

## **Chapter 6**

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### **Russia— A More Assertive Foreign Policy**



Stimulated by increased energy exports, Russia's economy has grown rapidly in recent years. In the process, its gold and foreign exchange reserves have swelled to become the third largest in the world and the country has paid off the external debts it accumulated during the Soviet era. Such developments have enabled it to engage in resource diplomacy—using its natural resources as leverage in the pursuit of its diplomatic objectives—as witnessed by its cutting off natural gas to Ukraine and its halting the Sakhalin-2 project. With a view to regaining its influence in Eurasia and to attaining leadership of the Shanghai Cooperation Organization (SCO), Russia plans to play a leading role in the military exercise to be held in its territory in 2007 jointly with member countries of the Collective Security Treaty Organization (CSTO) of the Commonwealth of Independent States (CIS) and those of the SCO. In its bilateral relationship with Japan, although some progress has been made in defense exchanges, Russia has tightened control over its borders, and a Russian border guard vessel fired at a Japanese fishing boat, killing one of the crew, the first such death in 50 years, in waters around the Northern Territories

On the military front, Russia created the National Counterterrorism Committee, a cross-ministry antiterrorism agency, and enacted a law authorizing the Federal Security Service (FSB) to deploy troops outside the country. Moreover, by increasing the defense budget to strengthen the Strategic Nuclear Force and to boost defense orders, Russia has made steady progress in the modernization of its armed forces. According to a report by the US Congressional Research Service (CRS), Russia became the world's largest arms exporter to developing countries in 2005, in terms of the value of contracts, and is negotiating the export of Su-33 carrier-based fighters to China. Increased Russian arms exports are arousing concern about the negative impact they may have on the international military balance and regional security.

## **1. Challenges Facing the Putin Administration**

### **(1) Possible Successors to Putin and the Debate over Democratization**

In Russia, the president's term of office runs for four years. The constitution bans a third consecutive term and the election of the next president will be held in March 2008. President Vladimir Putin, who has achieved political stability and economic growth, registered a high approval rating of more than 70 percent in a recent opinion poll, and there is strong popular support for a third Putin term. For his part, however, he has indicated that he will nominate his successor prior to the election and help launch a post-Putin administration. It is thought that the new administration presided over by the candidate of his choice will continue the basic lines of his policy. However, as the power invested in the president by the constitution is strong and has been further strengthened by the tighter state control engineered by President Putin, a change in the presidency, depending on who succeeds him, will have a far-reaching impact on the national policy of Russia. Although the president is elected by a direct popular vote, it is thought that any person nominated by President Putin is almost certain to win the election.

As of now, high on the list of possible successors are Dmitriy Medvedev, first deputy chairman of the government and Sergey Ivanov, deputy chairman of the government and minister of defense. Both, like Putin, are natives of Russia's second largest city St. Petersburg and alumni of Leningrad State University. The old-boy network that underpins the Putin administration can largely be divided into two groups: natives of St. Petersburg and *silovoki*, or politicians from ministries in charge of armed forces including members of the former Committee for State Security (KGB, the home base of President Putin) and the military.

When Putin was appointed prime minister in August 1999, he picked Medvedev as deputy secretary of the government and first deputy chief of staff of the Presidential Executive Office. In recognition of the contribution he had made as chief manager of campaign headquarters in the March 2000 presidential election, he was promoted to chief of staff of the Presidential Executive Office in October 2003 and to first deputy chairman of the government in November 2005. Medvedev is not a *silovoki*, but is known for his outstanding administrative savvy and for his intense loyalty to President Putin. By dint of the contacts he developed while serving as chairman of the world's largest gas company, Gazprom, he is well

connected with corporate leaders in the energy industry. To strategically pursue energy policy, an engine of economic growth, the Putin administration has tightened state control over the energy industry, in which Medvedev played an important role. If Medvedev, born in 1965, were to be nominated by Putin, he would be a 42-year old president, even younger than Putin.

On the other hand, Sergey Ivanov, born in 1953, joined the KGB after graduating from university, as Putin had done before him, to work in intelligence work. When Vladimir Putin took office as director of the FSB, the successor institution to the KGB in charge of internal security, Ivanov became his right-hand man as deputy director of the FSB. When Putin was subsequently appointed as acting president of Russia, he was appointed as secretary of the Security Council and then as minister of defense in March 2001 after Vladimir Putin took office as president. As Russia's first civilian defense minister, Ivanov put on track the military reforms that had been stalled on account of internal conflicts, and thus paved the way for the modernization of the armed forces, one major national priority. In recognition of this achievement, he was appointed as vice prime minister for the defense industry in November 2005 while still holding onto his portfolio of defense minister, thus taking on the dual responsibility of modernization of the armed forces and revitalization of the defense industry. Hailing from the KGB, Ivanov has strong clout in the siloviki, the power base of the Putin administration.

The two presidential hopefuls have traded verbal blows on how democracy should be promoted in Russia, apparently with an eye on the presidency. Ivanov published an article entitled *Triad of National Values* in the July 13 issue of the national daily *Izvestiya*. In the article, Ivanov started by saying that for long after the collapse of the Soviet Union, Russian foreign and security policy, through inertia, followed in many respects the legacy of the Soviet era, lacking a clear concept of national interests and any strategy for securing them. He then listed "sovereign democracy," "strong economy," and "military strength" as Russia's new triad of national values. The term "sovereign democracy," frequently referred to in the article, is a concept originally propounded by Vladislav Surkov, in charge of ideology policy as deputy chief of staff of the Presidential Executive Office, who takes the position that Western democracy cannot be introduced in its original form to Russia. Ivanov defines sovereign democracy as the right of the people to formulate policies on their own and to defend this right from foreign pressure by all means at their command including military force. In addition, Ivanov cites the United States

and terrorist forces as two camps that take a hostile stance toward Russia. While characterizing the United States as a partner of Russia in a community of democratic states, he describes it as a country that dislikes an autonomous, strong, and self-confident Russia, even as a “soft adversary,” and one that often criticizes the fact that democracy is still underdeveloped, or that dictatorship has re-emerged, in Russia. He then characterizes terrorists as groups that have declared war against the civilized world and that subscribe to an ideology of hatred. He goes on to say that he cannot tolerate a world order in which a single center of power, based on military and economic superiority, imposes the rules of the game on other countries with the aim of dominating the world. He concludes that, if only to avoid US interference in its internal affairs and to counter terrorism, Russia needs to enrich the nation and build up its armed forces on the basis of that triad of national values.

In a series of critical comments in press interviews in response to Ivanov’s article, Medvedev says that it makes no sense to coin a different definition of democracy and that such a definition is liable to invite the misunderstanding that Russia is trying to pursue some sort of nontraditional democracy. In an attempt to achieve political stability, the Putin administration has removed from the political process opposition parties, mass media, local elites, and new financial cliques critical of the administration, and its authoritarian political style has drawn foreign criticism. When it abolished the electoral system of local governors by popular vote in 2004, the Putin administration was harshly criticized by the United States for this setback for democracy. When seen from a US perspective, the uniquely Russian democracy propounded by Ivanov brings to the forefront the differences between the United States and Russia on the form of democracy in Russia. It is likely that Putin will not nominate his successor until immediately prior to the presidential election. As Putin was a mere nobody when he was chosen by former President Boris Yeltsin, it is possible that President Putin may also designate someone not in the running at present. Thus, the succession race for presidency is drawing close attention.

## **(2) The Shrinking Population and Its Impact on National Security**

In his Annual Presidential Address to the Federal Assembly delivered on May 10, President Putin defined the shrinking population as a top national priority and urged the government and the people to tackle this problem in earnest. The Russian population started sliding downward in 1993 and has since been declining at

the rapid pace of 700,000 people (accounting for about 0.5 percent of the total population) per year. As of January 1, 2006, the population stood at 142.8 million. It is predicted that at this rate, the population will shrink to close to 100 million in 2050 and then to one half of the current population by the end of the 21st century. According to 2003 government statistics, the average life expectancy in Russia is 58.5 years for men and 72.0 years for women, giving a combined average of 64.8 for men and women, far lower than in other industrialized nations.

Three reasons can be cited for the rapid decrease in population. First is the deepening anxiety among people about their livelihood as a result of the collapse of the Soviet Union, which worsened the economic situation and widened the gap between the rich and poor. The suicide rate is high, alcohol and drug addiction have increased sharply, and AIDS and other infectious diseases have become widespread, resulting in the exceptionally low male life expectancy. Approximately 340,000 Russians are infected with the HIV and the great majority of them are aged below 35. The rising infant and elderly mortality rates are blamed on the poor's lack of access to the dependable medical care and social welfare system that existed under the Soviet Union. The second reason is changes in the lifestyle and outlook of the people. More and more Russians prefer the single life or late marriage, and are not interested in rearing children. Since the late 1980s, the ratio of those marrying has dropped sharply, and the total marital fertility rate has decreased to a level even lower than in Japan. The third reason is an increase in Russian migration abroad. A comparison of the censuses of 1989 and 2002 reveals that about 5.4 million people migrated to foreign countries during that period, prominent among them people with professional and engineering skills and the affluent.

The negative effect of a decrease in population—a slowdown in economic growth, a heavier burden of social welfare premiums, a shortage of manpower and troop strength, and societal stagnation—is not confined to a decline in the overall national strength. The nation-wide declining population has caused a sharp increase in people moving from the poverty-stricken Far Eastern region to Moscow and other urban areas, accelerating the region's depopulation. An official report says the population of the Far Eastern region east of Lake Baikal decreased from 8.06 million in 1991 to 6.59 million in 2005. In particular, the populations of the outlying Magadan Region and of the Chukot Autonomous District have halved since the collapse of the Soviet Union in 1991. The depopulation of Far Eastern Russia adjacent to Japan and China portends the following two serious security problems.

The first problem is the effect on Russian economic development plans for Siberia and the Far Eastern Region and the question of using Chinese workers in these regions. The Russian government hopes to develop Siberia and the Far Eastern Region, which are lagging behind European Russia, by participating in economic activities in the Asia-Pacific region. One of the measures now under way is to develop energy resources such as the East Siberian oil field. However, the depopulation of this region would lead to a shortage of labor and this is posing a serious hurdle to the region's economic development. For instance, the Institute of Academy of Sciences predicts that unless Russia admits foreign workers, the region will have a shortage of 18 million to 19 million workers by 2020. Some argue that Russia should admit Chinese workers under strict controls in order to secure the labor force needed for the development plans. While the Far Eastern Federal District has a population of about 6.59 million, the three northeastern provinces of China including Heilongjiang Province boast a total population of about 107.17 million, which means there are about 100 million more people south of the border than north of it. The 40-year-long border dispute between Russia and China has been completely settled, but from the perspective of Russian inhabitants of the Far Eastern region, whose population is decreasing, the populous Chinese provinces just south of the border pose a potential threat. In fact, an influx of Chinese after the visa exemption in the 1990s did trigger social unrest in the Russian Far East. The Russians call this the "Sino-Russian population gap problem."

The second potential security problem is the fact that while the ethnic Russian population is decreasing, the ethnic Islamic population is on the rise. Birth rates are highest in Islamic republics including Chechnya and Dagestan in the southern part of the Russian Federation. According to government statistics, the total marital fertility rate of Chechnya is more than three times that of Russia. In 2002, ethnic Russians accounted for about 80 percent of the population of the Russian Federation, but their share is projected to decrease to as low as 60 percent in 2050, and some take the pessimistic view that it will be all the more difficult to maintain a multiethnic state centered on Russians given a rising proportion of Islamic peoples that have aspirations for independence from the Russian Federation.

Mindful of such prospects, President Putin proposed in his Annual Presidential Address the following three policy measures to deal with the decreasing population. First, his administration will seek to reduce the mortality rates for elders and infants by improving the nation's health care system and by expanding



the social welfare net. Second, it will facilitate the repatriation of Russians stranded in republics of the former Soviet Union after its collapse. Third, it will also seek to raise the fertility rate by providing financial incentives for child-rearing and by expanding medical, educational, and housing services. To this end, the Russian government has been carrying out since September 2005 two-year “national priority projects” in the four areas of health care, education, housing, and agriculture. As part of this policy, it has sharply increased appropriations in the FY2007 budget to arrest the declining population, including a \$10,000 bonus to families which give birth to a second baby. However, it will not be easy to achieve the stated objective of arresting the decline in population within 10 years. As the declining fertility rate has largely to do with individual lifestyles and values, the efficacy of state policy is limited.

### **(3) The Sharply Growing Russian Economy**

Russia is one of the leading energy-producing countries, ranking second after Saudi Arabia in world oil production in 2005. What is more, Russia ranks first in the world in terms of proven reserves and production of natural gas. Thanks to a sharp rise in international oil prices, an increase in its energy exports, and a hike in the prices of energy shipped to former republics of the Soviet Union, the financial position of Russia has improved significantly since 2005. Economic growth in Russia turned positive in 1999, and after registering an all-time high of 10 percent in 2000, it grew 6.4 percent in 2005. The Russian government expects 6.7 percent growth in 2006. Its macroeconomic indicators are holding up well. Inflation dramatically subsided from 84.4 percent in 1998 to 10.9 percent in 2005, and trade surplus is on an upward trend. According to the central bank, Russia’s gold and foreign exchange reserves, only \$10.7 billion in 1999, increased by \$8.6 billion in the fourth week of April 2006 alone, and swelled more than 28 times to a record high of \$303.9 billion as of January 5, 2007. This has helped Russia overtake the European Union, South Korea, and Taiwan in foreign exchange reserves, to occupy third place after China and Japan.

Energized by this rapid economic growth, Russia paid off its debts to the International Monetary Fund (IMF) in 2005, and also repaid its roughly \$22 billion debts to the Paris Club ahead of the due date. Minister of Finance Aleksey Kudrin stated that it marked the largest repayment in the history of the Paris Club, and helped Russia save about \$7.7 billion in interest payments. Owing to the repayment

of the major external debts it had incurred in the days of the Soviet Union, Russia has graduated from the status of debtor country, and has built a financial position from which it can pursue a more assertive external policy. In recognition of such Russian efforts, international credit rating agencies are moving Russia's credit rating significantly upward. With the rapid growth in Russian markets, stimulated by a marked increase in domestic consumption, Nissan Motor has decided to build an assembly plant in Russia on the heels of Toyota Motor, and large Japanese banks and corporations are also moving into Russia.

According to the Russian Ministry of Finance, energy exports accounted for 65 percent of its total exports in 2005 and 48 percent of state revenues for fiscal 2006. In order for Russia to wean itself away from this dependence on energy exports and achieve stable economic growth, industry diversification has become an urgent task. Therefore, with a view to making its revenue structure less vulnerable to oil-price changes, the Russian government established a Stabilization Fund in January 2004 and started accumulating funds by levying a special tax when the export price of crude oil rises above a certain level to provide against a free fall in oil prices. These funds have rapidly grown to approximately 2,207.3 billion rubles (about \$81 billion) as of August 1, 2006, and have been used for the repayment of external debts. The FY2006 government budget had initially estimated oil prices at \$40 per barrel. However, as oil prices have actually risen to close to \$70 per barrel, a large budget surplus has been posted in fiscal 2006. The FY2007 budget plan adopted by the cabinet in August 2006 estimated annual revenue at about 7 trillion rubles (about \$258 billion) and annual expenditure at about 5.5 trillion rubles (about \$200 billion), with a budget surplus of about 1.5 trillion rubles (about \$58 billion, or up 28 percent over the year before). Appropriations for all areas were increased, and the wages and salaries of civil servants including the military have been raised by 50 percent, the highest ever including the Soviet era. Budgets for the "national priority projects" were upped 54 percent and for defense expenditures 23 percent. Thus, Russia's financial position has improved to a comfortable level for carrying out the modernization of the armed forces, which is a national priority of the Putin Administration.

## **2. A New Phase of Russian Diplomacy**

### **(1) Resource Diplomacy Gathers Momentum**

Taking advantage of the tightening supply of energy on international markets, Russia has shifted to a more aggressive stance in its foreign policy. By utilizing the energy exports that are fueling its economic growth as a strategic lever, Russia has shown a tendency to use energy to exert diplomatic pressure. First, Russia temporarily suspended the supply of natural gas to its neighbor Ukraine. The state-run gas company Gazprom notified Ukraine that it would be hiking the price of natural gas from \$50 per 1,000 cubic meters, a price charged former Soviet republics, to \$230, a price charged European countries. As Ukraine did not accept this, Russia cut off its supply of gas on January 1, 2006. The natural gas is shipped to Ukraine through a pipeline that also carries 80 percent of the natural gas that the European Union (EU) countries import from Russia. Because Ukraine continued to draw gas from the pipeline, the Russian gas reaching Italy and France decreased by 25 percent and 30 percent, respectively. In the background to Russia hiking the price of its natural gas to Ukraine is the Orange Revolution there, which has given birth to a pro-Western government distancing itself from Russia. Ukraine has joined GUAM (Georgia, Ukraine, Azerbaijan, and Moldova) which is promoting integration with Europe with the help of Western countries, and the Community of Democratic Choice (CDC) established by nine Baltic and East European countries in December 2005. Further, it has indicated its wish to join the EU and the North Atlantic Treaty Organization (NATO), and secede from the CIS. From the Russian viewpoint, Ukrainians are the same Eastern Slavic people as they are and Ukraine provides it with a base for its Black Sea fleet. There is also the fact that the gas pipelines to European countries run through it. It is Ukraine's strategic importance that seems to have prompted Russia to flex its energy-based diplomatic muscles in an attempt to dissuade Ukraine from defecting from Russia. Russia hiked the price of its natural gas not only for Ukraine but also for the three Baltic states, and for Armenia, Georgia, and Belarus; the "resource diplomacy" of Russia has thus been extended to all former Soviet-bloc countries.

Russia's action in cutting off natural gas to Ukraine has seriously undermined its credibility as a resource supplier. Europe has become more wary of its energy dependence on Russia, and US Secretary of State Condoleezza Rice condemned

**Table 6.1. Dependency on Russian natural gas (2004)**

(in billions of cubic meters)

Country	Gas Consumption	Total Gas Imports	Gas Imports from Russia	Dependency on Russian Gas
Ukraine	78.0	60.0	60.0	100%
Slovakia	6.9	6.7	6.7	100%
Finland	4.9	4.9	4.9	100%
Bulgaria	3.1	2.9	2.9	100%
Lithuania	3.1	2.6	2.6	100%
Greece	2.7	2.6	2.2	84.6%
Austria	9.0	8.4	6.7	79.8%
Turkey	22.4	21.7	14.1	65.0%
Germany	100.2	90.8	39.1	43.0%
Italy	79.7	67.9	23.6	34.8%
France	44.7	37.0	11.5	31.1%

Source: Data from *BBC News*, January 4, 2006.

Note: The volume of gas imports of the Ukraine from Russia includes those from Turkmenistan shipped through Russia.

the move as a politically-motivated violation of international rules and a deviation from what is expected of a member of the Group of Eight (G8). In rebutting such criticism from Western countries of its resource diplomacy, President Putin responded as follows in an Internet interview on July 6, 2006. First, Russia had been supplying natural gas to its neighboring countries at below-market prices over the past 15 years, and this was in effect equivalent to economic assistance worth \$300 million to \$500 million a year. Second, Ukrainian President Victor Yushchenko had agreed to raising the price of Russian natural gas to market prices but then the Ukrainians failed to live up to the terms of the agreement. Third, the decrease in the gas supplied to European countries had occurred because Ukraine filched gas from the pipeline; Russia has not failed one single day to deliver gas to Europe for over 40 years. Russia seized the occasion of the G8 summit held in St. Petersburg starting July 15, 2006, to impress on the international community Russia's status as an energy power by setting energy security as a key item on the agenda. In the end, however, this was overshadowed by concerns over the missile launching by North Korea and the Iran nuclear problem. Western countries harbor wariness toward a Russia whose economy is growing rapidly on the strength of energy exports, and which is promoting "resource diplomacy." Therefore, frictions over energy are not likely to subside any time soon.

The ripples raised by Russia's increasingly aggressive resource diplomacy have spread to East Asia. On September 18, 2006, the Russian government suspended the Sakhalin-2 project, an oil and natural gas development project in which Japan's leading trading firms have sunk huge sums of money, on the ground that the en-



**Heads of state at the G8 summit in Russia (July 16, 2006)** (Photo by the Russian Presidential Press and Information Office)

vironmental protection measures taken by its developers were inadequate. Work on the construction of the Sakhalin-2 project, which was scheduled to ship crude oil toward the end of 2007 and natural gas in 2008, was 80 percent complete. Tokyo Electric Power Company, Japan's largest would-be importer of Sakhalin natural gas, had already signed a long-term agreement to import 1.5 million tons of liquefied natural gas (LNG) a year over the next 22 years from 2007. A delay in the development project would not only hamper the supply of energy to Japan but also derail Japan's energy policy aimed at weaning itself away from its heavy dependence on the Middle East and at diversifying its sources of energy. In a televised interview, then Chief Cabinet Secretary Shinzo Abe expressed concern about the negative impact it might have on Japan-Russia relations, and a US State Department official termed it a violation of the obligation to uphold the energy contract included in the final agreements of the St. Petersburg Summit in July. The Russian government's order to suspend the Sakhalin-2 project was extended to other energy development projects in the region including the Sakhalin-1 project in which Japanese firms were also participating. Behind these sudden suspension orders was the desire of the Russian government to revise the unfavorable terms and conditions of the production-sharing agreements it had signed with foreign firms in the 1990s, in order to reorient energy development in Siberia and the Russian Far Eastern Region on terms advantageous to it, for example, enabling Russian firms to participate in these development projects. In the case of the Sakhalin-2 project, leadership was transferred to Gazprom in December 2006 by acquiring a majority interest from foreign firms. In Japan, some express concern that the new stance Russia has taken could affect the development of oil fields in East Siberia and the construction of oil pipelines reaching the Pacific coast of Russia, in both of which Japan takes a keen interest.

## **(2) US-Russia Relations at a Turning Point**

The tough stance Russia has taken in its diplomatic policy has also been reflected in US-Russia relations, which took a turn for the worse in the run-up to the G8 summit held in Russia in July 2006. In the *National Security Strategy* released in March 2006, the United States expressed concern about the turning back of democracy in Russia. In its *Country Reports on Human Rights Practices* released at around the same time, the State Department took issue with the restrictions the Russian government had imposed on the activities of nongovernmental organizations (NGOs) and the mass media, with human rights violations in Chechnya, and with the abolition of the system of electing provincial governors by direct popular vote. As Russia's resource diplomacy has become increasingly aggressive of late, the Bush administration has heightened its wariness. On March 3, President Putin issued a paper "The G8 Gearing Up for the St. Petersburg Summit" in which he showed resolve for a resource-rich Russia to exercise leadership in the international community in the field of energy and, as the G8 host country, proposed energy security as part of the G8 agenda. In reaction to the Russian stance, the Council on Foreign Relations, an American think tank, issued immediately after the release of Putin's paper a paper entitled *Russia's Wrong Direction: What the United States Can and Should Do* in which it argued that the current strategic partnership between the United States and Russia should be downgraded to an optional cooperative relationship. In a speech delivered at a summit meeting in Lithuania of the CDC on May 4, US Vice President Richard Cheney charged that Russia was going backward on democracy and was using energy as a means of intimidation.

In response, President Putin openly showed his displeasure at such US criticism. In his Annual Presidential Address to the Federal Assembly on May 10, he likened the United States to a wolf and criticized its strong-arm tactics of interfering in the affairs of other countries such as Iraq by saying that "The wolf knows who to eat and is not about to listen to anyone." Furthermore, the Putin administration excluded American firms from participation in its natural gas development projects and threatened to cancel the decision of Aeroflot to purchase new passenger aircraft from Boeing. The business daily *Kommersant* characterized such mudslinging in public between the heads of the two countries as the start of a "second cold war," and opinion polls found growing anti-American sentiment among the Russian people. Russia also at the last minute postponed the Torgau

exercise that had been scheduled to be conducted in Russia in September 2006; this is an antiterrorism joint exercise that the US and Russian armed forces had been conducting since 2004. The Russian government blamed the postponement on the lack of a status agreement applicable to foreign troops staying in the Russian territory. Some take the view that the Russian government was dissuaded by rising anti-American sentiment in Russia, as demonstrated by protests against the exercises staged by opposition forces. The postponement of the joint exercise drew the attention of Russia watchers as a signal that strained diplomatic relations between the two countries were spilling over into their military relations. In his Annual Presidential Address to the Federal Assembly Putin pointedly said that a strong military will serve to fend off foreign pressure, and stressed the necessity for Russia to become strong by enriching the nation and by building up the armed forces; but he added that Russia must not repeat the mistake of the Soviet Union in letting an arms race bankrupt the economy. Although a robust practical cooperation has been forged between the United States and Russia in such areas as international counterterrorism measures since the September 11 terrorist attacks, or in energy, relations between the two countries in the foreseeable future, while not falling into outright confrontation, may well continue to be strained over individual issues, such as their differences over democracy in Russia.

Another factor behind the strong stance Russia has been taking in its dealings with the United States, in addition to its recovering national strength, is the Russian perception that US unilateralism is in decline for three reasons. First, US influence on former Soviet republics has begun to wane in recent years. The so-called “color revolutions,” like the Orange Revolution in Ukraine, which in the view of Russians were engineered with US backing, flopped in Uzbekistan and Belarus, and a US military contingent was obliged to pull out from Uzbekistan in November 2005. Since then, Uzbekistan has strengthened its pro-Russian stance. It signed a union treaty with Russia, joined the Eurasian Economic Community in January 2006, and returned to the fold of the Russia-led CSTO in June of that year. Second, Chairman Konstantin Kosachev of the Foreign Affairs Committee of the Duma remarked, soon after the defeat of the Republican Party in the US midterm elections and the ouster of Secretary of Defense Donald Rumsfeld, that the days in which neoconservatives controlled the foreign and domestic affairs of the United States are over. The Russians believe that US foreign policy is shifting to a more moderate stance. As if in confirmation of this view, the United States,

which had long resisted the accession of Russia to the World Trade Organization (WTO), finally approved its accession late in November 2006 after long-drawn-out negotiations over the past 13 years. Third, Russia anticipates a possible weakening of the US dollar as the world's basic currency under the weight of the ballooning US budget deficits. Acting on such an assumption, Russia started in June 2006 selling its domestic crude oil in Russian rubles for the first time ever in the history of the oil trade, challenging the US dollar's domination of the international oil market, and has also lowered the ratio of dollars held in its foreign exchange reserves and the special stabilization fund. Russia has thus decided to upgrade its currency as a convertible currency in the future. According to a Russian security expert, one reason for the delay in the revision of the *National Security Concept*, on the basis of which Russia formulates its national security strategy, was the inability of the Putin administration to finally decide on its national security strategy due to the uncertain outcome of the shifting balance of power between a resurgent Russia and the receding unilateralism of the United States. Russia has also been displaying a strong stance toward NATO. When a NATO summit meeting was held in Latvia on November 28, President Putin held on the same day a CIS summit in neighboring Belarus, and he has also worked to restrain Georgia and Ukraine from joining NATO.

### **(3) Russia's Reaction to the North Korean Issue**

The launching of missiles in July by North Korea immediately prior to the 2006 G8 summit in Russia came as a shock to Russia. Immediately after the launching of the missiles, the Russian Ministry of Foreign Affairs issued a statement condemning North Korea and expressed concern to the North Korean ambassador in Moscow. The Russians were offended by the launching of missiles because (a) it complicated a peaceful solution of the problem of nuclear development by North Korea, (b) North Korea launched missiles without giving Russia any prior notice and they landed in the exclusive economic zone (EEZ) of Russia endangering the safety of Russian ships operating in that zone, and (c) the development of missiles by North Korea could lead to an acceleration of a missile defense system by Japan and the United States in the region. Although President Putin expressed disappointment about the missile launching, he showed some sympathy for it on the ground that North Korea was not a party to the international agreement restricting the launching of missiles. For fear that sanctions by the



United Nations (UN) Security Council might lead to unilateral action by the United States, Russia and China opposed a resolution introduced by Japan and the United States calling for sanctions against North Korea. In an Internet interview on July 6, President Putin said that there was no reason to believe that the North Korean missiles were aimed at Russia, and that Russia's missile early-warning system had worked properly. However, he added that Russia's air defense system could not identify the points in its territorial waters, not even in its EEZ, at which the North Korean missile warheads had come down, and thus admitted that there were some problems with the air defense intelligence-gathering system in Far Eastern Russia.

On the other hand, President Putin unequivocally condemned the nuclear test conducted by North Korea on October 9 as an act seriously undermining nonproliferation efforts concerning weapons of mass destruction (WMD). Defense Minister Ivanov said that the Ministry of Defense obtained accurate intelligence concerning the scale and the site of the nuclear test, and that while North Korea had become the de facto ninth nuclear power, it has no completed nuclear weapons. He added that Russia had nothing to do with the nuclear development of North Korea. For Russia, the North Korean problem had remained a regional issue of East Asia. However, as the North Korean nuclear test flouted the nonproliferation regime and had adverse implications for global security, Russia supported the UN Security Council (UNSC) resolution imposing economic sanctions against North Korea. Russia sent its Deputy Minister for Foreign Affairs Alexander Alekseev to Pyongyang and Seoul, and President Putin met with State Councilor Tang Jiaxuan of China, Secretary of State Condoleezza Rice of the United States, Minister of Foreign Affairs and Trade Ban Ki-moon of South Korea, and First Vice Minister of Foreign Affairs Kang Sok Ju of North Korea. In a nationally televised dialogue with the Russian people held on October 25 immediately prior to a revelation of the intent of North Korea to return to the Six-party Talks, President Putin disclosed that Russia had been involved in behind-the-scenes negotiations to coax North back to the Six-party Talks by saying that "We have heard that North Korea has signaled that it is ready to return to the negotiating table if it can obtain guarantees for its national security and development of its civilian nuclear program." He also indicated that Russia would be reopening meetings of the bilateral economic and trade committee suspended since 2000, and that Russia might even be willing to forgive the \$8 billion debt North Korea owed to Russia.

Russia's basic stance on the North Korean issue is the stability and denuclearization of the Korean Peninsula. As Russia takes the view that North Korea's nuclear weapons are not targeted at Russia, it thinks that a nuclear-armed North Korea does not pose a direct threat to its security but that the proliferation of WMD and the possibility of nuclear weapons falling into the hands of terrorists do pose a serious threat to Russia. Based on this line of thinking, Russia joined the Missile Technology Control Regime (MTCR) that restricts the export of missiles capable of delivering WMD as well as dual-use items and technology that could be used for the development of ballistic missiles, and is participating in the Proliferation Security Initiative (PSI) which was started in 2003. To realize Russia's aim of connecting the Siberian railway system and the trans-Korean railway and of exporting energy to the East Asian region, the stability of the region, which includes the Korean Peninsula, is essential. Russia would therefore prefer a continuation of the status quo on the Korean Peninsula. Geopolitically, North Korea provides a buffer zone, as is also the case for China, and the presence of US troops across its border in a unified Korea is the last thing Russia wants. Nevertheless, there is no guarantee that the present regime in the Korean Peninsula will last forever, as Russia, which experienced a regime change of its own with the collapse of the Soviet Union, is particularly aware, and the possibility of regime change in North Korea is being vigorously debated among Russian researchers.

For the reasons set forth below, North Korea is of secondary strategic importance to Russia. First, Russia has a short (19 kilometer) border with North Korea, and even if the present North Korean regime collapsed, the number of refugees flowing into Russia and the dislocation they might cause would be limited. The Russian army and border patrol units did conduct a military exercise in 2003 based on the scenario of a large number of North Korean refugees pouring into Russia, and Russia has recently tightened its border controls overall with a view to checking the infiltration of Islamic radicals. Second, a nuclear-armed North Korea is not in itself a direct threat to the security of Russia with its strong nuclear capability. Moreover, the military and economic relationship between Russia and North Korea is far weaker than in the Soviet era. When North Korea declared its withdrawal from the Treaty on the Non-proliferation of Nuclear Weapons (NPT) in 1993, Russia joined forces with the United States and South Korea in strongly urging North Korea to accept the inspection of its nuclear facilities by the

International Atomic Energy Agency (IAEA). More important, Russia in 2000 revised the Treaty of Friendship, Good-neighborliness and Cooperation, deleting the clause that obligated either country to automatically intervene militarily in the case of an attack by an enemy country, and discontinuing the unconditional military assistance that had been provided by Russia to North Korea. Third, US interest in the Korean Peninsula is limited compared to in the Middle East, and the United States is primarily trying to solve the North Korean problem by diplomacy. Therefore, Russia takes the view that the possibility of the United States intervening militarily in the Korean Peninsula in disregard of the UN, as it did in Iraq, is small.

The reason why Russia has gotten involved in the North Korean problem despite its being strategically of secondary importance is that, in addition to securing its influence in the East Asian region, it wants to deter any unilateral intervention by the United States in this region, even though that probability might be small. However, as Russia has lost leverage with North Korea, and as the Six-party Talks have achieved meager results so far and North Korea insists on having direct talks with the United States, the Putin administration realizes that Russia has only a limited role to play in the North Korean problem. Such being the case, Russia is taking a more active stance on the Iranian issue in order that any actions taken by the UNSC and the United States to sanction North Korea on its nuclear development program will not be linked to Iran, in which Russia has a large economic stake. Russia strongly opposed a resolution to the UNSC for sanctions on Iran introduced by the United Kingdom, France, and Germany in October 2006, and submitted to the IAEA a proposal for establishing an international nuclear center in East Siberia for Russia to oversee the nuclear fuel of Iran—and of any produced by North Korea in the future. Russia is trying to establish control over the nuclear development of Iran and North Korea by managing sources of nuclear energy as it has with natural gas.

#### **(4) The Shanghai Cooperation Organization and Russo-Chinese Relations**

The SCO is a regional cooperation vehicle established in 2001 by six countries (Russia, China, Kazakhstan, Tajikistan, Kyrgyzstan, and Uzbekistan) with four countries (Mongolia, India, Pakistan, and Iran) sitting as observers. The SCO drew attention in relation to East Asian security when in 2005 it took a strong posture to

contain the United States, issuing a statement calling for the withdrawal of US military bases from Central Asia; inviting Iran, which the United States had earlier named as part of the “axis of evil,” to be an observer nation; and conducting a large-scale Sino-Russian military exercise apparently with an eye on the possibility of a crisis in Taiwan. Russia seems to be attaching greater importance to SCO as a vehicle for regional cooperation as it perceives the strategic environment surrounding itself to have worsened with the expansion of NATO to former Soviet-bloc countries to which it attaches strategic importance and the occurrence of “color revolutions” in those countries.

At a meeting of the defense ministers of the SCO member countries held in April 2006 in Beijing, Russia proposed an SCO joint military exercise in the Volga-Ural Military District in 2007. According to Yuriy Baluyevskiy, chief of the General Staff, the military exercise would be held jointly with the CSTO, and be named the “Peace Mission/Rubezhi (Border) 2007.” Details of this Russia-led military exercise have not yet been decided, but Armenia and Belarus (members of the CSTO but not of the SCO) and China (a member of the SCO but not of the CSTO) are set to participate, making for a total of eight countries. By virtue of this joint exercise, Russia will be able to establish a large military presence in the entire Eurasian region. The first SCO military exercise was conducted by China and Kyrgyzstan in October 2002, and five member countries, excepting Uzbekistan, participated in a joint military exercise held in Kazakhstan in August 2003. Subsequently, the large-scale Sino-Russian joint exercises “Peace Mission 2005” were conducted in the Far Eastern region of Russia and the Shandong Peninsula of China in August 2005, with military representatives of other SCO member countries and observer countries participating as observers. However, differences over the objectives and sites of these joint exercises have surfaced, revealing a lack of unity about the aims of joint military exercises between Russia and China.

On June 15, 2006, a summit meeting commemorating the fifth anniversary of the SCO was held in Shanghai in which President Putin, Chinese President Hu Jiantao, and the presidents of four member countries of Central Asia and observer countries (Iran, Mongolia, and Pakistan) participated. The president of India, an observer country, refrained from attending the meeting himself out of deference to India’s relations with the United States, instead, sending the minister of oil and natural gas on his behalf. The heads of states attending the meeting acknowledged

that the SCO has entered a new phase of development, and adopted 10 documents including the Declaration on the Fifth Anniversary of the SCO. China proposed the adoption of a long-term treaty of good-neighborliness, friendship and cooperation of the SCO, Russia proposed the creation of an SCO energy club, and Iran proposed a meeting of SCO energy ministers in Iran. Russia is seeking eventually to capture a leadership role in the SCO over China's head by creating within the SCO something like the Russia-led Collective Rapid Development Force within the CSTO. For Russia, the SCO is a handy vehicle for pushing the realization of a multipolar world order without provoking a confrontation with the United States. However, the SCO, which was originally created with the aim of building mutual trust among the Central Asian countries over their border areas, has often changed agenda according to the shifting aspirations and interests of its member and observer countries, and the interpretations of those involved of the central concerns of the SCO—terrorism, separatism, and extremism—are greatly at variance with one another. Given that, it is unlikely that the members of the SCO would band together into an anti-US coalition in the future. The risk, rather, is that the SCO may drift away from the original purpose for which it was established as member countries are tempted to utilize the SCO to promote their own narrowly-defined policy objectives, as seen in Russia wanting to put on the SCO agenda the military and energy matters in which it enjoys superiority.

In East Asia, Russia's relations with China, to which it attaches paramount importance, have improved significantly, particularly in the area of energy cooperation. President Putin is looking for a tenfold increase in Russia's oil exports to East Asian countries from the present 3 percent to 30 percent over the next 10–15 years. There is a congruence of interest here between Russia, seeking to increase its energy exports to Asia, and China, whose demand for energy has been rising sharply in recent years. President Putin paid a formal visit to China on March 21 with an entourage of about 90 people, attending the opening ceremony for "The Year of Russia" being held in China and meeting with his Chinese counterpart Hu Jintao. The two leaders agreed to further strengthen the Sino-Russian strategic partnership then entering its tenth year, and signed 29 agreements including one for economic cooperation. The China-Russia Joint Statement states that "Energy cooperation is a key element of the strategic partnership" of the two countries, and their leaders vowed to increase the supply of Russian energy to China by laying new oil and natural gas pipelines. In addition to a pipeline now



**Heads of state at the SCO summit (June 15, 2006)**  
(Photo by the Russian Presidential Press and Information Office)

under construction between East Siberia and Skovorodino, which is on the border between the two countries, Russia plans to build two gas pipelines between Siberia and China capable of transporting 60–80 billion cubic meters a year and to start the full-scale supply of natural gas to China in 2011.

In a sign of the importance Russia attaches to its ties with China and India, the China-Russia Joint Statement released in March states that the two countries have agreed to create a cooperative mechanism among the three countries. What is more, he mentioned only three countries—the United States, China, and India—as being diplomatically important for Russia in his Annual Presidential Address delivered before the Federal Assembly in May. Immediately after the G8 summit he hosted in Russia, he held a tripartite summit with President Hu Jintao of China and Prime Minister Manmohan Singh of India in St. Petersburg to discuss steps to be taken to strengthen the cooperative relationship among the three countries. Factors that may have prodded Russia toward such triangular cooperation seem to be the realization that the three countries, along with the other member of the BRICs (Brazil, Russia, India, and China), could wield considerable clout in fashioning a world order in the future, and the thinking that by adding India, with which Russia has traditionally enjoyed friendly relations since the Soviet era, Russia could restrain the rise of China on the world stage.

#### **(5) Defense Exchanges between Japan and Russia and the Shooting Incident of a Japanese Fishing Boat by a Russian Border Guard Vessel**

A wide-ranging cooperation between Japan and Russia has been growing apace under the Japan-Russia Action Plan adopted in 2003. A case in point is the accord reached when President Putin visited Japan in November 2005 for Japan to provide assistance to Russia in dismantling five decommissioned nuclear submarines in the Far Eastern region of Russia; in September 2006, Japan signed a contract with Russia for the dismantling of one of them. The year 2006 marked

the 50th anniversary of the resumption of diplomatic relations between the two countries pursuant to the Japan-Russia Joint Declaration and, during the year, security dialogue and defense exchange made significant progress, contributing to trust-building between the defense officials of the two countries.

To start with, Fukushima Nukaga, minister of state for defense, met with his Russian counterpart Sergey Ivanov in Moscow in January 2006, and they agreed to revise the Memorandum for Development of Defense Dialogue and Exchange of 1999 to accelerate defense dialogue between the two countries. As a result, Tsutomu Mori, chief of staff, Ground Self-Defense Force (GSDF), visited Russia in May, and in October Yuriy Baluevskiy, chief of the General Staff of Russia, came to Japan, the first visit by such a high-ranking officer since Anatoliy Kvashnin, then chief of the General Staff, visited in 1998. On the unit level, Makoto Hirose, commanding general of GSDF's Northern Army, visited the headquarters of the Far Eastern Military District in Khabarovsk in October, and the eighth joint exercise for search and rescue operations by the Russian Navy and Japan's Maritime Self-Defense Force was conducted the same month in the Sea of Japan, during which Russian Navy vessels called at Maizuru, Japan. On the level of research activities, the National Institute for Defense Studies (NIDS) conducted joint research on security issues in the Asia-Pacific region with the Research Center for Military Strategy of the General Staff of Russia, and in October a NIDS professor gave a lecture on Japan's security policy at the Military Academy of the General Staff, the highest educational institution of the Russian armed forces. In addition, at a Japan-Russia summit meeting held concurrently with the APEC (Asia-Pacific Economic Cooperation) summit meeting in Hanoi on November 18, the heads of the two states agreed to a visit to Japan by Prime Minister Mikhail Fradkov and Minister of Defense Ivanov some time in 2007.

In other areas, in May 2006, Viktor Pronichev, first deputy director of the FSB and director of the Russian Border Service, and Hiroki Ishikawa, commandant of the Japan Coast Guard, met in Vladivostok, and the two agencies conducted a Japan-Russia joint exercise for antiterrorist measures and search and rescue operations, the first of its kind. Regardless of these efforts to promote friendly exchange between the two coast guards, however, on August 16, a Russian border guard vessel fired at, and seized, a Japanese fishing boat, the *No.31 Kisshin Maru*, in waters around the Northern Territories, and a crew member was shot to death, the first such death in 50 years. This incident occurred at a time when the FSB,

which had taken over the Federal Border Service in 2003, was toughening border control as part of its counterterrorism measures, and tightening discipline in the field after the sacking of its senior officials on corruption charges in May 2006. In another incident, four Japanese fishing boats operating in the Russian EEZ in the Bering Sea were taken in on suspicion of illegal fishing in November and were hauled to a port on the Kamchatka Peninsula, heightening tension along the Japanese-Russian border. At the same time, Russian aircraft frequently violated Japan's airspace, and the number of scrambles by the Air Self-Defense Force increased sharply. According to the Joint Staff Office of the Self-Defense Forces, of the 149 scrambles carried out during the first half of 2006, 139 (roughly double the number in the same period a year before) were to repel Russian aircraft violating Japan's airspace. This would suggest that the operational environment for Russian aircraft has been improved based on the increased Russian defense expenditures.

Despite Putin's repeated pronouncements of Russia's desire to resolve its territorial dispute with Japan, the political stalemate between the two countries over the issue remains unbroken. In regard to the Kuril Islands that include the Northern Territories, the Russian government adopted in August 2006 the *Federal Special Program for the Social and Economic Development of the Kuril Islands (the Sakhalin region) from 2007 to 2015*, and announced a large-scale development project for the region budgeted at 17.9 billion rubles (about \$650 million). This is the largest among the federal special programs in terms of budget, and includes the construction of transport infrastructure such as roads, ports and harbors, and airports, the development of fisheries infrastructure including marine-product processing plants, the improvement of living conditions through the development of social infrastructure, and a more effective utilization of the abundant natural resources. In the plans for this program, the Russian government notes that the Kuril Islands serve as its border with Japan and form the boundary of its EEZ, and provide its navy with a deep water channel to the Pacific, and therefore are a "strategically significant area of the Russian Federation in the Asia-Pacific region." It is thought that the Russian government hopes to impress on its people and the world at large that the Northern Territories belong to Russia by such a national program of long-term development of the Kuril Islands. The business daily *Kommersant* reports that the Russian government is considering using installations at 12 locations including airports for dual purposes, and that the development plans are strongly colored by the aims of the Defense Ministry and the FSB. As



such, this national program shows the intent of the Russian government to develop the strategically important Kuril Islands into a base for national defense and border protection.

### **3. A New Phase of Modernization of the Military**

#### **(1) Possible Overseas Operations by the Armed Forces on Antiterrorist Missions**

The Putin administration cannot be said to have dealt rapidly and effectively with the terrorist attacks by Chechen rebels. When the Beslan school siege occurred in September 2004, coordination between the FSB and the Ministry of Internal Affairs, and between Moscow and the local authorities, was poor. Worse yet, the suspicion arose that local law enforcement officials in charge of antiterrorism had been bribed to turn a blind eye toward suspicious activity before the incident. Since it was evident that a centralized framework was needed to deal promptly and effectively with terrorism, the National Antiterrorist Commission composed of officials drawn from various ministries was established by presidential decree in February 2006. The director of the FSB, which is in charge of internal security, was appointed chairman of the commission; the minister of internal affairs, vice chairman; and 19 ministers from other ministries related to security issues were selected as members. In order to strengthen coordination between the local branches of the central government ministries and the provincial governments, antiterrorist commissions were established in all components of the federal government, with the governors appointed the chairmen of such commissions, and the heads of local branches of the FSB their vice chairmen. In addition, an operational headquarters was established within the National Antiterrorist Commission and empowered to oversee antiterrorist operations, including the authority to use military force and to appropriate funds. Thus a new antiterrorist mechanism with the FSB at its apex has come into being that crosses ministries and establishes a unity among the central and provincial governments.

The KGB was forced out of existence toward the end of 1991. After several reorganizations, its functions were divided among the FSB in charge of internal security, the Foreign Intelligence Service engaged in gathering domestic and foreign intelligence, the Federal Border Service controlling the national borders, the Federal Protective Service with responsibility for guarding key government

officials and important facilities, and the Federal Agency for Government Communications and Information handling signal intelligence. Given the importance of their duties, they were put under the direct control of the president. After President Putin took office, the mission of the FSB was expanded from internal security to include border control by absorbing the Federal Border Service in 2003; and then part of the functions of two other agencies, the Federal Agency for Government Communications and Information and the Federal Tax Police Service, was also integrated into the FSB. As the Federal Border Service had been annexed by the FSB, it was a border guard vessel under FSB jurisdiction that fired at a Japanese fishing boat in August 2006. Also earlier the same year, in May, the commandant of the Japan Coast Guard had met with the first deputy director of the FSB. With troops of the Interior Ministry and the Defense Ministry involved in antiterrorism also being put under the command of the FSB, the preeminent authority the FSB wields vis-à-vis other ministries in charge of armed forces has become obvious, and views are gaining currency that the FSB may in the future absorb foreign intelligence operations and in effect be elevated to a ministry of security with powers comparable to those of the former KGB.

In a related development, the Federal Law on Counteraction of Terrorism was promulgated in March 2006 by amending the Federal Law on the Fight against Terrorism. In particular, the provision in this law concerning the use of the Russian armed forces in the fight against terrorism has attracted much attention. Article 6 stipulates the use of the Russian armed forces for the following purposes (a) to intercept planes used in terrorist acts or hijacked by terrorists, (b) to block terrorist acts committed against oil plants and oil-producing facilities located in inland waters, territorial waters and continental shelves of Russia, and to ensure the safety of Russian shipping, (c) to participate in antiterrorism domestically in accordance with the procedures prescribed in the law, and (d) to block international terrorism committed outside of Russia. In regard to the fourth purpose, the law specifically authorizes the armed forces to carry out the following two missions: the use of weapons from a domestic location against terrorists operating outside of Russia and against their bases, and the use of the military to block international terrorist acts committed outside of Russia.

On June 3, 2006, four Russian diplomats were kidnapped in Iraq. Soon after, the “Mujahideen Shura Council in Iraq,” a radical group believed to be connected with al-Qaeda, issued a statement claiming responsibility and demanding the

withdrawal of Russian units from Chechnya and the release of Islamic prisoners. Subsequently a video of the Russian diplomats being murdered was shown on the group's website, and in response President Putin instructed Nikolai Patrushev, director of the FSB, to annihilate their murderers. Then, in July 2006, the Duma passed a law for the dispatch of agents of Russia's intelligence agencies to conduct antiterrorist operations in other countries, and the Upper House of Parliament adopted a resolution authorizing the president for an indefinite period to use units of the armed forces and special operations units outside the territory of the Russian Federation for the purpose of checking international terrorism. On July 10, Director Patrushev announced that law enforcement agents had killed Chechen field commander Shamil Basaev, considered to be the ringleader who had masterminded a series of large-scale terrorist attacks, including the Moscow theater siege in 2002 and the Beslan school siege in 2004. Even after the death of Basaev, President Putin said that the threat of terrorism remained serious, and showed his resolve to further toughen antiterrorism measures by the FSB and other ministries. The Russian government has stated that it would use its armed forces and special operations units outside of Russia strictly for the purpose of dealing with international terrorism, but that it has not ruled out the possibility of taking preventive action. Therefore, some worry about the danger that the Russian government might stretch the definition of antiterrorism and abuse the power of using its armed forces outside Russia.

Once, Russia hinted at making a "preventive" attack on the Pankishi Valley in neighboring Georgia, believed to be a hotbed of terrorists. From the Georgian perspective, the enactment of the above laws authorizing the Russian government to use force for antiterrorism missions abroad implies the heightened possibility of a preventive attack on Georgia. The Georgian authorities late in September 2006 took into custody four officers of the Main Intelligence Directorate (GRU) of the General Staff of the Russian armed forces on suspicion of spying. In reaction, Russia charged that the action taken by the Georgian authorities was tantamount to "state terrorism", and took tough countermeasures—a ban on the importation of Georgian wine, the recall of the Russian ambassador from Georgia, the suspension of visas to Georgia, the blocking of flights, roads, rail and postal service between the two countries, enforced repatriation of Georgians illegally staying in Russia, and a hike in the price of natural gas exported to Georgia. The pro-Western government in Georgia that emerged from the first "color revolution"

has indicated its desire to join NATO, and the Russian armed forces stationed there will be compelled to pull out of Georgia by 2008. Since Russia charges that Georgia is being used by terrorists as a route for smuggling weapons and funds into Russia, and that the Georgian government is oppressing inhabitants of the South Ossentiya Autonomous Region, who wish to become part of Russia, tense relations may continue between the two countries.

## **(2) Building a More Effective Military Force**

In his annual presidential address President Putin noted that many new threats have appeared in the course of the emerging new world order, threats difficult to foresee, and that Russian military and foreign policy doctrines must meet the urgent challenges posed by such new threats. In response, Secretary of the Security Council Igor Ivanov stressed the necessity of revising the military doctrine pursuant to which Russia had formulated its military strategy and the *Foreign Policy Concept* that set guidelines for its foreign policy, and disclosed that the Secretariat of the Security Council was in the process of revising the *National Security Concept* that prescribes the medium- and long-term national security strategy. However, as of the end of 2006, the new *National Security Concept* had not yet been approved, with the result that the revision of the military doctrine and the *Foreign Policy Concept* that were to be based on the new *National Security Concept* has been delayed.

The modernization of the armed forces, a national task, has thus made steady progress. In his address, President Putin reiterated that the situation in the armed forces has changed dramatically; a modern military structure has been created and the different units are now receiving new, modern weapons and equipment. In addition, he indicated the modernization of the armed forces has entered a new phase, that of improving quality. Stressing the importance of upgrading strategic nuclear capability in particular, Putin announced that silo-based intercontinental ballistic Topol'-M (SS-27) missiles had already been deployed to five regiments of the Strategic Missile Force and that a mobile version of the Topol'-M would be deployed to a missile division in 2006. He added that his administration planned to deploy multiple-warhead submarine-launched Bulava-30 (SS-NX-30) missiles to two newly built nuclear-powered submarines. Prior to the introduction of this new missile system, Russia early in September conducted an exercise to launch a ballistic missile from a submarine in the Arctic area for the first time in 11 years.

However, Bulava test flights in September and October 2006 ended in failure whereas a mobile version of the Topol'-M was placed on active duty in a division in Teykovo city, Ivanovo, in December. Consequently, the loading of Bulava-30s on nuclear-powered submarines is likely to be postponed.

In order to professionalize its armed forces, Russia has changed its conscript service system in part to a contract service system and since 2004 has had permanent-readiness units composed of contract servicemen. As of March 2006, some 60,000 contract servicemen in 42 units were assigned. By the end of 2008 they are expected to account for more than two thirds of those serving in the Russian armed forces. As the number of contract servicemen increases, the tour of duty of conscripted servicemen will be shortened, from the present 24 months, to 18 months in 2007 and then to 12 months in 2008. With the deaths of conscripted servicemen in the Chechen conflict, the number of draft evaders has increased and the morale of the troops has fallen. The Russian government has decided to man its units stationed in the Chechen Republic with contract servicemen, and, effective from December 1, 2006, the Interior Ministry troops in Chechnya were all contract servicemen so that there were no conscripts involved in fighting terrorism internally.

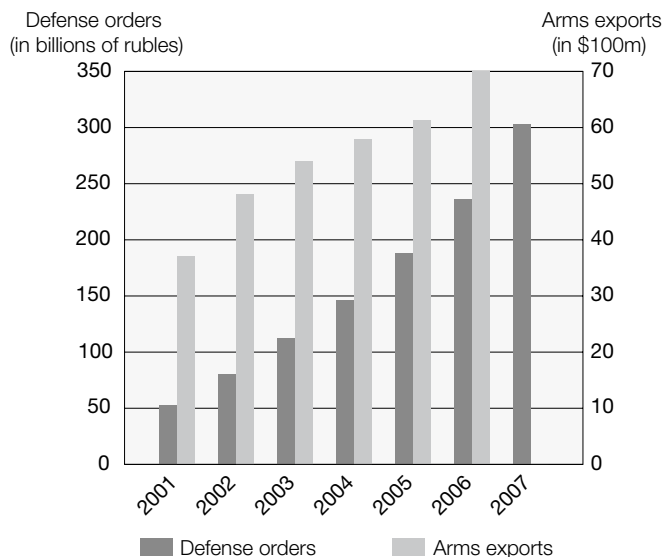
Buoyed by plentiful revenues, the defense budget has been increasing at an annual rate of around 20 percent, and the FY2007 defense budget approved by the Duma in August was 821.2 billion rubles, up 23 percent from a year ago. Appropriations earmarked for the Ministry of Defense accounted for 81.9 percent of the federal defense budget, and funds were appropriated for defense from other budget items also. In fiscal 2005, appropriations for the development of military technology and the procurement and maintenance of weapons accounted for 33.4 percent of that year's defense budget, personnel expenses 32.5 percent, training 14.4 percent, and pensions 11.8 percent. In a televised dialogue with the Russian people, President Putin said that Russia's military expenditure had increased about 3.5-fold over the past five years, and even that was only one twenty-fifth of what the United States was spending. At 2.6 percent of gross domestic product (GDP), this was on a level with NATO countries, and the number of troops had been cut by two-thirds to 1,131,000.

Along with rising defense expenditures, defense orders from the government have increased. In 2006, those of the Ministry of Defense alone rose to 236.69 billion rubles, or 53.5 billion rubles (25 percent) more than in 2005 and about 4.5

times the 2001 figure. They are expected to increase by about 28 percent in 2007, to 302.7 billion rubles. The priority is being given to upgrading the equipment of the permanent-readiness units, precision weapons, and reconnaissance and electronic systems. On October 14, 2006, the *State Weapons Program for 2007-2015* was approved, with 80 percent of its some 5 trillion ruble budget appropriated for the procurement of new equipment and the improvement of existing weapons. Under this program, the Ministry of Defense is planning to carry out a unit-wide renewal of equipment for the first time. About 200 units are scheduled to receive more than 3,000 pieces of new equipment and more than 5,000 pieces of remodeled equipment. In remarks made at a meeting with the armed forces' commanding officers on November 16, Defense Minister Sergey Ivanov said that in 2007 the armed forces will take delivery of 17 intercontinental ballistic missiles (ICBMs), a number about three times as many as in the year before and replace four military satellites and launch rockets, as well as upgrading equipment for one long-range aviation squadron, six aviation/helicopter squadrons, seven tank battalions, and 13 motorized rifle battalions.

Thanks to the increase in the defense budget, salaries and social security benefits of servicemen have been improved. According to Minister Ivanov, the pay of servicemen has been increased in stages so that, for example, a lieutenant with five years of service will receive 3.7 times as much as five years ago. Over the past five years, some 60,000 permanent housing units and 120,000 service housing units have been built, and an additional budget of 15 billion rubles is allocated for servicemen housing projects in 2006. In an effort to improve the transparency of the ministry, in March 2006, the Ministry of Defense published a military yearbook *Armed Forces of the Russian Federation 2005*; it is scheduled to be published annually from now on. The yearbook, a Russian defense white paper, discusses Russia's defense policy, the direction of military modernization, activities and achievements of the armed forces. The publication of a defense yearbook by the armed forces is unprecedented. Questionnaires collected from the servicemen appearing in the yearbook show that the degree of satisfaction with pay rose sharply in 2005, and that 68 percent of generals and officers are satisfied with the morale of their troops. This notwithstanding, incidents such as a new conscript being brutalized at the Chelyabinsk Tank Academy in January 2006, and the fact that a third of the deaths in the Russian military in 2005 were suicides, led President Putin to call on the Ministry of Defense to draw up

**Table 6.2. Russia's defense orders and arms exports, 2001–2007**



*Sources:* Data on defense orders for 2001 to 2005 are based on *Armed Forces of the Russian Federation 2005* published by the Russian Ministry of Defense; Those for 2006 and 2007 from remarks by Russian Defense Minister Ivanov. Data on arms exports are based on the website of the Federal Service for Cooperation on Military Technology of Russia.

*Notes:* The amount for 2007 defense Orders is based on the current plans. That for 2006 arms exports is an estimate.

measures to strengthen discipline in the armed forces, including the creation of a military police.

### **(3) Expanding Joint Military Exercises**

In line with the increase in the defense budget, the military exercises conducted by the Russian armed forces in and out of Russia have been growing larger in scale. Toward the end of 2006 its armed forces conducted a command and staff exercise called “Baikal 2006” in the Siberia Military District for the purpose of strengthening joint operations. In this exercise, some 10,000 troops and 1,500 fighting vehicles participated under the command of Chief of the General Staff Yuriy Baluhevskiy. One purpose of this exercise was to do a test run of command over regionally deployed forces shifting from the six military districts—Far Eastern, Siberia, Moscow, Volga and Ural, Leningrad, and Northern Caucasus—to three joint

regional headquarters to be newly established in three regions—East, South, and West. The current military district system was effective in local ground operations. However, as seen in Russia's having to establish the "North Caucasus Joint Forces" to deal with the Chechen conflict, the system was not always effective in joint operations involving different services and ministries. Therefore, the new system of regional commands will be implemented in 2008 based on several test-runs, while leaving the present military districts in place as administrative units. Such moves suggest not only the strengthening of joint operations in the Russian armed forces but also a shift in the future to a unified command of the Western type.

Units of the Russian armed forces also participated in two large-scale exercises held outside Russia under the auspices of the CSTO. One was the command and staff exercise "Union Shield 2006" held jointly with Belarus in June 2006. This was the first large-scale military exercise held close to borders with Western Europe since the creation of the CSTO; 7,000 troops from Belarus and 1,800 troops from Russia took part, and 40 tanks, more than 40 artillery pieces, 30 missile systems, 140 anti-tank guided missiles, and more than 40 aircraft were used. According to the *Krasnaya zvezda* (Red Star), the organ of the Defense Ministry, the premise of the exercise was settling an internal conflict presumed to have occurred in Belarus, and Minister of Defense Ivanov denied that it was aimed at any particular country. However, given that the exercise included a large-scale tank operation and a joint air defense system against missiles and aircraft, the independent military paper *Nezavisimoe Voennoe Obozrenie* concluded that it was similar in scale and premise to the Sino-Russian joint military exercise held within the framework of the SCO in 2005, and was directed at NATO, which continued to expand into regions of the former Soviet bloc.

In August 2006, a joint military exercise "Rubezhi (Border) 2006" by Russia, Kazakhstan, Kyrgyzstan, and Tajikistan was conducted along the Caspian coast of Kazakhstan. A total of more than 2,500 troops were mobilized in the joint exercise, with, from the Russian side, the participation of the air force, the Caspian Sea flotilla, and the naval infantry. As a joint CSTO and SCO military exercise is scheduled to be held in Russia in 2007, Russia might have wanted to check the proficiency of units of the CSTO countries.

Following Uzbekistan's rejoining of the CSTO in June 2006, Russia has been seeking to further strengthen it through joint military exercises and military cooperation. For a start, a CSTO summit held in June 2005 adopted the *Concept*



*of the Program of Military Technical Cooperation of the CSTO Member States for 2006-2010*, under which member states will receive preferential treatment from Russia in the maintenance and modernization of the existing equipment and the ordering of new equipment. In Kyrgyzstan, where a US military contingent is stationed, Russia maintains an air base as part of the CSTO collective rapid deployment force, and it plans to increase the number of its aircraft there 2.5-fold and to boost the number of troops to 260.

#### **(4) Increasing Arms Exports**

Russia considers the exporting of energy and arms as an important means of leverage in regaining its clout in the international community. It extends military technology cooperation to 82 countries and in recent years the value of its arms exports has increased sharply. According to the *Conventional Arms Transfers to Developing Nations, 1998-2005*, released by the US CRS in October 2006, the value of arms export agreements Russia has signed with developing nations increased from \$5.4 billion in 2004 to \$7 billion in 2005—making it the largest arms exporter in the world, taking over from the United States for the first time since the collapse of the Soviet Union. Meanwhile, US arms exports in 2005 decreased \$3 billion from 2004 to \$6.18 billion, ranking third after France (\$6.3 billion). Incidentally, India was the largest buyer (\$5.4 billion) of arms in 2005 in terms of the value of purchase agreements, followed by Saudi Arabia (\$3.4 billion) and China (\$2.8 billion). The largest buyers of Russian-made arms are China and India, and together they account for 70 percent of Russian arms exports. The report also points out that the export of state-of-the-art weapons to India by Russia has heightened tensions between India and Pakistan. The third largest market for Russian-made arms is Southeast Asian countries such as Malaysia, Vietnam, and Indonesia, and recently Russia has been extending sales to Latin America (Venezuela), the Middle East (Iran), and Africa (Nigeria). The share of arms transfer to the Middle East by the United States in the years from 2002 to 2005 stood at 50.2 percent versus 12.2 percent for Russia, but the US share in Asia excluding Japan, Australia, and New Zealand was 26.5 percent against 36.7 percent for Russia. Russia has thus become the largest supplier of arms in the Asian region. As in the case of Russia's resource diplomacy, the United States is critical of Russia's extensive arms exports (Table 6.3.). For instance, in August 2006 the United States imposed, under the Iran Nonproliferation Act, sanctions

on the two state-owned companies, arms dealer Rosoboronexport and aircraft manufacturer Sukhoi, that together handle 75 percent of Russia's arms exports, after Russia had signed an agreement with Iran for the export of an air defense system in the previous year.

According to the CRS report, the increase in Russia's arms exports is attributable to (a) Russia offering a variety of methods of payment such as barter trade and debt-swapping, (b) Russian-made arms offering a good cost-performance ratio, and (c) China and India, both Russia's major customers, placing a premium on licensed production. At the same time, the report points out that despite the critical importance of military aircraft in its arms exports, Russia is lagging behind in research and development of a new generation of aircraft. Aware of this weakness, President Putin decided in a presidential decree of February 2006 to integrate the six major aircraft makers including Sukhoi, MiG, Ilyushin, and Tupolev into the 75 percent government-owned United Aircraft Building Corporation, and appointed Sergey Ivanov as the company's chairman of the board of directors. Russia hopes that its aircraft industry can be resuscitated by creating such a new aircraft development framework under strict state control. As already seen in the energy industry, the Putin administration is expected to extend efforts to strengthen state control over strategically important industries such as space, nuclear development, and the defense industry.

The business daily *Kommersant* reported—and the Russian government acknowledged—that arms dealer Rosoboronexport was negotiating with China for the sale of Su-33 carrier-based fighters (a variant of the Su-27 flanker). After purchasing two of the fighters at a cost of \$100 million to check their performance, China is expected to sign a contract for a phased purchase of as many as 50 fighters at a total cost of \$2.5 billion. This would be Russia's first transfer of carrier-based fighters to China. If the deal takes place, it would be the second-largest arms export deal in terms of value ever, after the licensed production of Su-30MKI fighters authorized to India, and the largest arms sale in history to China. As Russian-made carrier-based aircraft would mean the strengthening of China's naval might, such an arms transfer by Russia could adversely affect the military balance and security of the region.

**Table 6.3. Major arms exports of Russia (2006)**

Country	Arms Exported
<b>China</b>	Contract for 24 Mi-171 transport helicopters (\$200 million) Delivery of two <i>Kilo</i> -class conventional submarines (variant) (\$2 billion under a contract signed in 2002) Up to 50 Su-33 carrier-based fighters (\$2.5 billion, under negotiation)
<b>India</b>	Contract for remodeling Il-38 maritime patrol aircraft (\$250 million) Contract for remodeling 4 <i>Kilo</i> -class conventional submarines Additional 3 <i>Talwar</i> -class (Krivak III) frigates (\$1.2 billion) Contract for 80 Mi-17 1V transport helicopters (\$662 million)
<b>Algeria</b>	Contract for 28 MiG-29SMT fighters, 6 MiG-29UBT fighters, 20 Su-30MK, 16 Yak-130 trainer aircraft, 8 S-300PMU surface-to-air missiles, and 40 T-90 tanks (\$7.5 billion)
<b>Venezuela</b>	Contract for 24 Su-30MK2 fighters (at a unit price of \$30–45 million) 100,000 AK-103 automatic rifles Delivery of 8 Mi-17 transport helicopters (\$65 million under contract in 2005) Contract for 14 Mi-17B5 and 2 Mi-26T transport helicopters, 2 Mi-35M attack helicopters (\$484 million)
<b>Yemen</b>	Contract for 32 MiG-29SMT fighters (\$1.3 billion) Contract for remodeling 66 MiG-29 fighters (\$85 million)
<b>Vietnam</b>	Contract for 2 <i>Gepard</i> -class frigates (project 1661), 1 Bastion anti-vessel missile system (\$300 million) Delivery of 1 missile patrol boat (project 12418)
<b>Malaysia</b>	Contract for 18 Su-30MKM fighters (for delivery in 2007)
<b>Indonesia</b>	Contract for 12 Mi-2 light helicopters Signing \$1 billion export credit (under negotiation, 3 Su-27 SKM, 3 Su-30 MK, 1 <i>Kilo</i> -class conventional submarine, some helicopters)
<b>Bangladesh</b>	Contract for 60 BTR-80 armored personnel carriers
<b>Belarus</b>	Delivery of 2 S-300PS (SA-10) surface-to-air missiles
<b>Bulgaria</b>	Contract for remodeling 16 MiG-29 fighters (\$48 million)
<b>Croatia</b>	Contract for 10 Mi-171 transport helicopters (to be delivered in 2007)
<b>Czech Republic</b>	Delivery of 10 Mi-35 attack helicopters (under a contract signed in 2004)

Source: Data from Russian media reports.

## Russia's Space Program

In his Annual Presidential Address to the Federal Assembly delivered in 2006, President Putin said that Russia will become a major exporter of intellectual services in high-tech fields such as energy, communications, space, and aircraft; and it seems that Putin hopes to extend Russia's status as a major power to the field of space development. In October 2005, the Russian government announced a new space program, "The Federal Space Program for 2006–2015," to renew a rocket launching base, launch satellites, explore Mars and other planets, participate in the International Space Station, develop next-generation rockets and remote sensing, and expand communications networks, all at a huge cost. We can say that this program is designed to achieve four strategic objectives, namely, to improve the national living standard, to ensure stable economic growth, to create potential for the development of the nation, and to improve national security. Although the program was mapped out by the Federal Space Agency in charge of civilian space development, Russia's space program has been carried out under the leadership of the military since the Soviet era and the military is actively involved even today in the civilian space program. In fact, commanders of the Space Force traditionally have been appointed directors of the Federal Space Agency, and roughly one half of the staff of the Federal Space Agency are former military personnel drawn from the Space Force. In addition, the three rocket-launching bases inside and outside the country, including Baikonur, are run by the Space Force.

One reason that Russia has actively embarked on space development is that, in addition to the rapid economic growth that has generated ample funds, the existence of a civilian space industry—the launching of commercial satellites, space travel—has meant that there has been less of a brain drain in the space industry than in the defense industry, enabling the former to retain a certain level of technology even after the collapse of the Soviet Union. As demonstrated in its launching of the world's first satellite and in its record in manned spacecraft, Russia has led the world in space since the Soviet era, and after the US space shuttle accident, the Russian Soyuz was the only means available for delivering astronauts to the International Space Station. In terms of launching commercial satellites as well, Russia far outpaced the United States in 2005 by 24 to 12, and Russia accounted for 45 percent of the commercial satellites launched in the world that year. Russia is also actively involved in international cooperation in the field of space development, launching communications satellites for Kazakhstan and South Korea in 2006. Deputy Prime Minister and Minister of Defense Ivanov has remarked that even a few years ago he never imagined that the space industry would develop into an industry key to the economic development of Russia. Now China, the third country after the former Soviet Union and the United States to succeed in sending a manned spacecraft into orbit, is, with technological assistance from Russia, contemplating landing a man on the moon, building an international space station, and sending a probe to explore Mars. Although Director Anatoly Perminov of the Federal Space Agency says that Russia will not give space technology to China, the two countries have grown increasingly close not only over energy and defense but also over space development.