

Chapter 6

Russia—From Stability to Growth

President Vladimir Putin's term of office expires in the spring of 2004. The principal achievements of his four-year term would include the emergence of the most stable political situation since the collapse of the Soviet Union and the overcoming of the grave economic troubles that used to characterize Russia in earlier periods. As a result, he has earned a high public approval rating. This, coupled with the ruling coalition's overwhelming victory in the State Duma elections in December 2003, would make victory in the next presidential election scheduled for March 2004 appear a foregone conclusion. However, Russia still has a long way to go before it draws level with advanced nations of the West in terms of the promise Putin made at the start of his presidency to bring democracy and a market economy to Russia.

With an eye on "the revival of a strong nation," President Putin mentioned in his Annual Presidential Address to the Federal Assembly in 2003 three national tasks to be achieved by 2010: the doubling of gross domestic product (GDP), the overcoming of poverty, and the modernization of the armed forces. To achieve these goals, he formulated the Russian Energy Strategy for the Period to 2020 and embarked on projects for the development of energy in East Siberia and the Russian Far East that hold the key to the recovery of the Russian economy. In order for Russia to be able to concentrate on its economic recovery, it must create a stable strategic environment. For this reason, Russia maintained cooperative relations with the United States even after the latter's use of force against Iraq, and took actions designed to stabilize the situation in East Asia.

Boosted by a robust economy and an increase in the defense budget, military exercises are on the rise, and, as can be seen in the establishment of the first military base outside the country since the collapse of the Soviet Union, there are signs of the recovery of military activities, which had been low-key until recently. With the creation of a downsized, one million-strong military force expected to be completed by 2005 in response to a rapidly decreasing population, the emphasis of military reform has shifted from a cutback in numbers to modernization.

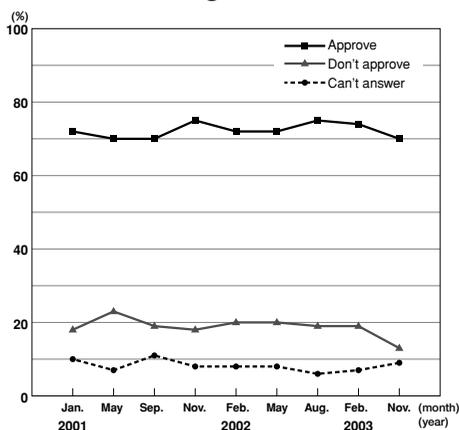
1. The Putin Government's Accomplishments and Challenges

(1) Assessing Russia's Stability and Its Political and Economic Transition

President Putin has succeeded in curbing to a certain extent the power of parliamentary groups (mostly the Communist Party), which had wielded significant political clout in the days of Boris Yeltsin and had often been at loggerheads with the government, as well as that of local elites and new financial cliques. As a result, the political situation is the most stable it has been since the collapse of the Soviet Union. Further, the approval rating of Putin has remained steady at around 70 percent, and a large majority of the Russian people supports the president's reforms. As his four-year term expires, a presidential election is scheduled for March 2004. Since there is no serious contender strong enough to challenge Putin's popularity, and since the ruling coalition won an overwhelming victory in the State Duma elections in December 2003, many believe that his reelection is virtually assured. However, Russia has a long way to go before it draws level with advanced nations of the West in terms of the election promise Putin had made when he assumed the presidency in May 2000, namely, to bring democracy and a market economy to the country.

In the area of democratization, Russia introduced a system of direct elections for the president, State Duma and local governors in the second half of the 1990s, and on paper at least the institutionalization of the democratic process has made steady progress. In reality, however, President Putin has tightened control over mass media, local elites and new financial cliques using "power ministries" such as the Ministry of Interior and the Federal Security Service

Figure 6.1. Changes in the approval rating of President Putin



Source: Data from the Web site of the All Russia Centre for Public Opinion Research.

Note: Poll was taken of 1,600 inhabitants in 100 areas covering the 40 regions of Russia. The statistical margin of error is less than 3.4%.

(FSB), and not a few criticized his governing style as authoritarian. For instance, according to an annual survey released in 2003 by Freedom House, a U.S. nongovernmental research organization, Russia ranked twentieth out of the twenty-seven former Soviet republics and former Soviet bloc, East European countries in terms of democratization. Moreover, its surveys also indicate that Russia's rating has been in decline year after year, suggesting that Russia's efforts for democratization may not be so highly regarded.

As regards the introduction of a market economy, the government has been carrying out the reform of the country's economic structure, which is heavily dependent on the energy industry, through the relaxation of regulations, the breaking-up of gas, railroad, and electric power monopolies and the revamping of the existing systems of land ownership, labor, pensions, and social security. However, these measures have not yet reached the stage where the economic structure has undergone fundamental change. Meanwhile, in May and June 2003, respectively, the European Union (EU) and the United States recognized Russia as a market economy. While these moves may have been politically motivated, they indicate that Russia's reform efforts are being recognized by the international community. However, Russia needs to solve a number of economic problems before it meets the conditions necessary for admittance to the World Trade Organization (WTO), a goal it is seeking to achieve as early as possible.

(2) Three National Tasks for Russia in the Years to 2010

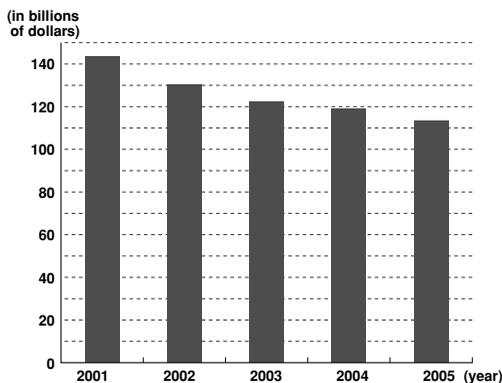
In his Annual Presidential Address to the Federal Assembly on May 16, 2003, President Putin stated: "Our entire historical experience shows that a country like Russia can live and develop within its existing borders only if it is a strong nation." He thus made clear that he would set as Russia's national goal "the revival of a strong nation" on a par with advanced nations. What President Putin means by this is that, while recognizing it is unlikely to return to the superpower status it enjoyed during the Cold War, Russia will remain a world power that can wield a degree of influence in international society at large. It also indicates his determination to build up state power strong enough to preside over a multiethnic federated state prone to the kind of ethnic dissent exemplified by the Chechen separatist movement. On this basis, President Putin introduced three national tasks Russia must tackle to revive a strong nation by 2010: to double GDP based on sustainable economic growth, to overcome the poverty afflicting one quarter of Russia's population and to modernize the

armed forces.

On the economic front, the radical market-oriented economic policy adopted in 1992 in the wake of the collapse of the Soviet Union caused hyperinflation that wrought havoc on the economy. Inflation began to subside from 1995, Russia's economic growth rate turned positive in 1997, then a financial crisis in August 1998 stagnated the Russian economy again. However, as oil prices recovered and the Russian Ruble was devalued in 1999, the economy picked up and grew 9 percent in 2000, an all-time high for the new Russia. Although the growth rate has fallen to 4–5 percent since 2001, it has remained at that level thanks to the vibrant energy industry that benefited from continuing high oil prices in the world market. In 2003, the economy grew 7 percent.

Since the Soviet collapse in December 1991, Russia has received large amounts of loans from industrialized countries and international agencies. But since 2000, Russia has been steadily repaying its debts without taking out additional loans, and repayment has reached its peak of \$17 billion in 2003. Russia is likely to complete repayment of its debt to the International Monetary Fund (IMF) by the end of 2008. The credit rating of Russian debts given by Moody's and other international credit rating agencies is also improving, and in the first half of 2003 alone, foreign direct investment in Russia has increased 50 percent over the same period of a year ago. As far as one can gather from these macroeconomic indicators, the Russian economy has emerged from the period of protracted stagnation following the collapse of the Soviet Union and has now been entering a growth phase. The three national tasks President Putin mentioned in his Annual Presidential Address to the Federal Assembly—doubling the gross domestic product, overcoming poverty, and modernizing the armed forces—were based on this recognition.

Figure 6.2. Changing balance of Russia's outstanding debt



Source: Data from the Web site of the Ministry of Finance of the Russian Federation

Note: Figures for 2004 and 2005 are projections.

(3) An Energy Strategy for Economic Recovery

In order to achieve these three national tasks and revive Russia's economy, the Putin administration recognizes the need to tackle energy development in a strategic manner by resolving energy shortages in certain areas of Russia and increasing energy exports that currently account for two-fifths of the nation's exports. The Russian Energy Strategy for the Period to 2020 spelled this out clearly, and it was given cabinet approval on May 22, soon after President Putin advocated "the revival of a strong nation" in his annual address on May 16. The Russian Energy Strategy proposes to promote energy development and exports through extension of oil and gas pipelines to the north, east, and south, and thereby aims to improve the domestic energy situation, accelerate the development of regional economies and strengthen Russia's position in the world market.

With the collapse of the Soviet Union, Russian crude oil production went into decline, but after bottoming out in 1996, it gradually recovered and has turned sharply upward since 2000. During the three-year period between January 1999 and December 2001, exports of oil, oil products, and natural gas rose by 18 percent. In 2002, Russia ranked second in the world in terms of daily crude oil production, and in September 2003 it overtook Saudi Arabia, the world's largest oil producer, in terms of monthly production, although Saudi Arabia has been cutting its output. Some forecast that if production increases as steadily as it is now, Russia will become the world's largest oil producer by around 2010. Contributing to the recovery of the Russian oil industry is the increase in foreign and domestic investment and introduction of new technologies that took place as the economic turmoil following the Soviet collapse settled down. This helped to restore the oil production capabilities of the major existing oil fields in West Siberia and other areas.

At the end of 2001, Russia's confirmed oil reserves were the seventh largest in the world. As half of its oil reserves remain untapped, it is estimated that Russia's exports of natural gas and oil could increase sharply if it develops new oil fields in West Siberia, East Siberia, the Caspian Sea, and offshore oil fields in the Far East. However, there are several factors that might hinder the progress of President Putin's energy strategy. Improvement of outdated energy infrastructures takes time and money. In addition, the international oil market is fluid and it is unclear how long the present rise in oil prices will continue. In order to help the economy recover in earnest, Russia needs to work steadily in

Table 6.1. Daily oil production by countries in 2002

Country	Daily production (1,000 barrels)	Worldwide share (%)	Change over previous year (%)
Saudi Arabia	8,680	11.8	-3.7
Russia	7,698	10.7	9.1
United States	7,698	9.9	0.3
Mexico	3,585	5.0	1.0
China	3,387	4.8	2.5
Iran	3,366	4.7	-8.6
Norway	3,330	4.4	-3.0
Venezuela	2,942	4.3	-8.3
Canada	2,880	3.8	6.4
United Kingdom	2,463	3.3	-0.6

Source: British Petroleum, *Statistical Review of World Energy 2003*.

Note: "Worldwide share" and "Change over previous year" are computed on the basis of each country's annual production measured in terms of million tons. Because of rounding, a country's annual production may not tally with the total of its daily production.

carrying out structural economic reform rather than relying too heavily on particular industries such as the energy industry.

With regard to new financial cliques that have gained considerable political influence over Russia's energy policy, one may note the arrest in October 2003 of Mikhail Khodorkovskiy, CEO of the leading Russian oil company YUKOS, considered the largest of these cliques, on suspicion of tax evasion. It appears he was arrested in line with Putin's intention to advance the government's energy policy by shutting the financial cliques out of politics. The president's high-handed political style produced resentment in some quarters, as can be seen in the resignation right after this incident of Aleksandr Voloshin, an aide to Putin, from his post as head of the Presidential Administration, in protest against Khodorkovskiy's arrest.

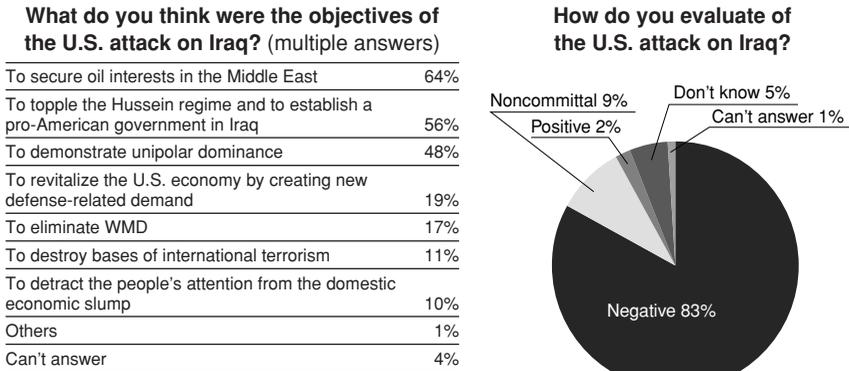
2. Post-Iraq Cooperation with the United States and Russia's East Asian Policy

(1) U.S.-Russia Relations after the U.S. Use of Force against Iraq

Russia prefers a multipolar world to a unipolar one revolving around the United States. Realistically, though, Russia is aware that the United States is the world's only superpower, and that Russia does not have the strength to check unilateralist actions by the United States. This awareness, it seems, was a factor in persuading Russia to follow a policy of cooperation with the United States.

Moreover, in order for Russia to concentrate on its economic recovery and on energy exports as declared in the Russian Energy Strategy for the Period to

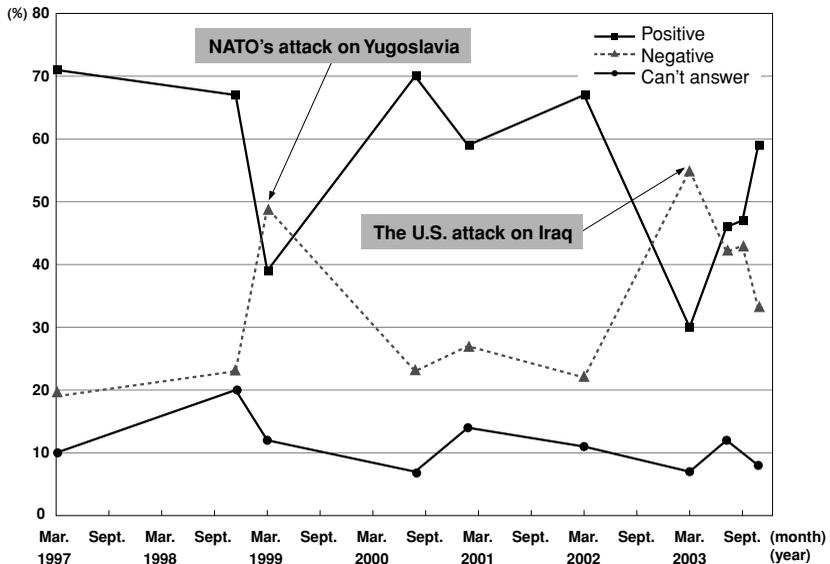
Figure 6.3. Polls on the use of force against Iraq



Source: Data from the Web site of All Russia Centre for Public Opinion Research.

Note: Polls were taken of 1,600 inhabitants in 100 areas covering the 40 regions of Russia on March 21–24, 2003. The statistical margin of error is less than 3.4%

Figure 6.4. Changes in Russian views of the United States



Source: Data from the Web site of the All Russia Centre for Public Opinion Research.

Note: Polls were taken of 1,600 inhabitants in 100 areas covering the 40 regions of Russia.

2020, the strategic environment surrounding Russia needs to be stable. Hence cooperation will be the basic imperative of Russian foreign policy at least until such time as its economy has recovered.

Relations with the United States, which had improved after the September 11 terrorist attacks, briefly became tense when the United States started

The heads of states/governments touring the Cathedral of St. Isaac in St. Petersburg (Kyodo Photo)

military operations in Iraq in March 2003. In the end, however, Russia relented and maintained its cooperative stance toward the United States. Immediately after the use of force against Iraq by the United States, Russia—together with Germany and France—fiercely criticized the U.S. attack on Iraq, calling it a grave political mistake that ran counter to international public opinion and the Charter of the United Nations. As the reasons for its opposition to the U.S. military action Russia cited the fact that the attack lacked specific grounds and legitimacy, and that it threatened Russia's economic interests in Iraq. A poll in Russia taken immediately after the U.S. use of force found that 83 percent of respondents opposed the attack, and anti-American sentiment surged significantly, mainly among the military and conservatives.

However, President Putin soon desisted from criticizing the United States, in effect saying on April 2 that Russia was not interested in seeing the defeat of the United States in Iraq. Subsequently (at the end of May 2003), the heads of forty-two states and international organizations including Prime Minister Junichiro Koizumi and President George W. Bush visited St. Petersburg, the second largest city in Russia, to attend a commemorative event marking the city's 300th anniversary. On June 1, a U.S.-Russia summit meeting was held, the first since the U.S. use of force against Iraq. At the meeting, the leaders of the two countries confirmed that the Iraqi issue did not have an adverse effect on U.S.-Russia relations and that the strategic partnership between the two countries had not changed; signed the Joint U.S.-Russia Statement on the New Strategic Relationship and the Joint Statement on U.S.-Russia Cooperation in Space; and exchanged instruments of ratification of the Treaty on Strategic

Offensive Reductions (Moscow Treaty). Later, at a G8 summit meeting in Evian, France, Putin delivered an address discussing the world economic situation and Russia's role, and stressed Russia's cooperative stance toward the United States.

Several contentious issues remain between Russia and the United States—Russia's assistance in the construction of a nuclear power plant in Iran, the prolonged U.S. military presence in Central Asia, and the eastward expansion of the North Atlantic Treaty Organization (NATO). However, as the two countries face new common threats—international terrorism and the proliferation of weapons of mass destruction (WMD)—and as Russia needs a stable strategic environment, cooperative relations between the two countries are expected to continue for the time being.

(2) Putin's Diplomacy and East Asia

For Russia, the strategic value of East Asia is of secondary importance to the former Soviet Union countries, Europe and the United States, and doesn't feature high on the list of foreign policy priorities. That said, if Russia wants its economy to recover through energy exports, then creating a stable environment in the East Asia will be just as important as maintaining cooperative relations with the United States.

Russia's greatest concern in East Asia is to maintain stable, cooperative relations with China, with which it shares a 4,700 kilometer border. The Russia-China cooperative relationship has seen steady progress. On May 27, 2003, President Putin had an informal summit meeting with President Hu Jintao of the People's Republic of China at the Kremlin. At the meeting, they signed a joint declaration vowing to strengthen the China-Russian Treaty of Friendship, Good Neighborliness and Cooperation (concluded in July 2001), and affirmed the expansion of the strategic partnership between the two countries. Soon after this, on May 29, the third summit

President Putin welcoming Prime Minister Koizumi prior to the summit meeting at St. Petersburg (Kyodo Photo)

meeting of the six-nation Shanghai Cooperation Organization (SCO)—Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—was held, and the heads of these states decided to activate, within 2003, the SCO Secretariat established in Beijing and the SCO Regional Antiterrorism Structure established in Bishkek, Kyrgyzstan.

North Korea's nuclear development and the Kim Jong Il regime do not in

Japan-Russia Action Plan

- 1. Deepening of Political Dialogue: Advancing multi-tiered and comprehensive dialogue** [remainder omitted]
- 2. Peace Treaty Negotiations: Overcoming difficult legacies from the past and opening up a new horizon for broad Japan-Russia partnership** [remainder omitted]
- 3. Cooperation in the International Arena: Advancing dialogue and action as strategic partners** [remainder omitted]
- 4. Cooperation in Trade and Economic Areas: Trust and actions—mutual benefit** [remainder omitted]
- 5. Development of Relations in Defense and Security: For the peace and safety of both countries**

The efforts of both sides have resulted in the remarkable expansion of relations between defense and security authorities in various areas and this has been a most important factor in enhancing mutual trust.

In areas of defense exchanges, in addition to mutual visits by the minister of state for defense of Japan and the defense minister of the Russian Federation on two occasions, other mutual high-level exchanges of defense officials continue to be made and consultations between defense authorities and mutual visits by naval vessels have been steadily implemented. In addition, the practice has been established of implementing joint exercises and goodwill exercises with regard to search and rescue operations.

Between the security authorities of Japan and the Russian Federation, cooperation has advanced in such areas as the issues of international terrorism, the illicit trade in narcotics and firearms, international organized crime including smuggling, and illegal fishing. In recent years, bilateral and multilateral consultations among maritime security authorities have been convened regularly.

Future actions

Both sides will actively implement cooperation over the following:

themselves pose a direct security threat to Russia, but as Russia wants to link the Trans-Siberian Railway and the Trans-Korean Railway, and to construct gas and oil pipelines to its Pacific coast, a stable, nuclear-free Korean Peninsula is important. This being the case, Putin has actively involved Russia in the affairs of the Korean Peninsula by holding annual summit meetings with Chairman Kim Jong Il of the National Defence Commission of North Korea since 2000,

(Defense exchanges)

Both sides will steadily advance bilateral defense exchanges through the continued implementation of regular high-level exchanges of defense officials including mutual visits by the minister of state for defense of Japan and the defense minister of Russia, consultations between defense authorities, joint exercises and goodwill exercises for search and rescue operations on the occasion of mutual visits by naval vessels, and annual consultations based on the Agreement between the Government of Japan and the Government of the Russian Federation Concerning the Prevention of Incidents at Sea beyond the Territorial Waters and Air Space Above Them signed in October 1993, and exchanges among research and education institutions.

There will soon be another visit to the Russian Federation by Japan's defense minister. On this occasion an exchange of opinions will take place with the aim of strengthening bilateral cooperation and trust in defense areas.

Both sides will regularly convene joint working group meetings concerning the development of defense exchanges and enhancement of confidence-building measures, in which representatives of the Japan Defense Agency and Russian Defense Ministry take part. On the occasion of such meetings, a review of improvements of foundations for cooperation in defense areas will also be conducted.

(Cooperation between security authorities)

Both sides will actively cooperate in order to counter the threat posed by international terrorism and international organized crime, including the illicit trade in narcotics, firearms and stolen vehicles.

Both sides will promote cooperation toward prevention of illegal fishing and smuggling of marine products. Both countries recognize the effectiveness of working-level contacts between relevant authorities in order to prevent illegal fishing and smuggling.

Both sides will regularly convene security authority conferences.

Both sides will promote cooperation between maritime security authorities.

Both sides will improve the exchange of information concerning crime control.

6. Advancements in Cultural and Interpersonal Exchange: For the deepening of mutual understanding and friendship [remainder omitted].

and by exchanging an increasing number of visits between senior officials of his government and their counterparts of North Korea. However, the Russia-North Korea relationship is not as close as it was during the Cold War years, and, as is shown in the refusal by both the United States and North Korea to go along with a mediation plan Russia presented immediately before the six-party talks in August 2003, Russia's influence on North Korea is limited. Nevertheless, Russia seems to think it desirable to solve North Korea's nuclear problem through multilateral talks such as the six-party talks if only to maintain its influence in East Asia and to avert the imposition of a unilateral solution drawn up by the United States.

With regard to its relations with Japan, President Putin on January 10, 2003, joined by Prime Minister Koizumi, adopted the Japan-Russia Action Plan during Koizumi's official visit to Russia, and they agreed to develop relations between the two countries in wide-ranging areas. At a summit meeting held between Japan and Russia at the end of May in St. Petersburg, the leaders of the two countries confirmed their earlier agreement to develop bilateral relations by steadily implementing the Japan-Russia Action Plan, but little progress was made with respect to the issue of a peace treaty other than agreement to cooperate toward its conclusion. Included in the Action Plan is the development of relations in the areas of defense and security. Following a visit by Japanese Minister of State for Defense Shigeru Ishiba to Russia in January, Russian Minister of Defense Sergei Ivanov visited Japan in April. In addition, the two countries have been engaged in a variety of defense exchanges including consultations between defense authorities and unit-level exchanges. As detailed in the next section of this chapter, a destroyer of the Japan Maritime Self-Defense Force joined Russia's military exercise held in late August in the Russian Far East, and in September called at the port of Vladivostok and conducted bilateral training with the Russian navy.

Boosted by a robust economy, the dollar value of trade between Japan and Russia increased some 25 percent in the first quarter of 2003 from the same period a year earlier, and direct investment from Japan has also increased. However, Japan accounted for a paltry 1.8 percent of the total value of Russia's trade in 2002. An aspect of Japan-Russian economic relations worthy of special note is Japan's cooperation over the development of oil fields in East Siberia and the construction of an oil pipeline. Japan and Russia have had consultations on this on a number of occasions—the summit meetings (January and May), talks

between former Prime Minister Yoshiro Mori and President Putin (June), a visit by Japanese Foreign Minister Yoriko Kawaguchi to Russia (the end of June), and a visit by Russian Prime Minister Mikhail Kasyanov to Japan (December).

(3) The Development of Oil Fields in East Siberia and the Construction of Oil Pipelines

In March 2003, the Russian government started work on a project to construct a pipeline originating from the Angarsk oil field located west of Lake Baikal in the Irkutsk Oblast (province). There are several reasons other than boosting energy exports to help the economy why the government attaches importance to developing oil fields in East Siberia.

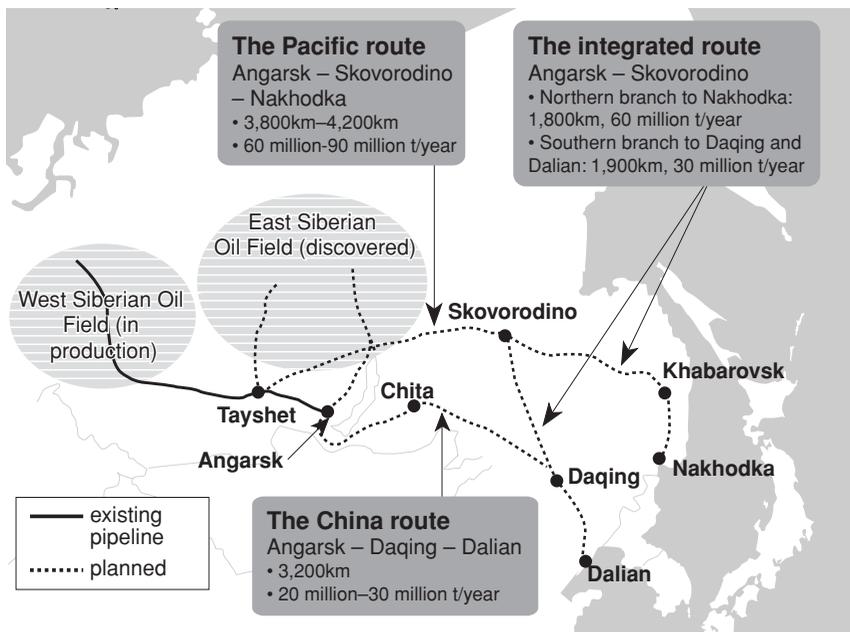
First, while the Western European market to which about 90 percent of Russia's oil exports go has matured and has little room left for further expansion, the Asia-Pacific region shows great potential as it contains the rapidly growing Chinese market and Japan, a major oil consumer.

Second, developing oil fields and constructing pipelines by attracting foreign investment will accelerate the economic development of Siberia and the Russian Far East, which lags behind European Russia and is economically heavily dependent on the Asia-Pacific region.

Third, if Russia can become one of the major sources of energy for the Asia-Pacific, it would help Russia gain a greater influence in the region.

There are two competing pipeline projects for shipping Angarsk crude to foreign countries: the China (or southern) route connecting Irkutsk with Daqing and Dalian in China, and the Pacific (or northern) route, proposed by Japan, which runs to Nakhodka in the Russian Far East. The Russian Energy Strategy for the Period to 2020 mentioned earlier refers to the Pacific route, which would have a separate branch going to Daqing. At a meeting with Prime Minister Koizumi in Tokyo in December 2003, Prime Minister Kasyanov remarked that he would also consider the economic value of the Pacific route. However, the China route, which is advocated by Russia's largest oil company YUKOS, is shorter and less costly than the Pacific route, and has already been under discussion between the Russian and Chinese governments on repeated occasions since 1997. In addition, Russia's Ministry of Energy has proposed a compromise plan that would split the pipeline from Angarsk into two at a point near Lake Baikal, one line heading to Daqing and the other to Nakhodka.

In an address delivered at the Asia-Pacific Economic Cooperation (APEC)

Figure 6.5. Pipeline routes for Siberian crude oil

Source: Data from materials provided by the Institute of Energy Economics, Japan.

Note: The length of the pipelines and the volume of oil shipped through the pipeline are estimates. As regards the integrated route, there is another idea of branching the pipeline northward and southward at Angarsk or Chita.

meeting in Bangkok on October 21, 2003, President Putin called on the participating countries to invest in the development of natural resources in Siberia and the Russian Far East. Japan and China, which depend heavily on the Middle East for their oil supply, both want the pipeline route to work to their own advantage as they seek to diversify their sources of oil supply. Seen in this context, the development of oil fields in East Siberia and the construction of pipelines have the potential to develop into a contentious international issue involving Japan, Russia, and China.

There are differences within Russia between the government and domestic oil companies over the proposed pipeline route, while outside the country, there are varying intentions of Japan and China, on the one hand, and those of the international oil majors planning to invest in the development of Russia's oil fields, on the other. The Russian government indicated the possibility of deferring its final decision on the pipeline route until the summer of 2004 or

**Joint Statement on the Official Visit to Japan by
the Chairman of the Government of
the Russian Federation Mikhail Mikhaylovich
Kasyanov of the Russian Federation [an excerpt]**

9. Japan and Russia agreed that they will step up their cooperation in the area of energy development, which is of common interest, and will enhance the energy security of the entire Asia-Pacific region. As a follow-up to the provisions of the Japan-Russia Action Plan, they stressed their interest in carrying out further consultations over cooperation in the development and transportation of energy resources in Eastern Siberia and the Far Eastern region of the Russian Federation, and agreed to press ahead with the work of drawing up a bilateral document regarding cooperation in the area of energy.

Japan and Russia confirm their common understanding that progress in cooperation concerning the development and transportation of the energy resources of East Siberia and the Far Eastern regions, in particular the construction of an oil pipeline to the Pacific coast of the Russian Federation, is important from the standpoints of the development of East Siberia and the Far Eastern regions of the Russian Federation, the effective use of energy resources in those regions, and the energy stability of the Asia-Pacific region as a whole. Japan and Russia positively evaluated the progress of the consultations between experts so far on mutually-beneficial cooperation on constructing this oil pipeline, and expressed their intention to vigorously continue these discussions. [remainder omitted.]

Note: Excerpted from the Japan-Russia joint statement issued after a meeting held by Prime Minister Junichiro Koizumi of Japan and Prime Minister Mikhail Kasyanov of the Russian Federation on December 16, 2003. Among other things, it mentioned the importance of the proposed Pacific route.

beyond on the grounds that it needed time to assess the environmental impact of the proposed routes and to make a comprehensive study of the economic value of each route.

3. A New Stage of Military Reform: From Troop Cuts to Modernization

(1) Increasing Defense Expenditure and Signs of Recovery in Military Activities

In parallel with its economic growth, Russia's military activities have begun to show signs of recovery. Russia has been running a budget surplus since 2000,

and the trend is expected to continue in fiscal 2004 as well. The State Duma approved a 20 percent increase in the defense budget, which has been growing since 1999. The ratio of defense budget to GDP posted a slight increase from 2.5 percent in 2002 to 2.69 percent in fiscal 2004.

Along with these increases in defense spending, military exercises and combat training, which had been decreasing since the collapse of the Soviet Union, are rising in number and growing in scale. At a meeting of senior Defense Ministry officials on October 2, 2003, which President Putin also attended, Defense Minister Sergei Ivanov stated that the number of military exercises and the amount of combat training in 2002 had increased for all of the services over 2001 with the cost of these activities surging 2.2 times, and that this upward tendency was continuing in 2003.

At the same meeting, Defense Minister Ivanov released a document entitled the *Priority Tasks of the Development of the Armed Forces of the Russian Federation*. It appears that this document was prepared to air the Defense Ministry's views regarding the direction of the defense buildup and the Russian military's plans for the coming years, ahead of a revision of the National Security Concept and the Military Doctrine that had served as the basis of the national security strategy of Russia. The document says that per capita combat training expenditure will be trebled over the ten-year period ending in 2010.

In the Russian Far East, the command-post exercise "Vostok [East] 2003," the biggest since the collapse of the Soviet Union, was conducted in the Sea of Japan, the Sea of Okhotsk, and the Bering Sea from August 18 to 27, 2003. The exercise involved ninety-one naval vessels, seventy-two aircraft, and about 70,000 military personnel mainly from Russia's Pacific Fleet, and was watched by Defense Minister Ivanov and observers from countries such as China, Canada, and North Korea. The exercise was noteworthy for the following reasons: It was a joint and interagency military exercise involving not only the navy, but also other military services of the armed forces, officials of sixteen government ministries, including the "power ministries," and local governments; a total of five countries including Japan sent observers or joined all or part of the exercise; and it was directed toward dealing with broadly-defined security problems and crisis management, such as counterterrorist measures, environmental protection, drug smuggling, poaching, and an influx of refugees.

Russia has been closing down overseas military bases established during the

Soviet era, starting from those in Vietnam and Cuba, but in 2003 it built a new base in Central Asia, the first since the collapse of the Soviet Union. In September 2003, President Putin reached agreement with President Askar Akaev of the Kyrgyz Republic to establish a Russian air base within Kant airport in the suburb of

President Putin chatting with Defense Minister Sergei Ivanov (second from right) after a meeting of senior Ministry of Defense officials (TASS/Kyodo Photo)

Bishkek, the capital, and the base became operational on October 23. The leasehold of the base runs for twenty-five years. The Kant air base is merely thirty kilometers away from the Manas air base, where U.S.-led coalition forces are stationed—U.S. and Russian forces are thus now in close proximity to one another. The U.S. forces has been making sorties to Afghanistan and Iraq from the Manas air base. At the Kant air base, Russia has installed a flight control center that can monitor flights as far as the Middle East. Russia has deployed about 500 servicemen and twenty-five aircraft including five Su-27 fighters. The base is estimated to cost some \$50 million a year to maintain.

President Putin explained that the Kant air base forms part of the rapid deployment force created within the framework of the Collective Security Treaty Organization composed of the six countries of the Commonwealth of Independent States (CIS), and said that the mission of the Russian forces differs from that of U.S. forces in the region. However, some take the view that with the prolonging of the U.S. military presence in Central Asia after the September 11 terrorist attacks, Russia has established the Kant air base to check the rapidly expanding influence of the United States in the region under the pretext of the war against terror.

Russia has been actively exporting weapons to earn hard currency and secure its influence in the international community, and such moves suggest a revitalization of its arms industry. Moreover, the government is expected to increase appropriations for orders to the defense industry in its national budget for fiscal 2004. The main destinations for Russian-made weapons are China and India, followed by Malaysia. At a meeting in August 2003, President Putin

and Malaysian Prime Minister Mahathir signed an agreement that Russia will sell eighteen Su-30MKMs worth about \$900 million to Malaysia over the next five years. It is believed that Malaysia is keenly interested in purchasing Russian-made weapons because of their excellent cost performance and because Russia is willing to accept a barter arrangement. Indonesian President Megawati Sukarnoputri also agreed to purchase Su-27 and Su-30 fighters during her visit to Russia. Further, it is reported that since the use of force against Iraq by the U.S.-led coalition forces, demand for Russian-made weapons—anti-tank missiles, night-vision goggles, and man-portable air defense systems—has been increasing from countries in Africa, the Middle East, and South America.

(2) The End of the Force Reduction Process and Modernization of the Armed Forces

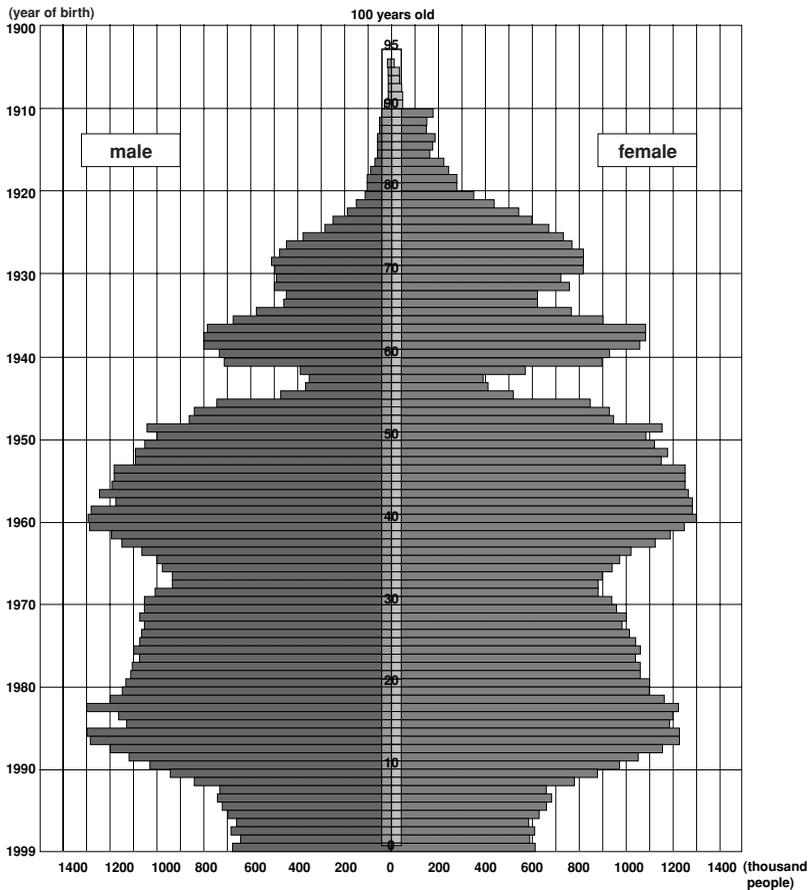
A factor pressing Russia to expedite its military reforms is its rapidly decreasing population. According to a census taken in October 2002, the first since the collapse of the Soviet Union, the population of the Russian Federation stood at about 145.29 million. This represents a decrease of about 2 million from the population of the then Russian Soviet Federated Socialist Republic in 1989, even taking account of the 7 million people who have migrated from the CIS countries. Some estimate that the Russian population will shrink below 100 million in 2050, and decreases in population pose a serious challenge to Russia as they do other industrialized countries. In the 2003 Annual Presidential Address, President Putin explained the decrease in population by stating that the mortality rate had risen 10 percent over the previous three years; that life expectancy had dropped from sixty-seven to sixty-four; and that new epidemics such as drug addiction and HIV/AIDS had spread around the country.

Due to the sharp decrease in population, the process of reducing Russian troop numbers has accelerated. After the collapse of the Soviet Union, the Russian military has been seeking to rebuild itself into a compact and mobile force largely by cutting down the number of troops and rationalizing the organization of its forces through the consolidation of military services and military districts. In 1993, it had about 2.75 million personnel, which was reduced to 1.60 million in 1996 and to 1.132 million as of January 1, 2004. It plans to cut the number further to 1 million by 2005. This is based on a forecast that the draft-age population—those aged eighteen to twenty-seven—will decrease sharply in and

after 2005, and that the decrease will bottom out in 2010.

Conscious also of how prevalent draft evasion is among the young generation, President Putin in his 2003 Annual Presidential Address announced a policy to transform units of constant readiness (including ten divisions, seven brigades and thirteen regiments) from the current conscript-based units into a professional force, manned by contract personnel, and to shorten the length of conscription from the present two years to one year effective 2008. According to *Krasnaya*

Figure 6.6. Composition of the Russian population, by age bracket (January 1, 2000)



Source: Goskomstat Rossii, *Rossiyskiy statisticheskiy yezhegodnik, 2001* [Statistical Yearbook of Russia, 2001] (Moscow: Goskomstat Rossii, 2001).

The Priority Tasks of the Development of the Armed Forces of the Russian Federation [an outline]

1. The Russian Armed Forces: approaching a new development stage

- A comprehensive legislation for the development of the Armed Forces was formulated and a system of political control of military activity was created.
- The structure of the Armed Forces that comprise three services and three arms has been formed. Its improvement will continue until 2010.
- The reduction in forces to about 1 million will be basically completed by 2005.
- Global nuclear war and large-scale conventional war with NATO or other U.S.-led coalitions has been excluded from the list of probable armed conflicts for which the Armed Forces are prepared. Russia's military policy has become adjusted to new global realities.
- The system of manning of the Armed Forces has changed markedly.
- Conditions for development of a modern system of social insurance for servicemen have been created.
- A new system of interaction with other "power ministries" of Russia, where the Armed Forces is the central part of the military organization of Russia has developed.
- A new system of military and political obligations of Russia geared into international law, has been developed.
- Partner relations with the United States and NATO has been established at the level of the armed forces.
- A large-scale reform of the Armed Forces has been completed. It is necessary to start creating modern armed forces based on the legal, political, and organizational-structural conditions that have been created in the process of reform, proceeding from the revised understanding of the national interests of Russia, its place in the world, and the scale of threats to national security.

2. Russia in the system of military-political relations in the world

- New challenges—proliferation of WMD, international terrorism, ethnic instability, radical religious associations, drug trafficking, and organized crime—have emerged.
- International operations with the use of force outside traditional military-political organizations are becoming reality. Armed forces is used increasingly by temporarily formed coalitions.
- As economic interests are increasing moving to the fore in foreign-policy priorities of states, armed forces is increasingly used for protecting the economic interests of a country.
- As national and international terrorism has been merging, the sphere of responsibility of armed forces has greatly expanded.
- The United Nations and the UNSC are the central element ensuring global stability.
- The security and inviolability of borders of the members states of the CIS Collective Security Treaty Organization are priorities in Russia's military planning.
- If NATO is preserved as a military alliance with its present-day offensive doctrine, this will require cardinal amendment of Russia's military planning and principles of development of the Russian Armed Forces, including changes in the nuclear strategy.
- Russia expects to expand its cooperation with the United States in the political, military and economic spheres.

3. Threat assessment

The current military-political situation does not rule out the possibility of a major armed conflict occurring in areas close to Russia's border bearing on the security interests of Russia, or a direct military threat that could affect the security of Russia. However, none of the existing situations involving the use of

military power is creating a direct military threat to the security of Russia. There are three types of threats whose neutralization is the function of the Armed Forces: (a) external threats (instability, weakness of state institutions in a neighboring countries, armed conflicts or a buildup of foreign forces in areas near the border of Russia, armed provocation, international radical groups, development of WMD, proliferation of equipment, technologies and component parts used for creation of WMD, actions hindering Russia's access to strategic transport communications); (b) internal threats (violation of territorial integrity, actions to disrupt and disorganize the operations of bodies of state power and management and attacks on state, economic, military and life support facilities and information infrastructure, separatist, and radical religious-nationalist movements in Russia, illegal circulation of weapons, illegal armed formations, and organized crime); and (c) transborder threats (subversive separatist, national or religious extremist groups supported by foreign sources, international terrorism, smuggling and drug trafficking, and information operations hostile to Russia and its allies). Uncertainty factors whose development can seriously change the geopolitical situation in the region of priority interests to Russia or create a direct security threat to Russia are: the internal situation in key countries of the world, and the situation in the CIS countries and regions bordering them, and the possibility of reassigning the characteristics of the instruments of war to nuclear weapons. (See figure 6.7. Characteristics of the foreign political situation of areas in sphere of interest.)

4. Modern warfare and armed conflicts

- (1) Characteristics of armed conflicts that occurred in the 1990s and the beginning of the twenty-first Century
 - No uniform pattern has emerged in the types of armed conflicts. All of them, in form and principle of warfare, were different.
 - Considerable part of the conflict were asymmetrical. All conflicts developed within a relatively limited territory, inside one theater of operations, involved forces and equipment deployed outside their scenes.
 - Seizure of the initiative in the initial phase of combat operations determined the outcome of the armed conflict.
 - Long-range high-precision weapons used in combination with aviation played a principal role in the initial stages of a conflict, and land forces took over multifarious roles thereafter.
 - The degree of the interdependence and interconnection of the strategic, theater, and tactical operation have increased, and this has sharply changed the concept of conventional war regardless of its scale.
- (2) Specifics of possible military operations in the Far Eastern strategic sector
 - Maritime landing operation and anti-landing defense has taken on multidimensional—in the air, outer space, at sea, and on land—characteristics.
 - The ability of troops to conduct autonomous combat operations determines the strength of anti-landing defense in the Far East.
 - The inadequate development of the transport route between the Russian Far East and European Russia may have a negative impact on the course of combat.

5. The tasks of the Armed Forces of the Russian Federation

- (1) Containment of military and military-political threats to the security and the national interests of Russia
 - To timely identify the threatening development of the military and political situations, and an armed attack against Russia and (or) its allies
 - To maintain structure, state, combat and mobilization readiness and the training of strategic nuclear forces at a level to inflict prescribed damage to the aggressor under any and all conditions.
 - To maintain readiness for strategic deployment to shift the country to a wartime footing.

- To organize territorial defense.
- (2) Ensuring Russia's economic and political interests
 - To ensure the security of Russian citizens in the zones of armed conflicts and political instability
 - To create conditions for the security of the economic activities of Russia and economic structures representing it.
 - To uphold Russia's national interests in its territorial waters, on the continental shelves, in the exclusive economic zones, and on the world oceans.
 - To conduct operations with the use of the Armed Forces on a set scale in the regions of vital economic and political interests of Russia
 - To organize and wage information warfare
- (3) Carrying out peacetime military operations
 - To fulfill Russia's obligations arising from international treaties or international agreements
 - To fight against international terrorism, political extremism and separatist movements, and to prevent subversive and terrorist acts.
 - To conduct partial or full-scale strategic deployment, and to maintain nuclear deterrence, and readiness for such actions
 - To participate in PKO under a commission given by the UN or CIS
 - To ensure the regime of martial law in federal constituents of the Russian Federation
 - To protect state border in air space and under the sea
 - To enforce the regime of international sanctions imposed on the basis resolutions of the UNSC to prevent disasters and other emergencies, and to eliminate their consequences.
- (4) Use of armed forces to ensure the security of the Russian Federation
 - In peacetime and in emergencies, while preserving the strategic deterrence potential and fulfilling the tasks of maintaining combat readiness by permanent-readiness troops (forces) without conducting additional mobilization activities, to successfully fulfill tasks simultaneously in two armed conflicts of any type, as well as carry out peacekeeping operations both on their own and as part of multinational peacekeeping forces
 - In case of the aggravation of the military-political and military-strategic situation, to ensure the strategic deployment of the Armed Forces and contain the escalation of the situation by using strategic deterrence forces and maneuvering permanent readiness forces.
 - In wartime, to repulse by available forces an air-space attack by the enemy and, following a large-scale strategic deployment, fulfill tasks simultaneously in two local wars.

6. Development of the Armed Forces of the Russian Federation—chief priorities

- (1) Preservation of strategic deterrence force potential
- (2) An increase in the number of permanent readiness units, and formations as a basis for subsequent establishment of groups of forces
- (3) Improvement of combat training of troops
- (4) Improvement of the manning system of the Armed Forces
- (5) Implementation of the program for the modernization of armaments, military hardware, and their maintenance in full combat readiness
- (6) Improvement of the military science and military education
- (7) Improvement of military personnel's social security arrangement, education and morale training

Source: Ministerstvo obrony Rossiyskoy Federatsii, *Aktual'nye zadachi razvitiya Vooruzhennykh Sil Rossiyskoy Federatsii* [The Priority Tasks of Development of the Armed Forces of the Russian Federation] (Moscow: Ministerstvo obrony Rossiyskoy Federatsii, 2003).

zvezda (Red Star), the organ of the Russian Defense Ministry, by partial introduction of the new contract service system, a total of 244,000 people are expected to sign on with the military by 2008. At the meeting of senior Defense Ministry officials held on October 2, 2003, Defense Minister Ivanov made clear that the large-scale troop reduction process in recent years is nearing an end and that the ministry will not cut troop numbers further. He also said that the urgent task facing the armed forces after the completion of troop cuts to 1 million is to increase the number of constant-readiness units at all strategic fronts.

In his 2003 Annual Presidential Address, President Putin mentioned the modernization of the armed forces as one of the important tasks facing Russia. He also approved Basic Principles of the Military-Technical Policy of the Russian Federation. According to the *Priority Tasks of the Development of the Armed Forces of the Russian Federation*, drawn up by the Defense Ministry, the cost of equipment per one soldier will be increased six times between 2000 and 2010. Moreover, the Russian military is expected to replace all its equipment from 2020 through 2025, and outlays for the development, purchase, and upgrade of equipment will account for more than half of the entire defense budget in 2025. In this way, Russia's military reform, which began with troop cuts following the collapse of the Soviet Union, is entering a new phase of modernization by 2010.

(3) Diversifying Threats and the Russian Military's Perception of Its Strategic Environment

According to the *Priority Tasks of the Development of the Armed Forces of the Russian Federation*, the level of direct military threats to Russia is fairly low but there still exist uncertainties with the potential to change Russia's situation drastically. The Priority Tasks thus says that the need still remains for a strong military. It categorizes the threats to Russia into three types: "external threats" posed by foreign countries or organizations supported by foreign countries; "internal threats" posed by internal sources including separatists and criminal organizations within Russia; and "transborder threats" posed by such actors as international terrorists and international criminal organizations. It goes on to argue that it is necessary for the Armed Forces to deal not only with external threats but also with internal and transborder threats under certain conditions. The original purpose of the Defense Ministry forces was to deal with external threats. Today, however, they are required to deal with new types of threats, such as Chechen terrorism.

In March 2003, a local referendum was held in Chechnya over a new constitution of the Chechen Republic, and a large majority of the population approved the draft that said: “Chechnya is an integral part of the Russian Federation.” In the Chechen presidential election held on October 5, Ahmad Kadyrov, the pro-Russian, former head of administration of the republic, who also wields a degree of influence among Chechen armed groups, was elected president. Although President Putin has carried out policy measures to stabilize the situation in the Chechen Republic, sporadic terrorist activities involving innocent citizens—such as the suicide bombing at a rock concert in Moscow in July 2003—have occurred even after the hostage-taking incident at a Moscow theater in October 2002. The realignment of governmental organizations with an eye to dealing more effectively with terrorists is spreading beyond the Defense Ministry. In March 2003, President Putin placed the Federal Border Service under the FSB in an effort to slim down the bloated “power ministries” in view of the new security threat of terrorism.

A map entitled “Characteristics of the Foreign Political Situation in Russia’s Sphere of Interest” contained in the *Priority Tasks for the Development of the Armed Forces of the Russian Federation* clearly shows how the Russian military perceives the strategic environment. According to this map, the fronts to which Russia attaches importance are its southern front, where Islamic extremists and international terrorists pose a threat, and its western front, where NATO is expanding its influence. With regard to the region covered by the SCO members including China, it says that peace and stability are being maintained thanks to confidence-building measures, border cooperation and counterterrorism multilateral military exercises through the SCO framework, while acknowledging the need to take measures against Islamic extremists and international terrorists. On the Far Eastern front, it points out that there still exists a potential for military tension and conflict particularly in the Korean Peninsula. However, as North Korea does not pose a direct threat to Russia, and as Russia is pressing ahead with its military reforms to deal with diversifying threats, it seems that the readiness posture of the Russian forces in the Far East, even though gradually improved, will not be restored to Cold War levels in the foreseeable future. As the *Priority Tasks* merely represents the views of the Defense Ministry, it is well worth following how much it will be reflected in the National Security Concept and the Military Doctrine due to be revised after the new administration takes over.

Chechnya in 2003

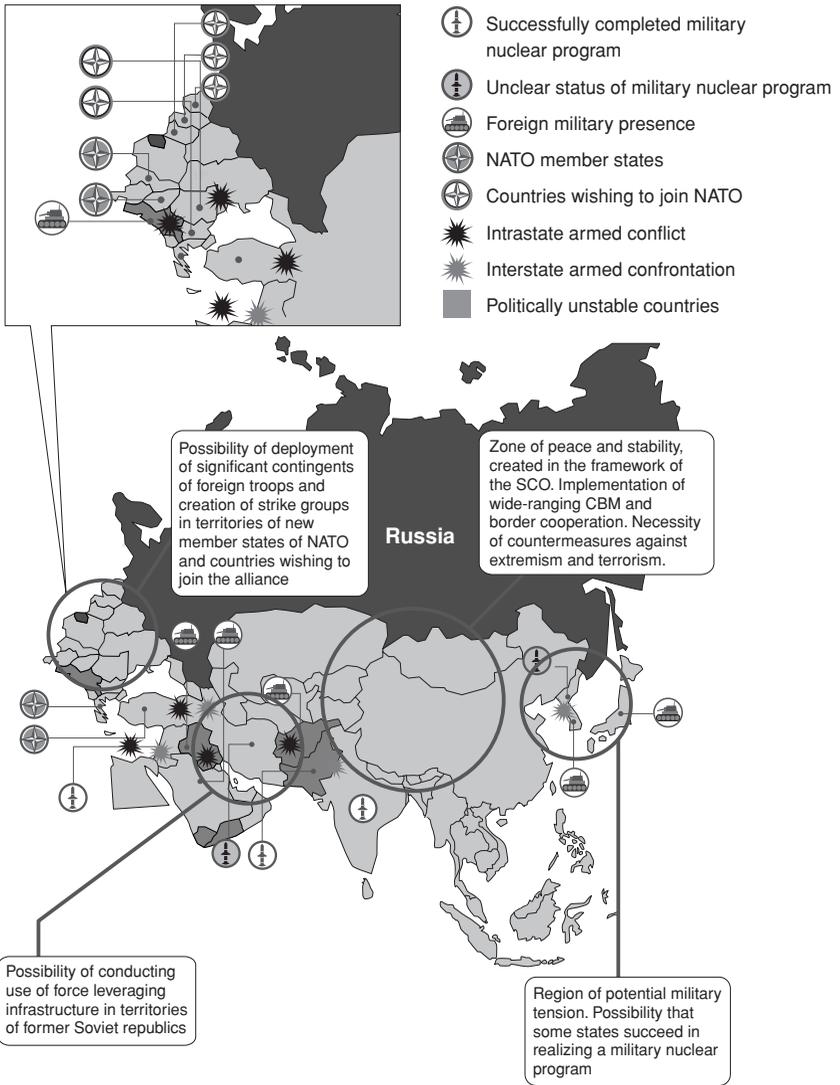
President Putin sought to normalize the situation in Chechnya by introducing there a Kremlin-inspired constitution and a republic government. On March 23, 2003, the Chechen Republic conducted a referendum on a constitution that expressly defined the Chechen Republic as a constituent part of the Russian Federation and asked whether the voters approved the presidential and parliamentary system and the election laws. According to Chechen administration officials, more than 90 percent of voters, including Russian military personnel stationed in Chechnya, cast affirmative votes. On that basis, the Chechen Republic conducted a presidential election, and Akhmad Kadyrov, former head of the Chechen administration who was strongly backed by the Putin administration, was elected as new president with more than 80 percent of the vote. In addition to a boycott by Chechen separatists, some questioned the fairness of the election on grounds that President Putin had taken Kadyrov with him on an official visit he had made to the United States shortly before the presidential election, and that the Kremlin had forced other leading contenders to drop out of the race.

According to a poll taken immediately after the election, about 60 percent of the Russian people thought that despite the normalization process, the Chechen conflict would continue in the coming years and that there were no prospects for pulling 75,000 Russian military personnel out of Chechnya any time soon. The Defense Ministry announced that during the period from October 1999 when the second Chechen conflict started to the end of 2002, 4,572 Russian soldiers were killed and 15,549 soldiers were injured.

Since the hostage-taking incident that took place at a theater in Moscow in October 2002, groups of armed Chechens have carried out sporadic terrorist attacks killing a large number of Russian citizens. In the Chechen Republic itself, on December 27, 2002, suicide bombers drove trucks into Chechen government headquarters, killing about eighty government workers including the republic's vice premier, while on May 12, 2003, trucks loaded with about a ton of TNT explosives crashed into buildings of the regional government and FSB, killing about sixty and injuring about 200 employees working in these buildings. In addition, Chechen terrorists carried out a series of train bombings in the Stavropolsky region bordering on Chechnya, including an attack on September 3, 2003, that killed six persons and injured more than ninety, and a bombing on December 5 that killed about forty persons and injured about 150.

On July 5, the day after President Putin had signed a presidential decree announcing the presidential election in Chechnya, two women carried out a suicide bombing at a rock concert in the suburbs of Moscow, killing 15 citizens. In response, a Russian armed forces unit stationed in Chechnya acting under instructions from President Putin killed about 110 Chechen rebels. As if in retaliation, an army hospital in Mozdok, the Republic of North Osetiya-Alaniya was bombed on August 1 killing fifty persons and injuring eighty-two persons. On December 7, elections of the Lower House of both Russian Federation and Chechen Republic were held. Two days later, a suicide bombing near the Kremlin in the central part of Moscow claimed about twenty casualties. In 2003 alone, more than 200 citizens fell victim to terrorist bombings believed to be carried out by Chechen rebels, and there is no end in sight to Chechen's terrorist activities.

Figure 6.7. Characteristics of the foreign political situation of areas in Russia's sphere of interest



Source: Ministerstvo oborony Rossiyskoy Federatsii, *Aktual'nye zadachi razvitiya Vooruzhennykh Sil Rossiyskoy Federatsii* [The Priority Tasks of Development of the Armed Forces of the Russian Federation] (Moscow: Ministerstvo oborony Rossiyskoy Federatsii, 2003), p.11.