
Russia in the Year 2003¹

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THE ADVANCE OF THE *SILOVIKI*: NOTABLE BUT STILL LIMITED³

In a characteristically brilliant essay, the political analyst Vitaliy Tretyakov argues that the Duma elected on December 7, 2003, is a perfect “mirror of Russian society.” All four parties represented in it are, he writes, “great-power (*derzhavnicheskiye*) parties, since great-power longings are the absolutely dominant ideology in today’s Russia.” In addition, these parties—Unified Russia, the Communist Party, the Liberal-Democratic Party, and the Motherland bloc—also reflect the related popular attitudes of anti-oligarchism, anti-liberalism, anti-Westernism, and anti-democratism, plus an indifference to the fact that no real political choice is any longer available.

What then, in Tretyakov’s view, accounts for “the suicide of our liberal reformers,” whose parties received too few votes to qualify for seats in the Duma? It is the fact that, as “the basis of the governments of Gaydar, Chernomyrdin, and Kiriyenko, the liberal reformers carried out reforms that destroyed the liberal electorate, while hugely increasing the electorate of the great power advocates, the statist, the paternalists, the imperialists, and the anti-marketeters—in a word, of any group you can think of, except the liberals” (*Rossiyskaya gazeta*, December 12, 2003).

In light of all this, one might be tempted to conclude that the election outcome also reflects a surge in the fortunes of the political forces often labeled the “*siloviki*” or the “*chekisty*,” and that these forces would by now

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³By Peter Reddaway. I am grateful for the critical comments on a draft of this article of Wayne Allensworth, Robert Otto, and Christopher Bort.

(January 2004) be gaining new top posts and riding high. However, this does not appear, so far at least, to be the case—although the situation could change after President Putin's anticipated re-election in March 2004.

I have tried before to analyze the role of these forces (Reddaway, 2001, 2002), and over the last year Western media, too, have begun to pay attention to them. However, the topic remains a difficult and elusive one, since the available sources are hard to interpret. In Russian political analysis the term "*siloviki*" usually refers to a bureaucracy-based political "tendency," or "faction," that cannot be easily defined, but has ample precedents in tsarist Russia and the USSR. It denotes not just some of the high-level officials who run the "power ministries," but also a range of politicians, businessmen, and senior bureaucrats who worked for these ministries in the past. Boris Yel'tsin's right-hand man for a decade, Aleksandr Korzhakov, was a *silovik* from the KGB, and two of his prime ministers, Yevgeniy Primakov and Sergey Stepashin, were *siloviki* from, respectively, the KGB and the MVD.

Under Putin, *siloviki* have moved or been transferred like this on a much larger scale than when it first became a serious trend in 1998–99. The careful documentation by Kryshtanovskaya and White (2003) in this journal suggests that, in 2002, 25 percent of Russia's elite had military or security (i.e., *silovik*) backgrounds, as compared to only 11 percent in 1993 under Yel'tsin. Some of these individuals have of course moved into spheres like business, where, although they do not necessarily have a close relationship to politics, many do. Some, too, are Putin's friends and former colleagues with various *silovik* backgrounds (especially in his agency, the KGB), whom he has appointed since becoming prime minister in August 1999. Once in office, they often maintain close links with their former colleagues now in the private sector. Also, they usually proceed to appoint further *siloviki* to positions under them.

An especially notable example of this phenomenon occurred in 2000, when Putin divided Russia into seven federal okrugs. His main purpose was to take back from the regional governors some of the powers they had received or usurped from the federal government under Yel'tsin. Five of the seven presidential envoys he appointed to head the okrugs were *siloviki*. And apparently a majority of the one thousand or so officials whom they in turn appointed also were *siloviki* (Reddaway and Orttung, 2003, see index entries under "staffing policies"; Kryshtanovskaya and White, 2003, pp. 300–301).

Thus, to sum up, the term denotes politically motivated individuals who are linked by their common (broadly speaking) former or present profession and its military-style traditions. In addition, many of them owe their positions directly or indirectly to Putin. They make up a loose, mainly bureaucratic faction that has been quietly but dramatically enlarged by Putin, and that focuses on policy-making, on personnel appointments, and, by using those instruments, on how to gain a bigger share of the national economic pie. It is, therefore, more powerful than a bureaucratic faction in a Western context. Like the other political factions or tendencies in the

upper-level Russian bureaucracy—which can be defined as mainly comprising ministers, deputy ministers, and department heads—the *siloviki* have developed extensive lobbying, commercial, and financial links, usually corrupt, with businessmen, politicians, journalists, and other influential people. The latter groups probably consist principally, though far from exclusively, of the bureaucrats' former colleagues in the *silovik* profession, to which the various individuals used to, or still do, belong. A notable example of a banker/oligarch and politician who has allied himself with the *siloviki* even though he does not share their professional background is the senator Sergey Pugachov. And the well-known investigative journalist Aleksandr Khinshteyn has been linked repeatedly to a particular division of the FSB, even though he did not previously work as a *silovik*.

Precisely what sort of political activity does this loose bureaucracy-based "faction"—itself divided into sub-factions that are often aligned with the particular ministries their adherents come from⁴—actually pursue? Much political writing by insightful Russian analysts such as Liliya Shevtsova, Valeriy Solovey, Yuliya Latynina, Andrey Ryabov, Andrey Piontkovskiy, and Aleksey Makarkin refers to the *siloviki* (or the *chekisty*—a near-synonym used because many of the Putin appointees have roots in the KGB) as one of the two strongest political factions. The analysts tend, like me, to portray it as having been locked since 2000 in a struggle with the other most powerful faction, the oligarchs. The latter, logically, have their own extensive links with the bureaucracy as a whole, and with politicians, journalists, and businessmen less wealthy than themselves.

However, analysts often acknowledge that this picture is much too simple and can even be misleading. To start with, some oligarchs, like the above-mentioned Pugachov, have aligned themselves to one degree or another with the *siloviki*. And all the oligarchs have had numerous *siloviki* working for them for years—as highly paid directors, managers, security chiefs, heads of analytical departments, and so on. Where the ultimate loyalties of such "co-opted" *siloviki* would lie if their employer were to be arrested on serious charges, as was the oligarch Mikhail Khodorkovskiy in October 2003, would no doubt vary from case to case.

Second, the two main elements of Putin's support base from St Petersburg—its *silovik* and administrative/business components—are often misleadingly conflated, and simply labeled *silovik* or *chekist*. And third, there is an important typological difference between the two factions. The best-known oligarchs can be viewed as a politico-business faction not wholly dissimilar from analogous groups in other countries. Although riven with business and personal rivalries, they finance their own activities, openly choose some of their spokesmen, and, as far as possible, coordinate their political and economic demands. They do this both informally and in forums such as the Russian Union of Industrialists and Businessmen, where they have met fairly regularly with Putin to discuss economic policy

⁴For example, defense minister Sergey Ivanov appears to have a sub-faction of his own.

and be commissioned by him to produce policy studies. The Khodorkovskiy case, however, clearly illustrates the fragility of their unity: very few members interceded for him, and many looked for ways to grab chunks of his empire.

By contrast, the *siloviki* appear—as a loose, bureaucracy-based faction—not to have a leader or leaders, not to meet in even a semi-public way, and not to have any means of coordinating their goals and plans, except perhaps in small groups in office settings, or by simply watching the moves made by other *siloviki* in public, and then, if politically feasible, mimicking their moves. Also, whereas the oligarchs naturally share key values such as the centrality of making profits, the need to move capital about freely, and the importance of co-opting or crushing labor unions, the *siloviki* are ideologically more divided. While they tend, because of their background, to have statist and great power attitudes (in contrast to the cosmopolitanism and conditional pro-Westernism of most oligarchs), many of them appear to be largely or fully reconciled to the arrival of capitalism. These *siloviki* are motivated primarily by the desire to “catch up with the oligarchs” in terms of personal wealth and social status. Above all, they resent the fact that the oligarchs were unfairly given a massive start by Yel’tsin and Anatoliy Chubais, and would like—through political and legal maneuvers—to eventually take from the most hated oligarchs at least a portion of their assets, and to marginalize them politically.

Not surprisingly, then, the *siloviki* tend to press Putin to facilitate this process by launching a broad campaign of de-Yeltsinization (on the pattern of de-Stalinization). To date, though, Putin has consistently declined to do this. He appears to be constrained by two main factors. First, the Yel’tsin “Family”—in particular the oligarch Roman Abramovich, according to some reports—seems to have some sort of hold on him, probably in the form of *kompromat* (politically and/or legally compromising material).

And second, since he wants Russia to have a dynamic economy, he does not believe that more than a limited reassertion of state control is desirable. Nor—given the need he sees for sizable foreign investment—will more than occasional manipulations of the law so as to expropriate oligarchs and other businessmen be tolerable.⁵

These two constraints mean that Putin has needed to play the role to which, given his mixed career in the KGB, then business-dominated politics, he is well suited temperamentally. He is the mediator and balancer of conflicting political, business, and bureaucratic interests—interests that, amid the weak institutions and hyper-personalized dealings of the Russian elite, mix promiscuously and unpredictably in highly confusing ways. While his gradual accumulation over time of a little more autonomous

⁵This process is referred to obsessively by Russian media as “the redistribution of property” (*peredel sobstvennosti*) through the use of administrative resources (*administratsionnyye resursy*). In the West, the oligarchs’ lobby typically calls for the oligarchs to be “amnestied” by Putin, meaning that he should have legal guarantees enacted, ensuring that no such expropriations could occur.

personal power may have made this role gradually easier to play, his loss in October 2003 of Aleksandr Voloshin (see below), his supremely skillful co-mediator and -balancer as head of the Presidential Administration (PA), looks like a serious blow in this regard.

However, the fact that the bureaucracy-based *siloviki* are not a relatively autonomous pressure group like the oligarchs, and not so lavishly financed, reduces their ability to exert effective pressure. Even if Igor Sechin and Viktor Ivanov, as deputy heads of the Presidential Administration, are, it seems, politically the most senior *siloviki*, this does not make them the equivalents on the *silovik* side of the leaders of the oligarchs—even though oligarch-oriented propagandists such as Gleb Pavlovskiy have misleadingly portrayed them as such (see, for example, www.russ.ru/politics, September 2, 2003). The careers of Sechin and Ivanov suggest, rather, that they are Putin loyalists who have gone with him from post to post, Sechin since 1991 and Ivanov since 1994. They are followers not leaders, obedient executives not initiators.

Thus the *siloviki* play the game of bureaucratic politics and wield very considerable influence. This is especially true when it comes to implementing, rather than just passing on paper, reforms that would infringe on the bureaucracy's extensive and highly conservative interests. Salient among these interests is the "free market for bureaucrats' services" that they operate for the highest bidders in the business and political worlds. This market has been well analyzed by the political sociologist Igor Klyamkin, who sees it as a major obstacle to the development of a rule of law (Kliamkine, 2003).

In addition to the *siloviki*'s opportunities through corruption and bureaucratic politics, they also have a friend at court. This is of course the tsar himself, Putin. When it suits Putin's own purposes, or when they press their case successfully through bureaucratic and/or personal channels, he helps them. He gives them either covert assistance through the PA, or public help—by, for example, appointing a *silovik* to a powerful post.

Here, I believe, we come to the root of the matter. In 2000 he made the *siloviki* into a powerful player, because he needed to create for himself at least some minimal room for political maneuver. He had been raised to the top primarily by Yel'tsin's Family, and even though it had an unpublicized grip on him and required him to give Yel'tsin legal immunity from prosecution, he naturally did not want to be totally captive to its dictates.

The fact that Putin was politically able—despite the misgivings of the Family and the closely related group of Anatoliy Chubais—to greatly increase the size of the *silovik* contingent in the government bureaucracy and the PA, was due to a mixture of his own political skill and, critically important, substantial help from the *Zeitgeist*. The elite as a whole craved stability and consolidation of the status quo, after the constant upheavals and confrontations of the Yel'tsin years. It wanted its near-monopoly on political and economic power to be secured and guaranteed. At the same time, conveniently, ordinary people longed for their wages and pensions to be paid on time. Thus both the elite and the people felt that the

floundering institutions of a weakening state needed reinforcement, and an infusion of *siloviki* was required.

Hence my hypothesis that Putin is in fact the covert leader of the *silovik* faction. In this role he must operate covertly, since his public image is that of the impartial balancer, mediator, and, where necessary, strong leader motivated by the national interest. He cannot afford to be open, like the US president, about his dual role as a leader who is both national and partisan. So he tries to stand above the factions. For example, Unified Russia, the party he favored in the Duma elections but did not join, featured both *siloviki* and oligarchs.

However, in order to keep the *siloviki* powerful enough to balance the economically needed, financially stronger, and more autonomous oligarchs, Putin does not in fact behave impartially: he surreptitiously helps the *siloviki*, when he deems this to be politically both desirable and feasible. He is not, therefore, the strong leader they would prefer, boldly committed to their cause and unimpeded by *kompromat* or oligarchic constraints. But what other leader do they have?

Events of 2003

Let us now try to apply briefly some of the above interpretations to the dramatic and, regarding Khodorkovskiy's arrest, complex and still unclear events of 2003.

As usual when Duma and presidential elections are approaching in Russia, the political temperature started rising. Ambitious elite groups were anxious to raise their profile, gain the president's ear, and help him win both elections. Then they would be rewarded with favors and promotions to lucrative positions, after he won.

Bucking this trend was the wealthiest oligarch, Khodorkovskiy, founder and chief owner of the oil-based Yukos empire. On February 19, having already begun to finance opposition parties (though reportedly with the Kremlin's agreement) and repeatedly advocated a parliamentary system of government that would reduce Putin's powers, he briefly crossed swords with Putin at a semi-public meeting. In April, he repeated his oft-declared intention to quit the business world and enter politics. This time he specified the year 2007, thus implying he would run for president in 2008. He also announced that he and the politically most powerful oligarch, Roman Abramovich, had agreed in principle to merge their oil companies, Yukos and Sibneft. This would create the fourth-largest oil company in the world. In a further move to consolidate the oil extraction companies of Russia, he appointed the president of Alfa Group's TNK company, Simon Kukes, to the Yukos board. Then, in the wake of British Petroleum and Shell International having invested nearly \$20 billion between them in the Russian oil industry (the former pairing itself with TNK), he and Abramovich held exploratory talks with Exxon-Mobil. Their goal was to have Exxon-Mobil spend an even larger sum for a major share of Yukos-Sibneft.

According to informed reports, Putin went along with most of these developments. At the same time, however, the *siloviki* and perhaps others were regularly feeding him materials that portrayed Yukos and Khodorkovskiy in the worst light, or were even falsified. They had two particular motivations. In December 2002, Abramovich had used his close ties with Putin and Prime Minister Mikhail Kasyanov to carry out a particularly manipulative ploy that infuriated the *siloviki*. He got the auction of the state-owned oil company Slavneft rigged in such a way that a Chinese company offering \$4 billion and a *silovik*-oriented Russian company were eliminated on arbitrary grounds in advance. Abramovich's Sibneft then "won" the auction with its bid of a mere \$1.86 billion.

The second issue was the prospect of Exxon-Mobil's purchase of such a large share of a Russian oil market in which foreigners were already major players. The *siloviki* argument, publicly expressed by Putin's St. Petersburg ally Vladimir Litvinenko, was that Russia should keep a firm control over such a strategic asset as its oil wealth.

At the same time, since Khodorkovskiy's political and economic ambitions and pro-US stance were beginning to upset the delicate balance of Russia's "court politics," they also antagonized other powerful players with strong personal and institutional interests in maintaining the status quo. These included both Kasyanov, who was jealous of the government's prerogatives, and, especially, Voloshin, who did not want the PA's influence over either economic or Duma issues to be reduced by Khodorkovskiy's aggressive initiatives. Thus, with Putin, the *siloviki*, the PA, and the government all sensing their common interest in reining Khodorkovskiy in, some unknown combination of these forces proceeded to act, probably not intending at first to go as far as arresting him.

In July, Putin—probably keen to measure the effect on the impending Duma electoral campaign—sanctioned the arrest of Khodorkovskiy's Yukos colleague Platon Lebedev. The procuracy then questioned Khodorkovskiy, aggressively searched various Yukos offices, and spread rumors that other criminal cases might be mounted against Yukos allies, including Voloshin, Kasyanov, and national electricity chief Chubais, but not, significantly, Abramovich. Reportedly Putin would not allow this. In light of this campaign, most oligarchs kept silent, and Yukos conducted only a low-key (though determined) defense of Lebedev and other threatened executives.

At about the same time, the procuracy completed a criminal indictment against a Family member, Nikolay Aksyonenko, and opened a criminal investigation of another close colleague of Khodorkovskiy, Vasiliy Shakhnovskiy. Then, on October 25, Khodorkovskiy himself, who had been saying he would prefer to be a political prisoner rather than a political emigre, was arrested. On October 30, Voloshin, who had not been consulted, resigned in protest.

In early October, with the Duma elections only two months away, the *siloviki* evidently got Putin's permission to use the tenth anniversary of Yel'tsin's unconstitutional dispersal of the parliament by force to publish articles sharply critical of him and his Family. These argued, *inter alia*, that

the oligarchs had been unfairly privileged and ought, for example, to pay a hefty rent to the treasury for the right to dispose of Russia's natural resources—views shared by many parts of the Russian elite, especially regarding the super-wealthy oil barons.

The sum total of Putin's reactions to these events suggested, on the surface, that he may have been surprised by the timing of Khodorkovskiy's arrest, and by Voloshin's resignation, and that although he saw nothing wrong with the arrest, he did not want further such arrests to occur. Soon, however, observers wondered whether this public stance was contrived. When it appeared that the Yukos-Sibneft merger might unravel, he reportedly met with Abramovich, and the two men agreed that this should not happen. Rather, instead of Yukos swallowing Sibneft (the original plan), Sibneft would swallow Yukos.

This agreement, coupled with earlier evidence over the years that Abramovich and Putin have had a specially close relationship, led some commentators with sharp insight into such matters, such as Yuliya Latynina, to hint clearly that Abramovich, Putin, and Voloshin may, between them, have had a variety of ulterior financial and other motives to—contrary to public appearances—at the least go along with the idea of Khodorkovskiy's arrest, if not actively support it (*Novaya gazeta*, December 1, 2003). Indirect support for this interpretation came from one of Khodorkovskiy's closest Yukos colleagues, Leonid Nevzlin, who had emigrated to Israel to avoid possible arrest. In an interview (*Vedomosti*, December 1, 2003) he said that while Khodorkovskiy had escalated his challenges to the Kremlin, Voloshin and members of Yel'tsin's Family were urging the oligarch on. This evidence does not necessarily mean that their aim was to provoke his arrest and then profit from it. They may simply have hoped that Khodorkovskiy's boldness would push the *siloviki* to dampen his excessive ambition by means less drastic than his arrest.

In any case, the Putin-Abramovich ploy, if ploy it was, collapsed when the Yukos leadership opted to renounce the merger with Sibneft. This, however, left Yukos open to being dismantled and shared out—by “administrative means” such as the revocation of oilfield development rights—between a swarm of vultures including, most notably, two *silovik* oligarchs, Vladimir Bogdanov of Surgutneftegaz and Sergey Bogdanchikov of Rosneft.

As for the oligarchic corporation more broadly, their protests were few and generally muted. This was partly because the Kremlin's decision to allow the arrest to be exploited in a controlled way by pro-Kremlin parties in the Duma campaign brought significant results. The deployment—by the Motherland bloc in particular—of the anti-oligarch theme and of slogans like “Lock up Chubais!” (“*Chubais v tyurmu!*”) evidently helped to raise Motherland's vote to a surprising 9 percent.

However, even though the *siloviki* had evidently made useful contributions to the Duma success of the pro-Kremlin parties, Putin proved to be in no mood—at least through mid-January (much might change after the March election)—to reward them. In the period from Khodorkovskiy's

arrest until mid-January, no *siloviki* were promoted in either the government or the PA. Indeed, one of their senior members, Viktor Ivanov, was demoted in the PA, along with some other deputy-heads, from being a deputy-head to being only an “assistant (pomoshchnik) to the president.” In addition, Putin continued to devalue the only *silovik*-dominated institution of his own creation, mentioned earlier—that of the envoys in the seven federal okrugs. In November, he appointed a failed deputy prime minister, Ilya Klebanov, as his envoy to the Northwest *Okrug*.⁶

More generally, he has since 2000 consistently disappointed the *siloviki* by rejecting his envoys’ repeated requests to be given real executive powers. Without such powers, the prestige and effectiveness of their mostly *silovik* staffs have inevitably suffered (Reddaway and Orttung, 2003, ch. 10).

Instead of advancing *siloviki*, Putin promoted non-*silovik* members of the administrative and business circles he worked with in St. Petersburg, i.e., the just-mentioned Medvedev, Dmitriy Kozak, whom he moved up from deputy PA head to first deputy head, and Valeriy Nazarov, who became a deputy head. He seemed to believe, probably with reason, that if he made the *siloviki* too strong after weakening the oligarchs and Kasyanov, and if he sanctioned the arrest of further prominent oligarchs, the delicate and necessary balance on which his rule has been based would be seriously threatened. And with it would be equally threatened his own political career.

Looking Forward

Putin’s current stance is—paradoxically, after an election in which pro-Kremlin parties nearly swept the board—a difficult one. The political system has become even more super-presidential than before, even more personalized and focused on him and his almost unlimited authority. As Tretyakov writes (see above), “A monopoly of power is not a gift and not a blessing ..., but the heaviest of heavy burdens.” In practical terms, all the political interests, if they hope to succeed, have no alternative but to strive to influence him or his staff, either positively by offering inducements or flattery, or negatively by trying to blackmail or deceive with disinformation. To keep oneself morally balanced and accurately informed in a situation of this sort, where one can trust no-one, is virtually impossible.

As for the economy, “How is one to promote market principles,” Tretyakov pertinently asks, “when on the one side are communists and great power advocates calling at best for state capitalism, and on the other are centrists wanting state capitalism with an admixture of oligarchs ...?”

Finally, if things go wrong—if the world oil price slumps, a new Chernobyl occurs, army units mutiny, epidemics break out, terrorist strikes

⁶He had already devalued it in March 2003 by appointing to the same post the unimpressive Valentina Matviyenko, knowing that she would occupy it only for a few months before she ran for the governorship of St. Petersburg. She proceeded to win this election in November, but only in the second round and with the aid of intensive official manipulations.

hit Moscow, the Chechen example infects the north Caucasus—it will be very hard for Putin to shift the blame. There is, in effect, no official outside his authority.

THE WAR IN CHECHNYA AS A PARADIGM OF RUSSIAN STATE-BUILDING UNDER PUTIN⁷

Almost a decade has passed since Russian military forces first launched a massive military campaign on the territory of the republic of Chechnya. What began as a political struggle over the status of the republic and how it should be resolved has been transformed over the years into a military conflict of increasing violence and brutality, engulfing ever wider segments of the civilian population, entailing ever greater destruction of the republic's infrastructure, and contributing both to the increasing brutalization of Russian military and interior forces and to the growing radicalization and Islamicization of the Chechen resistance. The war in Chechnya represents a classic example of a situation in which terrorism is the product of conflict rather than its cause.⁸

The recent appearance of female suicide bombers is a case in point. The brutality of Russian forces, the widening circle of victims, and the fragmentation of Chechen society after a decade of violence have become a major catalyst of suicide attacks on Russian forces, with Chechen women beginning to take part in such attacks for the first time. More recently these attacks have focused on Moscow itself in an attempt to bring the war home to the Russian population. The seizure of hostages in a Moscow theater in October 2002, like the two recent failed attempts by Chechen women to launch attacks in central Moscow, are an effort to draw the attention of Russians to the war and its victims, among them the "Black Widows" who figured so prominently among the hostage-takers. Many of these actions appear to be motivated by a desire to avenge the deaths of close family members rather than by any broader political or ideological agenda. Indeed, in a survey conducted in August 2003, which asked why Chechens become suicide bombers, 69 percent of the Chechens responded that it was revenge on federal forces for their brutality toward Chechens, and only 8 percent mentioned either jihad or the struggle for independence as the reason.⁹

The war is equally a classic example of how the framing of a conflict by the contending parties, and by international actors, becomes a critical

⁷By Gail W. Lapidus.

⁸For details, see Evangelista (2002); Gerber and Mendelson (2002); Lapidus (1998, 2002); and Malashenko and Trenin (2002).

⁹ValidData, www.validata.ru/e_e/chechnya/, as cited in Trenin (2003a). It remains an open question whether the earlier series of apartment bombings, which were one of the two main catalysts for the renewed Russian intervention in Chechnya, were in fact manifestations of Chechen terrorism. Despite the initial allegations, none of the defendants in a recent trial of the alleged perpetrators was in fact a Chechen.

element of the conflict itself. From the origins of the political clash in the late *perestroika* period to the present, the leadership of the Chechen insurgency has treated the conflict as a struggle for national self-determination against Soviet, and then Russian, domination, while Moscow has attempted to portray it as an effort to restore law and order in the face of bandit, and later “terrorist” and “Islamist,” threats and to insist that the situation in Chechnya is gradually “normalizing.”¹⁰ In a 1999 article aimed at an American audience, President Putin defended Russian actions as limited and carefully-targeted counter-terrorist operations aimed at eliminating the threat of international terrorism, characterizing them as “accurately-targeted strikes on specifically-identified terrorist bases” (*The New York Times*, November 14, 1999, p. 15), while other members of his administration as well as some prominent Russian analysts have described Russian policy as analogous to Western campaigns against domestic terrorism in Ulster or the Basque region.¹¹ In more recent years, Russian officials have gone to great lengths to link the Chechen resistance to international Islamist and terrorist organizations like Al Qaeda, and have repeatedly alleged—though without credible evidence—that many Chechens have been combatants in Afghanistan, Kosovo, and now Iraq.

Both the conduct of the war and the framing of the conflict were profoundly affected by the events of September 11, 2001. Prior to 9/11, European governments and international organizations such as the Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe had repeatedly and sharply criticized the Russian government for its far-reaching violations of international norms and of human rights in Chechnya, even if these protests were tempered by the desire to elicit Russian cooperation on a broad range of security and economic matters.

¹⁰For example, in February of 2003 Anatoliy Popov, the newly-appointed prime minister of the Russian-controlled government of Chechnya, maintained that “there is no war in Chechnya, the problem in Chechnya is a very high crime rate which has to be dealt with, including by federal troops that help to maintain order” (*Radio Mayak*, Moscow, February 22, 2003). Several days later the leader of the Moscow-created government of Chechnya, Akhmad Kadyrov, insisted “There is no war in Chechnya; there is a confrontation with gangsters who commit terrorist acts” (*Radio Mayak*, Moscow, February 26, 2003). Foreign Minister Igor Ivanov made the same argument yet again, in January 2004, asserting: “There is no war in the Chechen republic—there is a fight against international terrorism.... A very complicated process of political settlement is being conducted against the background of fighting international terrorism” (*The Moscow News*, January 26, 2004). Efforts to portray the conflict as a police action rather than a war go hand-in-hand with the government’s effort to limit public information about the extent of Russian casualties.

¹¹See, for two examples among many, comments by presidential spokesman Sergey Yastrzhembskiy (*The Washington Post*, July 27, 2001), and by Sergey Karaganov, as cited in “No End of War in Sight” (2001). The analogy is highly misleading; no Western campaigns against domestic terrorism have involved the deployment of some 100,000 troops, the use of massive air strikes and artillery bombardment against civilian infrastructure, widespread brutality and “disappearances” of civilian populations, and many tens of thousands of casualties. While insisting that the Chechens are citizens of Russia, the actions of Russian military forces in Chechnya are those typically directed against foreign enemies.

Among the many consequences of 9/11 and its aftermath has been to make it easier for a number of states to defend the use of force against domestic opposition in the name of the anti-terrorist struggle, and to weaken the willingness of the international community to question such actions. In the case of Chechnya, the effort to enlist President Putin in the war on terror and later to win his support for the US campaign in Iraq encouraged greater acquiescence in Russian behavior in both the US and Europe.¹² Indeed, at the recent summit meeting between Presidents Bush and Putin, the American president made the startling statement: "I respect President Putin's vision for Russia: a country at peace within its borders, with its neighbors, and with the world, a country in which democracy and freedom and rule of law thrive."¹³ British Prime Minister Tony Blair went even further, expressing his delight that Russia stood alongside the West in the war on terror because "Russia has such vast experience fighting terrorism," a comment that led Elena Bonner and Vladimir Bukovsky to comment that by this criteria Milosevic should be awarded the Nobel Prize rather than be put on trial at the Hague for his contribution to fighting Islamic extremism in Bosnia and Kosovo.¹⁴ But if the events of 9/11 afforded the Russian leadership greater freedom of action in pursuing the war in Chechnya, it was the hostage crisis a year later that precipitated the most important shift in Russian policy.

Without recapitulating the overall evolution of the conflict over the past decade, Russian policy prior to the fall of 2002 pursued two broad tracks. The main thrust of Russian efforts, particularly after the succession of President Putin, focused on pursuing the military campaign in Chechnya with ever greater determination and ruthlessness while minimizing domestic dissent by sharply curtailing the flow of information about the situation to the Russian public. At the same time, even as it labelled Maskhadov a terrorist and ceased to recognize him as Chechnya's president (imposing Akhmed Kadyrov as interim leader of Chechnya), the government also engaged in quiet and sporadic contacts with Maskhadov's representatives abroad, although it appears likely that these were not so much serious attempts to reach agreement as they were efforts to placate the Europeans and silence domestic and international criticism.¹⁵

By late summer of 2002, with Russian public opinion polls showing a decline in Putin's ratings and growing public support for negotiations,¹⁶ and renewed pressure from European governments and from organiza-

¹²Official contacts with representatives of the Maskhadov government were downgraded, and three Chechen groups were added to the State Department's list of terrorist organizations. See the television interview with Secretary of State Powell, February 21, 2003, as reported in "US State Department Adds Chechen Group to Official List of Terrorists" (2003).

¹³Press conference at Camp David (September 27, 2003), available at www.whitehouse.gov/news/releases/2003/09/20030927-2.html.

¹⁴On Blair's comments, see www.grani.ru (March 11, 2003). For Bonner and Bukovsky's "Open Letter to George Bush," see the online *FrontPage Magazine* (March 10, 2003) at www.frontpagemag.com.

tions such as the Council of Europe and the OSCE, a number of new proposals for a peace settlement were being aired. Most notable among them was a peace plan set out by former Prime Minister Yevgeniy Primakov in *Rossiyskaya gazeta*, which was praised by Maskhadov himself. There were also reports at the time of secret meetings between representatives of the Chechen government, including Akhmed Zakayev, and envoys of President Putin.

The Hostage Crisis of October 2002

The hostage crisis of October 2002 precipitated a significant shift in Russian policy. While the events themselves remain the subject of controversy, with important and still unresolved questions about the real intentions and actions of the hostage-takers as well as about the handling of the episode by Russian authorities,¹⁷ the episode marked a turning point in both popular attitudes and Russian policy, used by the government to initiate and win support for a new approach. In its aftermath, a series of decisions were taken to decisively and definitively repudiate and delegitimize the Maskhadov government by organizing a referendum on a new constitution, followed by new presidential and parliamentary elections, with the aim of establishing and legitimating a Moscow-controlled government in Grozny.

The Referendum of March 2003

The new policy had several key objectives. First and foremost, it was intended to definitively delegitimize Maskhadov and eliminate him as a potential partner for negotiations in the eyes of Russian as well as international critics of Russian policy. Second, it was intended to alter the legal status of Chechnya unilaterally by promulgating a new Constitution affirming Chechnya's status as an inseparable part of the Russian Federa-

¹⁵Prominent European officials continued to reject Russia's view of Aslan Maskhadov as a terrorist, and considered him a key interlocutor for any peace agreement. As the UN High Commissioner for refugees, Ruud Lubbers, told a news conference in Moscow at the time, Maskhadov could be criticized for not always being able to stop certain acts of violence but he was "certainly not a terrorist" and was a "key person" for finding a peace settlement in the region (Agence France Presse, January 18, 2002).

¹⁶A survey by VTsIOM that fall reported that 30 percent of respondents believed the situation in Chechnya had improved under Putin's leadership but 43 percent said it had not changed and 21 percent said it had worsened. A September poll found that 56 percent of respondents favored negotiations to end the conflict, while 34 percent favored continuing military action (Dunlop, 2003). See also *Obshchestvennoye mneniye 2003: Yezhegodnik* (2003).

¹⁷Questions persist about a large number of issues: how the hostage taking was organized; the possible complicity of security services in the episode; whether the explosive devices of the hostage-takers were actually live and if so why they weren't used; why Russian security forces shot all the hostage-takers while they were unconscious rather than capturing any for interrogation; and about the decision to use a potentially lethal gas without adequate provision for medical countermeasures.

tion, effectively nullifying the 1997 Kasavyurt agreement, which left the status of Chechnya open for future negotiations. In addition, the new policy sought to accelerate the “Chechenization” of the conflict in an effort to provide President Putin with an exit strategy in a war that could not be decisively won. Finally, the new measures were an effort to reassert Moscow’s view that the conflict was purely an internal affair of Russia, and to exclude further involvement by European and American actors in mediation and monitoring activities.

This last objective was given further emphasis by the Russian government’s decision to terminate the OSCE mission in Chechnya on December 30, 2002, after first demanding it confine its role to the delivery of humanitarian assistance and give up efforts to mediate the conflict and to monitor human rights abuses. The refusal to renew the OSCE mandate was also accompanied by efforts to discredit and prosecute Akhmed Zakayev, a key Chechen intermediary in negotiations with Moscow who was widely respected in Europe, by attacking him as complicit in criminal and terrorist activities. The Russian government first demanded his extradition from Denmark, and, when the request was refused by Danish authorities, from Britain, which similarly rejected the request.

The very decision to hold a referendum, scheduled for March 23, 2003, and the procedures used to conduct it, were highly controversial from the start. Critics of the referendum—from Chechen organizations and human rights NGOs in Russia, such as Memorial, to Western actors and institutions, including the Parliamentary Assembly of the Council of Europe (PACE)—argued that conditions in Chechnya failed to satisfy the basic requisites for such a process: above all a secure environment and the absence of coercion. They insisted it was impossible to conduct a valid referendum in the midst of ongoing war, the massive presence of Russian troops, continuing “disappearances” and lawlessness, and the presence of large numbers of displaced persons and refugees outside the republic, not to mention the absence of any opportunity for voters to even read the draft of the proposed constitution, which was undergoing amendment well into March. Lord Judd, who headed the the PACE Committee on Chechnya and was one of the most knowledgeable and outspoken European figures on the subject, had urged the Russian government to call off the referendum, following a fact-finding visit to the republic in January 2003. “We don’t just want a bit of paper that people say ‘yes’ or ‘no’ to,” he said in Moscow. “We want a real political solution rooted in the people and the consensus of the people,” he asserted, and called for political negotiations with a broad range of Chechen representatives.¹⁸ In his view, the referendum simply disguised the absence of a real peace process that required negotiation with adversaries.

¹⁸Reuters (January 24, 2003); available at www.hrvic.net/news/24b-1-2003.html; see also Council of Europe, Parliamentary Session 27-31, January 2003 at www.coe.int/T/E/Com/Files/PA-Sessions/Jan-2003/; and “Lord Judd Calls for Postponing Referendum” (2003).

Rejecting the view that the referendum was premature, if not counter-productive, President Putin portrayed it as an opportunity for peace, stabilization, and the withdrawal of Russian troops, and promised an amnesty and money for reconstruction if the results proved positive. Opinions within Chechnya appeared divided, with a war-weary population sceptical of Russian policy but eager for peace and normalcy.

The international community was itself divided on how to respond, and conflicted about whether to approve the referendum itself as well as about whether to conduct formal monitoring of the process. The refusal of the PACE to explicitly reject the process led to Lord Judd's resignation in protest; in the end, the Council did not send an observer mission, citing security problems. The OSCE took the position that conditions were far from ideal for holding a referendum and that the proposed constitution had many imperfections, but held that if it became the start of a political process it could be deemed a success. It sent four experts on what it labelled a fact-finding mission but declined to send a standard observation mission.

The referendum asked voters to approve three separate measures: a draft constitution for the republic; a draft law on the election of the president of the republic; and a draft law on elections for parliament. Adoption of the proposed constitution was the main goal of the Russian government, and it in turn contained three key provisions: it declared Chechnya to be an "inseparable part of the Russian Federation," though it promised the republic a limited degree of autonomy; it gave the Russian president the right to dismiss any future elected President of Chechnya; and it denied the right of the republic's population to appeal to international bodies.¹⁹

A number of the foreign journalists who observed the election were skeptical of the official claims of an 85 percent turnout and 95 percent support for the constitution, and characterized it as a "Soviet-style" election whose results were simply faked. A number of Russian journalists and representatives of independent television also cast doubt on the legitimacy of the results.²⁰ A statement endorsed by 30 Chechen NGOs and sent to officials of the Council of Europe and its Parliamentary Assembly characterized the referendum as "farcical" and the constitution discriminatory. But the actual figures aside, at least a part of the results appear to have reflected the genuine yearning of the Chechen population for an end to the

¹⁹This provision was an effort to curtail the actions of a number of Chechens who had failed to obtain redress in Russian courts in their efforts to hold military officers accountable for violations of human rights and of the laws of war, and had taken the hitherto unusual step of appealing their cases to the European Court in Strasbourg. In a landmark ruling, the European Court of Human Rights had agreed for the first time in January 2003 to consider legal cases brought by Chechen plaintiffs accusing Russian authorities of atrocities in Chechnya. See the Court's press release of January 2003 at www.echr.coe.int/eng/press/2003/jan/decisiononadmissibility6chechenapplicationseng.htm.

²⁰"More Election Irregularities" (2003). The Moscow Helsinki Group, among other election observers, reported widespread violations of election norms and accused the authorities of large-scale falsification of the voting results.

war, the withdrawal of Russian troops, and a return to a modicum of stability. President Putin treated the results as an unequivocal victory, announcing to his cabinet on March 24 that “we have solved the last serious problem connected with the restoration of the territorial integrity of the Russian Federation” (*RFE/RL Newslines*, 7, 57, March 25, 2003). The outcome of the referendum was as much a subject of controversy as the initial decision to hold it. A 50 percent voter turnout was required for the referendum to be valid, although it was unclear how many of Chechnya’s registered voters actually resided in the republic. After initially insisting that voting would take place only on the territory of the republic, polling booths were eventually set up in Chechen refugee camps in Ingushetiya, and turnout was maximized by threats to cut off relief assistance to those who failed to vote. The number of voters was further augmented by the fact that by Russian law, military and Interior Ministry troops permanently based in Chechnya had the right to participate, augmenting the total of votes by another 38,000.

The Presidential Election

With the referendum completed and a new constitution in place, the Russian government took the next step in its efforts to “normalize” the situation in Chechnya by scheduling presidential elections for October 5. Once again, the questionable conduct of the campaign cast doubt on the legitimacy of the results. The head of the Moscow-backed administration, Akhmed-hadji Kadyrov, clearly enjoyed a dominant position, having built up a strong power base during his three-year appointment, but his unpopularity in the republic encouraged a number of other rivals to declare their candidacy.²¹ Among them were two candidates who were considered to have a good chance of defeating Kadyrov and winning the election: Aslanbek Aslakhonov, a Duma deputy from Chechnya, and Malik Saidullayev, an influential Moscow businessman.

But the competition came to a swift end. In a pattern increasingly characteristic of Russian elections, a combination of cooptation and threats succeeded in eliminating the most serious contenders from the race, leaving Kadyrov to face only minor figures. Aslakhonov withdrew from the race after receiving an offer to serve as an adviser to Russian President Vladimir Putin, and Saidullayev was removed from the campaign for alleged procedural irregularities in his qualification petition, his appeal rejected by the Supreme Court. In a revealing interview, Saidullayev reported that advice he had received from another popular Chechen politician, Ruslan Khasbulatov, had made him wary of running: “[Khasbulatov] said, ‘You know

²¹A poll conducted by the Chechen government in early 2003 indicated that if presidential elections were held at that point, over a third of the respondents would vote for a representative of the Chechen community in Moscow, 19.5 percent for an ethnic Russian proposed by the Russian government, and just 16.5 percent for a representative of the current pro-Moscow Chechen government (Fuller, 2003).

what kinds of conditions the federal authorities can create for a candidate elected against their will—they'll fail to pay pensions, they'll switch off water, electricity. So what would [one] do then?' And I said, "You know, Ruslan, I feel the same way. What if they elect me? How can I work out [good] relations with the center?"' (Lambroschini, 2003).

While Kadyrov's victory was thus assured, the "normalization" of the situation in Chechnya remains distant. Kadyrov's personal army has come to be as feared as Russian troops, and the term "Kadyrovtsy" has apparently become a synonym for thugs and criminals. The attempt at Chechenization of the conflict not only fails to provide Putin with a viable exit strategy but may even further complicate the situation by exacerbating the *de facto* civil war already raging in Chechnya. With Kadyrov's forces subject to even less accountability for their actions than the Russian military itself, the scale of violence and bloodshed is unlikely to diminish in the near future.

While the Russian public largely lacks independent sources of information about the war, the continuing Russian military casualties in Chechnya, as well as the ongoing partisan warfare, remains a troubling concern. Notwithstanding the generally high approval ratings of the president, a majority of Russians believe that the war is continuing in Chechnya, with only one-third confident that peace is being restored, although that number has been growing.²² Paradoxically, the number of respondents who advocate beginning peace negotiations also has continued to grow. But it is doubtful whether recent Russian policies in Chechnya will serve such a peace process. Without the establishment of a broad-based and credible government in Chechnya that enjoys a wider degree of popular support, there is little likelihood that the partisan warfare and violence will soon end.

The War in Chechnya as a Paradigm of State-Building Under Putin

The war has had a broad and corrosive impact on Russia's political, social, and economic development, exacerbating a whole range of existing problems, blocking fundamental reforms, and raising questions about Russia's suitability as a partner with the West. At the same time, the way in which President Putin has chosen to address the challenge of Chechnya is a manifestation of broader trends in his approach to Russian state-building writ large, an approach dramatically different in key respects from that of his predecessor.

First and foremost, it both reflects and has contributed to an extreme emphasis on strengthening the state, and in the process to weakening the institutional foundations of pluralism. Even if it is the case that under Yel'tsin pluralism was the product of weakness rather than design, a form

²²VTsIOM-A survey reported by *Novyye Izvestiya* on December 25, 2003, in Uzzell (2004).

of “pluralism by default,” it also reflected a different conception of Russian statehood. Under Putin, an extreme preoccupation with the threat of separatism and disintegration has reinforced the impulse toward toward centralization and authoritarianism, and the eradication of alternative centers of power, across many spheres of Russian policy.

The war in Chechnya is the most extreme case of a generally more coercive approach to center-periphery relations under Putin. In the name of strengthening state power, the Putin government launched an offensive against the embryonic form of federalism that had emerged under Yel'tsin, abrogating federal arrangements that allowed regions and republics an important degree of autonomy in favor of a more coercive and less accommodationist approach. The Federation Council was restructured, a system of presidential representatives was created to enhance central control over the regions, agreements concerning the allocation of tax revenues between the center and the republics were abrogated, and new federal policies on a broad range of issues narrowed the scope for diversity and experimentation in economic and social policy at the local level. The ultimate aim, according to Putin's Minister for Nationality Issues, Vladimir Zorin, “is to gradually move ... from the ethnic-administrative subdivision of the country to a nonterritorial model,” leading to the elimination of national units altogether (Choltaev, 2003; Zorin, 2003).

In selecting personnel to carry out his new policies, first in Chechnya and subsequently more generally, Putin has relied heavily on the military and security services, which have increasingly come to dominate the government apparatus. The profile and composition of the governing elite bears little resemblance to that of the Yel'tsin era, in which leading figures from the democratic intelligentsia figured prominently. The military and security services have also been able to operate with considerable independence and minimal accountability, and with virtual impunity in Chechnya itself, little constrained by either presidential authority or judicial scrutiny.

The war in Chechnya was also the catalyst for efforts to weaken the independent mass media and ultimately bring the media under government control. To prevent a repetition of the events of the first war in Chechnya, when journalists and television networks offered coverage of the war that often contradicted official accounts and contributed to public opposition to the war, the Putin government limited media access to the region altogether and sharply constrained its ability to challenge the government monopoly on news of the war. The few intrepid journalists who have defied government restrictions to offer independent accounts of the war—like Andrey Babitskiy or Anna Politkovskaya—have been threatened or punished for their efforts.

In its effort to bolster the argument that the present policies are the only correct and possible ones, the government has also sought to marginalize or discredit influential figures advocating alternative policies, from President Aushev of Ingushetiya to Akhmed Zakayev, and to stigmatize critics as criminals rather than adversaries. And in Chechnya as in Russia

more generally, elections are manipulated on behalf of favored candidates, with their competitors encouraged or compelled to withdraw.

Finally, the Putin government has taken an increasingly assertive stance toward the United States and Europe on issues involving Russian internal affairs, Chechnya above all (and has used the struggle against terrorism to bring considerable pressure to bear on the Georgian government as well). The OSCE mission in Chechnya was terminated by the Russian government at the end of 2002, and the new PACE rapporteur for Chechnya named in July 2003 has complained that Russian authorities have systematically rejected his monthly requests to visit Chechnya. Moscow has also taken an increasingly assertive stance toward domestic and international NGOs. It has sought to limit and control their activities in an effort to compel them to serve Moscow's purposes, and has sought to undermine or expel those that failed to comply. The most dramatic example has involved the refugee camps in Ingushetiya, which at one point sheltered over 100,000 Chechens—mainly women and children—who had fled to the neighboring republic to escape the violence, and whose operation was largely financed and managed by international and domestic humanitarian NGOs. The departure of President Aushev of Ingushetiya deprived them of the political protection they had enjoyed for several years and exposed them to a campaign by Moscow to forcibly repatriate the refugees to Chechnya, in large measure to demonstrate that conditions were being normalized. Despite official denials, the camps were effectively closed by cutting off their water or energy supplies, and foreign relief groups were pressured to shift their operations or were forced out altogether.²³

The war in Chechnya has thus played a complex and highly negative role in Russia's political development. It served in some respects as a testing ground for policies that would be expanded to embrace the Russian Federation more broadly. It has been a major obstacle to the progress of reform and democratization in Russia, and has rather elicited and strengthened the more coercive and authoritarian impulses within the Russian elite. It has equally been a barometer of broader trends in Russian state-building and is highlighting many of the dramatic new departures this process is taking under President Putin.

THE RUSSIAN ECONOMY IN 2003 ²⁴

How do we assess the state of the Russian economy in 2003? President Putin has called for a doubling of Russia's GDP by 2010.²⁵ Russian growth

²³These patterns were by no means confined to Chechnya. Men in combat fatigues raided the Moscow headquarters of the Open Society, the philanthropic organization run by US financier George Soros, in what was described as an ownership dispute over the premises.

²⁴By Barry W. Ickes. I am grateful to Clifford Gaddy for innumerable conversations about the issues discussed here, although I alone am responsible for any errors.

²⁵For Vladimir Putin's State of the Nation Address to the Federal Assembly, the Kremlin, Moscow, May 16, 2003, see the Ministry of Foreign Affairs web site, www.mid.ru.

rates since the crisis have been very impressive; hence such an ambitious target—requiring annual growth rates averaging 8 percent—is feasible, but the question is, how likely? Any current assessment of Russia is currently complicated by the Khodorkovskiy affair.

In early October—with perhaps excellent timing—Moody's raised its rating of Russian debt to investment grade. Narrowly, this applied only to official debt, but the perception is that this upgrading signaled a more generally optimistic view of Russia. After all, GDP growth remains strong.²⁶ Fiscal policy is prudent—a primary budget surplus of 3 percent of GDP. The current account balance is positive and foreign reserves are growing. FDI increased dramatically in the period January–September (i.e., pre-Khodorkovskiy) to \$4.67 billion,²⁷ up 77 percent over the same period last year.²⁸ Of course, the levels are still very small for a country such as e Russia.²⁹ Is this the recovery and stability? Is this an external stamp of approval for Putin and Russia?

The main themes of recovery since the August 1998 crisis are twofold: a weak ruble and strong oil prices (combined with growing volumes of exports).³⁰ Any optimistic scenario for the Russian economy must predict that these trends will continue and that Russia's dependence on them will weaken. This is all the more important as some of the competitive advantage obtained by the ruble's collapse is being eroded. The ruble has been appreciating in real terms, and dollar wages are thus almost back to their pre-crisis levels (Figure 1). Fortunately for Russia, oil prices remain high. It is nonetheless clear that, in the longer run, Russia must diversify its sources of growth.

²⁶For 2003 it is likely to be higher than most analysts expected, in the neighborhood of 6 percent.

²⁷In 2001, FDI in the Czech Republic was \$4.9 billion and in Poland \$6.9 billion. During the period from 1996 to 2000, FDI averaged 6.4 percent of GDP in the Czech Republic, 4.3 percent of GDP in Poland, and 1.1 percent of GDP in Russia. The contrast is most stark in terms of FDI per capita: \$337 per person in the Czech Republic, \$202 per head in Hungary, \$169 in Poland, and \$22 per head in Russia.

²⁸The expected change in tax rates lowered many investment figures for 2002, as investors waited for the changes to take effect.

²⁹FDI in China for 2002 was \$52 billion.

³⁰An alternative interpretation is offered by Gaidar (2004) who uses the concept of "recovery growth" to refer to the accelerated expansion after economic disruptions (he traces this idea back to the Russian economist V. Groman in the early 1920s). In this interpretation, there is a natural acceleration of growth following disruption, and he notes that by "2001–2002 Russia showed signs of entering the universal depletion of its recovery (Gaidar, 2004; Hill and Gaddy, 2003). But the policy conclusion is not that dissimilar, for, as Gaidar notes, "In other words, now we are in need of a growth that is founded not on the use of old, leftover capacities, but the one derived from transformed and renewed capital and a new, qualified workforce."

Optimists

Analysts who are optimistic about Russia now are not in short supply.³¹ This should not be surprising, given the general macroeconomic situation in Russia. Compared to 1998, Russia now has a solid fiscal situation, growing international reserves, and some economic stability. Two primary arguments underpin the optimists' position. First, and perhaps most important, is the belief that Putin's support for economic reforms will only increase after the presidential elections. Increased stability under Putin is already seen as an important element of economic recovery. With a strong parliamentary majority, Putin will only increase support for economic reforms in a second term.

The second factor is that there are still plenty of low-hanging fruit. Precisely because so many enterprises have not yet become efficient there are large potential gains to be had. The Russian recovery was initiated by high oil prices and a depreciated ruble. A recovery led by increased TFP (Total Factor Productivity) growth is what everyone wants to see.³² This presents an opportunity for Russia once reforms are implemented. The only question is, how long it will take for this process to take place? Of course, this argument also raises the question of why these low-hanging fruit have not yet been picked. How this question is answered goes a long way toward explaining whether one is an optimist or a pessimist.

TFP and Investment

Certainly there are still potential sources of rapid productivity growth in Russia. The presence of this potential is one of the legacies of socialism. The question is whether Russia can exploit this opportunity, especially given the costs this entails. This is the issue for Russian growth. Can sustained TFP growth be generated? Given how far Russia lags behind the frontier, it is possible that rapid TFP growth could persist for some time.³³ The question is whether those impediments that have so far prevented rapid TFP growth can be overcome in the near term.

In principle, the rate of growth of TFP and the level of investment are independent. The former depends on reforms that encourage more efficient methods of production. Especially high rates of investment in the Soviet period did not prevent, and may have encouraged, the very low levels of efficiency. Yet in Russia today, a leap in growth will require significant increases in investment.³⁴ Given the misallocation inherited

³¹See, for example, Brunswick UBS (2003).

³²TFP is the difference between total output and the contributions of all factor inputs. It is a measure of the efficiency with which inputs are used. Increases in TFP are typically seen as the key ingredient to growth in per-capita incomes. In discussions of the Soviet economy, this was often referred to as *intensive* growth.

³³According to Wilson and Purushothaman (2003), Russia could overtake Germany, France, and Italy in per-capita income (measured in dollar terms) by 2050.

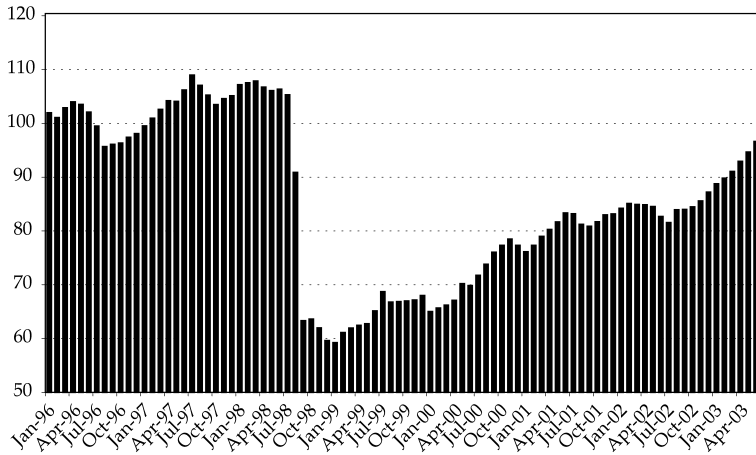


Figure 1. Trade-weighted Ruble Real Exchange Rate (December 1995 = 100) *Source:* *Russian Economic Trends*, various issues.

from the Soviet period, the amount of replacement that is needed is huge. The scale of this problem is understated, however, because, to a large extent, capital stocks have not been written down. Economic obsolescence should lead to a write-off of non-performing assets. In Russia, however, lossmakers continue to operate (see Figure 2), hence the capital stock appears to be larger than it effectively is.³⁵

Gross investment as a share of GDP is currently about 20–22 percent (International Monetary Fund, 2003, p. 35, Table 5). This is up from the very low levels of the early 1990s, but it is still woefully inadequate in transition. The problem is perhaps evident in Figure 3, which compares the investment rate in Russia with that of some Asian Tiger economies. It is evident that investment is significantly lower, despite the significant recent increase. Moreover, most of the investment that is undertaken is concentrated in sectors related to fuel and energy (27 percent of the total in the first quarter of 2003 compared with 7.4 percent share in GDP), and transport (15 percent). Investment in other sectors is very low.³⁶

Why is investment in non-energy-related sectors low? Is it because of a lack of need or lack of profitability? Certainly it is the latter, given the inefficiency of much of Russian enterprise. But then why is investment unprofitable? Two factors are frequently mentioned: corporate governance-related issues and general political uncertainty. But it could also be

³⁴See Sutela (2003, pp. 214–221) for a discussion of the impact of different rates of investment on forecasts of Russia's long-run economic performance.

³⁵See Gaddy and Ickes (2002, p. 51) for a discussion of the role of investment in transition.

³⁶Figures are from World Bank (2003).

the case that it just does not make sense to produce in that sector. Why rebuild a plant in Perm? One could, in fact, argue that the lack of investment in non-energy sectors is a sign of economic rationality,³⁷ good for economic welfare but bad from the perspective of diversifying the economy.³⁸

Capital Outflows

Another manifestation of these problems can be seen in capital outflows. For example, we might ask why a country like Russia runs such a large current account surplus. At present, Russia's current account surplus is more than 10 percent. It was 18 percent two years ago. This is a huge level of capital exports for an economy with investment needs. Why does it export so much capital, given that there are huge needs for restructuring?³⁹

One argument is that Russia is a resource exporter, so, like most such countries, it naturally runs a current account surplus.⁴⁰ If an economy has temporarily higher income resulting from an exhaustible resource, it makes sense to save some of the bonus now for when the resource runs out. Such a country ought to acquire claims on the rest of the world, and hence run a current account surplus. But is it really sensible to regard Russia in these terms? While its exports are very large, there is still a lot of excess capacity in manufacturing and, at the same time, a large need for modernizing industry. The optimist argument that there are plenty of TFP gains to be had in Russia suggests that output is not temporarily high *but rather, below potential*. If that is the case, then Russian income is temporarily low, so that Russia should be dissaving now, to invest in this potential. This suggests that Russia could have much higher levels of investment than at present.

³⁷It is instructive to think of the impact of China on two Russian industries, oil and steel. The boom in China is certainly beneficial for Russian exporters and for the economy. See Breach (2003) for an analysis. Worldwide steel consolidation and Chinese growth are leading to a potential steel shortage. Severstal shares are up 94 percent. This points to a real advantage for Russia with regard to trade with China. Chinese growth is very good for Russia, and the dynamism of the Chinese economy will engender positive spillovers. But it is difficult to see that this will continue. China is investing in its own steel capacity. Note, for example, China's imposition of tariffs on Russian steel exports (see the *Financial Times*, January 14, 2004). For Russia to keep up, it would need huge upgrading in the steel industry, and huge investment. Where would this come from? Would it be sensible anyway? The cost of capital is high in Russia relative to China. Russia currently benefits because it has lots of steel capacity inherited from the Soviet period. Over the medium and longer runs, however, Russia's ability to compete will depend on upgrading and improving efficiency in production. This brings the issue back to structural reform, the cost of capital, and an environment that exports capital. Meanwhile, China has become the second-largest oil importer (after the US, passing Japan). Here the prospects for Russia are likely to persist in the long run as well.

³⁸Whether it is logical to worry about that from a welfare perspective is not a question that can be answered here. One assumes, however, that it is from a power perspective, not a welfare one, that Putin derives his interest in this.

³⁹The low investment rates in Russia understate the problem because of the failure to write down assets.

⁴⁰Of course, just because a country has an export boom does not mean it cannot also have an import boom.

The fact that Russia runs a current account surplus is indicative of two possibilities: either Russia is temporarily constrained and once reforms are implemented investment will increase, or investors know something—that manufacturing is not competitive at any value of the ruble consistent with Russia's resource export potential.⁴¹

Perhaps then it is not absence of a banking system that hinders investment in Russia, but rather, it is an economic environment that encourages large capital outflows. The one optimistic part of this scenario, however, is that if Russia can implement sufficiently credible reforms, a large pool of capital is waiting to return as FDI—a potentially large reward for reforms indeed.

The Current Macro Environment

The current macroeconomic environment remains favorable in Russia. The factors that generated the recovery are still in place. Oil and energy exports and a low (but steadily rising) value of the ruble were responsible for generating the post-1998 recovery in Russia. Russian oil production in July reached levels (8.5 million barrels per day) not seen since 1992. The key question is when domestic demand will take over. In 2003, investment spending was rather high. Macro fundamentals are strong.⁴² The budget is in surplus,⁴³ the current account balance is in surplus, and foreign reserves are very high.⁴⁴ External debt of the government is about \$110 billion. Retail sales have been growing rapidly and real wages are rising.⁴⁵ Even capital outflows seemed to be declining in 2003, until the summer. These figures do not indicate a crisis in the making. A financial crisis, which some worry about, would have to come from non-fundamental sources. We can see an example of what this might be with the arrest of Mikhail Khodorkovskiy. The result of this has been an increase in capital flight. Net capital flight had decreased in 2002, but in 2003 it is likely to be at the 2001 level, around the \$15 billion to \$18 billion mark. The fear is that Russians may have a better feel for the near future than Moody's.

⁴¹In addition, it should be noted that if Russia were to have positive net capital inflows combined with its positive current account, then either the ruble would appreciate dramatically or the money supply and inflation would increase because of limited opportunities for sterilization. One could argue that the Central Bank of Russia is fortunate that it does not have an even worse problem of inflows to deal with. But this does not obviate the need for more capital investment in industry.

⁴²Nominal GDP was \$346 billion at the end of 2002, likely to be \$435 at the end of 2003. In per-capita terms, these were about \$2412 and \$3042, respectively.

⁴³The primary surplus of the federal government is about 3.8 percent of GDP. The nominal balance is about 2.1 percent.

⁴⁴About \$48 billion at the end of 2002, they could be \$67 billion by the end of 2003 or about 15 percent of GDP.

⁴⁵Retail sales grew 13.9 percent in 2002, and the estimate for 2003 is 21 percent (yoy). The average dollar wage was \$140 for 2002 and \$179 for 2003. Even with some dollar depreciation and 13 percent inflation, this would represent an 8 percent increase in real wages.

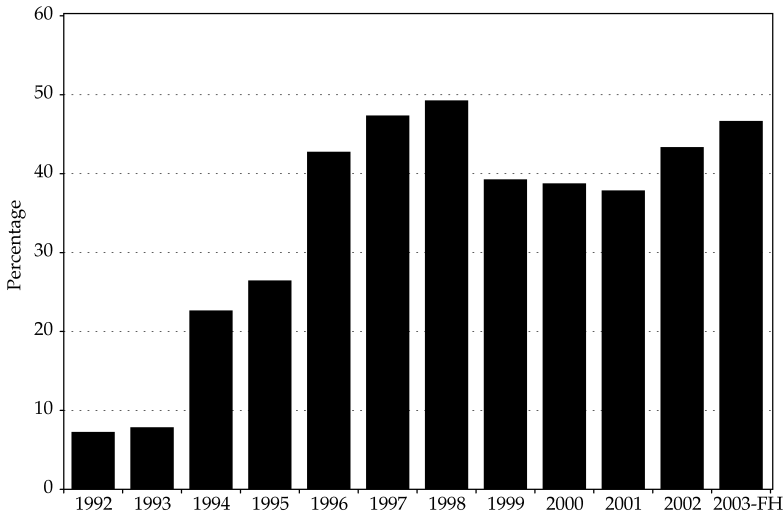


Figure 2. Lossmaking enterprises, 1992–2003. *Source:* For 1992–1999, *Rossiyskiy statisticheskiy yezhegodnik* (2000, table 21.31); for 2000–2003, *Interfax Statistical Reports* (22, 2001; 22, 2002; 14 and 42, 2003)

Even with the Khodorkovskiy crisis, however, it seems very unlikely that Russia could experience another financial crisis in the short term. The markets remain rather resilient. What this means for Russian democracy is not at all clear, but it is not the trigger for a financial crisis. Moreover, the ruble, despite appreciation, is still not over-valued (see Figure 1), at least compared with 1998. And with reserves large and foreign debt quite manageable, it is hard to see how a financial crisis could be triggered, especially as there does not appear to be any serious inflation in asset prices.

Fundamental Dilemma

The fundamental problem is that the greatest sources for growth are still resources and commodities. This tendency is increasing, not decreasing. In a sense, this is fine—it fits with comparative advantage. But it makes Russia's competitiveness in industry more problematic, and it is clearly not the direction that Russia's leaders want it to follow. Thus it forces the bad political choice of sustaining the bad part of the economy.

That Russia still needs real structural reform is evident when we look at lossmaking enterprises. The share of lossmakers in Russian industry continues to remain amazingly high (see Figure 2),⁴⁶ because of both real appreciation—the Russian Dutch Disease—and the inadequacy of structural reform that allows lossmaking enterprises to survive seemingly without end.

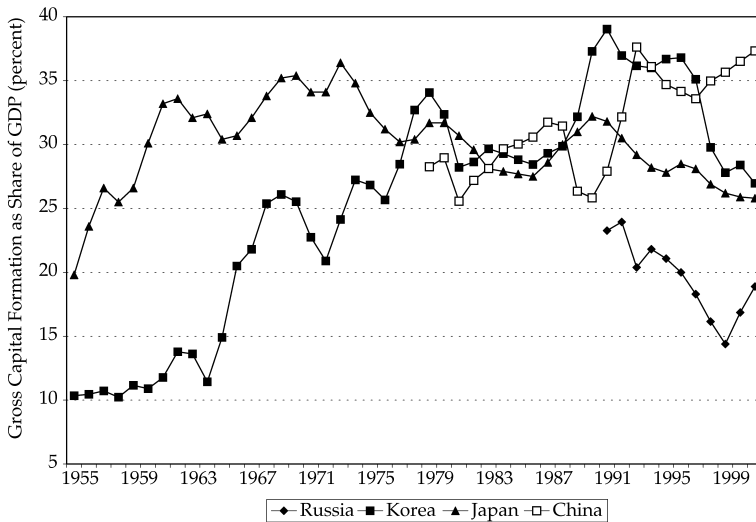


Figure 3. Selected Investment Rates. *Source:* IMF, International Financial Statistics.

Again, one can interpret this in two ways: (1) there are plenty of opportunities for TFP growth, given how inefficient these enterprises are, and (2) these enterprises are a hopeless drain on the economy.

Moscow Versus Russia

One of the most important features of the Russian recovery is the divergence in performance between Moscow and the rest of Russia. One naturally expects the capital to do better than rural regions, but the important point is that the divergence in performance seems more pronounced after 1998 than it was before 1998.

There are many ways to see this. One important indicator is male life expectancy (see Figure 4).⁴⁷ One can see that prior to the financial crisis, life expectancy in Moscow and the rest of Russia moved in parallel. But since the financial crisis there is a significant divergence. It is clear that while

⁴⁶It is crucial to note that while the share of lossmakers in the total number of enterprises remains very high, the share measured in terms of value or employment is steadily decreasing. After all, lossmakers do not grow as fast as profitable companies. Still, the question is, why do they survive?

⁴⁷Kareliya stands as a proxy for all poor regions. Of course, Kareliya is a one-industry region (timber represents 46 percent of all industrial output). Ruble depreciation causes timber exports to rise, but the profits go to Moscow. The rest of the economy is dramatically injured. What explains such a shock? In Kareliya, the share of total deaths accounted for by working-age males has increased steadily from 24.9 percent in 1998 to 29 percent in 2002. This is a stark indicator of the nature of recovery. It is a Moscow recovery.

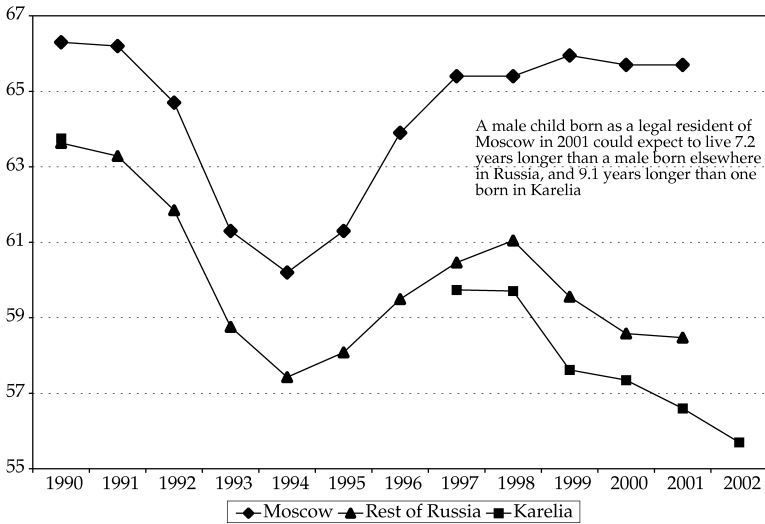


Figure 4. Male life expectancy: Moscow versus Russia. *Source:* Moscow data in Zaridze and Men' (2003, pp. 84–88). Data on all Russian males has been drawn from various issues of *Rossiyskiy statisticheskiy yezhegodnik*. Data for Kareliya for 1995–1997 from Goskomstat (2002) and for 1998–2003 from Shmelev and Shumilova (2003, pp. 60–65).

recovery is apparent in Moscow, it has not seemed to reach the rest of Russia.

We also see the divergence in more standard indicators like real income (see Figure 5); real incomes in even the most successful regions are half of those in Moscow.⁴⁸ One might wonder if this is because of differences in the cost of living.⁴⁹ Certainly housing, dining, and lodging may be more expensive in Moscow. But the opposite is likely true for most consumer items, such as food. And price indexes probably understate the true cost of living in many Russian regions where subsidies are needed to offset the cost of delivering resources such long distances. If these subsidies were incorporated, then real incomes in many distant regions could be even lower than Figure 5 suggests.

A similar picture is apparent when we look at foreign direct investment. I have already noted that the level of FDI in Russia is rather low compared with other transition economies, and most of the FDI that does occur is in energy and resources. But the significant point I want to emphasize here is how much this is concentrated in Moscow. It should not be surprising that FDI flows more readily to Moscow than to other parts

⁴⁸The data on regional per capita real incomes is computed from nominal per capita cash incomes adjusted by the official regional subsistence-level incomes.

⁴⁹Notice that arrears tend to be concentrated in the poorer regions. This could further exacerbate these differences.

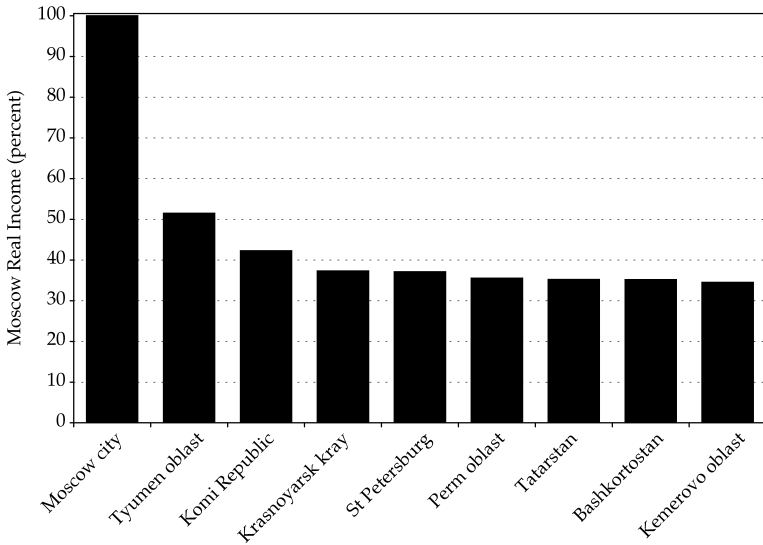


Figure 5. Real incomes in Moscow and the rest of Russia. *Source:* Author's calculations. All data are Goskomstat figures for March 2003 as reported in *Interfax Statistical Report* (24, 2003).

of Russia. What is surprising, perhaps, is that the gap between Moscow and the rest of Russia has been increasing since 1998. The share of FDI that goes to Moscow now is more than 50 percent of the total flow to Russia. Moscow's share has been increasing since the crisis of 1998. Even St. Petersburg displays a declining share as Moscow absorbs most of Russia's FDI (see Figure 6).

Why is FDI so focused on Moscow? It is partly because Moscow is the location of headquarters of the major oil and other energy companies. It could be that flows directed to energy-producing regions are recorded as flows to Moscow because corporate headquarters are there. This may account for some of the gap, but it does not explain why the gap has been increasing since the crisis. Moreover, given the gap in wages, incomes, and health between Moscow and the rest of Russia, the FDI differential is part of the same piece. This suggests that it is not simply statistical, but rather is an important phenomenon to explain.

For the most part, the FDI differential reflects the fact that Moscow's central place has been increasing over time. Moscow is a better place to do business. Moscow is earning a huge share of total enterprise profits (43 percent of the total for the country!), partly because reform is much more advanced in Moscow than elsewhere. Certainly more restructuring has already taken place there. But in an economy where relationships still matter, the importance of Moscow because of the proximity to political power is also a factor.

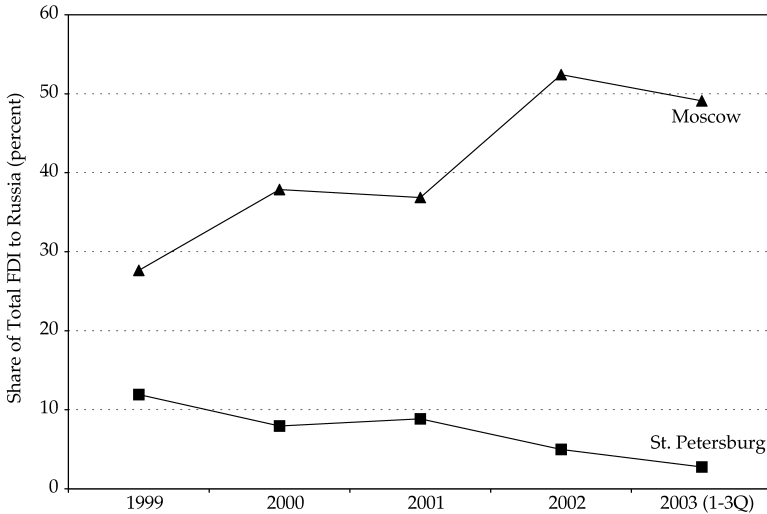


Figure 6. Foreign direct investment in Moscow and St. Petersburg. *Source:* Goskomstat data as reported in *Interfax Statistical Report* (12, 2000; 12, 2001; 11, 2002; 12 and 26, 2003).

In a sense, Moscow is to Russia what the US is to the rest of the world. Productivity is much higher in Moscow than in the regions. Wages are much higher in Moscow than in many other regions. On a pure cost basis, should not capital and other resources flow the opposite way? Internationally, of course, we see the same phenomenon.⁵⁰ The same answer probably applies within Russia too. It is more advantageous to deploy assets in Moscow than in less well-endowed regions. But why?

Notice that this puzzle is even more interesting within a country. Can we argue that institutions differ so much across Russia's regions as well? This may be the case. But it is interesting that the regional differences appear to be related to initial conditions more than to policy.⁵¹ Restructuring is slower in colder, more specialized regions. This is not all that surprising. Colder regions are more distant from Moscow. And one of the key aspects of Russian restructuring is the growth of services. But there is no reason why services should locate in colder regions. Services can benefit greatly from agglomeration externalities, and people prefer to live in better climates.

Ironically, the divergence in performance that I have been discussing could be a sign that real economic reform is taking place. Spatial misallo-

⁵⁰This is the issue that drives much of growth theory—Lucas's paradox. Capital, especially human capital, flows to high-income countries rather than to where it is scarce. The general answer is that TFP differences across economies offset differences in the marginal product of capital.

⁵¹At least according to the evidence in Ickes and Ofer (2003).

ation was so severe in the Soviet period that implementation of real market reforms would have sharply different impacts in different parts of Russia.⁵² So, while this divergence may be a potential political problem, it could be a sign that market forces are starting to operate. If economic adjustment did take place in these regions, it could involve more rapid movement of industry and assets toward the western (and warmer) parts of the country. Hence, economic adjustment would be inimical to the interests of the local population and officials, whatever their political affiliations might be. It may be that market-impeding federalism explains this.⁵³ A critical question to ask is what the implications are for Russian reform if this regional differentiation is the pattern that will continue. Can the Russian political system tolerate this?

One factor here is that investment pays off only if you possess relational capital, which means being connected. That is why the oligarchs are central. To have relations it pays to be close to the capital. Hence, locations are in the capital, and so is the FDI.

Persistence of Relational Capital

Relational capital continues to be critical to operating in the Russian economy.⁵⁴ This is a major reason why oligarchs continue to play such a central role in Russia today, and why the share of output produced in enterprises controlled by the oligarchs is still so high. It also explains why Moscow plays such a central role in the economy. But it is also clear that there is one aspect of relational capital that has not attracted sufficient attention: its depreciation. This is the lesson of the Khodorkovskiy affair.

Just as physical capital can depreciate rapidly as market conditions change, the same is true of relational capital. The fact that an oligarch has invested heavily in relations does not mean that he can rest. Even if you have r , you still must invest in this even more. One reason for this is that the stock of r can be devalued quite rapidly. This was the lesson of Gusinskiy and it is now the lesson of Khodorkovskiy.

Precisely because relational capital can depreciate quickly, Khodorkovskiy worked to increase the economic efficiency of Yukos. If relational capital can depreciate quickly, it is important to be less dependent on it. That is why Khodorkovskiy quickly worked to improve efficiency and transparency relative to, say, Lukoil and Gazprom, where r is much higher. This means that he is under heavier pressure to earn profits that can be invested in both spheres. The need for investment constrains his ability to steal from the plant.

⁵²See Mikhailova (2003) and Hill and Gaddy (2003, ch. 3) for an analysis of spatial misallocation and the cost of climate in Russia.

⁵³See Gaddy and Ickes (2003) for an analysis of market-impeding federalism. The basic idea is that in Russia the political role of Russian governors provides incentives to impede rather than encourage economic reform.

⁵⁴See Gaddy and Ickes (2002) for discussion.

So, the persistence factor explains: (1) why Khodorkovskiy stopped looting so much; (2) why he engaged in so much philanthropy and other forms of investment in relational capital; and (3) why he has invested to modernize and restructure. Yet, as we see, it is no insurance. As Khodorkovskiy saw that this relational capital was depreciating, he tried to enhance his position by increasing its value to outsiders. This is why transparency became a goal for Yukos. It seems that he also sought protection by considering foreign investors, Exxon-Mobil in particular. This offered two potential gains. First, it would enable Khodorkovskiy to cash out some of the value of the firm. Second, he may have thought that the government would be less likely to act capriciously with regard to a foreign-owned company. But to the extent that the latter force would apply, it is apparent why this was perceived as a threat to Putin. If such a merger could substitute for depreciating relational capital, the need to keep investing in relations would decrease. The government's power vis-à-vis the oligarchs would diminish.

Relational Capital and Structural Reform

There are two overriding factors that inhibit structural reform in Russia. First, the social costs of reform in many parts of Russia are still too large. It is not yet clear that Russia has in place the institutions needed to cope with the social costs of real economic reform in the regions. Without regional reform, however, it is less likely that the potential gains that are clearly present can be achieved.

Second, reforms that would lessen the value of relational capital are not in the interests of key players. Obviously, the oligarchs and other officials who have relational capital would not benefit from a more level playing field. The continued importance of relational capital increases their *comparative* advantage over other players in the system. That is obvious. But it is also the highest political officials who benefit from this system. After all, they are the recipients of the favors and other actions that are the result of investments in relational capital. Reducing the role of relational capital means reducing the discretionary influence of government officials. It also means that Putin and his associates would not be able to rely on oligarchs for public services that currently need not be financed by the government. Relational capital allows Putin to use personalized, informal taxation to direct oligarch resources to certain policy outcomes he desires. The public goods are then associated more directly with the president than with the government as a whole.

This phenomenon is perhaps even more important at the regional level. Governors of regions that are not economically attractive need a political-economic system where favors and government action are still crucial. Otherwise, the political role of these regions is bound to erode. In the absence of intervention, factors of production in Russia would move to the western parts of the country, closer to markets and Moscow.

RUSSIAN POLICIES TOWARD IRAN AND IRAQ: A COMPLICATED BALANCE⁵⁵

Even as US President George W. Bush looked into Russian President Vladimir Putin's eyes and saw his soul, it was clear that Russian policies toward Iran and Iraq were persistent irritants in the Russian-US relationship. Russia was continuing the construction of the Bushehr nuclear power plant, despite US objections, and Russian oil companies were poised to help the Saddam Hussein government develop Iraqi oil fields when the UN sanctions regime was lifted. More recently, of course, Vladimir Putin was a vocal critic of the US-led war in Iraq. This article will analyze Moscow's policies toward Iran and Iraq and will situate those policies within the wider framework of Russian-US relations. It will argue that in both the Iranian and the Iraqi cases, Moscow was pursuing contradictory foreign policy impulses: Putin worked to prevent US domination of both the UN and the global stage, and at the same time, he wanted to maintain ties with the US.

The Setting

Vladimir Putin acceded to the Russian presidency determined to restore Russia's great power status and to secure for the former superpower a place among the world's great powers. To that end, Moscow busily reinforced "strategic relationships" with India and, through the Shanghai Cooperation Organization, with China. September 11 altered Putin's strategy: The terrorist attacks in the US provided Putin with an opportunity to change a policy that seemed to be going nowhere. He chose to restore Russia's status by bandwagoning with the US and joining the war on terror. In the words of Sergey Chugrov, of the Institute of World Economics and International Relations, "Russia's main goal is to find its place, not on the margins of world policy, but as part of the civilized world together with the US and Europe."⁵⁶

This move was not widely supported by the Russian foreign policy elites, who remained divided among groups supporting pro- and anti-Western positions as well as several in between.⁵⁷ Many were quite skeptical of the US and the Bush administration, and all of them were looking for the US to reward Russia for pursuing a course that was so unpopular domestically. Yet, within months, President Bush abrogated the Anti-Ballistic Missile treaty and supported the second round of NATO expansion. As noted commentator on Russian foreign policy, Sergey Karaganov, stated:

⁵⁵By Carol R. Saivetz.

⁵⁶As quoted in Drozdiak (*The Washington Post*, October 4, 2001).

⁵⁷See, for example, Melville (2002) and also Tsygankov (2003).

I think a lot of Russians are reasonably offended with the fact that Russia does not have the same positions in the world as it used to some 15 years ago. Putin is leading the country in a quite definite direction, and there is definite domestic opposition to this policy.... I agree that Bush's announcement and NATO's upcoming expansion do not improve the Russian president's position.⁵⁸

By mid- to late 2002 and into 2003, pro-Western Russian scholars were arguing that Russia had not successfully used its positive image garnered in September 2001 for longer-term advantage. And at the opposite end of the spectrum, others were warning of increasing competition between Moscow and Washington, including within the Commonwealth of Independent States. These foreign policy debates form the context for Russia's decisions to pursue close ties with Teheran and to oppose the war in Iraq.

Iran

Current Russian policies toward Iran should be seen against the backdrop of the long history of Russian and Soviet relations with the Shah and the Islamic Republic.⁵⁹ In the post-Soviet period, Iran is seen by the Russian foreign policy establishment as a responsible partner in Central Asia, where Iran helped to negotiate an end to the Tajik civil war and Iran and Russia jointly opposed the Taliban regime in Afghanistan. In the Caspian basin, Iran and Russia have not always agreed on demarcation, but they remain opposed to the US-supported Baku-Tbilisi-Ceyhan pipeline. Trade and friendly relations with Teheran are seen by some in purely geopolitical terms: a means of countering US influence in the Middle East. Most importantly, for Russia, Iran is a large market for arms and for nuclear technology. In fact, those involved in the arms trade with Iran, the so-called Iran lobby, have argued against any policies that would alienate authorities in Teheran. Proof of their success may be seen in the arms sale agreement, valued between 2 billion and 7 billion dollars, that was signed during the spring 2002 Putin-Khatemi Moscow summit.

Close ties between Iran and Russia have also been promoted by Minatom, the Ministry of Atomic Energy. Speculation in both the Russian and Western press has been rampant about the centrality of Minatom's role in Russia's Iran policy. It is widely acknowledged that sales of nuclear technology and specifically the construction of Bushehr have been lucrative for Russia. In an estimate published by *Izvestiya*, the Bushehr project has saved more than 300 enterprises from financial ruin (Leskov in *Izvestiya*, December 27, 2002), while the pro-Kremlin website *gazeta.ru* estimated that Russia would lose \$500 million a year if the project were not completed.⁶⁰ Nonetheless, questions have been asked about how much of

⁵⁸Interview with Sergey Karaganov (*Nezavisimaya gazeta*, December 15, 2001, pp. 1–3).

⁵⁹See, for example, Saivetz (1989).

⁶⁰As reported in "US Defense Department Denies Seeking Regime Change in Iran" (2003).

the money actually ends up in Russia's coffers (Felgenhauer, 2003). Several observers have gone so far as to claim that Minatom has privatized Russia's Iran policy.

The dilemma for Moscow is to balance these clear economic incentives to continue the relationship with the imperative of maintaining ties both to the US and to the Europeans. The contradiction became clear in mid-2003. In June, the International Atomic Energy Agency (IAEA) concluded that Iran had not reported the importation of natural uranium and had not declared its facilities to handle the material. The report seemed to belie Russian claims that Iran was not pursuing a weapons program and that, therefore, the transfer of dual-use technologies to the Iranians was not dangerous. Even after the IAEA report was made public, a Russian Foreign Ministry spokesman, Aleksandr Yakovenko, stated that Russia was pushing Iran to sign the additional protocol, but that failure to do so would not hinder Russian completion of the Bushehr plant.⁶¹ As the wrangling between the IAEA and the international community on the one hand and Iran on the other continued, Russia indicated that completion of Bushehr would be delayed until 2005 and announced that it would not supply fuel for Bushehr unless the Iranians agreed to return all the spent fuel rods. After the visit of the foreign ministers of France, Germany, and Britain to Iran, authorities in Teheran announced their intention to suspend uranium enrichment and to sign the additional protocol allowing for surprise inspections. The formal announcement was made in Moscow during the visit of Hasan Rohani, the Secretary of the Iranian Supreme Council of National Security. During the same meetings, the two sides continued their negotiations over the return of the spent nuclear fuel from Bushehr and the timetable for the completion of the plant.

As much as Russia apparently tried to separate the specifics of the Bushehr project from the international condemnation of the Iranian nuclear program, it was clear that the two were connected. Russia, as noted above, had publicly supported Iranian claims that Iran was not pursuing nuclear weapons, but was forced to reconsider its position with the release of the IAEA report and the "confession" from Teheran. When Iran finally did sign the additional protocol on December 18, 2003, Russian relief was palpable. Deputy Foreign Minister Yuriy Fyodotov commented that the signing "will create a favorable international atmosphere for the implementation of cooperation projects between Moscow and Teheran."⁶² As of January 2004, the signing of the agreement between Russia and Iran has been postponed until February.

⁶¹ As reported in "US Defense Department Denies Seeking Regime Change in Iran" (2003).

⁶² ITAR-TASS (December 19, 2003), included in a *BBC Monitoring* report (December 19, 2003) accessed via ISI Emerging Markets, online at <http://site.securities.com/>.

Iraq

As with Iran, Russian interests in Iraq are multifaceted. In the realm of geopolitics, as the Bush administration pushed for war, Russia saw the Iraq question as a way to undercut US unilateralism. This explains the insistence on a UN imprimatur for the war and the quasi alliance with both Germany and France. Faced with Duma elections in December and presidential elections scheduled for March 2004, Putin calculated that standing up to the United States would be popular among the general public.⁶³ Moreover, the opposition to the US-led war in Iraq was supported by at least two different groups within the foreign policy elites, those “geopoliticians” who want to counter the US and those, presumably within the *siloviki*, who had “old school” ties to Baghdad (“Political Rumors,” 2003).

Finally, opposition to the war in Iraq was motivated by multiple economic considerations. First, Iraq’s outstanding debt to the Russian Federation is \$8 billion, much of it incurred during the Soviet period. Second, there are any number of contracts between Russian oil companies and the Saddam Hussein government. LUKoil alone has a \$4 billion stake in the West Qurna field. In the lead-up to the war, Russian diplomacy was focused at least in part on ensuring that these commitments would be honored if and when the US overthrew the Saddam Hussein regime. Third, Russian oil companies, which had the right to sell about 40 percent of Iraqi oil under the oil-for-food program (Babyeva and Bovt, in *Izvestiya*, October 23, 2002), feared dramatic losses in the post-war, post-sanction period. Finally, Russia anticipated that world oil prices would plunge when, in the aftermath of Saddam’s ouster, Iraqi oil reentered world markets. It has been variously estimated that for each dollar increase in the price of oil, the Russian economy gains \$2 billion in revenues and that the current Russian budget is predicated on a minimum price of \$21.50 per barrel.

For all of these reasons, Russia worked assiduously throughout the fall of 2002 to forestall the US-led invasion. Russian spokesmen repeatedly stated that there was no clear evidence to substantiate US claims about either weapons of mass destruction or links to Al-Qaida and that, therefore, the Iraq situation should be resolved in line with then-existing security council resolutions. In October, Sergey Karaganov described Russia’s policy:

We have managed to maneuver successfully. On the one hand, we have no desire to become the fellow-fighters of the US in its dangerous Iraq game for nothing in return. On the other hand, we cannot permit ourselves a serious quarrel with the US.... thus Russian policy has been satisfactory so far. But the problem is that we will have to take a clear stand sooner or later. We need to

⁶³ According to the *Financial Times* and *RFE/RL*, 90 percent of the Russian public opposed the US-led war in Iraq. See Cotrell’s article in the Special Russia Supplement (*Financial Times*, April 1, 2003) and Feifer (2003).

understand that Iraq is a nation which is systematically breaching its international commitments.... As for our economic interests in Iraq—of course we should aim to protect those (Tarasov, in *Vek*, October 11, 2002).

So, in early November 2002, when the Security Council passed Resolution 1441, which called for UN inspections and serious consequences if Saddam Hussein failed to meet the UN obligations, it seemed a success for Putin and Russian diplomacy. Russian officials claimed credit—along with France and Germany—for the language of the resolution, stressing that while not ideal, it was a good compromise.

The determination of the Bush Administration to wage war in Iraq meant that Russia's success in forestalling the invasion was short-lived. Throughout the winter the debate revolved around whether the US could get a second resolution—this time authorizing the use of force—through the Security Council. In late February, in an echo of the 1991 Gulf War, Putin dispatched Yevgeniy Primakov to negotiate directly with the Iraqi regime. Primakov supposedly garnered guarantees that Iraq would not obstruct the work of the inspectors; in addition, there was some speculation in the media that new business deals were also on the agenda. (Earlier, in December, Saddam Hussein canceled and then reinstated several contracts with Russian companies, in a move clearly aimed at convincing Moscow to veto any further Security Council resolutions.) At almost the same time, Aleksandr Voloshin, then Putin's chief of staff, traveled to Washington, where, according to insiders, he sought assurances about the Iraqi oil contracts and debt. In the week preceding the war, Foreign Minister Ivanov threatened to veto the new US Security Council resolution.

Russia coordinated its diplomatic efforts with Germany and France, both of which adamantly opposed any US-led war. This was clearly a marriage of convenience. The tripartite quasi alliance allowed Russia to oppose the war for the reasons outlined above, but without having to exercise its Security Council veto and without risking being singled out by the US for its opposition. Many observers in Moscow argued that Russia was seeking to dent US hegemony through the links with Germany and France; yet others were skeptical that the new relationships would give Russia what it really wanted—to regain the status of a country whose views must be taken into account.⁶⁴ Because of the opposition within the Security Council, the US in the end did not submit a second resolution. Although this meant that the US and its "coalition of the willing" would invade Iraq, the Russians were not completely displeased. It meant that they had avoided a potentially embarrassing situation in the council, where they might have had to use the veto. Russia continued to oppose the war, with Putin "regretting" the ultimatum issued to Iraq by George Bush and Igor

⁶⁴See the summary of pundits' views in Belton (2003).

Ivanov warning that war would undermine the anti-terrorism coalition and lead to a war of civilizations (Saradzhyan, 2003).

Russia could not prevent the war, but it quickly needed to decide what outcome would best serve its purposes. Within weeks—especially when it appeared that things were not going well for the US-led coalition—Putin stated that Russia was not interested in a US defeat. While the foreign ministry continued to issue strong criticisms of the US war effort, the Russian president emphasized that Moscow would continue to cooperate with Washington. And in an editorial, *Izvestiya* wrote that “it’s one matter to simply refrain from supporting the war against Iraq—and quite another to become a sworn enemy of America. Being at odds with America is stupid ...” (*Izvestiya*, April 3, 2003, p. 2).

Just a few days after this editorial appeared, US National Security Advisor Condoleezza Rice traveled to Moscow to begin to repair the damage in bilateral relations that the war had caused. Putin’s back-pedaling and the Rice visit seemed to indicate that the Russian president understood that the deterioration in US-Russian relations could not be allowed to continue.

As the war ended, Russian officials had to reconstruct the framework governing Russian-US relations. The conservative Dmitriy Rogozin urged Putin to (re)build links with Washington to further Russian interests, and Sergey Karaganov criticized Russian policy for not having “played the gambit” well and not having indicated what Russia’s interests in the region were.⁶⁵ In the summer and fall of 2003, Russia and the US continued to wrangle over Iraq issues, from ending the sanctions regime to Russian participation in post-war reconstruction and forgiveness of the Iraqi debt. Perhaps the question we should be asking is why relations between Washington and Moscow did not deteriorate further. Russian analysts attribute Putin’s policy to his pragmatism and understanding that Russia’s interests—despite the differences over the war—lay with the US and the West.

Putin’s pragmatism may be seen in his ability to position Russia as the bridge between the US, on the one hand, and Germany and France, on the other. This is a role that Putin clearly likes. It allows him to retain his new-found closeness with German Chancellor Gerhard Schroeder and French President Jacques Chirac and to prove how valuable Russia can be to the US.

Can the Balance Continue?

Any analysis of Russia’s Iraq and Iran policies would have to conclude that Putin has had great success thus far in managing the contradictory impulses outlined at the beginning of this discussion. Some pundits in Moscow would argue that Putin played a bad hand well, while others

⁶⁵Interview with Sergey Karaganov in *RIA Novosti* (April 9, 2003) and “Russian Political Scientists Analyze Postwar Stance” (2003).

would assert that Russia overestimated its ability to deter US unilateralism ("Russian Political Scientists," 2003). Still others, like Karaganov, although critical of how Putin conducted Russia's Iraq policy, would argue that the disagreements over Iraq should not divert the overall course of Russian-US relations.

In the final analysis, events in Moscow may well determine how long Putin can maintain the balance. Already, newspapers such as *Kommersant Vlast'* have labeled the US-Russian link as a form of covert competition and liberal commentators such as Trenin note with alarm the growing anti-Americanism of the elites.⁶⁶ If, as some argue, the *siloviki* are ascendant and are proponents of a harder line vis-a-vis the West, then pressure may build on Putin to alter his policies. For the moment, at least, Russia has managed to retain ties to Iran, has begun a relationship with the new Iraqi governing council, and has halted the deterioration in links with Washington.

DOES RUSSIA MATTER ANYMORE?⁶⁷

Given the drift of political discourse in the United States in recent years, it is appropriate to raise the question: does Russia matter anymore to the international relations of the United States? Russia's loss of global-power status, the disintegration of much of her military power, the collapse of her economy, and declining life expectancy of the Russian population after the liberalization and then dissolution of the USSR led many people to describe the Russian Federation as a socio-economic basket-case and a has-been as a great power. There is something to be said for this characterization, especially when we compare Russia's current influence in global affairs with the status and power of the USSR in world affairs in the early 1980s. But what is less obvious is that the answer to the question, "Does Russia matter anymore?," hinges less on one's perception of the condition of the Russian military, economy, and society than on the way one thinks about international relations and defines power in world affairs.

John Mearsheimer, for example, correctly notes that the United States is the only country in the world that possesses a combination of extraordinary military and technological capability, economic wealth, and large population size. He therefore believes that the United States will be the unchallengeable hegemon in the international system for at least 50 years, with only China having the potential to catch up with it (Mearsheimer, 2003). Power, then, is measured by the stock of assets a state possesses relative to other states' possession of those assets.

If you believe in this way of thinking about the determinants of the exercise of power in international affairs, you will be inclined to think about US foreign policy, and the foreign policies of other states, in the terms that

⁶⁶See translation of Sergey Strokan's commentary in *Kommersant Vlast'* (January 4, 2004) accessed via *BBC Monitoring* (January 4, 2004) and the summary of Trenin's article (Trenin, 2003b).

⁶⁷By George Breslauer.

dominated such thinking during the 19th and 20th centuries: balance of power politics. In those terms, the US is indeed today a “hyper-power” (as some European commentators call it), or the only superpower, or, if I may, a “super-duper power.” And, again in those terms, the international system is indeed marked by unipolarity, rather than the bipolar world system of the Cold War or the multipolarity of the period between the two world wars.

I think, however, that such thinking, while perhaps appropriate for analyzing a small sub-set of problems, is inappropriate for analyzing a large proportion of the problems we face in the world today. Balance-of-power thinking applies when we consider military challenges between and among regional or global powers. Some such challenges are quite conceivable: such as China becoming a rising military power that seeks its place in the sun and challenges vital US interests; or the possibility of nuclear war—intentional or inadvertent—between India and Pakistan; or the possibility of a nuclearized Iran. In planning for how to deal with such possibilities, we have to focus on rational military deterrence and the intensive diplomacy that goes with it. In thinking about solutions to these problems, it is entirely appropriate to start from the premise that the United States is indeed a hyper-power with modern military technologies and economic wealth in excess of those possessed by any combination of conceivable military adversaries. Unilateralism in response to vital national-security threats is to be expected from such a hyper-power, and strikes me as neither ethically inappropriate nor analytically wrong-headed.

But how far does this get you? So many problems in the world today are of the sort that cannot fruitfully be addressed through unilateral initiative by the world’s sole superpower. This is not a new argument. For 30–40 years, arguments have been made, and books written, by activists and academics alike, maintaining that the international system was becoming increasingly interdependent, that threats to well-being were becoming transnational in scope, incapable of being contained within national boundaries, and that multilateral, not unilateral, solutions to problems were the only kind that were likely to make a difference.⁶⁸ This literature tended to emphasize issues that were not traditionally defined as “national-security” issues: in particular, environmental decay and global finance or trade.

The emphasis on these issues led to a bifurcation in the literature: national-security issues continued to be thought of in traditional, balance-of-power terms, subject to unilateral initiatives or bilateral deterrence or deals. Ecological and global-economic issues came to be thought of as subjects for multilateral negotiation and deals. What this bifurcation did not anticipate was that, by the end of the 20th century, many more transnational issues were emerging as threats and required multilateral solutions,

⁶⁸See, for example, Keohane and Nye (1971).

since preponderant US military and economic power could not possibly handle them on its own. Moreover, the very idea of national security had to be reconceived in less exclusively military terms. If national security entails protection of the nation against large-scale threats to the independence, viability, and wealth of society, it becomes difficult to continue thinking of national security threats as simply threats of military assault or economic strangulation by a foreign state.

Think of the menu of issues we read about daily:

- International terrorism
- Proliferation of weapons of mass destruction of many kinds (nuclear, chemical, biological)
- Organized crime and the large-scale trade in drugs and people (the slave trade)
- Disease and plagues (SARS, Ebola, West Nile are only foretastes)
- Cyber-sabotage
- Large-scale population movements: refugees (boat people)
- Genocides that drive some of these population movements

And now think again about the issues of environmental decay and global finance and trade. Since these were discussed in the 1960s and 1970s, they have become problems of an entirely difficult kind and order. A very broad consensus has emerged that “global warming” is a major threat to the health, and perhaps to the eventual existence, of the human race. Similarly, global finance and trade are now based on a historically unimagined speed of communications and information-processing that is out of the control of any governments. Cyber-sabotage poses a real threat of deep and sudden injury to the material security of states.

Changes in the menu of issues today, compared to 30–40 years ago, highlight the urgency of the need to think differently about power in international relations. Asymmetrical warfare has had a partial leveling effect. This is not entirely new. Guerrilla warfare, as developed and implemented by leaders in China and Vietnam, was based on a theory of asymmetrical warfare that, today, takes an analogous form in the case of Al Qaeda and other terrorist networks. But the lesson is the same. How we measure power depends on the issue under consideration. Rational deterrence and military-technological preponderance will have their place. But, more often, and with respect to the new menu of issues, power needs to be thought of as the ability to inflict unacceptable damage on others by direct or indirect means, and by acts of omission or commission.

Under such a definition of power, Russia does indeed still matter internationally. It has more power than we might ordinarily think. It has the ability, through acts of omission or commission, to cause levels of

damage to the wealth, health, and security of the United States and its allies that the citizenry of these countries would define as “unacceptable.” Ironically, possible acts of *omission* are likely to be the more dangerous. If Russia does not greatly upgrade the security of its stockpiles of nuclear, chemical, and biological weapons, materials, and know-how, it will heighten the probability of the proliferation of WMD to non-state actors that belong to transnational terrorist networks. If Russia does not improve its public health system, it will increase the probability that deadly new strains of viruses and bacteria will spread globally. If the Russian state does not invest in stemming some of the gravest threats of environmental pollution within its borders, the threat of transnational environmental disaster (Chernobyl having been such an example) will only grow. If the Russian state proves unable or unwilling to harness organized crime within its border, the global trade in drugs, human beings, and nuclear technology will only grow. Thus, Russian governmental passivity in all these areas gives that government immense, albeit indirect, power to inflict unacceptable damage on the US and its allies, even though these countries hugely outclass Russia on the traditional indicators of power.

Russian acts of commission could also inflict damage, unacceptable or otherwise: supplying of nuclear reactors to Iran, for example. Were Russian leaders so inclined, they could make considerable mischief for US interests internationally, covertly assisting those transnational networks seeking to raise the costs to the US of American foreign policy. But Russian acts of commission, if leaders in Moscow are so inclined, could also help to *reduce* those costs. Russian security agencies still retain considerable intelligence-gathering capabilities. They have been assisting the United States in dealing with certain aspects of the war on terror and the military effort in Afghanistan. They could—and may well yet—do more to assist in the standoff with North Korea and in the stabilization of Iraq. They can help the United States and its allies to diversify their dependence on sources of energy (oil, natural gas), to reduce thereby the risk of overdependence on an unstable Middle East. These varied acts of commission, both for better and for worse, are subject, of course, to bilateral bargaining through traditional diplomatic channels. Whether Russian leaders undertake purposive acts that raise or lower the cost to the United States of pursuing its foreign policy goals will depend both on the predispositions of Russian politicians and on the incentives those politicians perceive internationally. Through mixes (or alternations) of bullying, bribery, and persuasion, the United States can wield its formidable stock of power assets to affect the chances that Russian leaders will employ their own, more limited, stock to raise or lower the costs of American foreign policy.

Using America’s stock of assets to prevent or offset Russian acts of omission, however, is a vastly more expensive enterprise with much more uncertain results. Both the expense and the uncertainty highlight the ability of a so-called “weak state” to indirectly inflict unacceptable damage on a so-called “great power.” Moreover, the cost of pursuing policies that seek to limit damage to itself and its allies may prove to be exorbitant, even for

the wealthiest of great powers. That wealthy hyper-power will have to seek the cooperation of many allies, sometimes including Russia (this depends on the issue), in order to limit both the damage caused by failure and the cost or price-tag of success.

Put differently, a unilateralist foreign policy is unsustainable. Some form of ongoing multilateralism, based on norms of reciprocity, is unavoidable. In current political debates, unfortunately, the stark choice is posed between unilateralism and multilateralism. What the polarized debate misses is that while the need for multilateralism is obvious, its form and effectiveness are not so obvious. The bane of multilateralism is inability to decide. With many actors and no dominant leader, a collective action problem ensues. There is a need for *leadership* even, indeed especially, in multilateral institutions. And, given its preponderant stock of military and economic assets, only the United States is in a position to provide that leadership.

This may appear to contradict my initial argument that power should not be measured by such stocks of assets. There is no contradiction. The exercise of leadership is not the same as dictating of terms. The United States is the natural leader in the international system, but it cannot dominate it. We cannot solve the new national-security problems that threaten us without the construction or reconstruction of multilateral institutions to tackle them cooperatively. Different countries will have more to contribute to the resolution of some problems than will other countries. Russia has something to contribute to the resolution of some dilemmas. Other countries—be they China, India, France, Germany, Japan, Great Britain, or others—will have things of their own to contribute. These will vary by the circumstances and the issue. The goal must be for the great powers and regional powers to become enmeshed in a sustained, mutual search for formulas to defuse the most dangerous threats to all of their national security. If the US exercises its power without an appreciation for the interests and sensibilities of others, it may succeed in achieving short-term tactical wins, but is likely to become entangled by the unanticipated consequences of its actions.

Russia will have to be a part of this new “Concert” of great powers, if only because there are so many acts of omission or commission in which it could engage that could have the effect, directly or indirectly, of inflicting unacceptable levels of damage on the United States and/or its allies. What institutional form such a new “Concert” might take is unclear. It could take shape within a reformed United Nations. Or it could find a different, or entirely new, institutional venue. Whatever the venue, though, the search must be for an institutional format that provides incentives for all major actors to stay in the game, confident that there will be offsetting wins and losses over time, shifting emphases but fairly stable alliances, side-payments and reciprocity—and that all participants will eventually be winners if more stable and sane norms of international conduct eventually prevail.

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