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Russia

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SUMMARY

Vladimir Putin won reelection as Russian President in March 2004, in an exercise in "managed democracy" in which he took 71% of the vote and faced no serious competition. The pro-Putin Unified Russia party similarly swept the parliamentary election in December 2003 and controls more than two-thirds of the seats in the Duma. Also in March, Putin replaced long-serving Premier Kasyanov with a little-known bureaucrat, Mikhail Fradkov, indicating Putin's intent to take the reins of government even more completely into his own hands. Putin's twin priorities remain to revive the economy and strengthen the state. He has brought TV and radio under tight state control and virtually eliminated effective political opposition. Federal forces have suppressed large-scale military resistance in Chechnya but face the prospect of prolonged guerilla warfare and terrorist style attacks.

The economic upturn that began in 1999 is continuing. The GDP and domestic investment are growing impressively after a long decline, inflation is contained, the budget is balanced, and the ruble is stable. Major problems remain: 18% of the population live below the poverty line, foreign investment is low, and crime, corruption, capital flight, and unemployment remain high. Putin apparently seeks simultaneously to tighten political control and accelerate economic reform.

Russian foreign policy has grown more assertive, fueled in part by frustration over the gap between Russia's self-image as a world power and its greatly diminished capabilities. Russia's drive to reassert dominance in and integration of the former Soviet states is most successful with Belarus and Armenia but arouses opposition in Georgia, Ukraine, Azerbaijan, and Moldova. The Commonwealth of Independent States (CIS) as an institution is failing. Washington and Moscow continue to disagree over Russian nuclear reactor sales to Iran, among other issues. After the September 11, 2001 attacks, however, Russia adopted a generally more cooperative attitude on many issues.

The military is in turmoil after years of severe force reductions and budget cuts. The armed forces now number about one million, down from 4.3 million Soviet troops in 1986. Weapons procurement is down sharply. Readiness, training, morale, and discipline have suffered. Putin's government has increased defense spending sharply but there is conflict between the military and the government and within the military over resource allocation, restructuring, and reform.

After the collapse of the Soviet Union, the United States sought a cooperative relationship with Moscow and supplied over $4 billion in grant aid to encourage democracy, market reform, and WMD threat reduction in Russia. Early hopes for a close partnership waned however, due to mutual disillusionment. Direct U.S. foreign aid to Russia, under congressional pressure, fell over the past decade. Indirect U.S. assistance, however, through institutions such as the IMF, was substantial. The United States has imposed economic sanctions on Russian organizations for exporting military technology and equipment to Iran and Syria. There are more restrictions on aid to Russia in the FY2005 foreign aid bill. In the spirit of cooperation after September 11, however, the two sides agreed on a strategic nuclear force reduction treaty and a strategic framework for bilateral relations, signed at the Bush-Putin summit in May 2002.

MOST RECENT DEVELOPMENTS

On March 2, 2006, the Russian cabinet approved an agreement concluded with Georgia last year on closing Russia's two remaining military bases in Georgia by October 1, 2007.

On March 3, 2006, Russian officials and leaders of the Palestinian movement Hamas held talks in Moscow, marking the militant group's highest-level foreign visit.

On March 11, 2006, the Iranian Foreign Ministry rejected Russia's proposal — aimed at averting a U.S.-Iranian confrontation — to reprocess uranium for Iran on Russian territory.

On March 16, 2006, the Bush Administration released its new National Security Strategy, which stated in part that the United States would try "to persuade the Russian government to move forward, not backward, along freedom's path" and urged Moscow to refrain from "perverting democratic development at home and abroad."

On March 20, 2006, the Russian Foreign Ministry rejected criticism of Russia contained in the new U.S. National Security Strategy. The Russian statement condemned U.S. attempts to "impose its concept of democracy on other countries."

BACKGROUND AND ANALYSIS

Post-Soviet Russia and Its Significance for the United States

Russia was by far the largest of the former Soviet republics. Its population of 143 million (down from 149 million in 1991) is about half the old Soviet total. Its 6.6 million square miles comprised 76.2% of the territory of the U.S.S.R. and it is nearly twice the size of the United States, stretching across Eurasia to the Pacific, across 11 time zones. Russia also has the lion's share of the natural resources, industrial base, and military assets of the former Soviet Union.

Russia is a multinational, multi-ethnic state with over 100 nationalities and a complex federal structure inherited from the Soviet period. Within the Russian Federation are 21 republics (including Chechnya) and many other ethnic enclaves. Ethnic Russians, comprising 80% of the population, are a dominant majority. The next largest nationality groups are Tatars (3.8%), Ukrainians (3%), and Chuvash (1.2%). Furthermore, in most of the republics and autonomous regions of the Russian Federation that are the national homelands of ethnic minorities, the titular nationality constitutes a minority of the population. Russians are a majority in many of these enclaves. During Yeltsin's presidency, many of the republics and regions won greater autonomy. Only the Chechen Republic, however, tried to assert complete independence. One of President Putin's priorities has been to reverse this trend and rebuild the strength of the central government vis-a-vis the regions.

The Russian Constitution combines elements of the U.S., French, and German systems, but with an even stronger presidency. Among its more distinctive features are the ease with

which the president can dissolve the parliament and call for new elections and the obstacles preventing parliament from dismissing the government in a vote of no confidence. The Constitution provides a four-year term for the president and no more than two consecutive terms. The president, with parliament's approval, appoints a premier who heads the government. The president and premier appoint government ministers and other officials. The premier and government are accountable to the president rather than the legislature. President Putin was reelected to a second term in March 2004.

The bicameral legislature is called the Federal Assembly. The Duma, the lower (and more powerful) chamber, has 450 seats. In previous elections, half the seats were chosen from single-member constituencies and half from national party lists, with proportional representation and a minimum 5% threshold for party representation. In September 2004, President Putin proposed that all 450 Duma seats be filled by party list election, with a 7% threshold for party representation. This was signed into law in May 2005. The upper chamber, the Federation Council, has 178 seats, two from each of the 89 regions and republics of the Russian Federation. Deputies are appointed by the regional chief executive and the regional legislature. The next parliamentary election is to be held in December 2007.

The judiciary is the least developed of the three branches. Some of the Soviet-era structure and personnel are still in place. Criminal code reform was completed in 2001 and trial by jury is being introduced, although it is not yet the norm. Federal judges, who serve lifetime terms, are appointed by the President and must be approved by the Federation Council. The courts are widely perceived to be subject to political manipulation and control. The Constitutional Court rules on the legality and constitutionality of governmental acts and on disputes between branches of government or federative entities. The Supreme Court is the highest appellate body.

Russia is not as central to U.S. interests as was the Soviet Union. With the dissolution of the U.S.S.R. and a diminished Russia taking uncertain steps toward democratization, market reform and cooperation with the West, much of the Soviet military threat has disappeared. Yet developments in Russia are still important to the United States. Russia remains a nuclear superpower. It will play a major role in determining the national security environment in Europe, the Middle East, and Asia. Russia has an important role in the future of arms control, nonproliferation of weapons of mass destruction, and the fight against terrorism. Such issues as the war on terrorism, the future of NATO, and the U.S. role in the world will all be affected by developments in Russia. Also, although Russia's economy is distressed, it is recovering and is potentially an important trading partner. Russia is the only country in the world with more natural resources than the United States, including vast oil and gas reserves. It has a large, well-educated labor force and a huge scientific establishment. Also, many of Russia's needs — food and food processing, oil and gas extraction technology, computers, communications, transportation, and investment capital — are in areas in which the United States is highly competitive.

Political Developments

Former President Boris Yeltsin's surprise resignation (December 31, 1999) propelled Vladimir Putin (whom Yeltsin had plucked from obscurity in August 1999 to be his fifth Premier in three years) into the Kremlin as Acting President. Putin's meteoric rise in

popularity was due to a number of factors: his tough policy toward Chechnya; his image as a youthful, vigorous, sober, and plain-talking leader; and massive support from state-owned TV and other mass media. In March 2000, Putin was elected president in his own right.

Putin, who was a Soviet KGB foreign intelligence officer for 16 years and later headed Russia's Federal Security Service (domestic component of the former KGB), is an intelligent, disciplined statist. His priorities appear to be strengthening the central government, reviving the economy, and restoring Russia's status as a great power.

On the domestic political scene, Putin early on won major victories over regional leaders, reclaiming authority for the central government that Yeltsin had allowed to slip away. First, Putin created seven super-regional districts overseen by presidential appointees. Then he pushed legislation to change the composition of the Federation Council, the upper chamber of parliament (a body that was comprised of the heads of the regional governments and regional legislatures), giving those leaders exclusive control of that chamber and also parliamentary immunity from criminal prosecution. With Putin's changes, Federation Council Deputies are appointed by the regional leaders and legislatures, but once appointed, they are somewhat independent. Putin then won parliamentary approval of a bill giving the president the right to remove popularly elected regional leaders who violate federal law. In 2005, the Kremlin-controlled parliament gave Putin the power to appoint regional governors.

The Putin regime has been steadily working to gain control of the broadcast media. A key target was the media empire of Vladimir Gusinsky, which included Russia's only independent television network, NTV, which had been critical of Putin. Gusinsky, one of the so-called oligarches who rose to economic and political prominence under Yeltsin, was arrested in June 2000 on corruption charges and was later released and allowed to leave the country. Many viewed this as an act of political repression by the Putin regime. In April 2001, the state-controlled gas monopoly Gazprom took over NTV and appointed Kremlin loyalists to run it. A few days later, Gusinsky's flagship newspaper, *Segodnya*, was shut down and the editorial staff of his respected newsweekly, *Itogi*, was fired. The government then forced the prominent oligarch Boris Berezovsky to give up ownership of his controlling share of the ORT TV network. In January 2002, TV-6, the last significant independent Moscow TV station, was shut down, the victim, many believe, of government pressure. The government has also moved against the independent radio network, Echo Moskvuy and other electronic media.

A law on political parties, introduced by the government and explicitly aimed at reducing the number of parties, gives the government the authority to register, or deny registration to, political parties. In April 2001, Putin proposed that the Duma be stripped of its power to debate or vote on specific components of the budget and instead either approve or reject the government's proposed budget as a whole. In April 2002, the pro-Putin bloc in the Duma staged a political coup against the Communist Party faction, depriving it of most of its committee chairmanships and other leadership posts. Putin's September 2004 political changes will further reduce the number of parties in the Duma by raising the threshold for representation from 5% to 7% of the total vote and banning parliamentary blocs (coalitions of several parties).

In the summer of 2003, the Russian government launched a campaign against Mikhail Khodorkovski, CEO of Yukos, the world's fourth largest oil company. After numerous

searches and seizures of Yukos records and the arrest of several senior Yukos officials, Federal Security Service police arrested Khodorkovski on October 25. Five days later prosecutors froze Yukos stock worth some $12 billion. Khodorkovski, the wealthiest man in Russia, became a multi-billionaire in the 1990s in the course of the often corrupt privatization of state-owned assets under former president Yeltsin. Khodorkovski, however, subsequently won respect in the West by adopting open and "transparent" business practices while transforming Yukos into a major global energy company. Khodorkovski criticized some of President Putin's actions, financed anti-Putin political parties, and hinted that he might enter politics in the future. Khodorkovski's arrest is seen by many as politically motivated, aimed at eliminating a political enemy and making an example of him to other Russian oligarchs. Many observers also see this episode as the denouement of a long power struggle between two Kremlin factions: a business-oriented group of former Yeltsin loyalists and a rising group of Putin loyalists drawn mainly from the security services and Putin's home town of St. Petersburg. A few days after Khodorkovski's arrest, Presidential Chief of Staff Aleksandr Voloshin, reputed head of the Yeltsin-era group, resigned, as did several of his close associates, leaving the Kremlin in the hands of the "policemen." Khodorkovski went on trial in June 2004 on multiple criminal charges of tax evasion and fraud. In May 2005, Khodorkovski was found guilty and sentenced to nine years in prison and was sent to a penal camp in Siberia.

Yukos was broken up and its principal assets sold off to satisfy tax debts allegedly totalling $28 billion. On December 19, 2004, Yuganskneftegaz, the main oil production subsidiary of Yukos, was sold at a state-run auction, ostensibly to satisfy tax debts. The wining, and sole, bidder, Baikalfinansgrup, paid $9.7 billion, about half of its market value, according to western industry specialists. It was subsequently revealed that the previously unheard-of Baikalfinansgrup is a group of Kremlin insiders headed by Igor Sechin, Deputy Head of the Presidential Administration and a close associate of President Putin. On December 22, Baikalfinansgrup was purchased by Rosneft, a wholly state-owned Russian oil company. Sechin has been Chairman of Rosneft's Board of Directors since July 2004. The de-facto nationalization of Yuganskneftegaz was denounced by Andrei Illarionov, then a senior Putin economic advisor, as "the scam of the year."

In parliamentary elections on December 7, 2003, the big winners were the Unified Russia Party, identified with President Putin, and the newly created pro-Kremlin populist/nationalist party, Motherland. When the new Duma convened on December 29, Unified Russia had 300 of the 450 seats. With its two-thirds majority and the added support of the Motherland Party and Vladimir Zhirinovsky's right-wing Liberal Democratic Party, the Kremlin's control of the Duma is absolute, sufficient to pass any legislation and to amend the Constitution. The big losers were the Communist Party, which lost half its seats, and the two liberal, pro-western parties, Yabloko and Union of Rightist, which failed to reach the 5% threshold and were virtually eliminated from the Duma. The Communist Party now holds 52 seats; Motherland and the Zhirinovsky's LDP hold 36 seats each. These are the only four parties with meaningful representation in the Duma.

The pro-Kremlin sweep in the Duma election foretold the results of the presidential election three months later. Demonstrating what some of Putin's own advisors call "managed democracy," the Kremlin team used levers of power and influence to affect the electoral process, including determining the opposition candidates. So-called "administrative resources" (financial, bureaucratic, and judicial) were mobilized at the federal, regional, and

local level in support of Putin's campaign. The state-controlled national broadcast media lionized Putin and generally ignored and/or denigrated his opponents. On March 14, 2004, Putin, as expected, won reelection to a second term with a reported 71% of the vote, and no serious opposition. Communist Party leader Zyuganov declined to run, as did Zhirinovsky, both of whom designated surrogates to put up a show of contesting the election. In the event, the Kremlin's biggest campaign challenge turned out to be maintaining the appearance of a politically meaningful contest. Most objective observers, Russian and international, concluded that in this the Putin team failed.

Putin declined to participate in several televised debates with the other five presidential candidates, nor did he present a campaign platform. Two weeks before the election, however, he surprised observers by announcing a major government shake up. Mikhail Kasyanov, who had served as Putin's Premier for four years but also had ties with the Yeltsin "family," was replaced by Mikhail Fradkov, a little-known bureaucrat who was Moscow's representative to the EU and before that briefly headed the Federal Tax Police.

On September 13, 2004, in the aftermath of the bloody Beslan school hostage crisis (see below), President Putin proposed a number of changes to the political system that would further concentrate power in his hands, necessitated, he said, by Russia's intensified war against international terrorism. He proposed, *inter alia*, that regional governors no longer be popularly elected, but instead that regional legislatures confirm the president's appointees as governors and that all Duma Deputies be elected on the basis of national party lists, based on the proportion of votes each party gets nationwide. The first proposal would make regional governors wholly dependent on, and subservient to, the president, undermining much of what remains of Russia's nominally federal system. The second proposal would eliminate independent deputies and further strengthen the pro-presidential parties that already control an absolute majority in the Duma. Putin and his supporters argue that these measures will help reduce corruption in the regions and "unify" the country, the better to fight against terrorism. Critics see the proposals as further, major encroachments on the fragile democratic reforms of the 1980s and 1990s that have already suffered serious setbacks under Putin. They warn of Putin's growing authoritarianism. President Bush, Secretary of State Powell, and many members of Congress voiced concern that Putin's September 13 proposals threatened Russian democracy.

In January 2005, the Russian government monetized many previously in-kind social benefits for retirees, military personnel, and state employees. The cash payments, however, only partly compensated for the lost benefits. At the same time, another government "reform" substantially raised housing and public utility costs. This led to massive, prolonged anti-government demonstrations bringing hundreds of thousands of protesters into the streets in what many have called the most serious challenge to Putin's five-year rule. These widespread protests, following the September 2004 Beslan school hostage disaster and Putin's public humiliation in the Ukrainian presidential election in December, brought Putin's public approval rating down to 41% in March 2005, from the high 70s a year earlier.

On November 14, 2005, President Putin announced major high-level changes in the government, naming two of his closest lieutenants to new deputy-prime-ministerial positions: Presidential-Administration head Dmitrii Medvedev and Defense Minister Sergei Ivanov. Ivanov will also retain his post as defense minister. These two men now are seen by many as the front runners to succeed Putin in 2008.

In December 2005, the Russian parliament passed a controversial Kremlin-proposed law regulating non-government organizations (NGOs), which Kremlin critics charge gives the government leverage to shut down NGOs that it views as politically troublesome. The U.S. and many European governments expressed concern about the NGO law.

Chechnya. In 1999, Islamic radicals based in Russia's break-away republic of Chechnya launched armed incursions into neighboring Dagestan, vowing to drive the Russians out and create an Islamic state. A series of bombing attacks against apartment buildings in Moscow and other Russian cities killed some 300 people. The new government of then-Premier Putin blamed Chechen terrorists and responded with a large-scale military campaign. Russian security forces may have seen this as an opportunity to reverse their humiliating 1996 defeat in Chechnya. With Moscow keeping its (reported) military casualties low and Russian media reporting little about Chechen civilian casualties, the conflict enjoyed strong Russian public support, despite international criticism. After a grinding siege, Russian forces took the Chechen capital in February 2000 and in the following months took the major rebel strongholds in the mountains to the south. Russian forces have killed tens of thousands of civilians and driven hundreds of thousands of Chechen refugees from their homes.

In March 2003, Russian authorities conducted a referendum in Chechnya on a new Chechen constitution that gives the region limited autonomy within the Russian Federation. Moscow claims it was approved by a wide margin. In October 2003, the Moscow-appointed head of the Chechen Administration, Akhmad Kadyrov, was elected President of the republic. Russian hopes that these steps would increase political stability and reduce bloodshed were disappointed, as guerilla fighting in Chechnya and suicide bomb attacks in the region and throughout Russia continued. On May 9, 2004, Kadyrov was assassinated by a bomb blast in Grozny, further destabilizing Chechnya. On August 29, Alu Alkhanov, Moscow's preferred candidate, was elected President of Chechnya, replacing Kadyrov.

Many foreign governments and the U.N. and Organization for Security and Cooperation in Europe (OSCE), while acknowledging Russia's right to combat separatist and terrorist threats on its territory, criticized Moscow's use of "disproportionate" and "indiscriminate" military force and the human cost to innocent civilians and urge Moscow to pursue a political solution. Although Moscow has suppressed large-scale Chechen military resistance, it faces the prospect of prolonged guerilla warfare. Russia reportedly has lost some 12-15,000 troops in Chechnya (1999-2004), comparable to total Soviet losses in Afghanistan (1979-1989). Russian authorities deny there is a "humanitarian catastrophe" in the North Caucasus and strongly reject foreign "interference" in Chechnya. The bloodshed continues on both sides. Russian forces regularly conduct sweeps and "cleansing operations" that reportedly result in civilian deaths, injuries, and abductions. Chechen fighters stage large and small attacks against Russian forces and pro-Moscow Chechens in Chechnya and neighboring regions and terrorist attacks against civilian targets throughout Russia. On September 1, 2004, a group of heavily armed fighters stormed a school in the town of Beslan, taking some 1,150 children, teachers, and parents hostage and demanding the withdrawal of Russian forces from Chechnya. Two days later, in a chaotic and violent battle, over 350 hostages and nearly all the pro-Chechen fighters were killed by explosives set by the hostage-takers and by gunfire from all sides. Radical Chechen field commander Shamil Basaev later reportedly claimed responsibility for the Beslan school assault. However, Aslan Maskhadov, the nominal political leader of Chechnya's separatist movement, denounced the school attack and suicide

bombings against civilian targets as unjustifiable acts of terrorism. Maskhadov, who was elected President of Chechnya in 1997, was seen by some as a relatively moderate leader and virtually the only possible interlocutor if Moscow sought a political resolution to the conflict. Putin's government labeled Maskhadov, like all Chechen rebels, as a terrorist and refused to negotiate with him. On March 8, 2005, Russian authorities announced that they had killed Maskhadov in a shoot-out in Chechnya, apparently extinguishing what little hope remained for a political settlement. Chechen rebel "field commanders" named Abdul-Khalim Saidulaev President and vowed to continue their struggle for independence.

Economic Developments

After the collapse of the Soviet Union, Russia experienced widespread economic dislocation and a drop of close to 50% in GDP. Conditions worse than the Great Depression of the 1930s in the United States impoverished much of the population, some 15% of which is still living below the government's official (very low) poverty level. Russia is also plagued by environmental degradation and ecological catastrophes of staggering proportions; the near-collapse of the health system; sharp declines in life expectancy and the birth rate; and widespread organized crime and corruption. The population has fallen by over 5 million in the past decade, despite net in-migration of 5 million from other former Soviet republics.

In 1999, the economy began to recover, due partly to the sharp increase in the price of imports and increased price competitiveness of Russian exports caused by the 74% ruble devaluation in 1998. The surge in the world price of oil and gas also buoyed the Russian economy. The economic upturn accelerated in 2000, led by a 7.6% increase in GDP, 20% inflation, and a budget surplus. Economic performance has remained relatively strong since then. Economists disagree as to whether this is a turning point marking fundamental economic recovery, or a cyclical improvement that will not be sustainable without further, politically painful, systemic reform. The following table highlights Russian economic performance since the dissolution of the Soviet Union in December 1991.

Table 1. Russian Economic Performance Since 1992

Annual percentage change

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP Growth Rates	-14.5	-8.7	-12.6	-4.1	-4.9	0.8	-5.0	3.2	9	5.5	4	7.3	7.1	6.4
Inflation Rates	2,525	847	223	131	48	11	84	36	20.2	15	12	13.6	11.7	12.9

Sources: PlanEcon, Inc., Center for Strategic and International Studies, and CIA World Factbook.

Economic Reform. In January 1992, Yeltsin launched a sweeping economic reform program developed by Acting Premier Yegor Gaidar. The Yeltsin-Gaidar program wrought fundamental changes in the economy. Although the reforms suffered many setbacks and disappointments, most observers believe they carried Russia beyond the point of no return as far as restoring the old Soviet economic system is concerned. The Russian government removed controls on the vast majority of producer and consumer prices in 1992. Many

prices have reached world market levels. The government also launched a major program of privatization of state property. By 1994, more than 70% of industry, representing 50% of the workforce and over 62% of production, had been privatized, although workers and managers owned 75% of these enterprises, most of which have not still been restructured to compete in market conditions. Critics charged that enterprises were sold far below their true value to "insiders" with political connections. The Putin government favors marketization and land reform. Putin declared reviving the economy his top priority. His liberal economic reform team formulated policies that won G-7 (now G-8, with Russia as a full member) and IMF approval in his first term. Some notable accomplishments include a flat 13% personal income tax and lower corporate taxes which helped boost government revenue and passage of historic land privatization laws. In May 2004, Russia reached agreement with the EU on Russian accession to the WTO. EU leaders reportedly made numerous economic concessions to Moscow. Russia agreed to sign the Kyoto Protocol and roughly double the price of natural gas domestically by 2010. Meanwhile, massive oil profits and related government revenues have made it easier for the government to put off politically difficult decisions on structural economic reform. Reform was further undermined by the Kremlin's *de facto* privatization of oil giant Yukos, which has darkened the investment climate.

Foreign Policy

In the early 1990s, Yeltsin's Russia gave the West more than would have seemed possible. Moscow cut off military aid to the Communist regime in Afghanistan; ordered its combat troops out of Cuba; committed Russia to a reform program and won IMF membership; signed the START II Treaty that would have eliminated all MIRVed ICBMs (the core of the Soviet Strategic Rocket Forces); and radically reduced Russian force levels in many other categories. The national security policies of Yeltsin and Foreign Minister Andrei Kozyrev came to be strongly criticized at home, not only by hardline communists and ultra nationalists but also by many centrists and prominent democrats, who came to agree that the Yeltsin/Kozyrev foreign policy lacked a sense of national interest and was too accommodating to the West — at Russia's expense.

In 1995, Yeltsin replaced Kozyrev as Foreign Minister with Yevgeny Primakov, who was decidedly less pro-Western. Primakov opposed NATO enlargement, promoted integrating former Soviet republics under Russian leadership, and favored cooperation with China, India, and other states opposed to U.S. "global hegemony." When Primakov became Premier in September 1998, he chose Igor Ivanov to succeed him as Foreign Minister. Ivanov kept that position until March 2004, when he was replaced by career diplomat Sergei Lavrov, formerly Russia's U.N. Ambassador.

During Putin's first year as president he continued Primakov's policies, but by 2001, even before September 11, he appears to have made a strategic decision to reorient Russian national security policy toward cooperation with the West and the United States. Putin saw Russia's economic revitalization proceeding from its integration into the global economic system dominated by the advanced industrial democracies — something that could not be accomplished in an atmosphere of political/military confrontation or antagonism with the United States. After the September 11 attacks, the Bush Administration welcomed Russia's cooperation against Al Qaeda and the Taliban regime in Afghanistan, which paved the way for broader bilateral cooperation.

Moscow remained unhappy about NATO enlargement in Central and Eastern Europe, but reconciled itself to that, including former Soviet Baltic republics. In May 2002, NATO and Russian leaders meeting in Rome signed the "NATO at 20" agreement, in which Russia and NATO members participate as equals on certain issues. This replaces the NATO-Russia Permanent Joint Council, a consultative body that operated on the principle of "19 plus 1," i.e., NATO plus (and often *versus*) Russia, which all sides found unsatisfactory. Russia reacted relatively calmly to NATO's admission of seven new members (May 2004), including the former Soviet Republics of Estonia, Latvia, and Lithuania.

After the collapse of the Soviet Union, a consensus emerged in Moscow on reestablishing Russian dominance in this region as a very high priority. There has been little progress toward overall CIS integration. Russia and other CIS states impose tariffs on each others' goods in order to protect domestic suppliers and raise revenue, in contravention of an economic integration treaty. Recent CIS summit meetings have ended in failure, with many of the presidents sharply criticizing lack of progress on common concerns and Russian attempts at domination. The CIS as an institution appears to be foundering, and in March 2005, Putin called it a "mechanism for a civilized divorce."

On the other hand, in October 2000, the presidents of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan upgraded their 1992 Collective Security Treaty, giving it more operational substance and *de jure* Russian military dominance. In February 2003, the presidents of Russia, Ukraine, Belarus, and Kazakhstan agreed in principle to create a "joint economic space" among the four countries. They signed a treaty to that effect in September 2003 but failed to agree on fundamental principles and terms of implementation. The December 2004 election of western-oriented Viktor Yushchenko as President of Ukraine has in effect killed the "joint economic space" agreement.

Russia and Belarus have taken steps toward integration. Belarusian President Aleksandr Lukashenko may have hoped for a leading role in a unified state during Yeltsin's decline. Lukashenko unconstitutionally removed the parliamentary opposition in 1996 and strongly opposes market reform in Belarus, making economic integration difficult and potentially very costly for Russia. In April 1997, Yeltsin and Lukashenko signed documents calling for a "union" between states that were to remain "independent and sovereign." On May 23, 1997, they signed a Union Charter. Lukashenko minimized his and his country's political subordination to Moscow. Yeltsin avoided onerous economic commitments to Belarus. In December 1998, Yeltsin and Lukashenko signed an agreement to "unify" the two countries. After protracted negotiations, the two presidents signed a treaty on December 8, 1999, committing Russia and Belarus to form a confederal state. Moscow and Minsk continue to differ over the scope and terms of union, and Putin repeatedly has sharply criticized Lukashenko's schemes for a union in which the two entities would have equal power. The prospects for union seem to be growing more distant.

Russian forces remain in Moldova against the wishes of the Moldovan government (and the signature of a troop withdrawal treaty in 1994), in effect bolstering a neo- Communist, pro-Russian separatist regime in the Transnistria region of eastern Moldova. Russian-Moldova relations warmed, however, after the election of a communist pro-Russian government in Moldova in 2001, but even that government became frustrated with Moscow's manipulation of the Transnistrian separatists. The United states and the EU call upon Russia

to withdraw from Moldova. Russian leaders have sought to condition the withdrawal of their troops on the resolution of Transnistria's status, which is still manipulated by Moscow.

Russian forces intervened in Georgia's multi-faceted civil strife, finally backing the Shevardnadze government in November 1993 — but only after it agreed to join the CIS and allow Russia military bases in Georgia. Russia tacitly supports Abkhaz and South Ossetian separatism in Georgia and had long delayed implementation of a 1999 OSCE-brokered agreement to withdraw from military bases in Georgia. In 2002, tension arose over Russian claims that Chechen rebels were staging cross-border operations from Georgia's Pankisi Gorge, near the border with Chechnya. In March 2002, the Bush Administration announced that a small contingent of U.S. military personnel would be deployed in Georgia to help train and equip Georgian security forces to combat Chechen, Arab, Afghani, al-Qaeda, and other terrorists who had infiltrated into Georgia. In July 2005, Russia concluded an agreement with Georgia to withdraw its forces from military bases it had occupied in Georgia since the Soviet era. The withdrawal began July 30 and is supposed to be completed in 2007. (See CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, updated regularly.)

Moscow has used the Armenian-Azerbaijani conflict over Nagorno-Karabakh to pressure both sides and win Armenia as an ally. Citing instability and the threatened spread of Islamic extremism on its southern flank as a threat to its security, Moscow intervened in Tajikistan's civil war in 1992-93 against Tajik rebels based across the border in Afghanistan.

A major focus of Russian policy in Central Asia and the Caucasus has been to gain more control of natural resources, especially oil and gas, in these areas. Russia seeks a stake for its firms in key oil and gas projects in the region and puts pressure on its neighbors to use pipelines running through Russia. This became a contentious issue as U.S. and other western oil firms entered the Caspian and Central Asian markets and sought alternative pipeline routes. Russia's policy of trying to exclude U.S. influence from the region as much as possible, however, was dramatically reversed by President Putin after the September 11 attacks. Russian cooperation with the deployment of U.S. military forces in Uzbekistan, Kyrgyzstan, and Tajikistan would have seemed unthinkable before September 11. More recently, however, Russian officials have voiced suspicions about U.S. motives for prolonged military presence in Central Asia. On July 5, 2005, the Shanghai Cooperation Organization (comprising China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan), approved a Moscow-backed initiative calling for establishing deadlines for the withdrawal of U.S. and coalition military bases from the Central Asian states. On July 29, the Uzbek government directed the United States to terminate its operations at the Karshi-Khanabad (K2) airbase within six months. Tashkent is believed to have acted not only in response to Russian and Chinese urging but also out of anger over sharp U.S. criticism of the Uzbek government's massacre of anti-government demonstrators in Andijan in May 2005. (For more on Russian policy in these regions, see CRS Issue Brief IB93108, *Central Asia: Regional Developments and Implications for U.S. Interests*, and CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*.)

Of all the Soviet successor states, Ukraine is the most important for Russia. Early on, the Crimean Peninsula was especially contentious. Many Russians view it as historically part of Russia, and say it was illegally "given" to Ukraine by Khrushchev in 1954. Crimea's population is 67% Russian and 26% Ukrainian. In April 1992, the Russian legislature

declared the 1954 transfer of Crimea illegal. Later that year Russia and Ukraine agreed that Crimea was "an integral part of Ukraine" but would have economic autonomy and the right to enter into social, economic, and cultural relations with other states. There was tension over Kiev's refusal to cede exclusive use of the Sevastopol naval base in Crimea to Russia. Finally, in May 1997, Yeltsin and Ukrainian President Leonid Kuchma signed a Treaty resolving the long dispute over Sevastopol and the Black Sea Fleet and declaring that Russian-Ukrainian borders cannot be called into question. This agreement, widely viewed as a major victory for Ukrainian diplomacy, was ratified in April 1999. Bilateral relations remain very important for both countries.

Ukraine's October 31, 2004, presidential election pitted the openly pro-Moscow Prime Minister, Viktor Yanukovych, against an independence and reform-minded candidate, Viktor Yushchenko. Putin strongly and openly backed Yanukovych and lent much material support to his campaign. Nevertheless, Yushchenko narrowly out-polled Moscow's man in the first round. In the disputed run-off election on November 21, Yanukovych initially claimed victory and was publicly congratulated by Putin. Evidence of widespread election fraud, however, sparked massive Ukrainian street demonstrations and strong U.S. and EU criticism, pitting Russia against the West in a way reminiscent of the Cold War. After Ukraine's parliament and Supreme Court threw out the results of the November 21 election, the re-run on December 26 was won by Yushchenko with 52% vs. 44% for Yanukovych. Many observers in Russia, Ukraine, and the West, see this outcome as a powerful, and possibly decisive, blow to perceived Russian hopes of reasserting dominance over Ukraine. Yushchenko has declared integrating Ukraine economically and politically into Europe as his top priority. Ukraine has opted out of the four-party Single Economic Space promoted by Moscow and including Belarus and Kazakhstan. Ukraine, however, is economically dependent on Russia, especially for energy. But Ukraine also has some leverage in this area, as the main pipelines carrying Russian gas and oil to Europe pass through Ukraine. This troubled relationship leapt to prominence on January 1, 2006, when Russia stopped pumping natural gas to Ukraine after the two sides had failed for months to reach agreement on Russia's proposed quadrupling of the price of gas. This led to a sharp reduction in Russian gas supplies to Central and Western Europe, which pass through Ukraine. In response to strong European protests, Russia resumed pumping gas to and through Ukraine on January 3. The next day, Russia and Ukraine announced agreement on a complicated deal that amounts to doubling of the price Ukraine is to pay for gas. Many analysts see the outcome as strengthening Russian influence in Ukraine and politically weakening Yushchenko prior to upcoming Ukrainian parliamentary elections (March 26, 2006).

Defense Policy

Fundamental Shakeup of the Military

The Russian armed forces and defense industries have been in turmoil since 1992. Their previously privileged position in the allocation of resources has been broken, as has their almost sacrosanct status in official ideology and propaganda. Hundreds of thousands of troops were withdrawn from Eastern Europe, the former Soviet Union, and the Third World. Massive budget cuts and troop reductions forced hundreds of thousands of officers out of the ranks into a depressed economy. Present troop strength is about 1.2 million men.

(The Soviet military in 1986 numbered 4.3 million.) Weapons procurement is at historic lows. Readiness and morale are low, and draft evasion and desertion are widespread. Yeltsin and later Putin declared military reform a top priority, but fundamental reform of the armed forces and the defense industries is a very difficult, controversial, and costly undertaking. The Chechen conflict has delayed military reform.

Putin has pledged to strengthen and modernize the armed forces, and appears determined to do so. At the same time, he appears to be quite aware of Russia's financial limitations. The decisions announced in August and September 2000 to greatly reduce Russia's strategic nuclear forces (from 6,000 to 1,500 deployed warheads), to shift resources from strategic to conventional forces, and to shift from a conscript to a volunteer force suggest serious intent to effect military reform.

Putin has made some changes in the military leadership that may lead to major policy changes. Sergei Ivanov, a former KGB general very close to Putin, was named Defense Minister. Ivanov had resigned his nominal intelligence service/military rank and headed Putin's Security Council as a civilian. Putin explained that the man who had supervised the planning for military reform (Ivanov) should be the man to implement reform as Defense Minister. In May 2004, the General Staff was taken out of the direct chain of command and given a more advisory role, a move that appears to strengthen civilian control.

The improvement of Russia's economy since 1999, fueled in large part by the cash inflow from sharply rising oil and gas prices, has enabled Putin to begin to reverse the budgetary starvation the military endured during the 1990s. Defense spending has increased substantially in each of the past few years. The government's 2005 budget calls for increasing military spending by 29% over 2004. At the official exchange rate, that puts the defense budget at $18 billion out of a total federal budget of $114 billion. Factoring in purchasing power parity of the ruble would increase those numbers to $50 billion and $316 billion respectively. Russian defense spending, however, lags far behind current U.S. or former Soviet levels.

Despite its difficulties, the Russian military remains formidable in some respects and is by far the largest in the region. Because of the deterioration of its conventional forces, however, Russia relies increasingly on nuclear forces to maintain its status as a major power. In November 2004, Putin announced that Russia was developing a new strategic nuclear missile superior to any in the world, although no details were provided as to its ostensibly unique features. There is sharp debate within the armed forces about priorities between conventional vs. strategic forces and among operations, readiness, and procurement. Russia is trying to increase security cooperation with the other CIS countries. Russia has military bases on the territory of all the CIS states except Azerbaijan and is seeking to take over or share in responsibility for protecting the "outer borders" of the CIS. In the proposed Russia-Belarus union, President Lukashenko pointedly emphasizes the military dimension. On the other hand, Georgia, Ukraine, Moldova, and Azerbaijan are shifting their security policies toward a more western, pro-NATO orientation.

Control of Nuclear Weapons

When the U.S.S.R. collapsed in 1991, over 80% of its strategic nuclear weapons were in Russia. The remainder were deployed in Ukraine, Belarus, and Kazakhstan. Those three states completed transfer of all nuclear weapons to Russia and ratified the Nuclear Non-Proliferation Treaty as non-nuclear-weapon states by 1995-1996. All Soviet tactical nuclear weapons, which had been more widely dispersed, reportedly were moved to Russia by 1992. The command and control system for strategic nuclear weapons is believed to be tightly and centrally controlled, with the Russian president and defense minister responsible for authorizing their use. The system of accounting and control of nuclear (including weapons grade) material, however, is much more problematic, raising widespread concerns about the danger of nuclear proliferation. There are growing concerns about threats to Russian command and control of its strategic nuclear weapons resulting from the degradation of its system of early warning radars and satellites. At the June 2000 Clinton-Putin summit, the two sides agreed to set up a permanent center in Moscow to share near real-time information on missile launches, but this has yet to be implemented. (See CRS Report RL32202, *Nuclear Weapons in Russia: Safety, Security, and Control Issues*.)

U.S. Policy

U.S.-Russian Relations

The spirit of U.S.-Russian "strategic partnership" of the early 1990s was replaced by increasing tension and mutual recrimination in succeeding years. In the aftermath of the September 11, 2001 attacks, the two nations reshaped their relationship on the basis of cooperation against terrorism and Putin's goal of integrating Russia economically with the West. (For the change in Russian policy toward integration with the West and cooperation with the United States, see CRS Report RL31543, *Russia's National Security Policy After September 11*, last updated August 20, 2002.) In the past year or two, however, tensions have reemerged on a number of issues that again strain relations. While cooperation continues in some areas, and Presidents Bush and Putin strive to maintain at least the appearance of cordial personal relations (their brief Moscow summit, May 8-9, 2005, was their 15th meeting since 2001), there now appears to be more discord than harmony in U.S.-Russian relations.

Russia's construction of nuclear reactors in Iran and its role in missile technology transfers to Iran are critical sources of tension with the United States. Despite repeated representations from the White House and Congress, which argue that Iran will use the civilian reactor program as a cover for a covert nuclear weapons program, Russia refused to cancel the project, which was completed in 2004. Revelations of previously covert Iranian nuclear developments have revived this issue, and some Russian political leaders criticized the policy of nuclear cooperation with Iran, giving rise to policy debate on this issue in Moscow. Moscow's position is that it intends to continue its civilian nuclear power projects in Iran, while urging Tehran to accept more intrusive international safeguard inspections. Moscow withheld delivery of nuclear fuel for the Bushehr reactor, pending agreement with Teheran about return of spent fuel to Russia for reprocessing. In late 2005, Moscow proposed a compromise plan to avert a showdown between Iran and the United States and

the EU over Iran's insistence on its right to reprocess uranium. The Russian proposal, which has won luke-warm Bush Administration support, would allow Iran to reprocess uranium, in facilities on Russian territory, presumably subject to international inspection. After prolonged talks, Iran's Foreign Ministry on March 11, 2006 rejected the Russian proposal. The United States and an EU group (France, Germany, and the U.K.) are trying to win Russian (and Chinese) agreement to move the issue to the UN Security Council, which could impose sanctions on Iran, an outcome that Moscow appears to be trying to avoid.

Since the mid-1990s, U.S. and Russian interests have clashed over Iraq. Russia strongly opposed military action against Iraq in connection with the U.N. inspection regime. After September 11, Moscow moved away from blanket support of Iraq. Some Russian officials suggested that under certain circumstances, U.S. military action against Iraq might not seriously strain U.S.-Russian relations — provided it was not unilateral and Russia's economic interests in Iraq were protected. As the United States moved toward military action against Iraq, Putin tried to balance three competing interests: protecting Russian economic interests in Iraq; restraining U.S. "unilateralism" and global dominance; and maintaining friendly relations with the United States. In February-March 2003, Putin aligned Russia with France and Germany in opposition to U.S. military action and threatened to veto a U.S.-backed UNSC resolution authorizing military force against Iraq. The U.S.-led war in Iraq further strained U.S.-Russian relations, but the senior leadership in both countries said that this would not be allowed to jeopardize their overall cooperation. On May 22, Russia voted with other members of the U.N. Security Council to approve a U.S.-backed resolution giving the United States broad authority in administering post-war Iraq. Moscow's main interests in Iraq came to focus on debt repayment, having the post-Saddam regime honor pre-war multi-billion dollar contracts with Russian oil firms, and preventing a glut of Iraqi oil from sharply depressing the price of oil. In December 2003, Moscow initially reacted angrily to the Pentagon decision to bar Russia (and other states that did not support the U.S.-led coalition in Iraq) from bidding as prime contractors on $18 billion of U.S.-funded Iraqi reconstruction projects. Russians said they would not write off their portion of Iraq's debt, as Washington was requesting. Two weeks later however, after visits from U.S. Presidential Envoy James Baker and from a delegation of Iraq's Governing Council, this issue was resolved. Putin said that Russia would write off 65% of Iraq's debt ($5.2 billion). The Iraqis said Russian firms would get multi-billion dollar oil field development contracts.

A sharp U.S.-Russian clash of interests over missile defense, the ABM Treaty, and strategic arms reductions flared in the first year of the Bush Administration. These problems were substantially reduced, but not entirely resolved, at the Bush-Putin summit in May 2002. The Bush Administration declared its disinterest in START II and the ABM Treaty and its determination to pursue robust missile defense. This approach was met with resistance from Moscow, but the Administration stuck to its policies and, despite skepticism from some Members of Congress and many European allies, gradually won Russian acquiescence on most elements of its program.

Moscow reacted negatively to early Bush Administration assertions of its determination to press ahead vigorously with a more robust missile defense program, although the atmospherics, at least, improved after the Bush-Putin summit in Slovenia on June 16, 2001. In the run up to the November 2001 Bush-Putin summit, U.S. and Russian officials hinted that a breakthrough agreement was near that would, *inter alia*, relax ABM Treaty restrictions on missile defense testing while preserving the ABM Treaty and also sharply reduce strategic

nuclear forces on both sides. The November 13-16 summit in Washington and Texas, however, did not result in the expected package deal. Discussions at the foreign minister level in December 2001 narrowed the differences on strategic force reductions. On December 13, the Bush Administration gave Moscow official notification of its intention to renounce the ABM Treaty within six months. According to Bush Administration sources, Russian leaders were privately informed of the U.S. decision some days earlier. Russia's official response was cool but restrained, calling the U.S. decision a mistake, but saying that it would not cause a major disruption in relations. Similarly, in January 2002, Moscow reacted negatively to the Bush Administration's proposed plans to put in storage many of the nuclear warheads it planned to withdraw from deployment, rather than destroy them. Again, however, Russian criticism was relatively restrained, while the two sides continued intensive negotiations.

The negotiations bore fruit in mid-May, when final agreement was announced. Moscow won U.S. agreement to make the accord a treaty requiring legislative approval. The terms of the treaty, however, achieve all the Administration's key goals: deployed strategic nuclear warheads are to be reduced to 1,700-2,200 by 2012, with no interim timetable, no limits on the mix or types of weapons, and no requirement for destroying rather than storing warheads. The so-called Treaty of Moscow was signed by the two presidents on May 24, 2002. On June 13, the United States became free of all restraints of the ABM Treaty. On the same day, Moscow announced that it would no longer consider itself bound by the provisions of the (unratified) START II Treaty, which has become a dead letter. On June 24, the commander of Russia's Strategic Rocket Forces announced that in response to the U.S. withdrawal from the ABM Treaty, Russia had decided to prolong the life of its MIRVed ICBM force, which, he said, could be extended another 10-15 years. On June 1, 2003, Presidents Bush and Putin exchanged instruments of ratification allowing the Treaty of Moscow to enter into force. They also agreed to cooperate in missile defense. Later that month, the two sides agreed to conduct joint missile-defense exercises.

Moscow and Washington are cooperating on some issues of nuclear weapons reduction and security. Since 1992, the United States has spent over $3 billion in Cooperative Threat Reduction program (CTR or "Nunn-Lugar") funds to help Russia dismantle nuclear weapons and ensure the security of its nuclear weapons, weapons grade nuclear material, and other weapons of mass destruction. During the September 1998 summit, both countries agreed to share information when either detects a ballistic missile launch anywhere in the world, and to reduce each country's stockpile of weapons-grade plutonium by fifty metric tons. In June 1999, U.S. and Russian officials extended the CTR program for another seven years. The two sides also agreed to each dispose of an additional 34 tons of weapons-grade plutonium, with the U.S. to seek international funding to help finance the $1.7 billion Russian effort. The planned U.S.-Russian joint missile early warning information center in Moscow, however, has yet to be established. In April 2002, the Bush Administration decided not to certify that Russia was fully cooperating with U.S. efforts to verify its compliance with agreements to eliminate chemical and biological weapons. This could have blocked U.S. funding for some U.S.-Russian comprehensive threat reduction programs, but President Bush granted Russia a waiver.

Despite continued tension between Washington and Moscow over Iran and the sharp disagreement over Iraq in early 2003, both governments seems determined to preserve the cooperative relationship they built following the September 11 attacks. In March 2003,

Senator Lugar introduced legislation to exempt Russia from the Jackson-Vanik amendment to the Trade Bill of 1974, action which would grant Russia permanent normal trade relations (PNTR) status and facilitate Russian accession to the WTO, but it received no further action. Recent reports suggest that a U.S.-Russian agreement on WTO may be completed in time for the G-8 summit in Russia in July 2006.

U.S. Assistance

From FY1992 through FY1997, the U.S. government obligated $4.5 billion in grant assistance to Russia, including $2.1 billion in Freedom Support Act (FSA) aid for democratization and market reform and $857 million for Cooperative Threat Reduction (Nunn-Lugar assistance). But Russia's share of the (shrinking) NIS foreign aid account fell from about 60% in FY1993-FY1994 to 17% in FY1998 and has been between 15%-22% since then. The Administration requested $148 million for Russian programs in FY2003, a 6% cut from the previous year. The FY2004 Russian appropriation fell to $93.4 million and in FY2005 to $85 million.

In June 2005, the House approved the FY2006 Foreign Operations appropriations, H.R. 3057 (H.Rept. 109-152), including the Administration's request to cut the Russian FSA program by 77% to $48 million. In July, the Senate approved its version of the bill. The Senate Appropriations Committee report (S.Rept. 109-96) recommends $85 million for Russia, the same as in FY2005.

Both the FREEDOM Support Act and annual foreign operations appropriations bills contain conditions that Russia is expected to meet in order to receive assistance. A restriction on aid to Russia was approved in the FY1998 appropriations and each year thereafter, prohibiting any aid to the government of the Russian Federation (i.e., central government; it does not affect local and regional governments) unless the President certifies that Russia has not implemented a law discriminating against religious minorities. The President has made such determinations each year.

In addition to the conditions related to Russian nuclear reactor and missile technology transfers to Iran, discussed above, Members of Congress introduced a number of other conditions on aid to Russia. The FY2001 foreign aid bill prohibited 60% of aid to the central government of Russia if it was not cooperating with international investigations of war crime allegations in Chechnya or providing access to NGOs doing humanitarian work in Chechnya. The FY2002 bill withholds 60% of aid to the central government only if it does not provide access to NGOs. Possibly as a result of Russian cooperation with the United States in its war on terrorism, the war crime provision was dropped. The FY2003, FY2004, and FY2005 bills continued this omission of the war crimes provision.