* of the global capitalist system” (p. 97) deserves to become a political catchphrase.

Alas, the author’s ideas about how to amend the situation are not very new. Soros sees a way out of the current situation by increasing aid to

the poor countries and eliminating the well-known flaws in the methods of providing this aid (pp. 128-129). The one new proposal he presents is to diversify the channels by which the aid is provided. Soros believes it would be more expedient to direct the aid to non-governmental agencies within the countries, as opposed to the governments themselves: “The less democratic the recipient country, the more aid should flow through nongovernmental civil society” (p. 144).

Far more remarkable are Soros’s ideas about reforming the modern world. He sees the underlying cause of world chaos in the traditional sovereignty doctrine, because “the principle of sovereignty protects repressive regimes from external interference” (p. 100). The question remains open, though, about the mechanism to be used for making decisions on such interference and on how it correlates with the tasks and goals of enforcing a “common interest.”

Thus far the author’s arguments and conclusions have looked convincing enough. Thereafter, his theories arouse many questions.

It is surprising that the author, so critical of the Bush administration for pursuing the abstract universal principles of social Darwinism

(pp. 178-179), proceeds from no less abstract (although slightly different) universal principles. Soros argues that “sovereignty belongs to the people; the people are supposed to delegate it to the government through the electoral process” (p. 102). To back up this assumption, not quite obvious, Soros recalls the French Revolution, in which “the king was overthrown and sovereignty was taken over by the people” (p. 100). However, the fact that monarchy was overthrown in France fails to prove that “popular sovereignty” is an embodiment of the ideal of sovereignty, let alone the postulate that the will of one people reflects the aspirations of all others. It is hard to imagine that the will of the French people, expressed (far from unanimously) two hundred years ago, can and must be used today to determine the basis of political and social structures of, say, Saudi Arabia, whose people have nothing (and apparently are reluctant to ever have anything) in common with the French, who abolished monarchy in their own country. A closer look at the Bush doctrine and the Soros doctrine shows that they differ in the aspect of permissible methods, rather than proclaimed objectives. Bush, who says democra-

cy is the paramount value, advocates unilateral interference in the affairs of countries, even if they hold differing opinions about democracy. Soros, who postulates that sovereignty inherently belongs to the people, likewise advises “to penetrate into the nation-state to protect the rights of its people” (p. 103). On this point, Soros’s doctrine appears to be far more controversial than Bush’s crude and straightforward doctrine. Soros believes that the way to implement his doctrine is to divide all countries of the world into those recognizing the “democratic way of development” from all of the others. In his opinion, the first step along these lines was made in 2000, when 107 democratic countries put their signatures to the Warsaw Declaration that proclaimed; “It is in the interest of *all* democratic countries taken as a group to foster the development of democracy in *all other* countries” (112). The next move to be made is “the formation of an influential democratic bloc of nations” that “would change the character of the United Nations,” making it more effective in influencing its member states, especially as “repressive regimes would be excluded from active decision-making” (p. 120). It is hard to imagine what emotions

such an arrangement may arouse with the American people.

Personally, I immediately thought of the incumbent Russian State Duma, in which an overwhelming “democratic” majority has already barred various “inconsistent democrats” from the decision-making process. One should also remember that France (which, according to the author, provided the world with a new sovereignty doctrine) is the sole democratic country that refused to sign the Warsaw Declaration. And this — by no means a casual coincidence — casts a good deal more light on the Soros doctrine than all of the author’s own theoretical constructions.

What opportunities will the Soros doctrine create? It provides the opportunity to declare illegitimate any regime and any ruler not elected by the people. However, in many countries the sovereigns nowadays conduct liberal policies, while in others true dictators readily call plebiscites to confirm their powers. This doctrine may empower a “new majority” in the United Nations to hold a democratic vote in order to determine if a country is undemocratic and thus eligible for sanctions. And so on and so forth.

What is the moral and ethical basis of such measures? The author

quotes a report by the United Nations International Commission on Intervention and State Sovereignty, postulating the so-called ‘responsibility to protect’ as the moral duty of the advanced countries. In his book, Soros reproduces this document practically in full (pp. 104-108). For instance, the commission argues that intervention is permissible in case of a “large-scale loss of life, actual or apprehended, with genocidal intent or not, which is the product either of deliberate state action, or state neglect or inability to act, or a failed state situation or large-scale ethnic cleansing, actual or apprehended, whether carried out by killing, forced expulsion, acts of terror or rape” (p. 106). No one would object to such postulates. However, the report says nothing about the infringement on people’s sovereignty, or the undemocratic nature of this or that regime.

In my opinion, Soros’s position is explainable not so much by his longing for a fundamental reform of the system of international relations along the principles of an “open society,” as by his desire to carefully ease pressure inside the bubble of American supremacy. This is precisely why his “popular sovereignty concept” develops into rather telling

statements, such as: “Another major area where the principle of the people’s sovereignty has important implications is revenues from the exploitation of natural resources” (p. 146). This implies that, should these principles be consistently applied, large-scale investment in countries freed from dictatorial regimes would not be so crucial as they are, for example, in Iraq (for this purpose, such countries will be told to establish a special regime of “transparency of their incomes from the use of mineral resources” (pp. 154-155). All these proposals correlate well with the author’s evaluation of the U.S. current economy as a “stop/go economy” (p. 73), if not directly stem from it.

Soros points to the most glaring flaws in the current U.S. administration’s policies – heavy ideological bias, unilateral decision-making, growing isolation of the United States in the United Nations and the world in general, and the heavy burden on American taxpayers. The author’s objective is declared in the book’s title – correcting the misuse of American power. To do this, says Soros, policies must be de-ideologized and made more rational, and a coalition of democratic countries

must be created to share the responsibility for interfering in the affairs of other countries. Also, majorities in the United Nations and other international organizations supporting the new U.S. policies must be formed. Finally, legitimate sources of financing must be found for peacekeeping operations. This would ease the tax burden on the population of industrialized countries. After Afghanistan and Iraq, the West will be more cautious in using force in peripheral regions around the globe. In similar situations, the implementation of the Soros doctrine may humanize international relations and reduce the risk of repeating the Iraqi scenario.

However, it is doubtful that it will help the developing countries acquire a better understanding of the West’s goals.

Whatever effects the hypothetical implementation of Soros’s ideas in international relations may have, his book proves that the search for new approaches to building a world order is becoming a mainstream trend of our time. The emergence of a paradigm that is devoid of inner contradictions and worthy of being put into practice is only a matter of time.

Much Food for Thought

Mark Shkundin

Leonid Kuchma. *Ukraine: Different from Russia*. Moscow: Vremya, 2003. — Russ. Ed.

Any debate that attempts to determine whose grief in the world is the most painful would be senseless: every country has its share of skeletons in the closet. How can the bleeding wound of Chechnya be compared with the Tibetans' tragedy, or the simmering tensions in the Chu valley with the Kosovo impasse?

In his book, *Ukraine: Different from Russia*, Ukrainian President Leonid Kuchma has attempted to identify his country's most acute problems with sincerity unusual for a politician. Among other things, the author discusses the persisting problems of a former province which has yet failed to develop a new national consciousness and recognize its national language. He looks at the

aftermath of the Chernobyl nuclear disaster, the continued attempts to discern the country's own past, the standoff between the followers of the Greek Catholic Church and Eastern Orthodoxy, combined with the split within Ukrainian Orthodoxy itself. Finally, Kuchma analyzes more particular problems affecting his country such as the sharp contrast between the eastern and western regions of Ukraine, the veterans of the so-called Ukrainian Insurgent Army, and its dependence on imports of energy resources. Kuchma's bulky work is entirely focused on the search for solutions to these problems. As the author is trying to answer these numerous questions, he analyzes Ukraine's experience as an independent country. Unlike many politicians and researchers, he believes that the Ukraine of the past was not a colony but, rather, an integral part

Mark Shkundin, Doctor of Science (History), is a Senior Research Fellow of the Institute of the World Economy and International Relations.

of metropolitan Russia with all of the advantages and disadvantages inherent in such a position.

The author lives up to his promise: the book does not contain any anti-Russian motives, but it prompts the reader to consider the potential for protest that the Ukrainian people have accumulated over their centuries-long affiliation with the Russian Empire, as well as their decades-long experience as a Soviet Republic. On the one hand, this is also indicative of a subconscious national sentiment that can be easily dismissed as a parochial complex; on the other hand, it cannot be ignored in specific interstate relations.

In the preface to the book, Kuchma stresses that the most difficult problem is shaping a Ukrainian identification and psychology, as well as developing a realization that “the nation’s values stand above material and social interests.” (p. 21)

The president expounds on the idea that because of Ukraine’s territory, the size and density of its population, and, most importantly, its national mentality, it is a more European country than Russia. According to the author, this is manifest, in particular, in the absence of “a type of relations based on land regulation” within the Ukrainian communities. This factor

gave rise to an individualistic sort of character trait. “Ukrainians are pre-disposed toward saving,” he indicates (p. 95).

Kuchma believes that the Ukrainian people, as well as the people in other countries of Eastern and Central Europe, have experienced different types of psychological problems in the transition period than the Russians, who, he believes, were free from the so-called “existential fear” for their future (p. 210). On the whole, the author makes many shrewd observations while discussing the Russian and Ukrainian national characters, but his main conclusion – that the Russian and Ukrainian mentalities differ dramatically – seems disputable and requiring more argumentation.

Kuchma surmises that all of the contradictions between Russia and Ukraine will disappear when the latter fully recognizes itself as a nation. “I don’t rule out a situation in the future... where a bridge will stretch across the Kerch Strait, and all material barriers between our two countries will disappear,” he maintains (p. 34). However, this line was written before the Tuzla spit in the fall of 2003.

As for now, many impediments to progress in these matters are firmly in place, and many of them are

rooted in political history. This is partly due to the national-territorial delineation of the two former Soviet Republics which was imposed by the Communist Party in the 1920s.

Kuchma believes the assessment of that event should be left to historians and geographers. At the same time, a significant number of Ukrainians now live in the southern Russian regions of Kursk and Voronezh, as well as the former territory of the Cossack Troop near the Don – a fact that permits Kuchma to speak of lost opportunities. At this point, he makes reference to the authorities of the former Byelorussian Soviet Republic who succeeded in fully integrating all of the Byelorussian lands within the borders of the Soviet Union (p. 450).

Kuchma draws the conclusion that the handover of the Crimean Peninsula was not an adequate compensation for the Kursk, Voronezh, and Don lands. He claims that the initiative for repatriating Crimea back to Ukraine in 1954 originated from the party bosses of the region, who were guided by purely practical considerations. At the time of the hand-over of the peninsula it was impossible (just as it is now) for the Crimean population to live without water from the Dnieper and coal from the Donetsk coalfields.

Furthermore, the regional Communist Party and administrative officials found it much more convenient to find solutions to the Crimean economic issues in Kiev rather than in Moscow.

He praises former Russian President Boris Yeltsin, who thwarted the attempts of the Communist nationalists in the Russian State Duma and beyond to turn the controversy surrounding the Crimean issue into an all-out political confrontation.

On the whole, Kuchma displays warmth and sincerity toward Yeltsin that are rather untypical of a president of a foreign nation. He acknowledges Yeltsin's historic role as a personality who, guided by an inherent feeling of justice, made it possible for the former Soviet republics to dissolve peacefully (pp. 437-445). On the other hand, he often argues with Alexander Solzhenitsyn, who, as Kuchma believes, called for the use of force in solving the Crimea dispute.

In terms of the controversies between Ukraine and Russia in the cultural sphere, Kuchma notes there is a significant imbalance of information between the two countries. He indicates, for example, that the appearance of anti-Russian printed material in the Ukrainian mass media produced a rather weak

response in Russia, while anti-Ukrainian publications in the Russian mass media annoyed many Ukrainians (p. 205). The celebration of the tenth anniversary of Ukraine's independence went virtually unnoticed by the Russian media.

Kuchma turns sarcastic when he writes about the Russian nationalists and chauvinists who disguise themselves under liberal banners; he refers to such individuals as 'obrazovantsy' (Russian term denoting people who have a higher education, but are void of the traditions of genuine intellectualism).

Kuchma puts forth ideas about "compiling an inventory list" of Ukraine's cultural heritage; this is a rather interesting idea, however questionable. He believes that drafting some sort of an agreement between Ukraine, Russia and Belarus (p. 323) concerning the joint ownership of cultural assets, accumulated over the centuries of their co-existence as a single state could serve as a psychological landmark or a pivotal point in relations among the three nations. This suggestion could spark questions involving the intellectual property rights of ethnic Germans, Poles and other nationalities who at one time lived in the Russian Empire and took an active part in

creating its cultural and intellectual values.

Kuchma was born in a region of Ukraine where the local population speaks a dialect that he describes as a "Russo-Ukrainian-Belarusian blend." This fact, no doubt, explains the broadness of his approaches toward the Slav brothers, on the one hand, and a somewhat narrow vision of the role of ethnic minorities in the country's history, on the other (the reader may arrive at such a conclusion due to the absence of relevant references in his book).

Meanwhile, those minorities greatly contributed to both the economic and spiritual life of Ukraine.

Chapter VIII of the book, titled "On National Heroes," recounts the life stories of the Grand Dukes of Kiev Vladimir I and Yaroslav the Wise (the author is prepared to regard the latter as a Russian prince), as well as some other historical figures. Kuchma gives special attention to hetman Bogdan Khmel'nitsky as the creator of the Ukrainian statehood. He calls the decision of the 1654 Pereyaslav Rada (Assembly of the People of Ukraine) on the reunification of the Ukrainian territory on the left bank of the Dnieper with Russia, a forced and necessary compromise. Speaking of hetman Mazepa, Kuchma

describes him as a Ukrainian patriot and an advocate of national independence – an assessment that proves the validity of the author’s own remark that both Russian and Ukrainian experts should establish politically correct approaches to disputable issues. On the whole, the style of this particular chapter is reminiscent of particular reader books for children, and falls short of expert political and economic analysis that the author offers in other parts of the book.

As he continues with the analysis of his nation’s history, Kuchma dwells on the policy of ‘Ukrainization.’ He discusses three forms of statehood – the Central Rada (March-December 1917 and January-April 1918), Skoropadsky’s Hetmanate (1917 to 1918), and the Ukrainian Directorate (November 1918 - November 1920). He compares these forms with later practices of the victorious Bolsheviks, of whom he singles out Lazar Kaganovich, Secretary-General of the Ukrainian Communist Party after spring 1925. Kuchma says Kaganovich’s ‘Ukrainization,’ carried out in a Stalinist fashion, “strangely enough” played a positive role in the country. The author also speaks about “the agents of Russian influence” – Georgy Pyatakov, Dmitry

Manuilsky, Vlas Chubar and Emmanuil Kviring – whom he calls “internationalists in inverted commas.” At the same time, those in the second echelon of power – Nikolai Skrypnyk and Grigory Grinko – were, in Kuchma’s opinion, the pillars of solid national consciousness and responsibility before the nation.

Kuchma persistently denies the conviction that is popular among Ukrainians that their country was subject to colonial exploitation and national oppression. At the same time, he claims that from the very beginning Moscow maintained a policy of suppressing any manifestation of Ukrainian self-consciousness. As an example, he recalls the 1757 work by Grigory Poletika titled “On the Origins, Restoration and Proliferation of Schools and Education in Russia.” Kuchma says the work was never published because of Mikhail Lomonosov who thwarted the attempts, “since it only mentioned Kievan schools and not Moscow schools before the 17th century.”

Kuchma dwells in detail on the issue that is apparently both close and painful to him – the development of the missile and nuclear industry. He discusses the correlation between its “Soviet elements”

on the one side, and the “Russian and Ukrainian elements” on the other; the latter include an impressive list of cosmonauts and rocket/missile technology designers of Ukrainian origin. The author’s position on this issue is indicative of the many lingering inferiority complexes – side-effects of the turbulent period in the formation of the Ukrainian nation-state.

Much space in Kuchma’s book is devoted to the defense industry, and Chapter XI, where he declares his views on Ukraine’s chances for joining the ranks of the rich nations, provides a clue to the author’s conceptions in this field. With all of the pride of a former industrial CEO, he recalls his former activities at the Yuzhnoye design bureau and the Yuzhmash machine-building plant. He describes the two hi-tech companies as examples of the huge potential of the defense industry, while lamenting over the destructive impact of the hasty and ill-conceived policy for converting the defense industry enterprises to civilian production. As a national leader and a professional in the defense industry, Kuchma insists that the fields of “space technology, aircraft-building and weapon design are areas where Ukraine and Russia could do much better by working together” (p. 357).

Chapter VI, titled “A Painful Road from the Ukrainian Soviet Socialist Republic to Ukraine,” reveals Kuchma’s vision of the transition from a centrally planned economy to a market economy, which has thus far impoverished his country. (It is noteworthy that the problems borne out of that transformation remain dominant within the entire post-socialist space.)

Kuchma assumes that one of the factors behind Ukraine’s current status as one of the poor countries was due to the financial crisis of 1997-1998. However, several pages prior to this assumption, he blames the erroneous strategy of economic and social reforms which the leadership of sovereign Ukraine adopted by its own free will, without any pressure from abroad. The author believes that that choice was quite in line with the Ukrainian “romantic” nature, which differs from the Russian national character.

Kuchma admits to the low competitiveness of the Ukrainian economy, and blames the decline of the machine-building sector from 30.7 percent in 1990 to 13.8 percent in 1999 on “the pessimists” and “the defeatists.” The former term refers to the Western experts, while the latter to their Ukrainian adherents (p. 178).

Kuchma sounds an air of resentment when he mentions the lifting of liquefied gas prices by Russian companies in 1998 following the jumps in world crude oil prices. As a way out of the situation, Kuchma names “the scaling down at least by half of the trade barriers in the developed countries” (p. 179). Kuchma’s hurt pride is hardly understandable, especially since he concedes in another passage that the free market never makes concessions to anyone. It seems that in this situation, as on many other occasions, Kuchma is caught in his own trap: he appears to be treating Russia not as an equal partner, but as a former metropolitan country that owes a debt to Kiev.

How does the president view the federal structure of the Ukrainian state? Today, this issue is being broadly discussed in Ukrainian society, yet few dare write about it. The author insists that turning Ukraine into a federation is impossible, since it might trigger territorial disputes with neighboring countries.

Romania, Turkey, Poland, Hungary and the Slovak Republic are making claims for Ukrainian territories already, although so far these ideas have only been voiced by radical newspapers and political organizations. Kuchma also mentions in this

connection the May 21, 1992 resolution by the Supreme Soviet of Russia which acknowledged the 1954 decision to hand over the Crimea to Ukraine to be unconstitutional, and the July 9, 1993 resolution on the Russian status of Sevastopol.

The author offers a detailed analysis of Ukraine’s bilingualism, and forwards numerous arguments to support his thesis that giving an official status to the Russian language would be an untimely decision.

Naturally, the author is forced to consider the complicated relations between the various religious denominations in Ukraine. He avoids an assessment of the activities of the Uniat Church [which combines Eastern Orthodox rites with subordination to the Vatican – Ed.] during World War II, but mentions the Council of Bishops, convened in 1946, to revoke the Brest unification agreement of 1596 and the events that occurred after the Council meeting. Kuchma’s presidential status implies that he should meet with the head of the Russian Orthodox Church more often than with the heads of the other confessions – which he actually does since this is the most populous of all Ukrainian religious denominations. Yet he cherishes the hope to see the rise of a national Ukrainian Orthodox

Church at some early date (p. 491). The reader may be surprised to learn that the Vatican maintains relations with the Orthodox Church which reports to the Moscow Patriarchate, and does not recognize the breakaway Orthodox Church of Metropolitan Philaretos or the Church of Halichina. One can only agree with Kuchma's declaration that "whatever the reasons for the amicability and tactfulness in these relations, be it in the clerical, secular or government spheres, it is much more desirable than pressure and offensiveness" (p. 492). Kuchma insists on proceeding from the reality of the present, as opposed to the practices from the past, as "the latter approach may lead us into a deadlock" (p. 464). Although the author prefers "to close up the issue of the historical debt," he says that Russia has debts to Ukraine. Specifically, he raises the issue of overseas property of the former

Soviet Union, "the return of cultural values" (it remains unclear how this claim corresponds with his own idea of Russia's and Ukraine's "joint cultural ownership"), and, most importantly, the repayment of the deposits which the Ukrainian people held in the Soviet Union Savings Bank; this figure totaled 83.4 billion Soviet rubles as of December 31, 1991.

In conclusion, Kuchma repeats that the Ukrainian people and the Russian people have followed different historic paths, and have different ethnic experiences and self-identifications. There is also a great difference in their culture and language, their relationships with the geographic and geopolitical environment, resource reserves, overall weight in international politics, and opportunities for mutual influences (p. 507).

This book could be the basis for a profound discussion on the highly sensitive issue of the ethnic component in international relations.



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