

Chapter 6

Russia— Closer Relations with China

As Russia's relations with the United States have cooled over setbacks in Russia's democratization, and as Russia's influence in the former Soviet bloc has waned, there have been new developments in Russia's policy toward Asia. Russia is attaching greater importance to the Shanghai Cooperation Organization (SCO) and held its first-ever large-scale military exercise with China in August 2005. Resource-rich Russia is now actively involved in "resource diplomacy" in East Asia by exporting energy to Japan and China. In terms of economic cooperation and defense official exchanges, Japan-Russia relations have made visible progress, but President Vladimir Putin's first visit to Japan in five years saw no progress on the issue of the Northern Territories.

The Putin administration is revising the *National Security Concept* and accelerating the modernization of Russia's armed forces—one of the national goals to be achieved by 2010—by drawing upon the strength of the country's recent economic growth. Russia is promoting the modernization of military equipment by increasing its defense orders. It has simultaneously conducted four military exercises, suggesting that the readiness of its armed forces and their combat skills are recovering. President Putin appointed Defense Minister Sergey Ivanov to serve concurrently as vice premier in charge of the defense industry with the aim of carrying out the modernization of the armed forces and the rehabilitation of the defense industry in an integrated manner. In an effort to build up closer military cooperation with China and India, whose economies are expected to enjoy continuous growth in the coming decades, Russia has been conducting bilateral military exercises with the two countries and selling them arms. Military exchanges among these three countries thus bear close watching.

1. Trials Facing the Second-term Putin Administration

(1) Receding Democracy and Relations with the United States

Freedom House, a US-based nongovernmental organization (NGO) that monitors the progress of democratization across the world, released the findings of a survey in 2005. In 2004, Russia scored an all-time low in the democracy ranking measured against a basic checklist of questions or indexes—the electoral process, civil society, independent media, national governance, and the constitutional, legislative, and judicial frameworks—and the NGO concluded that setbacks in Russia's democratization have become more pronounced under the Putin administration. As specific examples, it pointed to the strengthening of state control over energy companies, the mass media, and civil society, and Russia's intervention in Ukraine's presidential election held in December 2004. Furthermore, its freedom of the press index has sharply declined, and in 2004 Russia ranked equal 145th alongside Afghanistan out of 194 countries, the NGO concluding that freedom of the press along the lines of that prevailing in industrialized nations did not exist.

In the aftermath of the school siege that occurred in Beslan, the capital of the Republic of North Osetiya-Alaniya, in September 2004, President Putin gave the outside world the strong and perturbing impression that Russian democracy was in decline by abolishing the system for electing the heads of local governments by popular vote. This system (for the presidents of republics and the governors of provinces) had been introduced in 1996, but President Putin abolished it in December 2004 in favor of a presidential appointment system under which the president nominates a candidate of his choosing for the governorship, subject to the approval of the local assembly. Under the new system, the heads of about one third of the 89 federal components (such as Governor Sergey Darkin of the Primorsky Region and President Mintimer Shaimiev of the Republic of Tatarstan) were nominated by President Putin and approved by their respective local assemblies as new heads of federal components before their term expired. On the other hand, Governor Dmitry Ayatskov of the Saratov Region had to resign because he was not nominated by President Putin, and Governor Vladimir Loginov of the Koryat Autonomous Region was relieved of his post on the grounds of his failure to supply adequate amounts of heating fuel.

In a statement explaining the reason for the change, President Putin said that it was designed to eradicate local government corruption and to enhance national governance to effectively deal with terrorism by strengthening the unity of the nation and by establishing a top-down power structure between the national and local governments. Although his explanation was, to a certain extent, favorably received by the Russian people, it came under scathing criticism from the United States, who saw the abolition of the electoral system for local government heads as an institutional setback for Russian democracy. Then US Secretary of State Colin Powell said that as the institutional change made by President Putin could weaken the democratic process, he could not tolerate Russia reverting back to Soviet times. Condoleezza Rice, who succeeded Colin Powell as secretary of state, indicated her wariness toward Russia by stating that she would keep a keen eye on Russia's internal political processes. At a US-Russia summit meeting held in Slovakia on February 24, 2005, the two leaders discussed democracy in Russia, and President George W. Bush strongly urged President Putin to accelerate the democratization process in Russia. What is more, voices advocating a hard-line policy toward Russia—opposition to admitting Russia to the World Trade Organization (WTO) and denying Russia's participation in the G8 summit meetings—have arisen in the US Congress, and a report authored by three eminent political scholars suggesting that the United States should not develop its diplomatic relations with Russia until such time as Russia has become an exemplary democracy attracted widespread attention.

Russian Minister of Foreign Affairs Sergey Lavrov retorted that the institutional reform carried out by President Putin was in line with democratic principles and was an internal affair of Russia. In an annual presidential address delivered at the Federal Assembly on April 25, 2005, President Putin used the word "democracy" 23 times and took a stance against other countries that were trying to force democracy on Russia by saying that Russia had chosen democracy through the will of its people, that the democratic road they had chosen was independent in nature, and that as a sovereign nation Russia would decide for itself the time frame and conditions for its progress along that road. Soon after that address, President Putin on May 9 met with President Bush, who had come to Moscow to attend celebrations marking the 60th anniversary of the victory over Germany, and the two leaders discussed Russia's internal reforms and the contents of President Putin's annual

address to the Federal Assembly. Perhaps in an effort not to disturb the relations between the two countries over the setbacks in democracy in Russia, the two leaders steered clear of these questions after the summit meeting.

There are several issues pending, such as Russian cooperation with Iran in nuclear energy development, but the two countries carried out the military exchange exercise Torgau in May 2005 as they had the year before and have thus maintained a cooperative relationship in antiterrorism operations and in the energy field since the September 11, 2001, terrorist attacks on the United States. Moreover, as Russia is to host a G8 summit meeting in St. Petersburg in 2006, maintaining a cooperative relationship with the United States has become a basic foreign policy if only so that Russia can join the WTO and actively export its energy resources. However, the fact remains that the United States takes the view that the “Russian democracy in its own way” that President Putin claims is a fig leaf justifying President Putin’s strong-arm tactics and that a gap still exists between the United States and Russia over the way they view Russian democracy.

(2) Waning Clout and the Shanghai Cooperation Organization

A series of regime changes have occurred in what Russia calls “the near abroad,” the region made up of the former Soviet Union in which Russia has strategic interests—the so-called Rose Revolution in Georgia in November 2003, the Orange Revolution in Ukraine in December 2004, and the Tulip Revolution in the Kyrgyzstan in March 2005—and antigovernment riots broke out in Uzbekistan in May 2005. Consequently, pro-Western regimes emerged in Georgia and Ukraine, the Russian military was forced to pull out of Georgia by 2008, and the possibility of Ukraine joining the North Atlantic Treaty Organization (NATO) looks increasingly likely. Ukrainian President Viktor Yushchenko and his Georgian counterpart, President Mikhail Saakashvili, who had launched the new regimes, indicated their intent to form a Community of Democratic Choice in August 2005 and urged Poland and Lithuania to join. They have thus shown their commitment to strengthening their ties with pro-Western democratic countries in the region, with the exception of Russia. With a presidential election set for March 2006 in immediate neighbor Belarus, which the United States labeled as the last remaining dictatorship in Europe, President Putin was concerned about the possibility of another country defecting from Russia’s orbit through regime change.

Amid such developments, a summit meeting of the Commonwealth of

Independent States (CIS) composed of 12 former Soviet republics excluding the three Baltic republics was held on August 26 in Kazan, the capital of the Republic of Tatarstan, Russia, which was commemorating the millennium of the city's founding. In an address delivered at the plenary session, President Putin said that the activities of the CIS had abated in the 15 years of its existence and indicated his intent to arrest the erosion of the CIS through structural reforms of the military organization. Despite his encouragement, Turkmenistan, which maintains a position of permanent neutrality, indicated its intention to secede from the CIS. On the day following the CIS summit meeting, the Unified Economic Space, an organization modeled on the European Union (EU) that Russia established with Kazakhstan, Ukraine, and Belarus in 2003, held its summit meeting. However, Ukraine, represented by the new regime, showed little interest in Russia-led economic integration, and this suggests that Russia is losing its clout among former Soviet republics.

Alarmed by such tendencies, Russia sought to dissuade Ukraine, a geopolitically important country for Russia, from defecting from Russia's sphere of influence by employing ingenious resource diplomacy. As a first salvo, Russia let it be known to Ukraine, which relies on Russia for the bulk of its energy supply, that Russia would be trebling the cost of the natural gas it supplies to Ukraine to match international levels. Secondly, as three quarters of Russian natural gas supplied to West European countries are shipped through a pipeline that runs through Ukraine, and as Ukraine has been collecting transit charges from Russia, President Putin worked out an agreement with Germany to construct a pipeline that runs directly from northern Russia through the Baltic Sea, bypassing Ukraine. Under such Russian pressure, President Yushchenko of Ukraine had no choice but to pursue pragmatic diplomacy designed to balance the country's position between Europe and Russia by dismissing the whole cabinet headed by Yulia Tymoshenko, who had taken a strong anti-Russian stand.

The Putin administration considered that the United States, which actively supported the democratization activities of NGOs, was behind the outbreaks of political turmoil that have occurred in the former Soviet republics and the defections from Russia. Russia's deepened mistrust of the United States manifests itself in the emphasis it places on the SCO consisting of China, Kazakhstan, Kyrgyzstan, Tajikistan, Russia, and Uzbekistan. At an SCO summit meeting held in Astana, the capital of Kazakhstan, on July 5, 2005, the heads of states discussed

the unsettling situations in former Soviet republics and approved the concept of cooperation between SCO members in fighting terrorism, separatism, and extremism, and agreed to strengthen cooperation to stabilize the situation in the former Soviet regions. The SCO members demanded that the United States clearly specify the time frame for the withdrawal of its forces stationed in Central Asia. In a declaration they issued after the summit meeting, they said that now that military operations against terrorists in Afghanistan were over, SCO member countries believed it necessary to clearly designate the period during which participating countries in the antiterrorism coalition could temporarily use the infrastructure, and garrison their troops, in SCO member countries. In reaction to the severe criticism leveled at SCO member Uzbekistan by the United States for having crushed an antigovernment riot by force in May 2005, Uzbekistan in July demanded the United States pull its troops out of Khanabad base, and US forces withdrew entirely from the base on November 21, 2005. Prior to that, on November 14, Uzbekistan signed a Union Treaty with Russia that provided for mutual defense and mutual use of military facilities in times of emergency, and Uzbekistan has thus taken a pro-Russian stance by elevating the status of its relations with Russia from strategic partnership to an alliance.

In the hope that the United States would rein in terrorist groups in Afghanistan and Islamic extremists in Central Asia, Russia had cooperated with the United States in antiterrorist activities since the September 11 terrorist attacks and had acquiesced in garrisoning US troops in Central Asia. However, the US antiterrorist operations in Afghanistan had produced no tangible results, and as the interest of the United States had shifted to Iraq, discontent about the prolonged presence of US forces in Central Asia has smoldered among Russian military leaders. In October 2003, Russia responded by establishing a permanent airbase, the first since the collapse of the Soviet Union, near the Manas airbase in Kyrgyzstan, where US-led multinational forces were stationed. An air wing stationed at the base serves as the collective rapid deployment force of the CIS Collective Security Treaty Organization (CSTO). Against the backdrop of Russia's eroding political clout and growing US influence in the former Soviet region, Russia is attaching greater importance to the SCO than ever before.

The growing presence of the Shanghai Cooperation Organization (SCO) as a regional security mechanism

The Shanghai Cooperation Organization (SCO) owes its genesis to an Agreement on Confidence Building in the Military Field in the Border Regions that was signed in Shanghai on April 26, 1996, by the heads of five states—Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan—for the purpose of working out reductions of, and building trust among, the armed forces stationed in areas near their mutual borders. In Moscow on April 24, 1997, the five countries (the so-called Shanghai Five) signed an Agreement on Mutual Reduction of Military Forces in the Border Regions and have since been holding annual summits or meetings at prime ministerial or foreign ministerial levels. Since the meeting in the Kyrgyz capital Bishkek in 1999, their focus has shifted to dealing with international terrorism with Islamic extremists in mind. Uzbekistan, which had formerly been granted observer status, joined in 2001, and the SCO was formally founded as an international organization. In 2002, they formulated the Charter of Shanghai Cooperation Organization, in 2004 they established a permanent secretariat in Beijing, and the Regional Anti-Terrorism Structure (RATS) in Bishkek started its activities. Member countries have been considering the establishment of resident representatives and the appointment of an executive secretary of the organization, and the structure of the SCO has thus begun to take shape.

In December 2004, the United Nations granted the SCO observer status, and in April 2005 the Association of Southeast Asian Nations (ASEAN) and the Commonwealth of Independent States (CIS) exchanged a memorandum of mutual understanding with the SCO. The SCO has thus been seeking to build relationships with other international organizations. At a meeting held in Astana, Kazakhstan, in July 2005, they adopted the concept of SCO members cooperating in fighting terrorism, separatism and extremism, which has been set up to conduct joint antiterrorism military exercises, and Mongolia (in 2004) and Iran, India, and Pakistan (in 2005) joined the organization as observers, expanding the SCO's geographical reach.

Russia's involvement in the SCO or Shanghai Five seems to be politically motivated. For instance, at the meeting held in Dushanbe, Tajikistan, in 2000, the Shanghai Five took up the issue of the observance of the Anti-Ballistic Missile Treaty in an attempt to restrain the United States, which had tried to terminate the treaty and implement the concept of missile defense. Subsequently, however, Russia did not consult with China through the SCO channels prior to giving its consent to the stationing of US troops in Central Asian countries immediately after the September 11, 2001 terrorist attacks. This suggests that Russia's commitment to the SCO weakened after it had decided to cooperate with the United States in fighting terrorism. However, since Russia's cooperation with the United States began to waver in mid-2004, Russia has changed its stance and attached greater importance than before to the SCO's multilateral mechanisms. The Chinese-Russian joint declaration adopted in October 2004 explicitly states that "it is a priority for Chinese and Russian foreign policies to push forward the development of the SCO," and Russia has established SCO study centers in the University of Moscow and other research institutes. What is more, a summit declaration adopted in July 2005 called on the United States to set a specific schedule for its withdrawal

from the bases it maintains in Central Asian countries, and admitted as an associate member Iran, a country forming part of what the United States called the axis of evil and a state sponsor of terrorism. In August 2005, China and Russia carried out a large-scale military exercise within the framework of the SCO that had an eye on an emergency in the Taiwan Strait. In such a manner, Russia has shown signs of its nervousness about the moves made by the United States.

Table 6.1. Chronology of SCO summit meetings

Date	Venue	Major Results
Apr. 26, '96	Shanghai, China	Sign the agreement on confidence-building in the military field in the border regions.
Apr. 24, '97	Moscow, Russia	Sign the agreement on mutual reduction of military forces in the border regions.
July 3, '98	Almaty, Kazakhstan	Sign the joint declaration concerning steady implementation of mutual reduction of military forces in the border regions and the strengthening of long-term economic cooperation.
Aug. 24–25, '99	Bishkek, Kyrgyzstan	Sign the Bishkek Statement concerning the fight against international terrorism, drug and arms trafficking, illegal immigration, ethnic separatism, and religious extremism.
July 5, '00	Dushanbe, Tajikistan	Sign the Dushanbe Declaration stressing solidarity in fighting international terrorism, and Uzbekistan participated as an observer.
June 14–15, '01	Shanghai, China	With the formal admission of Uzbekistan, formally launch a six-country SCO, member countries sign the declaration on establishment of the SCO, "the Shanghai convention on fight against terrorism, separatism, and extremism."
June 7, '02	St. Petersburg, Russia	Sign the SCO charter and the agreement to establish RATS.
May 28–29, '03	Moscow, Russia	Sign a summit declaration concerning the establishment of a permanent secretariat in Beijing and the launching of RATS in Bishkek in 2003.
June 17, '04	Tashkent, Uzbekistan	Sign the Tashkent Declaration that expresses their appreciation for the activities of the permanent secretariat and RATS. Mongolia joins the SCO as an observer.
July 5, '05	Astana, Kazakhstan	Adopts the concept of cooperation of the SCO members in fighting terrorism, separatism, and extremism, and the Summit declaration of SCO members. It expresses their collective will to stabilize the situation in Central Asia and calls on the United States to set a specific schedule for the withdrawal of its military from Central Asia. Iran, India, and Pakistan join the SCO as observers.

Source: Data from the website of the Ministry of Foreign Affairs, Russia.

(3) Terrorist Attacks by Chechen Rebels

Foreign criticism of President Putin's authoritarian attitude has mounted, and his approval rating has begun to decline. In January 2005, the Russian government enforced a law that changed the system entitling pensioners, the physically handicapped, and former servicemen to free use of social security services (public transportation and medical services) into one that pays cash subsidies. Worried that the change could lead to deterioration in social security policy, a total of 250,000 citizens across the country took to the streets in protest against the law. These were the first large-scale antigovernment demonstrations since President Putin came to power. According to various opinion polls, his approval ratings have declined, and among the military there are reports of mounting and widespread discontent with his role as supreme commander-in-chief of the armed forces.

Another factor stoking mistrust toward President Putin is the way he has dealt with perpetual terrorist acts committed by Chechen rebels. With respect to the September 2004 school siege in Beslan, the worst tragedy in recent Russian history, the lack of cooperation and coordination between the local law enforcement authority and the Federal Security Service (FSB) was highlighted, and the Putin administration was inundated by a flood of criticism for its inept handling of the incident. In February 2005, the European Court of Human Rights ruled that Russia had violated human rights during the early stages of the second Chechen war by the indiscriminate bombing of Chechen cities and by torturing and murdering civilians, and handed down a decision ordering the Russian government to pay indemnities. In addition, at an EU-Russia summit meeting held in October 2005, there was mounting criticism of the Russian policy toward Chechnya that had failed to come up with effective measures other than the use of force.

As Russia tightened its grip on the Republic of Chechnya by mopping up terrorist groups, terrorist attacks by Chechen rebels, such as the school siege in Beslan, spread to areas surrounding the Chechen Republic where antiterrorist measures are inadequate. Amid such developments, former President Aslan Maskhadov of the Chechen Republic, a moderate Chechen rebel leader, was killed on March 8 during a sweep operation carried out by FSB special forces. He was the leader who had negotiated a ceasefire with Russia during the first Chechen war in 1996 and was the only credible Chechen rebel leader who was open to negotiation. President Putin rigidly adheres to his policy of non-negotiation with

terrorists, and Maskhadov's death has closed the door on negotiations concerning the issue.

In an exclusive interview with the ABC TV network of the United States that was aired on July 28, 2005, Chechen field commander Shamil Basaev, a hard-line leader who took over the command of the Chechen rebels, justified the Moscow theater siege of 2002. While denying his involvement in the school siege in Beslan, he warned that similar attacks would continue for as long as Russia persisted in slaughtering Chechens. The Russian government considers Basaev to be the mastermind behind a series of terrorist attacks—the Moscow theater siege, the assassination of former Chechen President Ahmad Kadyrov, and the Beslan school siege—and, having designated him as the most-wanted terrorist, has offered a large sum of money as a reward for information leading to his capture. The Russian government expressed its profound regret to the US government that the interview with Basaev, whom it regards in the way the United States does Osama bin Laden, had been broadcast in a nation that was supposed to be cooperating with Russia in fighting international terrorism, and the Russian Ministry of Foreign Affairs refused to grant an interview to the ABC Network.

As Basaev had warned during the interview, on October 13 a large number of armed rebels launched simultaneous attacks on a number of public facilities (police stations and an airport) in Nalchik, the capital of the Republic of Kabardino-Balkar near the Chechen Republic. As they seized buildings by taking local inhabitants as hostages, a fierce street battle broke out with Russian security forces. According to the Russian authorities, about 40 civilians and security troops were killed, along with 90 armed rebels, and more than 120 people injured. From the interrogations of captured armed rebels, it was learned that the armed rebels had been paid \$2,000 to \$3,000 per head in advance, and that after seizing the airport in the suburb of Nalchik, they had planned to load bombs aboard seized military aircraft and carry out a suicide bombing in Moscow. The Chechen Independence Faction website carries a statement by Basaev claiming responsibility for the successful simultaneous attacks, mounted by a total of 217 armed rebels. The terrorist attacks were seen as an attempt to disrupt the run-up to Chechen Republic parliamentary elections scheduled for November 2005.

The election, the first since the end of the second Chechen war in 1997, was held on November 27, 2005, and a total of 345 candidates—in single-seat and proportional representation constituencies—vied for 58 seats in the upper and

lower houses. Coming as it did at such a tense juncture after the Nalchik terrorist attacks, voting took place under tight security against electoral obstruction maintained by 24,000 FSB troops, and no serious disturbance occurred during the vote. As a result, United Russia, the ruling party led by President Putin, won more than 60 percent of the votes, the largest group in the newly elected parliament. Even before the election, the Putin administration had enacted a new Constitution of the Republic in March 2003 that clearly states that the Chechen Republic is part of the Russian Federation, and in the republic's presidential election held in August 2004, Putin had succeeded in engineering the emergence of a pro-Russian administration. The pro-Russian legislature that resulted from the recent election will add momentum to the political process of reviving the Chechen Republic within the framework of the Russian Federation. However, as the armed Chechen rebels who are fighting for independence from Russia refuse to recognize the legitimacy of the election and have toughened their opposition to the strong-arm tactics of the Putin administration, their terrorist activities are not likely to end any time soon.

2. New Developments in Russian Policy toward East Asia

(1) Resource Diplomacy Astir in East Asia

Thanks to the recovery of the domestic industry induced by a depreciation of the ruble and a sharp increase in international oil prices, Russia's economy has been on a growth track since 1999, and its gross domestic product (GDP) registered an all-time high of 10 percent growth in 2000. Although the pace of growth slowed somewhat in 2001 and 2002, it grew 7.3 percent in 2003 and 7.1 percent in 2004, fueled by sharply higher international oil prices. In a televised conversation with citizens held on September 29, 2005, President Putin said that the gold and foreign currency reserves held by the Central Bank of Russia had swelled from \$12 billion in 2000 to \$155 billion and that Russia had steadily repaid its foreign debts. Although the economic growth rate was slowing, the Russian government projected a 6.4 percent growth in its economy in 2005. Oil and natural gas account for 35 percent of the state's revenues and 55 percent of its exports. Thus, it has developed an economic structure that is heavily dependent on the export of resources. Despite the continuing rise in international oil prices, the economic growth slowdown in 2005 prompted some to take the view that there is a limit to growth in its oil-dependent economy. In order to achieve one of the national goals

proposed by President Putin—the doubling of GDP by 2010—Russia needs to break out of the resource-dependent economic structure and maintain a stable growth rate. However, as economic structural reforms aimed at diversifying the industry have not made much progress, the Russian economy will have to rely on energy resource exports until such time as structural reforms take effect.

With oil production second only to that of Saudi Arabia in 2004, Russia has been consistently the largest country in the world in terms of both natural gas reserves and production since the Soviet era. In 2003, the Putin administration formulated the *Russian Energy Strategy for the Period to 2020*, under which it has been seeking to boost energy exports by constructing an extensive transport network, particularly pipelines. In the case of Germany and other Western European countries, Russia plans to increase the volume of natural gas supply by 40 billion cubic meters after 2010 by constructing natural gas pipelines on the Baltic seabed. Russia is also pressing ahead with projects designed to increase significantly oil exports from existing oil fields in West Siberia (and those in East Siberia to be developed in the years ahead) to energy-starved East Asian countries via the Siberian Railway and planned pipelines.

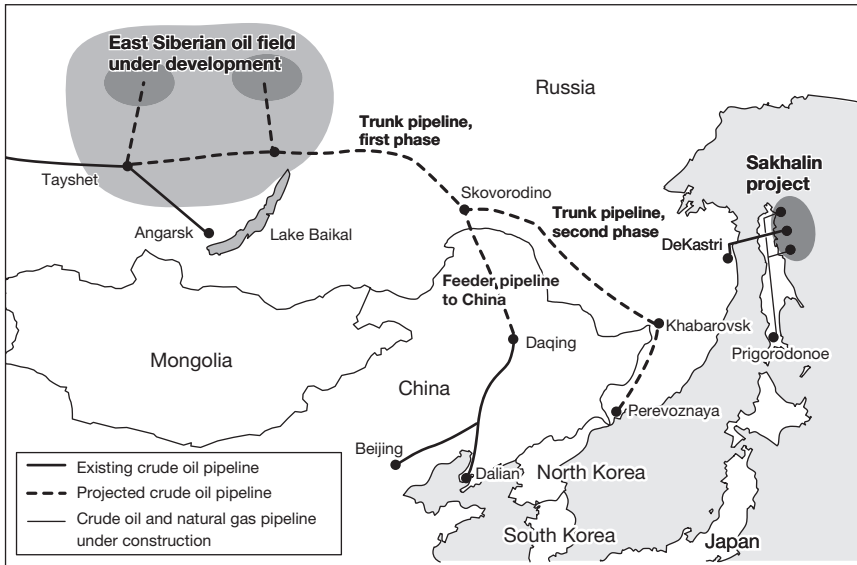
There were two competing proposals for oil pipelines projects emanating from East Siberia: a China route that runs to Dalian, which China desires, and a Pacific route that runs to Perevoznaya near Vladivostok that Japan prefers. On December 31, 2004, the Russian government gave priority to the construction of the Pacific route, but at a press interview he gave after the G8 Summit on July 8, 2005, President Putin indicated, in effect, that he would be giving priority to the supply of oil to China. Under phase one of this plan, an oil pipeline will be built from Tayshet, East Siberia, to Skovorodino on the Russo-Chinese border, and two thirds of the 30 million tons of oil produced annually in West Siberia will be shipped to China through the pipeline, and the remaining one third will be shipped by rail to the Pacific coast. An oil pipeline from Skovorodino to Perevoznaya will be built during phase two, pending the development of oil fields in East Siberia. At a China-Russia summit meeting held in Moscow on July 1, 2005, the two countries exchanged a protocol of long-term energy cooperation under the terms of which Russia agreed to export oil to China in earnest when the oil pipeline has been built. On November 10, 2005, the Russian Ministry of Industry and Energy announced a plan for the construction of a pipeline under which Russia will start the first phase of the project for the construction of the pipeline between Tayshet

and Skovorodino in July 2006 and will complete the work by the end of August 2008. A plan for the construction of the second phase of the project is pending, but the construction of an oil export terminal in Perevoznaya on the Pacific coast is scheduled to start in July 2007.

The supply of energy from Russia to Japan is also just around the corner. Huge reserves of oil and natural gas deposited in the continental shelf of Sakhalin, an island geographically close to Japan, have been confirmed. At present, two oil and natural gas development projects are nearing the operational stage. The exploitable oil and natural gas reserves of the Sakhalin 1 project, which is being carried out with a total investment of \$12 billion (30 percent of which is from Japan), are estimated at 307 million tons of oil (equivalent to Japan's annual consumption) and 485 billion cubic meters of natural gas (equivalent to Japan's consumption over seven years), and the production of oil and natural gas at these fields started in October 2005. Initially, oil produced at these oil fields will be shipped to DeKastri on the Russian mainland for domestic consumption through the existing pipeline. From 2006, however, Russia plans to export the oil from DeKastri to the Asian market (Japan, South Korea, and China) by tankers. Where natural gas is concerned, Russia will supply it to the domestic market for the time being, but there is a plan to build an undersea pipeline to Hokkaido of Japan. Regarding the Sakhalin 2 project, the construction of an 800-kilometer pipeline that runs north to south across Sakhalin has already begun, and Russia plans to produce crude oil throughout the year in 2006 and to produce and ship liquefied natural gas (LNG) in 2007. The natural gas will be shipped through a pipeline to Prigorodonoe at the southern tip of Sakhalin for liquefaction and export to Japan and South Korea. Tokyo Electric Power Company and Tokyo Gas Company have already concluded LNG import agreements commencing in 2007, and Korea Gas Corporation in 2008.

Japan depends on oil for about half of its energy demand, depends on imports for almost all of its oil supply, and more importantly, imports 86 percent of its oil needs from the Middle East. Japan therefore views neighboring Russia from both energy and supply diversification standpoints. For its part, Russia is building a fully equipped energy export system, a major driving force of its economic recovery, to East Asian countries such as China, Japan, and South Korea. Under such circumstances, resource-rich Russia is expected to carry on active "resource diplomacy" by taking advantage of its position as a major energy supplier in the East Asian region.

Figure 6.1. Pipeline projects in East Siberia and the Russian Far East



(2) The First-ever China-Russia Large-scale Military Exercise

Russia and China declared a strategic partnership in 1996, signed the Treaty of Good-Neighbourliness, Friendship and Cooperation in 2001, firmly demarcated a 4,300-kilometer national border in 2004, and have thus put an end to the 40-year-long border dispute. Today, their relations have improved to an unprecedented level. At a summit meeting held between President Hu Jintao and President Putin on July 1, 2005, the two leaders signed a Chinese-Russian Joint Declaration on International Order in the 21st Century. In effect, they inserted phrases into the joint declaration opposing, if only indirectly, the unilateralism of the United States by noting that countries should avoid taking unilateral action and abandon the idea of forming confrontational blocks, should abolish the distinction between leading countries and subordinate countries, should neither impose their policy on other countries nor resort to force or threaten the use of force on other countries, should not pursue hegemony or domination of world affairs, and must be allowed to decide on their internal affairs autonomously. In a Chinese-Russian joint communiqué issued on July 3, 2005, the two countries declared that they were permanent allies and have thus indicated that they would develop a long-term cooperative relationship with one another.

The closer relationship between the two countries has also become increasingly evident in the military field. On August 18–25, 2005, the two countries held their first-ever large-scale military exercise, dubbed “Peace Mission 2005,” in which 1,800 Russian troops and 7,000 Chinese troops participated. According to *Kommersant*, a Russian newspaper, China suggested the idea of holding a military exercise during a visit by Russian Minister of Defense Sergey Ivanov in December 2004, and almost all of the costs of the exercise were borne by China. Initially, Russia had insisted that the exercise be held in the Xinjiang Uygur Autonomous Region of China, but the Chinese side had advocated Zhejiang Province, which lies close to Taiwan. Subsequently, the site was changed to the Liaodong Peninsula, but in the end, it took place in the Shandong Peninsula where there is a large-scale exercise ground and a well-maintained transport network, and where units of all the People’s Liberation Army (PLA) services are deployed.

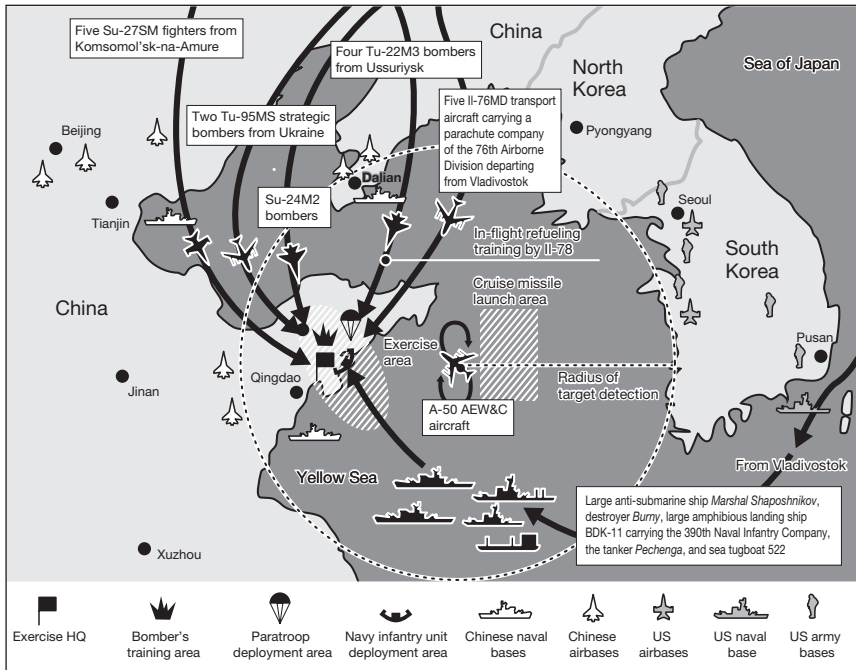
Initially, Russia planned to send only some 200 ground troops and an air corps, but China strongly hoped that Russia would send naval units. Helped by hidden Russian Pacific Fleet motives to salvage its tarnished image after an accident involving a small submersible in August 2005, China persuaded the Russian government to send a tri-service contingent into Chinese territory. According to the *Krasnaya zvezda* (Red Star), the organ of the Russian Ministry of Defense, the armed forces of Russia sent to the exercise included ground troops of the Far Eastern military district, units of the 76th Airborne Division based in Pskov, Pacific Fleet infantry units, Tu-95MS strategic bombers that can carry missiles, Tu-22M3 bombers, Su-27SM fighters, Su-24M2 bombers, Il-76 transport aircraft, A-50 airborne early warning and control (AEW&C) aircraft, Il-78 in-flight refueling aircraft, the large anti-submarine ship *Marshal Shaposhnikov*, a large amphibious assault landing ship, the destroyer *Burny*, and a diesel-powered submarine. China has not made public the strength of its units that participated in the exercise. According to newspaper reports emanating from the Russian side, the Chinese forces included about 100 tanks and armored combat vehicles, Su-30MKK fighters, H-6 bombers, Il-76 and Y-8 transport aircraft, Mi-8 and Z-5 helicopters, destroyers, minesweepers, amphibious landing ships, and diesel-powered submarines. There was a large number of troops even in the first-ever actual combat exercise. From the Chinese perspective, the exercise provided it with an opportunity to learn Russia’s tactics, the use of weapons, and tri-service combined operation. From the Russian perspective, it offered a chance to deepen

understanding of the capabilities of the PLA, its military cooperation partner. According to a senior officer in the Russian General Staff, while the PLA now possesses some modern equipment, its level of military skills is not very high (20 or so troops were killed or injured during the exercise), and there is still plenty of room for improvement in its combat operations.

As the first phase of the military exercise, a war game was conducted with the participation of Russia's Chief of the General Staff Yuriy Baluyevskiy and PLA Chief of the General Staff Liang Guanglie in Vladivostok, where the Pacific Fleet headquarters is based. This was followed by full-scale maneuvers carried out on the Shandong Peninsula and the Yellow Sea. These were observed by Minister of Defense Ivanov of Russia, Minister of Defense Cao Gangchuan of China, as well as military representatives of SCO member and observer countries. The exercise scenario envisaged that an ethnic conflict had broken out in a fictitious country situated on the Shandong Peninsula and that neighboring countries sought to settle the conflict with authority from the United Nations. Both China and Russia explained that the exercise was conducted within the framework of the SCO, that it was aimed at strengthening mutual trust and military cooperation between the two countries, and that it was part of their efforts to deal with international terrorism, separatism, and extremism and not aimed at any particular third country. However, as the main objective of the exercise was to train their troops for an amphibious landing operation and a naval blockade, many took the view that it was an exercise with an emergency in Taiwan in mind, and the US Pacific Command also indicated its intent to keep a watchful eye on the exercise. According to a poll taken by *Izvestiya*, a Russian national daily, 65 percent of those polled thought that the exercise was aimed at restraining the United States, and only 7 percent viewed it purely as an antiterrorism exercise.

The prime reason that draws Russia closer to China is the economic benefit it can derive from increasing its energy and arms exports to China. In addition, a situation has emerged in which Russia has become increasingly distrustful of the United States and moved closer to a China that is attempting to restrain the United States. The two countries intend to expand their influence over their respective neighboring countries in Central Asia by strengthening their military cooperation and are planning to carry out joint military exercises on a continuing basis after 2006. However, as Russia has a 4,300-kilometer long border with China and had experienced military clashes with China over border disputes during the Soviet

Figure 6.2. Russian forces deployed during the China-Russia large-scale military exercise



Source: Data from the August 8, 2005, issue of *Kommersant*.

era, many Russians feel that China could become a security threat to Russia.

Particularly in the Russian Far East, the disparity in the density of population across the border between China and Russia, the penetration of Chinese in the Russian Far East, and the contamination of the Amur River by a chemical spill following an explosion at a petrochemical plant in Northeastern China in November 2005 have combined to worsen the bad feelings of the local inhabitants toward China. Although public opinion is opposing a hasty rapprochement with China and the relationship may not evolve into an alliance in the foreseeable future, the common strategic interest is strong enough to transcend the mutual mistrust and forge a durable strategic partnership.

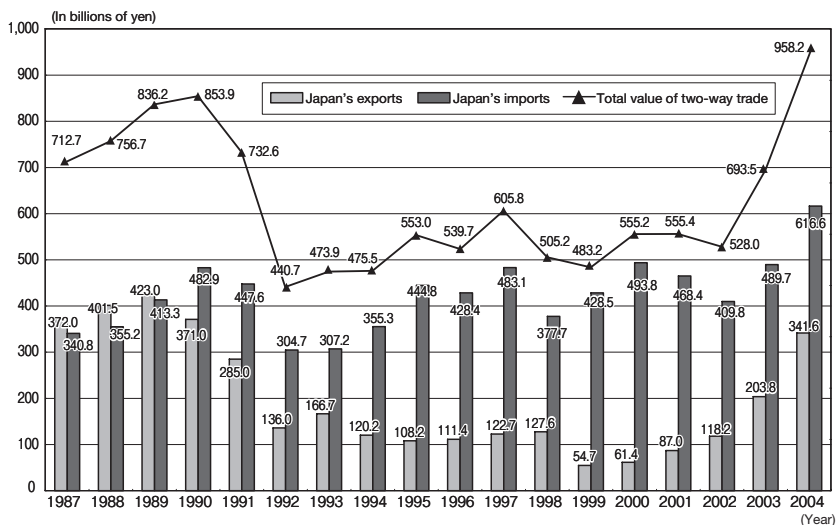
(3) President Putin's Visit to Japan

The year 2005 marked the 150th anniversary of the Treaty of Commerce,

Navigation and Delimitation signed by Japan and Russia in 1855 that established formal diplomatic relations and legally established the border between them, as well as the 100th anniversary of the end of the Russo-Japanese War. To commemorate these anniversaries, various events were held in Tokyo and Moscow in 2005. Pursuant to the Action Plan adopted in 2003, the relations between the two countries have developed mainly in the fields of the economy and defense dialogue and exchanges. In the economic field, Japanese firms have begun to penetrate the Russian market—Toyota has decided to establish an automobile assembly plant in St. Petersburg—and Japan-Russia trade has begun to pick up. In 2004, the two-way trade between the two countries topped the Soviet-era peak to reach a record 958.2 billion yen (about \$7.5 billion) and is expected to surpass \$10 billion in 2005. In addition, Japan's exports to Russia jumped 68 percent in 2004 year on year, and Japan's direct investment in Russia has also increased seven-fold.

Defense exchanges with Russia have been held regularly following the signing of the Memorandum for Development of Dialogue and Exchange between the Defense Agency of Japan and the Ministry of Defense of the Russian Federation

Figure 6.3. Changes in total value of two-way trade between Japan and Russia/Soviet Union



Source: Data from trade statistics of the Ministry of Finance, Japan.

in 1999. In May 2005, Gen. Hajime Massaki, chairman of the Joint Staff Council of Japan, visited Russia and exchanged views on the international situation and defense policies with Yuriy Baluyevskiy, chief of the General Staff, and other high-ranking officers of the Russian military. In June the same year, Yuriy Yakubov, commander of the Far Eastern Military District of the Ground Forces of Russia visited Japan. Maritime Self-Defense Force (MSDF) units have made frequent goodwill visits and in the same month MSDF vessels visited Vladivostok and carried out the seventh round of search-and-rescue training operations with their Russian counterparts. Concurrently in July, the commander of the MSDF visited Russia for the first time and an MSDF training squadron visited St. Petersburg, the erstwhile home port of the Baltic Fleet that had fought against the Japanese in the Battle of the Japan Sea a century before. When the small submersible from the Russian Pacific Fleet was involved in an accident off the coast of the Kamchatka Peninsula in August, the MSDF dispatched four vessels at the Russian Navy's request as part of its international emergency rescue activities. In recognition of the services rendered by the MSDF, the Russian government decided to present Russia's Order of Honor to Captain Kenji Kinoshita, commander of the Second Submarine Flotilla, in November 2005. When Minister of State for Defense Fukushima Nukaga visited Moscow in January 2006, an award ceremony was held at the Russian Ministry of Defense. During his meeting with Ivanov, Nukaga expressed the hope that Russia would make the military cooperation with China, including bilateral military exercises, more transparent so that military cooperation between the two countries would not arouse the suspicion of neighboring countries. He also desired that Russia would ensure that its arms exports to China would not upset the military balance in East Asia. In response, Defense Minister Ivanov said that Russia would further develop its military cooperation with China in the years ahead and export arms to China in pursuit of its national interests. He also stated that Russia would observe its international obligations and would not upset the military balance in the region. Concurrently with the talks, Japan and Russia signed a Memorandum for Development of Defense Dialogue and Exchange, and agreed to expand the arrangement for mutual visits to ground and air forces and to regularly exchange military specialists and instructors.

On the issue of the Northern Territories, Minister of Foreign Affairs Sergey Lavrov touched on the return of two islands (Habomai and Shikotan) pursuant to the Japan-Soviet Union joint declaration of 1956 in a nationally televised comment

in November 2004, his remarks being supported by President Putin. Russia has thus shown a flexible stance toward the settlement of the Northern Territories issue but, as President Putin's visit to Japan drew closer, key Russian government officials visited the Northern Territories one after another in an apparent gesture to underline their position that the four islands in question belong to Russia. In June 2005, FSB Director Nikolay Patrushev, Deputy Secretary of the Security Council Nikolay Spasskiy, and Vasilii Saplin, deputy director of the 1st Department of Asia of the Ministry of Foreign Affairs visited the Northern Territories. In July, Ivanov visited Etorofu Island, the first visit by a defense minister since the Soviet era, and inspected a Russian garrison stationed there. Minister of Economic Development and Trade German Gref, who had visited the Northern Territories in September, announced that the FY2006 budget for the development of social infrastructure in the Kurile Islands that include the Northern Territories would be increased to an amount six times that of the previous year. Moreover, in a nationally televised interview in September, President Putin said that the four islands were under Russian Federation sovereignty as established under international law as a result of the World War II and that the Russian government had no intention of discussing the matter. Russia has thus returned to the hard-line policy with regard to the Northern Territories.

Encouraged by the final demarcation of the borders between China and Russia, hopes for the settlement of the Northern Territories issue had mounted in Japan. However, despite President Putin's visit to Japan, the first since September 2000, talks on the Northern Territories have made no progress. During a summit meeting held at the Prime Minister's Official Residence on November 21, 2005, Prime Minister Koizumi asked President Putin to reaffirm the Tokyo Declaration of 1993 in which the two countries had pledged to conclude a peace treaty after confirming the ownership of the four islands involved. However, as President Putin did not accede to Japan's demands, the two sides could not reach a consensus on resolving the issue, and the idea of issuing a joint communiqué was shelved. On the question of security in East Asia, Prime Minister Koizumi reiterated the importance of making the China-Russia military exercises more transparent and the necessity of handling the export of arms to China with due care. In response, President Putin revealed that when he had met with North Korean General Secretary Kim Jong Il, he had raised the issue of abducted Japanese citizens. The two leaders agreed to step up inter-governmental consultation at various levels (a formal visit by Prime

Minister Koizumi to Russia, by Chairman Mikhail Fradkov of the Government [Prime Minister] to Japan, visits by the minister of state for defense and the commandant of the Japan Coast Guard to Russia) and to commence a strategic dialogue between Japanese Foreign Minister Taro Aso and Secretary of the Security Council Igor Ivanov in response to the radically changing political climate between the two countries. In the process, the two leaders confirmed the conclusion of bilateral negotiations about Russia's entry into the WTO and exchanged 12 documents of agreement including the simplification of the visa process for visitors and Japan's cooperation in dismantling five decommissioned Russian nuclear-powered submarines. However, a statement giving priority to the construction of an oil pipeline starting from East Siberia—the Pacific route which Japan had requested—was not included in these documents. At a press conference held after the summit meeting, Prime Minister Koizumi said that although the two leaders shared an understanding that the two countries would conclude a peace treaty after having settled the issue of the Northern Territories, considerable differences remained between the two countries, and that Japan would strive to narrow the gap through dialogue at various levels. At his press conference, President Putin, who had come to Japan with more than 100 business leaders in tow, including the heads of Gazprom (the world's largest natural gas producer) and Aeroflot Russian airlines, showed a keen interest in developing economic relationships with Japan by saying that with the Sakhalin project off to a good start, Russian energy resources were already being supplied to the Japanese market.

Factors behind Russia's persistently resolute stand on the question of the Northern Territories may be summed up as follows. On the domestic front, the prospects for economic cooperation from Japan no longer have the bargaining leverage they once did, due to the Russia's economic growth. The agitation by Chechen armed rebels for independence from Russia, and the 60th anniversary of the victory over the German invaders in 2005 have combined to whip up pride in victory and

Prime Minister Koizumi talks with President Putin in Tokyo (November 21, 2005). (Kyodo Photo)

patriotism among the Russian people. With an upcoming State Duma (lower house) election in 2007 and a presidential election in 2008 drawing closer, President Putin is in no political position to finalize the return of the Northern Territories in the face of opposition from many Russians. In a poll conducted by the Public Opinion Foundation of Russia in November 2005, 67 percent of the Russian people opposed the return of the Northern Territories to Japan, up 20 points compared with the findings of a 1999 poll. On the foreign affairs front, its relations with China have become closer in recent years, so much so that Russia, which at one time had taken a sympathetic position toward the permanent membership of India and Japan on the UN Security Council, changed its tune and aligned itself with China in opposing Japan's entry. As already noted, China and Russia share a strategic incentive to develop their relations compelling enough to settle their border disputes once and for all and even at a cost. However, there is not sufficient strategic incentive for Russia to develop its relations with Japan at the political cost that may result from settling the Northern Territories issue. In order to improve political relations with Russia, it would be necessary for Japan to hammer home to Russia the significance of strategically developing their mutual relations, instead of bringing up the issue of Northern Territories solely.

3. Revision of National Security Concept and Military Modernization

(1) Revision Process of National Security Concept

A revision of *The National Security Concept of the Russian Federation* (National Security Concept) that sets guidelines for the medium-term national security policy is under way. This document systematically presents the formal view of the Russian government on broadly defined national security issues—the economy, internal affairs, society, international relations, information, military affairs, national borders, and the environment—over the next 10 to 15 years. *The Military Doctrine*, *The Foreign Policy Concept*, and *The Doctrine of the Information Security of the Russian Federation* have been formulated in accordance with the guidelines set forth in the National Security Concept. First formulated in December 1997 under President Boris Yeltsin, this document was revised in January 2000, and President Putin instructed then Secretary of the Security Council Vladimir Rushailo to revise it again in October 2002.

The process of revising the National Security Concept got under way in earnest toward the end of 2004. The Secretariat of the Security Council carried out three rounds of roundtable talks for drawing up a National Security Concept and discussed points in need of revision with experts. The first roundtable talks were held at Moscow State University in November 2004 to discuss the basic priorities for the development of national security of Russia, threats to national security, national interests, and a mechanism for achieving such objectives. At that meeting, current Secretary of the Security Council Igor Ivanov stressed that the work of drafting the National Security Concept should define the strategic goals and priorities of national security for the foreseeable future, identify actual threats to Russia and discuss a mechanism that would work effectively for ensuring Russia's national security. The second meeting was held in December under the theme of "the protection of national interests in the economic field." As the name of the meeting was changed to a "Roundtable for Preparing National Security Strategy" at this point of time, it is inferred that the title of the target document for revision was changed to the National Security Strategy. The third meeting was held at the Academy of Sciences in February 2005 under the theme of "the scientific and methodological bases of the national security strategy." At that meeting, Secretary Ivanov argued that as Russia's security environment still remained precarious, it was necessary to specify strategic challenges facing Russia and to create a mechanism capable of formulating a comprehensive and long-term strategy for national development.

In parallel with the roundtable talks, the Secretariat of the Security Council conducted an Internet conference with the Russian people under the title of "urgent issues of Russian national security" for two months from December 2004 through January 2005. It was designed to invite opinions and questions regarding national security problems from the Russian people and for the Secretariat to answer questions—for the purpose of reflecting them in the revision of the National Security Concept. Responses to 82 questions including policy proposals were listed on the Security Council's website in three installments, and the Secretariat of the Security Council thus presented the wide-ranging problems facing Russia's national security. In addition to these roundtable discussions, in July 2005 the Secretariat exchanged views with members of the council on Foreign and Defense Policy, a nongovernmental organization established by leading figures in politics, academe, official circles, and the mass media, about a

draft of a new document entitled *The National Security Strategy* (National Security Strategy) that was prepared by the Secretariat.

Points of revision of the National Security Concept gleaned from these discussions may be summed up into the following three points. The first point is, as Secretary Ivanov has reiterated, how to deal with terrorism. The 1997 and 2000 editions of the National Security Concept also covered the terrorism issue, but both of them characterized it merely as a form of domestic crime and failed to realize it as a major challenge to Russia's national security. Factors that have compelled the Putin administration to take terrorism as a serious threat to national security are: that the Russian government characterized the second Chechen war that started in the fall of 1999 as being part of the war on terrorism; that the September 11 terrorist attacks on the United States brought to light the relationship between the Chechen armed group and international terrorist organizations; and that a series of large-scale terrorist attacks occurred, including the theater siege in Moscow in 2002.

Secondly, there are the changes that have occurred in the international strategic environment surrounding Russia, particularly in its relations with the United States, that have had a large impact in defining Russian security. Since the September 11 terrorist attacks, the Putin administration, which had been pursuing a multipolar system, has changed the course of its foreign policy into a cooperative relationship with the United States in the fields of antiterrorism and energy. However, as noted earlier, US-Russia relations have become unstable on account of the ill-feeling the Putin administration showed toward US attempts to force democracy upon former Soviet bloc countries and toward US criticisms about democratic setbacks in Russia itself. Consequently, Russia has begun to pursue a foreign policy that attaches more weight to China, and this suggests the possibility of a strengthening Russian preference for the erstwhile multipolar world order.

The third point is the strengthening of the national strategic planning mechanism to enhance national strategy. At the first roundtable meeting mentioned earlier, Secretary Ivanov said that the institution for national future planning had vanished with the collapse of the Soviet Union and that the methodology for comprehensive planning of a national development strategy had also become extinct. He added that the new document had therefore to be formulated in such a way as to enable the state to make strategic decisions to deal with the contemporary reality and challenges and to improve the state's competitiveness in all aspects. He also stated

that a long-term strategy formulated strictly on a top-down basis would ensure better political decisions and the development of the state, and that the new document should have not merely a concept but an actionable strategy that the previous two documents had lacked.

The Secretariat of the Security Council is believed to have drawn up a new National Security Strategy by the summer of 2005, but it had not yet been cleared by the Security Council and signed by President Putin as of the end of 2005. That the new document carries the same title as the *National Security Strategy* of the United States seems to reflect the Putin administration's stance in ensuring Russia's security by strategically pursuing the nation's development based on its political stability and economic growth. The contents of Russia's new National Security Strategy, which are probably close to being adopted, are attracting attention.

(2) Accelerating Modernization of Military

The modernization of its military is one of the national priorities of the Putin administration to be achieved by 2010. As organizational reforms—the reduction of troops, the streamlining of services, military districts and defense organization as well as a partial shift from a conscription- to a contract-based recruitment system—have almost been completed, the focus of the military modernization program is being shifted from a quantitative scale-down to a qualitative improvement.

According to a report delivered by Defense Minister Sergey Ivanov at a joint meeting of military officers that was held on November 9, 2005, in President Putin's presence, the priorities of the 2006–2010 military buildup program can be summarized by the following seven points: (a) Russia will build up and maintain necessary and sufficient strategic deterrence; (b) Russia will improve the quality of its military strength to a level sufficient to ensure the avoidance of military threats both present and foreseeable; (c) Russia will continuously take measures to further streamline the organization, structure, and troop levels of its military in accordance with the principle of defense sufficiency. About 35,000 troops, including 300 senior officers, will be cut over the next five years, and the strength of the Russian armed forces, at 1,134,800 personnel as of November 2005, will thus be reduced to 1.1 million by January 1, 2011. When completed, the number of general/flag officers will be reduced to less than 1,100 and there will be one general/flag officer per 1,000 personnel; (d) the strategic chain of command will

be improved. During 2005 to 2007, command over regionally deployed forces will be transferred from military districts to joint regional headquarters on an experimental basis; (e) the imbalance between military maintenance expenditures (personnel expenses and training costs) and military development expenditures (the development, procurement and maintenance of military equipment) will be smoothed out in stages; (f) a policy for the development of defense infrastructure and the legal basis for military activities will be formulated; and (g) a social atmosphere conducive to enhancing the standing and prestige of the service personnel will be fostered.

In step with the higher national budget, defense expenditure has also been increased, creating a good financial situation conducive to such modernization efforts. Thanks to an increase in foreign currency earnings brought about by energy exports, government revenue in FY2006 is expected to increase 1.5-fold and government expenditure by 40 percent, respectively, compared with the previous year, and the government has increased defense expenditure for FY2006 by about 20 percent, to 668 billion rubles. After an inspection of the Northern Fleet on August 17, 2005, President Putin said that Russia had been increasing its defense expenditure annually by 15–20 percent and that its ratio to the nation's GDP, at 2.6–2.7 percent, was on a par with those of NATO countries. The regular meeting of the Security Council held on June 28, 2005, reviewed a plan for the development of military organizations to be completed by 2015. At that meeting, President Putin indicated his policy to accelerate the modernization of the military in ways consistent with the growth of the Russian economy by saying that burgeoning economic strength has enabled Russia to devote larger financial resources to the modernization of the military with greater confidence.

Increased defense expenditure has begun to have a positive impact on the modernization of military technology in terms of renewal and development of military equipment, and defense orders placed with military-industry complexes have tended to increase. According to the *Krasnaya zvezda*, the value of defense orders came to 148 billion rubles in 2004, almost equal to the officially announced dollar value of arms exports of \$5.8 billion for the same year, and that of defense orders in 2005 is expected to total 186.9 billion rubles, exceeding the value of arms exports for the year. The Ministry of Defense has earmarked 236.7 billion rubles for defense orders in FY2006, more than about five times those placed in FY2000, and about 70 percent (164 billion rubles) of it will be appropriated for the purchase

and improvement of military equipment. In an address delivered on November 9, Defense Minister Ivanov said that his ministry would accelerate the pace of equipment modernization by changing the ratio between the maintenance and development expenditures from seven-to-three in 2001 to six-to-four in 2005 and to five-to-five in 2011. In 2006, the military is expected to take delivery of six intercontinental ballistic missiles (ICBMs), six military satellites, 12 booster rockets, 31 T-90 tanks (the standard number of tanks for a battalion), 125 armored personnel carriers (the standard number for four battalions), 3,770 multipurpose vehicles, nine aircraft including one Tu-160 strategic bomber, and eight helicopters. Meanwhile, 139 tanks, 125 artillery pieces, 104 aircraft, and 52 helicopters will be upgraded. The amount of new equipment delivered to the armed forces in 2006 as a whole represents a 1.5-fold increase and more than doubles that delivered to the air force. In a nationally televised interview on September 27, 2005, President Putin unveiled the existence of a plan to modernize Russia's nuclear and conventional weapons by 2010–2015, and indicated his intention to proactively modernize missiles by saying that Russia would develop new supersonic cruise missiles capable of breaking through the missile defense systems that other countries were developing. On the same day, the Russian Ministry of Defense announced that a submerged nuclear-powered submarine of the Northern Fleet had successfully test-launched a new type of multiple-warhead submarine-launched ballistic missile (SLBM) called "Bulava" toward the Kamchatka Peninsula.

According to an article carried by the *Krasnaya zvezda* that reported on trends in the Russian defense industry, the industry is notably keen on exporting its products, with the aircraft industry predominating (14 of the top 20 companies by output in 2004 are aircraft manufacturers). Shipbuilders exported frigates to India in 2004, a *Kilo*-class submarine to China in 2005, and their sales have been on the rise since 2003. The Sukhoi Company, the industry leader in terms of both production and sales, delivered 24 Su-30MK2 fighters to China and four Su-30MK2V fighters to Vietnam in 2004. Its sales in 2004 amounted to about \$1.5 billion, 91 percent of which were accounted for by exports. Irkut Corporation, which had delivered 10 Su-30MKI fighters to India in 2004, rose to second place in terms of production. Production at the MiG Company, which completed the development of the MiG-29SMT fighter and delivered fighters to Yemen and Sudan, is also on the rise. However, it is said that the Russian government is preferentially allocating an increasing portion of its defense orders to companies

that are lagging behind others in terms of sales and production, and that major munitions manufacturers that rank high in terms of sales and production have not received defense orders from the government. If these major munitions makers were to receive defense orders, their equipment deliveries to the Russian military would increase also.

On November 15, 2005, President Putin signed a presidential decree appointing Defense Minister Ivanov to double as a vice prime minister in charge of the defense industry. In a televised interview he gave after his appointment, Ivanov vowed that he would do everything in his power to revive and reform the military-industry complex that had been in ruins during former President Boris Yeltsin's time in office. On March 28, 2001, then Secretary of the Security Council Ivanov was picked as the first civilian minister of defense and has since succeeded in putting on track the military reforms that had been stalled on account of infighting in the military and in initiating the modernization of the armed forces. In addition to the recognition of his outstanding achievements as secretary of the Security Council, his promotion seems to reflect President Putin's aim of carrying out the modernization of the military together with the rehabilitation of the defense industry by putting Ivanov in charge of national defense concurrently with the defense industry.

Morale in the Russian armed forces immediately after the collapse of the Soviet Union had deteriorated markedly due to cuts in defense expenditure and the Chechen conflicts. More recently, however, morale has showed signs of improvement. According to a remark made by President Putin after inspecting the recent military exercises, Russia's airborne and seaborne nuclear deterrents have recovered a high degree of combat readiness, as evidenced by the successful SLBM test launching following a failure the year before. In a nationally televised interview, President Putin said that young conscripts would not be deployed to battlefields as the recruiting system of the airborne forces, the naval infantry and the permanent-readiness units capable of performing combat missions on a peacetime footing would be switched to the contract service system by 2008. By indicating that units deployed to the frontline would be composed of professional contract personnel, he held out the prospect of an advance in the fighting skills and readiness of these units.

On the other hand, amid the reform process the Russian military is still experiencing problems that have yet to be addressed. A series of accidents

occurred in 2005: a MiG-29 fighter crashed on May 12, the small AS28 submersible of the Pacific Fleet could not surface off the coast of Kamchatka Peninsula on August 4, and an explosion occurred in a navy ammunition depot in Kamchatka on September 30. Problems relating to discipline among military personnel (cases of abuse, suicide, desertion and theft), their social security (abolition of privileges and housing shortages), and the dismantling of decommissioned nuclear submarines remain. In an address delivered at a joint meeting of military leaders, Defense Minister Ivanov announced that servicemen's salaries and former servicemen's pensions would be raised in stages by 67 percent over three years from January 1, 2006, and that social security benefits for servicemen would also be improved. However, the social standing and prestige of servicemen in Russia, and the attractiveness of military service as a profession have markedly diminished since the end of the Soviet era. Therefore, recruiting talented people as contract military personnel is posing a serious challenge.

(3) Closer Military Cooperation with China and India

In keeping with the increases in defense expenditure, the Russian armed forces have tended to step up their military exercise activities. In 2003, they conducted a military exercise called "Vostok ("East") 2003" in the Russian Far East, the largest since the collapse of the Soviet Union, and in 2004 they carried out a new type of military exercise called "Mobil'nost' ("Mobility") 2004" in which troops based in European Russia were rapidly deployed to the Russian Far East. In the joint meeting of military leaders, Defense Minister Sergey Ivanov mentioned large-scale military exercises conducted in 2005: "Rubezhi" ("National Border") was held in Tajikistan in April with the participation of CIS CSTO member countries, a command and general staff headquarters exercise called "Vostok 2005" was staged in the Russian Far Eastern region in July, a joint exercise involving the CIS unified air defense system called "Combat Concord 2005" was carried out in Astrahan, Russia, in August, and bilateral exercises conducted with China, Uzbekistan, and India. More than 50 large-scale exercises were conducted by the Russian armed forces in 2005, and it was reported that the exercises achieved a high degree of success. Of these, ground troops conducted 31 regimental tactical exercises including 12 combat firing exercises, and the 27th Motorized Rifle Division in the Privolga-Ural Military District conducted a division-level tactical exercise that included live firing, the first in recent years. In the air force, the



President Putin aboard a Tu-160 strategic bomber (August 16, 2005) (Photo by Presidential Press Service)

average flight time accumulated by pilots assigned to permanent readiness units increased year on year in 2005: 12 percent in the air transport units, 9 percent in the long-range units, and 4.5 percent in aerial reconnaissance units. The navy conducted 11 exercises and fleets of navy ships left their home ports 28 times. Nuclear submarine crews spent 19 days more on sea deployment, those of diesel-powered submarines 16 days more, those of

surface ships 13 days more compared with the previous year.

Worthy of special mention is the fact that the Russian military conducted four military exercises on three fronts simultaneously in August 2005, including the China-Russia military exercise. After attending the MAKS 2005 aerospace show that was held in Moscow on August 16, President Putin, supreme commander of the Russian armed forces, boarded a Tu-160 strategic bomber that has an operational range of 14,000 kilometers and participated in a five-hour training flight during which he personally test-fired a new type of cruise missile. The following day, on August 17, he inspected a Northern Fleet exercise that was held in the Barents Sea and observed the launch of three SLBMs (that failed the year before) that destroyed targets located on the military maneuvers ground on the Kamchatka Peninsula. According to the *Nezavisimaya gazeta* (Independent newspaper), a Russian daily, the simultaneous conduct of these four military exercises was designed to improve the military capability of the Russian armed forces to simultaneously deal with a large-scale war and a local conflict as envisaged in the *Priority Tasks of the Development of the Armed Forces of the Russian Federation* that were drawn up by the Ministry of Defense in October 2003 to give direction to the modernization of its military. The Russian armed forces have thus been actively carrying out military exercises as part of their modernization program, and the results they achieved will be reflected in revisions to the *Military Doctrine*.

Russia considers military-to-military exchanges with other countries an important means for realizing its own foreign policy strategy. Its *Military Doctrine*

now in effect says that military-political cooperation and military-technological cooperation are an exercise of Russia's sovereign power to protect its national interests and its military security. At a meeting of the Committee for Military and Technological Cooperation with Foreign Countries held on June 9, 2005, under his chairmanship, President Putin said that when Russia cooperates with a certain country in building its defense capabilities, the Russian government will take into consideration the balance between regional powers and Russia's national interests, and announced his policy to promote military cooperation with foreign countries

Table 6.2. Four Russian military exercises carried out simultaneously in August 2005

Exercise name	Duration	Host unit	Exercise location	Participating units	Description
Northern Fleet exercise	Aug. 16–17	Northern Fleet, Russian Navy	Barents Sea	Cruisers, surface ships, nuclear submarines, Su-25 and Su-33 fighters, and Ka-27 helicopters	Launch of SLBMs, naval vessel tactical training, cruiser training exercise
Air force strategic exercise	Aug. 16–17	22nd Heavy Bomber Division, Russian Air Force	Komi Republic, Northwestern Russia	14 Tu-160 strategic bombers, 32 Tu-95MS strategic bombers, X-555 cruise missiles	Firing of cruise missiles from Tu-160 strategic bombers
CIS antiterror exercise, "Caspian Anti-Terror 2005"	Aug. 16–19	Special forces of Russia, Uzbekistan, Kazakhstan, and Belarus	Coastal area of the Caspian Sea, Kazakhstan	Special underwater units, helicopters, coast guard	Wiping out of a terrorist group that seized an oil production base
China-Russia military exercise, "Peace Mission 2005"	Aug. 18–25	Armed Forces of Russia and the PLA of China	Vladivostok, the Shandong Peninsula and the Yellow Sea	Russian troops (1,800), Chinese troops (7,000), 140 naval vessels and support vessels, and 30 aircraft	War game, sea blockade, landing operation, and destruction of enemy units

Source: Data from the August 17 issue of *Nezavisimaya gazeta*.

from the standpoint of Russia's strategic interests. The core vehicle for such military cooperation is the export of arms, which has increased markedly in recent years. According to a report released at the end of August 2005 by the US Congressional Research Service (CRS), the dollar value of arms export contracts concluded by Russia has increased from \$4.3 billion in 2003 to \$5.9 billion in 2004. The ratio of Russia's arms exports to developing countries, at 27.1 percent, was second only to that of the United States (31.6 percent).

According to the same report, among developing countries India was the largest importer of arms on a contract basis (\$5.7 billion) in 2004, \$1.5 billion of which was accounted for by those imported from Russia (including the aircraft-carrying cruiser *Admiral Gorshkov* and 12 MiG-29Ks to be carried aboard the cruiser). Russia, which has traditionally been enjoying friendly relations with India, has been exporting higher-performance weapons (such as Su-30MKI fighters) there than those it exports to China. When he visited India in December 2004, President Putin intimated his intention to develop military technologies jointly with India by saying that together Russia and India could make inroads into the world's arms market. When President Abdul Kalam of India visited Russia as a guest of the nation in May 2005, he and President Putin confirmed a policy to strengthen the strategic partnership between the two countries in the field of military technology cooperation.

In the case of China, the largest importer of Russian-made arms, Russia had been leery of the rise of the Chinese military and refrained from exporting new types of attack weapons. Early in 2005, however, Vladimir Mikhailov, commander-in-chief of the Russian Air Force, indicated Russia's willingness to sell Tu-22M3 and Tu-95MS bombers to China, and Russia has thus changed its stance and is now seeking to boost its arms export to China by sending these bombers to the recent China-Russia large-scale military exercise to demonstrate their performance in the presence of Chinese military leaders. At a meeting of the Russian-Chinese Inter-governmental Committee on Military and Technological Cooperation held in Sochi, Russia, early in September 2005, immediately after the China-Russia military exercise, the two countries reportedly agreed to sign a contract for the sale of 36 Il-76 transport aircraft and two in-flight refueling aircraft, and they were supposed to have negotiated also the sale of the Tu-22M3 and Tu-95MS bombers. The Sukhoi Company, which accounts for more than a half of Russia's arms sales, has reportedly opened a representative office in Beijing to promote its

arms exports and to modernize and improve those already sold to China, and to develop the Southeast Asian markets for its products.

The reasons for Russia's strengthening of arms exports to China may be summed up as follows: (a) advocating the modernization of its armed forces as a national priority, the Putin administration is recovering confidence in its military, helped by a recovery of its national (economic) strength; (b) with China urging the EU to lift the ban on arms export to China, the Putin administration felt compelled to revise its arms export policy toward its largest customer, China; (c) given the fact that Russia has become a permanent supplier of energy to China, Russia felt that it would gain a certain amount of leverage to control China-Russia relations; and (d) as China lags 20 years behind Russia in weapons development technology, the military technology gap between the two countries would not narrow as long as Russia continues to develop its own military technologies.

Aware that the economies of both China and India will achieve sustainable growth in the coming decades, Russia has stepped up its efforts to develop closer military cooperation with these two countries through military exercises and military technology transfers. In October 2005, Secretary of the Security Council Igor Ivanov visited China and India to discuss practical matters relating to security cooperation with Tang Jiaxuan, state councilor of China and MK Narayan, national security advisor to the prime minister of India. Recently, Russia has made moves reminiscent of the "Strategic Triangle" concept among Russia, China, and India that was advocated in 1998 by then Chairman of the Government (Prime Minister) Yevgeniy Primakov. For instance, an informal meeting of the foreign ministers of Russia, China, and India was held on June 2, 2005, in Vladivostok in the Russian Far East at which the three countries agreed to strengthen their trilateral cooperation in the fields of building a multipolar world order, attaching importance to the United Nations, antiterrorism measures, and the economy. During a UN General Assembly meeting held in New York on September 20, 2005, they confirmed that a trilateral partnership would conform to their long-term national interests and greatly contribute to ensuring international peace and stability. What is more, together with Pakistan and Iran, India joined the SCO as an observer in July 2005, and in mid-October the same year, India carried out an antiterrorism military exercise called "Indra 2005" with Russia in the northwestern part of India and in the Bay of Bengal. It is also reported that India, Russia, and China were planning a trilateral military exercise within the framework of the SCO in 2006. India's

Prime Minister Manmohan Singh, who visited Moscow in December, met with President Putin for the fourth time in 2005, and during talks the two leaders confirmed that they would strengthen cooperation in the energy and military fields as well as further develop the trilateral relations among Russia, China, and India.

Together with Brazil, these three countries are commonly called “BRICs” (Brazil, Russia, India, and China), and are attracting worldwide attention as economies that are expected to achieve sustainable growth at a rate faster than those of the industrialized countries. All three countries possess nuclear weapons, are trying to modernize their armed forces by sharply increasing their defense spending and are stepping up defense exchanges—military exercises, arms transfer and military technology cooperation. As the increasingly closer military cooperation will lead to an acceleration of the modernization of the military of China and India, they could have a growing impact on the strategic environment of East Asia. Therefore, it is crucial to monitor the defense exchanges among these three countries in the years ahead.