

Chapter 4

Russia

1. Exacerbated Domestic Confusion of Russia

(1) Yeltsin Government and Economic Crisis

Due to a serious deterioration of political, economic and social conditions, things in Russia are assuming an increasingly serious aspect. In March 1998, President Boris Yeltsin unceremoniously relieved Viktor Chernomyrdin of his office as prime minister and nominated Sergey Kiriyenko in his place. It is believed by many that Yeltsin dismissed Chernomyrdin because he was afraid of the growing influence Chernomyrdin was gaining. The reason why Yeltsin nominated Kiriyenko as prime minister was that he felt: that Kiriyenko would not pose any threat to his presidency; and that as Kiriyenko had no network of contacts in the old or new financial and business groups, he should be able to carry reforms through; and that he was adept at dealing with regional problems. However, as Communist Party members of the Duma (the lower house of the Russian parliament) refused to confirm the nomination of Kiriyenko, the government came to a standstill for more than a month until the confirmation was finally made on April 24, 1998.

The Kiriyenko Cabinet, launched late in April, included a large number of young professionals with extensive skills and expertise. However, as ill luck would have it, the financial crisis in Russia began to take a turn for the worse in May. As a result, the Kiriyenko Cabinet was forced to announce on August 17 a sharp devaluation of the ruble and a 90-day moratorium on the repayment of private foreign debts. And Yeltsin discharged Kiriyenko on August 23 holding him responsible for his failure to avert the financial crisis.

Yeltsin nominated Chernomyrdin again as prime minister, but the haphazardness of his appointing a man he had once dismissed a short while ago as prime minister drew criticism from members of the Duma, and the Communist-dominated Duma refused to confirm his nomination. As a result, Yeltsin was left with no choice but to make a compromise by nominating Yevgeniy

Primakov who is favored by the Communist Party. And the Primakov Cabinet was thus born on September 11, 1998, and he appointed Yuriy Maslyukov as first deputy prime minister in charge of economic affairs. As regards the economic policy his Cabinet will pursue, Primakov proposed a gradualistic approach to solving problems in which the government plays a certain role.

Meanwhile, Aleksandr Lebed, former secretary of the Security Council, was elected as governor of Krasnoyarsk territory and has staged a comeback to the political arena. If Lebed, who concurrently holds a seat in the Federation Council (the upper house of the Russian parliament), joins hands with the governors of Primorsk territory and Sverdlovsk oblast who are strongly opposed to the way the federal government runs things, they as a group will have a strong voice in managing the affairs of the Russian Federation. Already, Lebed has begun to advocate a stronger initiative the regions should take in reforming the nation's economy and the necessity to strengthen cooperation among the regions. Besides the movements of regional leaders led by Lebed, those of military men who are unhappy with the military reform now being carried out by Yeltsin should be followed closely.

In his annual address to a joint session of the Federal Assembly in February 1998, Yeltsin stated that the country had ridden out the crisis, and conditions were ripe for the economy to start moving forward. As he pointed out, Russia's gross domestic product (GDP) grew, if marginally (up a mere 0.8 percent over preceding year), in 1997 and his government has successfully carried out a downward redenomination of its currency. However, domestic investment decreased and tax receipts dropped precipitously, reminding market watchers of the persisting fragility of the base of Russia's economic growth. What is more, as the Russian government covered its budget deficit with short-term government bonds carrying high coupon rates, it has fallen into a serious debt trap. And this has deepened the financial crisis in May 1998. In an effort to contain the crisis, the Kiriyenko Cabinet submitted to the Duma

on July 1 an emergency package proposing a cut in government spending and a reform of the tax system, which helped it to win \$22.6 billion in additional financial aid from the International Monetary Fund (IMF) on July 13. However, its effect proved to be short-lived, and the Cabinet had to devalue the ruble on August 17. And the Cabinet resigned en bloc to assume responsibility, and the domestic financial market plunged into turmoil on August 17.

At present, overcoming the economic difficulties has become a major challenge facing the Primakov Cabinet. Due to the persisting financial crisis, pension benefits and wages went unpaid, touching off a wave of protest movements across the country, including the closure of the railway service by mine workers. Arrears of, or delays in, payment of salaries of military personnel have become chronic, and quite a few military officers stationed in regional garrisons, unable to withstand the hardships they faced in such circumstances, have committed suicide. Worse yet, the housing situation for those who have been discharged from active duty as a result of military reforms is still critical.

Because of the political turmoil and economic confusion that have jolted the nation in 1998, Yeltsin has increasingly come under fire from the Communist-predominant Duma.

(2) The Russian Far East in Uncertainty

The political confusion in the nation's capital has caused a subtle change in the power relations between national and regional political leaders. Particularly, the negative stance against the Yeltsin government (First Deputy Prime Minister Anatoliy Chubais, in particular) taken by Gov. Yevgeniy Nazdratenko of Primorsk territory who had been criticizing the central government over the Sino-Russian border agreement, the shortage of energy in Primorsk territory, and arrears of payments of salaries to employees of state enterprises in the region stood out. For instance, when Yeltsin haggled with the Duma over the nomination of Chernomyrdin as prime minister, the governor sided with the

Duma, and when Primakov was confirmed as prime minister, he promptly expressed his support of Primakov and scathingly criticized Yeltsin who highly regarded Chubais, an advocate of market economy. In an effort to check the rise in prices of the necessities of life, the government of the Republic of Sakha introduced price controls independently of the central government. On September 1, its government banned raises in the prices of basic foodstuffs imported into the republic and deferred raises in transportation charges.

The political turmoil in the nation's capital has strengthened the position of regional leaders vis-à-vis the central government. However, as regional governments are heavily dependent on subsidies from the central government, those of the Russian Far East are not likely to alienate themselves from the central government. Owing to a vicious circle of sluggish investment, a decline of industrial production, an increasing number of loss-making enterprises and growing wage arrears, the economy of the Russian Far East has remained bogged down in recession. Historically, the defense industry had carried heavy weight in the economy of the region, and a delay in defense conversion has contributed to the deterioration not only of the industry itself but related industries as well. Aware of this, the central government has been trying to revitalize the freight transportation of the Trans-Siberian Railroad by cutting its freights and creating jobs thereby. Meanwhile, thanks to the infusion of large amounts of foreign capital, the Sakhalin Oil Project has begun to produce good economic results, and work for the development of businesses related to the project and the construction of infrastructure are under way.

On the whole, however, the manufacturing industry in the region remains sluggish, and its dependence on the development of natural resources continues to increase. In the Russian Far East, particularly, Khabarovsk and Primorsk territories, which depend heavily on imported foodstuffs, butter, salt and sugar have disappeared from the store shelves, and prices of meat products have risen sharply in recent years. Thus, the economic crisis currently

deepening in the central part of the nation has hit hard the inhabitants of the region. Coming as it did at such a critical juncture, the chronic wage arrears have prompted workers across the region to stage strikes demanding a prompt payment of their wages. Moreover, the health of the region's population has deteriorated as witnessed by a rise in the incidence of tuberculosis, and crime has also increased markedly.

The military is heavily laden with problems. For instance, a electric power company suspended supplies to the headquarters of the Trans-Baikal Military District and its military facilities at 20 locations on August 5 for failure to pay utility bills. In March 1998, a laxity in military discipline came to light when a garrison unit stationed in Primorsk territory was caught selling power to unauthorized users. Furthermore, the health of soldiers has deteriorated and many of the sailors inducted into the Pacific Fleet had criminal backgrounds.

In such circumstances, it is feared that discontent is growing among those who have not benefited from the economic reform, including military personnel.

2. The National Security Concept and Its Implication

The formulation of a national security concept, which has been one of the major tasks of the Yeltsin government, was completed and it was announced as The National Security Concept of the Russian Federation (the concept) on December 17, 1997. The Concept is a document defining the basic direction of Russia's security policy and consists of four chapters, namely, Chapter 1 "Russia in the World Community," Chapter 2 "Russia's National Interests," Chapter 3 "Threats to the National Security of the Russian Federation," and Chapter 4 "Guaranteeing the National Security of the Russian Federation."

Its significance lies in the fact that the Russian government has officially committed to writing explicitly its basic idea that se-

curity is a comprehensive concept that embraces political, diplomatic, military and economic elements. Put another way, the Concept theorizes that as it is not enough to ensure the security of a country merely by countering a military threat, it is necessary to prepare the nation against various forms of threats, and that as the resources available for Russia are limited, it has to take a comprehensive approach to solving security problems. Another point worth mentioning is a statement in the Concept that the national interests of Russia are not confined to the interests of the state but include those of individual citizens and society as a whole.

The Concept reflects the fundamental perception of the Russian leadership that as the international community is becoming multipolarized, preconditions for demilitarizing international relations have been created, so that the danger of a direct aggression against Russia decreased. On the other hand, there still remain a number of problems that Russia cannot countenance as they threaten the security of Russia — such as the eastward expansion of the North Atlantic Treaty Organization (NATO), and the alienation of Russia from the integration process in the Asia-Pacific region. It expresses concern about the economic crisis Russia is experiencing and the tardy progress being made in creating a new defense system. It concludes that Russia is endowed with conditions that enables it guarantee the security of its own in the 21st century: Russia occupies a unique strategic position on the Eurasian Continent; has a vast amount of natural resources; has established the basic institutions of democratic statehood and a multistructure economy; has an indigenous culture and tradition; and maintains a strong nuclear capability.

The Concept takes up various other questions that pose a threat to the security of Russia. Particularly, it admits that Russia's economic crisis is a root cause of all threats to its security. In the area of defense, it acknowledges that existing and potential hotbeds of local conflicts and armed conflicts on Russian borders constitute the most real threats to its security. It points out threats

existing in nondefense (economic, political and social) areas — the depletion of natural resources, destruction of the environment, nationalism, ethnic problems, separatism, terrorism, drug trafficking and the proliferation of weapons of mass destruction.

The Concept lists five tasks Russia must address to evolve conditions favorable for its development, create and maintain economic, political, international and military situations that are effective for eliminating threats to Russia. The first is the boosting of the economy. The second is to strengthen socio-political stability, and build harmonious interethnic relations. The third is to build equal partnerships with the world's leading countries in a way designed to ensure the international security of Russia. The fourth is to strengthen national security in the fields of defense and information. And the fifth is to ensure vital activities of the population in a technogenically safe and environmentally clean world. It is worthy of note that the Concept states that Russia is interested in joining economic and political organizations of the world, Europe and Asia, and that it will endeavor to create multilateral security organizations in the Asia-Pacific region and South Asia.

3. Foreign Policy to Stress Its Presence

(1) Economic Interests and Participation in the Asia-Pacific Region

As indicated in The National Security Concept of the Russian Federation, Russia has been attaching increasing importance to promoting its national interests, particularly, its economic interests. While asserting its presence on the world stage, it is actively involved in diplomatic activities aimed at multipolarizing the world to counter the unipolar dominance of the United States. Such rivalry showed up conspicuously over the Iraqi crisis, the Indian and Pakistani nuclear tests and the Kosovo problem. The United States advocated sanctions while Russia insisted on a peaceful diplomatic solution. Such lines of Russian foreign policy were confirmed by

Yeltsin in a speech he delivered at the Foreign Ministry on May 12, 1998. In that speech, Yeltsin asserted that Russia should pursue four foreign policy objectives — the maintenance of its territorial integrity; guaranteeing of national security; democratization of society; implementation of reforms and integration of its economy into the world economy. Having said that, he stressed that Russia should continue to be a great power. Commenting on the U.S.-Russia relationship, he said that “after a period of a certain illusion and overblown expectations, equal cooperative relationship are being formed with the United States.” While Russia attaches importance to cultivating relations with countries in Europe, notably France and Germany with a view to bolstering its efforts to build cooperative relationships on an equal footing with the United States, it takes a serious view of its relations with countries in Asia (China, India and Japan, in particular) and has been promoting all-directions cooperative diplomacy. However, as Russia needed economic aid from the IMF to ride out its economic difficulties, it has become more difficult than before to build an equal relationship with the United States which has a lot of clout with the IMF. As the breakdown of the U.S.-Russia summit meeting which took place early in September 1998 over the eastward expansion of NATO symbolizes, the United States is not likely to return to a honeymoon with Russia any time soon.

As it seeks to build an equal relationship with the United States, Russia aims to strengthen its relationships with countries of the Asia-Pacific region to secure economic interests in the region. In a press conference in which Foreign Minister Primakov summarized Russia's foreign policy in 1997, he emphasized that Russia was admitted to the Asia-Pacific Economic Cooperation (APEC) and made marked improvement in its relations with member countries of ASEAN. Russia considers its admittance to APEC and expanded relationships with ASEAN as a breakthrough, and is thereby seeking to achieve concrete economic gains in this region.

(2) Promoting Partnership with China

Of China, India and Japan, Russia attaches particular importance to China, and this was pointed out in a number of official documents. For instance, in his annual message to the Federal Assembly in February 1998, President Yeltsin touched on Russia's relationship with China at the outset and devoted more space to it than he did to either Japan or India. Since Russia and China issued in April 1997 a Joint Declaration on a Multipolar World and the Formation of a New World Order, Russia announced that it shared with China the multipolarized world outlook, and that China has become an important partner of Russia. When the Iraqi crisis broke out, China and Russia issued a joint press statement in February 1998 and tried to restrain the United States by stating that they cannot accept a solution of the problem by force. While Russia cannot expect Japan, a U.S. ally, to play the role of restraining the United States, Russia saw a unique chance in persuading China to play that role.

When President Jiang Zemin of China visited Russia in April 1997, the two countries agreed to exchange visits regularly between the presidents, prime ministers and foreign ministers, and leaders of the two countries have since been visiting one another's country pursuant to that agreement. In November 1997, Yeltsin visited China and in February 1998, Premier Li Peng of China visited Russia. During a visit to China by Yeltsin in November 1997, the two countries issued a joint statement announcing the completion of the work of demarcating the eastern border between them. Most of the territories in the three regions (Khanka, Ussuri and Khasan) in Primorsk territory over which the two countries had long been disputing were ceded to China, but the question of sovereignty over the three islands (the Bol'shoy Ussuri Island and the Tarabarov Island off Khabarovsk and the Bol'shoy Island bordering on the Argun River), which have strategic importance for Russia, has been postponed. Thanks to this agreement, the eastern border between Russia and China has been firmly established for the first

time and the source of confrontation that had divided the two countries has been eliminated paving the way for greater stability of the relationships between them. On July 3, a summit meeting of five countries — China, Russia (represented by Foreign Minister Primakov), Kazakhstan, Kyrgyzstan and Tajikistan — was held in Almaty. At the end of the meeting, foreign ministers of these five countries issued a joint statement declaring that they will strictly carry out the Agreement on Strengthening Confidence in Military Field in Border Areas of 1996 and the Agreement on Mutual Reduction of Armed Forces in Border Areas of 1997.

Results Russia has achieved in the field of economic exchanges with China tended to lag behind those it achieved in the political field. Trade between the two countries in 1997 came only to about \$6.12 billion (according to the data available as of February 1998) compared with \$5.72 billion in 1996. However, Russia landed a contract from China in December 1997 to build a nuclear power station in Lianyungang Port. The contract was one of the largest between the two countries. Russia attaches importance to expanding its trade with China by cooperating in the field of fuel and energy.

There have been active military exchanges between Russia and China. From the Chinese side, Gen. Liu Huaqing, vice chairman of the Central Military Commission, and Lt. Gen. Xiong Guangkai, deputy chief of the General Staff visited Russia in August and November 1997, respectively. From the Russian side, Andrey Kokoshin, secretary of the Defense Council, and Col. Gen. Valeriy Manilov, deputy chief of the General Staff, visited China in January and July 1998, respectively. During his visit to Russia, Liu reportedly signed an agreement on a purchase of \$100 million worth of Russian-made weapons. During his visit to China, Manilov discussed with his Chinese counterpart strengthening cooperation in the military field between the two countries and stability of the Asia-Pacific region and South Asia.

(3) Developments in Japan-Russia Relations

The year 1997 in which summit meetings between Japan and Russia were held in Denver (June) and Krasnoyarsk (November) has become a year worthy of special mention in the history of Japan-Russia relation. In April 1998, another summit meeting of the two countries was held in Kawana, Japan, and in July the prime minister of Russia visited Japan, first ever visit by a Russian prime minister to Japan. In November, Prime Minister Keizo Obuchi of Japan visited Moscow, and it was the first official visit to Russia made by a Japanese prime minister since 1973.

At the Krasnoyarsk meeting, it was agreed that the two countries will make the utmost efforts to conclude a peace treaty pursuant to the Tokyo Declaration by the year 2000, thus setting the deadline "the year 2000." It is important that the conclusion of a peace treaty was made contingent on the solution of the Northern Territories issue in accordance with the Tokyo Declaration. In his message to the Federal Assembly on national security carried in the July 1996 issue of *Diplomaticheskiy Vestnik* published by the Russian Foreign Ministry, Yeltsin stated that his government will endeavor to conclude a peace treaty with Japan as a basic direction of Russia's foreign policy during the period of 1996 and 2000. However, the phrase "pursuant to the Tokyo Declaration" was missing in that message. In this sense, the Krasnoyarsk agreement owes its existence to the hard decision made by Yeltsin. And the drawing-up of a Hashimoto-Yeltsin plan was also significant, because it will provide a basic framework within which the economic relationship between Japan and Russia will develop steadily in coming years. In his annual message to the Federal Assembly delivered in February 1998, Yeltsin made no mention of a peace treaty and only referred to the same plan, suggesting that Russia pins high hopes on the plan.

At the Kawana summit, both Japan and Russia made a new move with respect to a peace treaty. The two countries agreed to make efforts to settle their differences on the Northern Territories

issue in accordance with Paragraph 2 of the Tokyo Declaration and to include in the peace treaty the principle concerning friendship and cooperation between the two countries in the years to the 21st century. It was reported that Japan had proposed a method of settling the question of the Northern Territories.

The Russian reply to the Japanese proposal was given to Obuchi on November 12, 1998 during his visit to Russia. The Moscow Declaration signed by Yeltsin and Obuchi at the conclusion of their meeting stated that the two countries should work toward building a creative partnership, including a complete normalization of relationships between the two countries pursuant to the Tokyo Declaration and the Moscow Declaration, and they reaffirmed their resolve to do their utmost to conclude a peace treaty by the year 2000. For this purpose, they decided to set up a subcommittee on border demarcation and a subcommittee on joint economic activities.

On the other hand, the Yeltsin government wants to expand trade with, and investment from, Japan, and Russia is keenly interested in integrating itself into the political and economic system of the Asia-Pacific region. At the Krasnoyarsk summit, Japan supported Russia's joining in APEC. Owing to the initiative taken by Japan at the Vancouver summit of APEC, the affiliation of Russia with APEC was approved. It is thought that if the relationship between Japan and Russia deepens in all areas including negotiations for a peace treaty and economic cooperation, it would be possible to build a truly creative partnership between the two countries.

Meanwhile, steady progress has been made in the areas of security dialogue and defense exchanges. Administrative Vice Minister of Defense Masahiro Akiyama of Japan's Defense Agency and Adm. Kazuya Natsukawa, chairman of the Joint Staff Council, visited Russia in January 1998 and in May 1998, respectively. And in return, Col. Gen. Anatoliy Kvashnin, chief of the General Staff, visited Japan in December 1998. During his visit to Russia,

A combined search and rescue exercise conducted by the Maritime Self-Defense Force of Japan and the Russian Navy (July 1998). (Courtesy of Kyodo News Agency)

Akiyama exchanged views with the Russian side on defense exchanges and security dialogues, and how multilateral security dialogues in the Northeast Asia should be promoted. Admiral Natsukawa, the first chairman of the Joint Staff Council to visit Russia, conferred with the minister of defense, the chief of the General Staff and the commander in chief of the Navy of the Russian Federation about the situation in the Northeast Asia, defense exchanges and confidence-building. Kvashnin, the first chief of the General Staff to visit Japan, likewise conferred with the defense minister, the administrative vice defence minister and the chairman of the Joint Staff Council of Japan. During the three days from July 28 to 30, 1998, Japan's Maritime Self-Defense Force (MSDF) and the Russian Navy conducted the first-ever combined search and rescue exercise in northern waters of the Sea of Japan. In the joint exercise which simulated a search and rescue operation for a merchant ship in an accident, two destroyers (Admiral Vinogradov and Admiral Panteleyev) and two ship-based helicopters participated from the Russian Navy, and two destroyers

(Kurama and Yamagiri), one supply ship (Hamana), ship-based helicopters from MSDF, one rescue helicopter and one rescue aircraft from the Air Self-Defense Force participated. A constructive relationship is thus being built between the two countries in the area of defense.

(4) Developments in Relations with the Asia-Pacific Countries

Although it has become estranged from North Korea, Russia and North Korea held the third working-level consultative meeting on a new treaty that would define fundamentals of relationships between the two countries in Pyongyang in March 1998. This demonstrated Russia's new initiative to maintain its friendly relations with North Korea. In October 1997, the two countries signed an economic and technological cooperation agreement at the second meeting of the Intergovernmental Commission on Trade, Economic, Scientific and Technological Cooperation, and in March 1998, they signed a scientific and cultural cooperation program (1998-99).

Russia has been enjoying a good relationship with South Korea on the whole, and in November 1997, Lee Jung Rin, vice minister of national defense, visited Russia and signed agreement on cooperation on military technology, defense industry and logistics. Relations between the two countries soured temporarily when a member of the South Korean Embassy in Moscow was arrested by the Federal Security Service and was subsequently expelled as a persona non grata from Russia. Export of weapons from Russia to South Korea is not likely to increase significantly in coming years because South Korea does not want to disturb its relationship with the United States and because of the fiscal difficulties it is undergoing.

Russia's relations with Vietnam have improved markedly. In November 1997, Viktor Chernomyrdin visited Vietnam. It was the first visit paid by the Russian prime minister to Vietnam after the Soviet collapse. He conferred with the Vietnamese side on Vietnam's debt to Russia estimated to amount to \$15 billion, the

expansion of oil drilling projects and military-technological cooperation. In return, the minister of foreign affairs of Vietnam visited Russia in May 1998, and it was followed by a visit to Russia by the president of Vietnam, Tran Duc Luong on August 25. On that occasion, the two countries issued a joint communique concerning bilateral cooperation for the expansion of trade and for the exploration and development of oil and gas fields, and signed an agreement on the construction and operation of a Vietnamese oil refinery and an agreement on cooperation in military technology. Some Russian leaders take the view that Vietnam, which needs Russia as a counterbalance to China, could play a major role in bringing Russia and ASEAN together. Russia has thus begun to build an economic track record in Southeast Asia.

4. Military Reform and the Armed Forces

(1) Unification of the Security Council and the Defense Council

The Security Council and the Defense Council, which had been separately involved in the formulation of security and defense policies, have been consolidated.

Aleksandr Lebed who supported Yeltsin in a runoff presidential election was appointed as secretary of the Security Council. And, in order to curb the political activities of Lebed who began to show his presidential ambitions for the next election, Yeltsin established in July 1996 the Defense Council and assumed the office of its chairman. However, as Lebed had already left the government, there no longer was the necessity of running two organizations in parallel. Therefore, Yeltsin consolidated the Defense Council into the Security Council, reduced its staff by half and appointed Andrey Kokoshin, secretary of the abolished Defense Council, as its secretary.

Now that the two analogous have been unified, the immediate task confronting the Security Council was to strike a balance between the military requirements of Russia and its stringent eco-

conomic resources. After the Kiriyenko Cabinet was launched, a Commission on the Development of the Armed Forces was appointed with Prime Minister Kiriyenko as its chairman. The bleakness of the situation relating to military reform has not eased, but this marked the first step to the implementation of the reform.

(2) Military Reform under Financial Constraints

Since Igor Sergeyev assumed office as minister of defense in May 1997, military reform has begun to take shape, ushering in an era of real reform.

In the past, the necessity for military reform had been advocated and plans had been formulated. However, not much progress has been made except reductions of troops largely on account of the lack of funding. In mid-1997, however, Yeltsin made it clear unequivocally that military reform is subject to fiscal constraints, and The National Security Concept of the Russian Federation defined that the military capability is constrained by the nation's economic power. Pursuant to such policy, Yeltsin told newly appointed Defense Minister Igor Sergeyev that the defense budget would be held below an amount equivalent to 3.5 percent of GDP.

The amounts that had actually been appropriated in defense spending so far had fallen about 20 percent short of the defense budget due to shortfalls in tax revenues and had not reached 3.5 percent of GDP. For example, the government had earmarked 3.8 percent of GDP for defense budget in fiscal 1997 (January through December), but only 3.1 percent of GDP has been actually spent. In fiscal 1998, while the 3.5-percent ceiling was placed upon defense budget, but funds actually appropriated in defense budget came to 2.9 percent of GDP. If this pattern holds, actual defense spending is likely to fall short of the upper limit set in the budget.

As defense spending is expected to be reduced further, the Armed Forces of Russia may be driven to a position where they may have to start a fundamental organizational restructuring and dispose of their assets besides troop cuts. The Armed Forces have

already transferred the Construction Troops and the Railroad Troops to other jurisdictions, and have sold off their commercial organizations and their assets. As the difficulties are likely to persist, pressure on the Armed Forces to make further self-help efforts will grow stronger in coming years.

In the Russian Far East, servicemen stationed in remote outposts who return home on furlough take advantage of military transport aircraft to save on traveling expenses. In Primorsk territory, the management of the Zorotaya Dorina military airfield was transferred from the Defense Ministry to the city of Nakhodka. In such a manner, the military has begun to take measures to cut its expenses.

(3) A 500,000 Troop Cut and Organizational Restructuring

The Defense Ministry has made further cuts in its personnel and has reorganized the services of the Armed Forces. And this represents a major move the government has made since the Soviet era.

The personnel strength of the Russian Armed Forces was fixed at 2.7 million troops when the Armed Forces came into being in 1992. The number had been reduced to 1.7 million by about 1996. Since he assumed office as defense minister in 1997, the personnel strength of the Russian Armed Forces has been in a process of reduction by another half a million in two years (1997 and 1998). In 1997 alone, the personnel strength was cut by 200,000. According to its plan, personnel strength will be cut by approximately 30 percent in the 1997-1998 period, to a level less than half the number it had in 1992. While its numerical strength is being reduced, the introduction of the volunteer system and the modernization of weapons aimed at improving the quality of its armed forces have made little headway on account of a shortage of funds. Expenses for maintaining the Armed Forces account for roughly one half of official defense spending and this seems to be a reason why the Defense Ministry is trying to reduce military personnel to

lessen the maintenance costs. How deeply Russia can cut its troops will depend on the performance of its economy. Given the current state of its economy, Russia is considering having modernized armed forces with no more than 1 million or possibly 700,000 troops.

As part of its reorganization program, Russia has consolidated in November 1997 the Military Space Force, and the Missile and Space Defense Force of the Air Defense Force into the Strategic Missile Force. It is said that these moves are aimed at saving manpower and improving the overall efficiency of these units. Some say that the Strategic Missile Force is trying to raise funds by incorporating into it the branch that launches commercial satellites. The first thing Sergeyev did upon assuming office was reorganization and consolidation of the Strategic Missile Force, of which he had been commander in chief. According to Col. Gen. Vladimir Yakovlev who was appointed as commander in chief of the Strategic Missile Force, the consolidation will improve not only its readiness, its operational reliability and efficiency, but also nuclear deterrence.

In January 1998, the Directorate of the commander in chief of the Land Force was abolished by a presidential decree of July 1997. In its place, a Main Directorate of the Land Force and a Main Directorate of Combat Training of the Armed Forces were established. By virtue of these changes, the Land Force will be directed by the General Staff in terms of command and brought under the control of these main directorates in terms of management. In addition, a Directorate of Commander of Missile and Artillery, a Directorate of Commander of Army Air Defense Force and a Directorate of Commander of Army Aviation were established. These main directorates and directorates seem to be responsible for the relevant operations of not only the Land Force, but also other services and paramilitary units. Although the Directorate of the commander in chief of the Land Force was abolished, the function to be performed by the Land Force has been expanded. In addition,

the military districts to which the Land Force units are deployed will command paramilitary units in times of war as necessary.

Military districts have been given the status of an operational and strategic command, charged with the responsibility for defending border areas in a war time by deploying full-readiness divisions or regiments (each district has one or two division or regiment-level units of full readiness) and for supporting the main force where necessary. At present, there are eight military districts and Volga and Ural military districts, and Trans-Baikal and Siberia military districts will be consolidated by 1999 to reduce the number to six. The Air Force and the Air Defense Force were scheduled to have been consolidated into a new air force by the end of 1998 to reduce the number of its personnel by 30 percent to 45 percent. As a result of the consolidation of the Air Force and the Air Defense Force, the number of services will be reduced from five to four, and it will be further reduced to three (the Land Force, the Navy and the Air Force) by 2005.

(4) The Military and a Plethora of Problems

Although part of the military reform program is being carried out, major problems facing the military — such as housing shortages, wage arrears and early retirement of young officers — are yet to be addressed. Unless the funding situation improves, fundamental solutions to these problems will be difficult to achieve.

According to the head of the Main Personnel Directorate of the Defense Ministry, the ministry has a shortage of 100,000 housing units as of April 1998. What is worse, the ministry has not been able to secure 23,000 housing units for servicemen who will be discharged from the active duty as a result of troop cuts planned in coming years. If the ministry cannot secure housing units for those who are designated for retirement, they may have to remain in service.

In fact, a large number of servicemen are leaving the service either by discharge or by voluntary retirement. According to a report released in April 1998, there has developed a shortage of one-

third of the young officers required, posing a serious problem to the Ministry of Defense. It is said that they are leaving the service largely because of a lack of confidence in the future of military service, low wages and wage arrears, and the uncertainty of social security for servicemen. In his annual message to the Federal Assembly in February 1998, Yeltsin said that wage arrears should be eliminated for servicemen, that wages would be raised at the end of the year and that the government would take measures to solve the housing problem. This was a promise repeatedly made and yet to be honored. Unless drastic measures are taken to improve the livelihood of servicemen, outflow of military talents is likely to continue in coming years.

Worsening treatment of servicemen is taking a heavy toll of their morale, and accidents and cases of criminal offense in which servicemen are involved have occurred repeatedly. For example, 12 out of 56 ammunition depots of the Pacific Fleet located in the suburbs of Vladivostok were gutted by fire after explosions in November 1997. According to military prosecutors who investigated the explosions, about one half of the custodial staff of the depots have committed irregularities, and these weapons depots had the appearance of a bazaar of weapons. In a regular inspection of the Pacific Fleet conducted in January 1998, it was discovered that the Pacific Fleet aviation had illegally sold 1,000 tons of aviation fuel to airplanes based at Vladivostok Airport, which is located adjacent to the aviation.

(5) The State of the Russian Forces in the Far East

During the past year, things in the Russian forces in the Far East have not changed much compared with the past several years, except the consolidation of the Trans-Baikal and the Siberian military districts, and the reorganization of units stationed in the Kamchatka Peninsula. It is believed that troop cuts have affected

the forces in the Far East, but reports on the subject have been fragmentary and sketchy.

The Kamchatka Peninsula is an out-of-the-way place located at the easternmost tip of the Russian Far East. There is no overland access to that part of the country and it can be reached only by air and sea. A submarines force, largely comprising of nuclear-powered ballistic missile submarines (SSBN), and Land Force and Air Force units are stationed there. With a view to simplifying the chain of command and reducing the maintenance expenses to a bare minimum as part of the military reform program, these units are supposed to be unified under single headquarters. Subject to the proposed unification are the Kamchatka Flotilla and the nuclear-powered submarine force of the Pacific Fleet, the 25th Corps of the Far Eastern Military District and units of the Air Defense Force, and the Headquarters of the Joint Command in Northeast of Russia established under the Pacific Fleet will direct them. V. F. Dorogin, commander of the Kamchatka Flotilla was appointed commander of the Joint Command on March 23, 1998, and the newly established command began operation on June 1, 1998. An analogous joint command has already been created in Kaliningrad in the western part of Russia.

Military exercises — both maneuver and command-post — in the Russian Far East during the period from September 1997 to August 1998 were limited in scale and frequency relative to the preceding years, presumably due to shortage of funding. However, as can be inferred from available evidences, field units are struggling to compensate for insufficient training under strict financial constraint.

The exercises which the Pacific Fleet conducted were worthy of note. Following the completion of the first phase of a classification tactical war game in August 1997, the fleet proceeded to its second phase in mid-September. Then, it participated in a strategic

**Chart 6. Major Exercises in the Russian Far East
(Sept. 1, 1997— Aug. 31, 1998)**

Date/ Duration	Designation	Exercise Director	Participating Forces	Location
—Sept. 5, 1997	Classifica- tion tactical war game	Vice Adm. Mikhail Zakharenko, commander, Pacific Fleet	30 surface combatants and submarines, 14 aircraft and helicopters, and air defense units	Waters off the Kamchatka Peninsula and the Pyotr Velikiy Bay
Sept. 3, 1997*	Brigade-level maneuver exercise	Not available	A brigade of the Far Eastern MD, and units of the Pacific Fleet	Far Eastern MD
Sept. 30— Oct. 3, 1997	Strategic command- post exercise	Army Gen. Igor Sergeyev, Defense Minister	Strategic Missile Force, Northern Fleet, Pacific Fleet and the Air Force	Throughout the country
Feb. 4, 1998*	Operational- mobilization training session	Col. Gen. Nikolay Kormil'tsev, commander, Trans-Baikal MD	Chita region gov- ernment, MVD, FSB, Trans-Baikal FD, Ministry of Emergency Situations, and FAPSI	Training center of the Trans- Baikal MD, military recruitment offices of the Chita region
March 12, 1998*	Command- post exercise	Lt. Gen. Yuriy Yakubov, first deputy commander, Far Eastern MD	Units of the Far Eastern MD	Sakhalin
April 20—25, 1998	Naval exercise	Vice Adm. Mikhail Zakharenko, commander, Pacific Fleet	50 surface combatants, submarines and auxiliary vessels, aircraft, and naval infantry	Sea of Japan
April 24, 1998*	MD command- post exercise	Col. Gen. Nikolay Kormil'tsev, commander, Trans-Baikal MD	Trans-Baikal MD, paramilitary units, local government, and Trans-Baikal Cossack corps	Trans-Baikal MD

Date/ Duration	Designation	Exercise Director	Participating Forces	Location
July 1, 1998*	MD command- post exercise	Col. Gen. Viktor Chechevatov, commander, Far Eastern MD	Far Eastern MD, Pacific Fleet, Eastern Internal District, Railway Troops	Far Eastern MD
August 25— 29, 1998	Naval exercise	Vice Adm. V. Fyodor, chief of staff, Pacific Fleet	17 surface combatants, auxiliary vessels and aircraft	Sea of Japan
Sept. 1, 1998*	Regimental tactical exercise	Maj. Gen. Varennikov	Motorized-rifle units	Sakhalin

Abbreviations:

FAPSI	Federal Agency of Government Communications and Information
FD	Frontier District
FSB	Federal Security Service
MD	Military District
MVD	Ministry of Internal Affairs

Notes: An asterisk(*) represents publication date of sources by which respective exercises were confirmed. Ranks are those that relevant personnel held at that time.

Sources: Relevant issues of *Krasnaya Zvezda* and *Vestnik Voyennoy Informatsii*.

command-post exercise, in which the minister of defense assumed directorship. In this exercise, it conducted missile-launch of a Delta-III SSBN. In April 1998, the Pacific Fleet conducted an exercise with 51 surface combatants and aircraft, including firing and bombing training exercises.

In April 1998, the nuclear-powered missile cruiser Pyotr Velikiy, which had completed its sea trial in the Barents Sea, was formally assigned to the Northern Fleet. Initially, the cruiser was to be assigned to the Pacific Fleet as its flagship, but it was transferred to the Northern Fleet presumably because the Russian Far East does not have adequate facilities to maintain the cruiser. This suggests that the shortage of funding is casting a shadow on the deployment of key naval vessels.

5. The Defense Industry and Its Restructuring

(1) The Defense Industry in Difficulties

At present, Russia attaches importance to its defense industry and considers the rebuilding of the industry as one of its top priorities. The defense industry is one of the precious few industries that are competitive on the world market, and its revitalization will go a long way toward strengthening its military strength and expanding its arms export. From the standpoint of security in East Asia, it is necessary to watch the progress Russia may make in rebuilding its defense industry.

Changes that have occurred in the security environment since the Soviet collapse, the deterioration of its economy and various other factors have driven Russia's defense industry into difficulties. Owing to a reduction in defense spending, government orders for weapons have decreased dramatically. The value of government orders fell in 1997 to one-sixteenth of that in 1991. Arrears of payment for orders by the government to defense enterprises has been increasing and their cumulative total has ballooned to 15.1 trillion rubles in 1996. As a result, weapons production in 1997 dropped to one-sixth of that of 1991. In the process, the number of workers employed by the defense industry has been cut by about 2.5 million.

Such being the situation, conversion and privatization of the defense industry has taken on a growing urgency. However, the conversion of the defense industry has made little progress due to the inadequacy of financial assistance from the government. Production of civilian goods by defense companies has been decreasing continuously: in 1995 it was down by 58.7 percent of the 1991 level; then in 1996, it shrank by 28.3 percent from a year ago; and during the first nine months of 1997, it declined by 6.7 percent from the same period of a year ago. Coming as it did on top of the sharp decrease in arms production, the slowdown in its production of civilian goods has taken a heavy toll of production of the defense

industry as a whole. The situation is particularly serious in the Russian Far East where a number of cities had been built exclusively for the purpose of developing and supporting the defense industry.

By 1996, 58 percent of defense enterprises had been privatized as their privatization made progress in response to the nation's shift to market economy. But a number of privatized companies went bankrupt as a result of poor performance. This has undermined the confidence of investors in the future of the industry as a whole and has put the brake on the increase in private investment, which is vital to the privatization of the industry.

As some defense companies have fallen into the hands of foreign investors in the course of their privatization, some in the Russian leadership feared that the security of Russia is being threatened. And the leadership has come to take the view that the government should buy back the shares of key defense enterprises that are strategically important or those that occupy a monopolistic position in the production of various types of weapons and military equipment.

As the conversion and privatization of the defense industry reached a stalemate, the Russian government has started sorting out defense companies that can pay their way and are strategically important. And it has taken a clearly defined stance committing itself to rebuilding such viable companies.

(2) Defense Industries Face Winnowing

With a view to tightening the control of the privatization of defense industry, Yeltsin signed in April 1996 a presidential decree establishing a Federal Committee on Control over Privatization of Defense Industry composed of 23 members.

By a presidential decree, the State Committee of Defense Industry, which was established in January 1994, was reorganized as the Ministry of Defense Industry in May 1996. Zinoviy Pak, who had been chairman of the same committee and concurrently vice

chairman of the Federal Committee for Control over Privatization of Defense Industry established in the previous month, was appointed minister of defense industry. In addition, a government order was issued in July 1996 banning the privatization of 480 state enterprises. These companies will remain as state enterprises protected by the state. As a result, the original plan for privatizing defense enterprises has been effectively changed in favor of maintaining their status, if not all, as state-owned ones.

In December 1997, the government adopted a program on restructuring and conversion of defense industry during the period up to 2005. According to Minister of Economics Yakov Urinson, the objective of the program was to concentrate defense production, which is currently done by 1,749 enterprises scattered across the country in 72 constituent entities, to 667 enterprises, and to enhance productivity of the most efficient enterprises, and thereby to develop highly competitive high-tech industry. And the government currently plans to spend 25.5 billion rubles to finance the program in the years to 2000. The objective of the program was also endorsed by The National Security Concept of the Russian Federation that was approved in December 1997. The Concept touches on the importance of revitalizing the production of high-tech weapons and promoting arms export, and the supply of advanced weapons to the Russian Armed Forces.

In his annual message to the Federal Assembly in February 1998, Yeltsin admitted the tardiness of progress the government made in 1997 in the structural reform of the defense industry and stressed the necessity to expedite its restructuring. As a direction of the restructuring, he stressed the importance of forming several groups of enterprises capable of producing internationally competitive high-tech products and establishing thereby a compact and highly efficient defense industry that has multifaceted high-tech production bases of the knowledge-intensive type. And he predicted that a defense industry restructured along these lines would enable the Russian Armed Forces to renew their equipment in a timely

manner and help Russia build a solid base of exports of its weapons to overseas markets.

In April 1998, Yeltsin signed the federal law "On Converting the Defense Industry of the Russian Federation." This law provides a statutory base for rebuilding and restructuring the defense industry during the next three years from 1998 to 2000. The budget for fiscal 1998 earmarked 3.0422 billion rubles to finance the program. The law lists as major objectives of the defense industry rebuilding program the improvement of its capacity for producing high-tech and highly competitive products, and the expansion of Russia's export capacity of weapons to overseas markets.

The National Security Concept of the Russian Federation, the program on restructuring and conversion of defense industry during the period up to 2005, the 1998 annual presidential message to the Federal Assembly and the Law "On Converting the Defense Industry of the Russian Federation" are all designed to provide active support to the government policy: to rebuild the defense industry into an internationally competitive high-tech industry; to increase its capacity of supplying military equipment to the Russian Armed Force; and to expand arms exports.

So far, several groups of internationally competitive defense enterprises have been formed and it is believed that the development of these groups will form a nucleus of the overhaul of the defense industry. They include the Sukhoy Group, which produces Su-27 and Su-30 fighter aircraft, Moscow Aircraft Production Organization MiG (MAPO-MiG), which produces MiG-29 fighter aircraft and Kamov helicopters, Central Design Bureau Rubin, which builds Kilo-class submarines, and joint-stock company Antey, which produces S-300 surface-to-air missile systems. In Far Eastern Russia, the Komsomolsk-on-the-Amur Aviation Production Association (KnAAPO), which produces Sukhoy fighter aircraft, was included in the groups that the government has decided to foster.

(3) Russian Defense Industry and East Asia

As the Russian government put emphasis on strengthening its arms export as one of the major objectives of overhauling its defense industry, it is concerned that an increase in such exports may have an adverse impact on the security of the world. Moreover, one has to watch closely the moves Russia will make because it attaches special importance to China, India, South Korea and Southeast Asian countries as export markets of its weapons.

Due in part to the currency crisis that had swept through Southeast Asian countries, the dollar value of Russia's arms exports decreased from \$3.5 billion in 1996 to \$2.6 billion in 1997. However, exports of Russian weapons to several countries have been maintained much despite the general downward trend. Of particular importance to Russia were arms deals it made with China and India. It is reported that China placed orders for one Kilo-class submarine and two Sovremenny-class destroyers with Russian weapons makers in 1997. It is reported that China is negotiating with MAPO-MiG for a joint research project for the production of fighter aircraft. In 1996, Russia signed an agreement for the sale of 40 Su-30K aircraft to India and delivered the first eight aircraft to India in 1997. In November 1997, India placed an order with Russia for two Kilo-class submarines and three frigates.

In 1997, Russia signed an agreement for the sale of the Igla low-altitude portable surface-to-air missile system to Singapore in Russia's first arms deal with the country. Such development of new export markets for its weapons suggests that Russia is actively involved in pushing the products of its defense industry.

These moves Russia has been making to rebuild its defense industry are likely to accelerate the arms export activities of Russia in the East Asia. This in turn deserves careful attention in coming years.