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Russia as the Eurasian Bridge: Challenges of Russia's Integration into the World Community

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The Russian Federation has a tremendous potential for economic growth but needs a strategy that relies both on a well-thought-out and long-term program of economic development and on a realistic foreign policy. Such a strategy must cover Russia's economic, technological, industrial transportation, information and international policies, for at least a period of a whole generation's lifetime. This paper discusses the "Eurasian Bridge Strategy", in which Russia acts as the main facilitator of the economic integration of the Euro-Atlantic and the Asian-Pacific regions.

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Introduction

The Russian Federation has a tremendous potential for economic growth. With her unique natural resources, huge territory, and large population, Russia can revive in the beginning of the 21st century and resume a role as a major international player in both the Euro-Atlantic and Asia-Pacific regions.

Russia needs a strategy that relies both on a well-thought-out and long-term program of economic development and on a realistic foreign policy. Such a strategy would create more favorable conditions for the Russian Federation's integration into the global market. Without a strategy that can help us define our essence and our role in the world, the systemic crisis that Russia is undergoing today could become irreversible. Such a strategy must cover Russia's economic, technological, industrial transportation, information, and international policies, for at least the period of a whole generation's lifetime.

This strategy must be a Eurasian strategy. Only a Eurasian strategy can give the Russian Federation the modern communication infrastructure that will guarantee its successful integration into the global market in the 21st century. In the past, Russia has made an invaluable contribution to world culture, synthesizing the influences of European and Asian civilizations. In the future, it can be the main facilitator of the economic integration of the Euro-Atlantic and the Asian-Pacific regions, and by doing this, finish building the missing link in the global market of the next century. I call this "the Eurasian Bridge strategy" and will discuss it in detail later in this paper. The transportation elements of that bridge are discussed in appendix A.

Naturally, this strategy can be put into practice only in a context of developing and deepening market relations in the Russian economy It is only by these means that the Russian economy will reach the standards that will be required by the global market in the century to come.

In its Eurasian strategy, Russia should not set as its goal its revival as a superpower. The specific circumstances that led to the emergence of a bi-polar world in the second half of the 20th century will never, it seems, be repeated. The era of the superpowers has come to an end. The only way for Russia to survive and fully put into action its potential in today's multi-polar world is as a great power, an equal member in a polycentric system of international relations. To achieve this, our country must secure for itself a new role in the global economy. The Eurasian strategy will help it to fulfill this task.

Russia's situation in the world system today

Zbigniew Brzezinski's view of Russia

In the autumn of 1997, an article entitled "A Geostrategy for Eurasia," by Zbigniew Brzezinski, the famous American political analyst, was published in the magazine *Foreign Affairs*. It raised an outcry among many Russia readers after it was reprinted by *Nezavisimaya Gazeta*.[1] Indeed, who in Russia could have been thrilled by the idea of a post-war (i.e., post-"Cold War") international geo-political system that foresaw the liquidation of our country, not only as a great power, but also as a centralized state, by breaking the Russian Federation into three entities (the Far East, Siberia, and "the small Russia")? Yet one must not allow any emotional protests to replace a rational analysis of the threats and challenges that Russia is facing today.

As opposed to the Soviet Union, Russia today is no longer perceived as a threat (and that is perfectly understandable). Nevertheless, in recent years decisions have been taken in the USA (and elsewhere) with less and less consideration for Russia's interests and with increasing disregard for Moscow's opinion. Indeed, the main centers of power on the international scene cannot take seriously a political position advanced by another country that is not backed by economic and military strength. Calling upon abstract principles of equal rights and universal human values cannot replace power factors as main diplomatic arguments.

Today in the West, people are speaking openly of Russia's weakness. For instance, a Heritage Foundation report entitled "A New Paradigm in American-Russian Relations" reads:

1. Zbigniew Brzezinski, "A Geostrategy for Eurasia," *Foreign Affairs* (September/October 1997), pp. 50–64.

> The Clinton administration and its team of foreign policy makers must understand that, with the demise of the Soviet Union and Russia's economic breakdown, the balance of power in Eurasia has changed irrevocably. The Clinton administration and the Congress must realize that today's Russia, whose GDP is only slightly higher than Indonesia's and lower than Mexico's, and whose living standards are equivalent to Brazil's, is no longer the same world power as was its predecessor, the Soviet Union.

This attitude in the West explains the emergence of tendencies that follow the spirit of Brzezinski's call for a system of "polycentrism" in Eurasia in which Russia would be totally marginalized and China would be the main American partner in the area. And it is not merely related to the famous American political analyst's notorious "Russophobia," although it is true that Brzezinski has never particularly distinguished himself by his sympathy for Russia. His conception is based upon a traditional geo-political theory, according to which a power that can achieve a predominant position in the "heartland" of the world's biggest island, i.e., Eurasia, can justly claim to dominate the world.

Underlining the fact that Eurasia accounts for 75 percent of the world's population, 60 percent of its GDP, and 75 percent of its energy resources, Brzezinski writes:

> Eurasia is the core super-continent of the world. A power that dominates Eurasia will exert a determining influence over two of the three most developed regions of the world: Western Europe and Eastern Asia. One needs only to take a look at a world map to see that a country that is dominant in Eurasia will almost automatically control the Middle East and Africa.[2]

According to his estimates, "the overall potential power of Eurasia outweighs even that of America."[3]

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2. Brzezinski, pp. 50-51.

3. Ibid.

In Brzezinski's opinion, and he is not alone, the leading role of the United States in world affairs today can only be preserved if Washington "ensures that not one state or coalition of states" becomes dominant in Eurasia, which he refers to as "a decisive geo-political chessboard." In such an approach, of course, the revival of Russia as a great Eurasian power has to be excluded. As Brzezinski says, "The center of Eurasia, i.e., the region located between the continuously growing Europe and China which is also rising in its own region, will remain a political black hole as long as Russia cannot find itself a definite identity as a post-imperial state."[4]

This goal is set even more clearly in the report by the Heritage Foundation: "Preventing the emergence of a new Russian empire on the lands of the former Soviet Union must be a priority for the United States and its allies."

It would be naive to believe that Brzezinski's articles and a few reports by Republican analysts determine U.S. policy today. Brzezinski is making open calls to "finish" Russia now that it has been defeated in the Cold War. But, like Henry Kissinger, he has long been excluded from the decision-making processes in Washington. Of course, all the classic orthodox thinkers of the era of Cold War geo-politics have secured themselves prominent positions within the American establishment, but they were not the ones who actually developed and implemented the political line of the United States in the 1980s and 1990s. The main point is that, in today's international affairs, just as before when Kissinger and Brzezinski were in power, what truly determines the course of events are the factors of economic, political, and military power. This is the basis upon which the rules of the game are made and dictated to weaker and more vulnerable partners, regardless of any fine declarations.

Without falling into the extreme of a search for a world conspiracy against Russia, if we consider the real processes at work in the formation of a new system of international relations, we cannot but acknowledge that, in the world's new configuration today, the main role is played not by any ideological principles (even anti-commu-

4. Brzezinski, pp. 50-51.

nism or Russophobia), but by the perfectly material interests that are linked to any country's desire to achieve the best possible position in the world markets of capital, goods, services, and information.

The post-Cold War international system

The shape of the post-Cold War international system is defined by the growth of a truly global economy, overlapping the nation-states' borders. By published estimates, the world financial markets involve 38 trillion dollars in bank loans, 18 trillion dollars in financial securities, and 2.5 trillion dollars in insurance premiums.[5]

In this situation, the tone is set not so much by the largest and strongest states, such as the United States, Japan, Germany, and China, but rather by powerful supra-national regional and global coalitions. This is all too often forgotten in today's heated debates about the configuration of the modern world (i.e., whether it is uni- or multi-polar).

The G-7, the Organization of Economic Development and Cooperation (OECD), the World Trade Organization (WTO), the World Bank and the International Monetary Fund (IMF), the London and Paris Clubs of creditors, and other international organizations often play a much more crucial role today than any individual state.

One hundred and two countries belong to the WTO, whose purpose is not only to remove trade barriers, but also to open up banking, securities, and insurance markets. Those countries that are not ready to abide by the WTO judgments will face stiff sanctions and penalties, including fines and embargoes.

There are 182 member-states in the IMF, which runs programs in 75 countries. It will be sufficient to note that the IMF's statutory fund was recently raised from 199 to 288 billion dollars.[6]

"The IMF's power rests on three bases," writes Harvard economist Jeffrey Sachs. He continues:

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5. *World Trade,* March 1998, p.14.

6. *Izvestiya,* 10 February 1998.

> Most importantly, the IMF is the instrument by which the U.S. Treasury intervenes in developing countries. When the United States took the initiative in bailing out Mexico in 1994 and Korea in 1997, it turned to the IMF as the institution that could provide the cover, the staff, and the bucks to do the job. Second, many developing countries genuinely welcome the chance to sign a 'contract' with the world community, represented by the IMF, in which good economic policies are rewarded with emergency loans. Third, and much more dangerous, IMF power also flows from the institution's carefully constructed image of infallibility.[7]

Since the end of the Cold War and the collapse of the bi-polar system, integration processes have received a powerful impulse. Regional economic blocks have begun to gather strength, as in Europe (the EU), North America (NAFTA), South America (MERCOSUR), and the Asian-Pacific region (APEC). The degree of consolidation of these coalitions may vary, but their common characteristic is that free trade zones have been created, enabling a transition to a higher level of integration, one example being the EU.

In the future, it is possible that new blocs will appear. At the beginning of the next century, a free trade zone uniting North and South America may be created. The emergence of a Euro-Atlantic free trade zone bringing together the United States and the EC cannot be excluded. An economic dialogue has also started between the leaders of the European Union and APEC.

Thus, the emergence of regional economic blocs has become the main characteristic of this stage in the development of international relations. As shown in table 1, NAFTA, the EC and APEC account for approximately 80 percent of the world's GDP, 82 percent of all the central governments' budgets in the world, and 85 percent of world exports. Apparently, it is on this basis that the international market of the 21st century will be formed.

It is true that the relations between these economic coalitions are not always amicable. But although there is no firm evidence to prove that the struggle for capital markets, outlets, and raw materials has irrevocably subsided into the past, the sporadic flurries of competition that

7. *The American Prospect* (March-April 1998), pp. 17–18.

Table 1. Estimate of each main regional bloc's proportion in world economic indicators (in percentages)

	Population	GDP (per PPP)	Public spending[a]	Exports	Energy consump	Investments
World	100	100	100	100	100	100
NAFTA	5	26	21	17	30	19
EC	7	24	40	43	18	19
APEC[b]	34	29	21	25	17	36
Russia	2.6	2	1	1.6	10	2

a. Expenditures of central governments, excluding expenditures of regional and local power organizations.
b. Excluding NAFTA members.

still erupt are restricted by mechanisms of interdependence which generate the rules of the game within the truly global market which is emerging today.

These mechanisms were the ones put into action in order to limit the consequences of the recent world financial crisis, when a number of countries of the Asian-Pacific Region found themselves on the brink of an economic crash. At the end of 1997, the IMF had to grant 114 billion dollars in credit loans to South Korea, Thailand, and Indonesia.[8]

The international financial crisis that flared up in East Asia in the fall of 1997 has continued through 1998. This crisis has confirmed once again that a global market for the 21st century is being formed through the increasing interdependence between the different countries and regions of our planet. Economic growth within individual nation-states is more and more dependent on rapidly growing exports and quick capital movements. However, this emerging global economic market still appears to be extremely fragile.

The first to stumble were the South-East Asian "tigers." Then the Hong Kong Stock Exchange began to tumble down. The Dow-Jones Index then went into extraordinary fluctuations, bringing European exchanges to a halt, shaking the Brazilian financial market, sending

8. *Nezavisimaya Gazeta*, 31 January 1998.

the exchange rate of the South Korean currency to an unprecedented low, and rocking the Tokyo Stock Exchange. It is yet too early to say what the long-term consequences of this crisis might be, both for those countries that have suffered the worst losses and for the world economic system.

The challenge for Russia

In these circumstances, it is crucial to analyze the conditions in which Moscow is trying to become integrated into the global market and the new system of international relations. Do these conditions correspond to Russia's national interests? Are we doing everything necessary to secure, at least minimally, our positions on the international scene? What challenges is the Russian Federation facing today? Does Moscow have a strategy of integration into the world community? Will we be able to make our country competitive in the 21st century?

Russia's positions in the world today are rather modest. The Russian Federation's share of the world economy has dropped by approximately three times during the 1990s, and by almost five times compared to the Soviet Union's.[9]

Both the transformation of Russia's economic and political system and the formation of its new identity after the collapse of the Soviet Union have proved painstakingly long and complex. Russia's market mechanisms are still in their primitive stages, its financial sector is extremely weak by international standards, its industry and agriculture have been going through many years of crisis, and its scientific research potential is falling apart.

Last year there seemed to be some hope that Russia would be able to stop the disastrous breakdown of the previous years. According to official data, the year 1997 was the best in the whole decade for the Russian economy. For the first time in many years, economic decline stopped and a small growth rate was registered: GDP increased by 0.4 percent, industry by 1.9 percent, and agriculture by 0.1 percent.[10] In addition, the inflation rate decreased, unemployment dropped

9. *Problemy obschestvennogo razvitiya,* No. 1, 1998, p. 5.

slightly, and per capita monetary income grew by a few points.[11] Early in 1998, Anatoly Chubais, who was then First Deputy Prime Minister, claimed that in 1998 Russia's GDP would grow by 1.2 percent to 2.5 percent.[12]

Predictions of Russia's growth turned out to be premature, however. The Russian economy has been staggering through repeated crises in 1998.[13] Its production has dropped, and continues to decline before recovering. A revival of the country's economic strength would require stable economic growth at a pace of 8 or 10 percent per year. As Mr. Yasin, then the Minister Without Portfolio, acknowledged, any hopes for an economic miracle in Russia in the near future would be ill-founded.

Russia's most urgent problem is the low level of investments, without which the country's economic revival is impossible. Investments from abroad have not compensated for the lack of domestic capital. In addition, there is an ongoing capital drain from Russia. The shortage of capital investments gives little reason to believe any declarations that a long-awaited economic recovery is in prospect.

As a result, Russia, which has already found itself playing a secondary role in the world economy, could also lose its status as a military superpower over the next few years. If the current level of financing is maintained, its nuclear deterrent forces will collapse in 10 or 15 years. Its conventional forces seem to have already lost their fighting efficiency, as was evident in the Chechen war. In the next two or three years, the Russian army will have to be cut down to 12 or 15 divisions. That seems to be the maximum that the federal budget can sustain.

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10. *Commersant Daily,* 22 January 1998.

11. *Nezavisimaya Gazeta,* 31 January 1998.

12. *The New York Times,* March 20, 1998.

13. For a more extended treatment of the troubles of the Russian economy, see Sergey M. Rogov, *The Russian Crash of 1998* (Alexandria, Virginia: Center for Naval Analyses, Information Memorandum 585, October 1998).

But that level would be clearly insufficient to stage any kind of war, save for a small border conflict of low intensity.

At the same time, it is still too early to say that military forces will cease to play an important role in the next century. Of course, the military threat against Russia today is relatively low. But in a medium- or long-term perspective, this situation could change if no reliable international security system is established at the global and regional levels.

A much greater threat lies in the economic area. Russia's niche in the world market today is clearly incompatible with its economic potential. It is a country that enjoys a unique geographical situation and has the largest amount of natural resources in the world, the sixth largest population, and significant economic and technological capabilities. Yet, despite having rejected the Soviet-style autarchy, Moscow is trying to become integrated into the world economy at a time when the Russian economy's competitiveness is extremely low.

Russia's foreign trade structure is reminiscent of that of an underdeveloped country: its exports are dominated by oil, gas and other natural resources. The share of machine building in its overall production has decreased by four times over the past five years,[14] and it now accounts for less than 10 percent of Russian exports.[15]

Russia's economic vulnerability has been particularly evident during the ongoing world financial crisis. This has been the first time since 1917 that we have experienced so acutely the negative consequences of interdependence with the rest of the world. As it turned out, the Russian market has been extremely vulnerable to fluctuations in the world economic environment: stock prices at the Russian exchange have continued to plummet, many foreign investors have fled the country, and the bankrupt federal budget has found itself almost totally dependent on another series of loan tranches from the World Bank and the International Monetary Fund.

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14. *Finansovye Izvestiya,* 29 January 1998.

15. Ibid., 13 January 1998.

Russia has appeared to be extremely vulnerable to negative shocks occurring in the world economy. This is due to the fact that the Russian Federation is trying to become integrated into the world market at a time when conditions are against us.

For instance, it is true that Moscow's accession to the WTO will allow it not only to take part in the making of international trade rules, but also to more effectively protect Russian exporters' interests on world markets. However, we must not forget that the Russian Federation will also have to accept conditions for tariff regulations that are unfavorable to local producers, i.e., to make substantial concessions that would allow access of foreign goods and services to the Russian market. In the negotiations on Russia's accession to the WTO in February 1998, Russia had to agree to reduce its list of strategic goods subject to high tariffs, thus increasing the items on which customs tariffs are to be unrestricted.[16]

Unfortunately, neither Russia's industry nor its financial sector is today in a position to compete on an equal footing with its foreign counterparts. The reduction in customs tariffs is also going to strike a further painful blow to federal income, the government having already demonstrated its ineffectiveness in collecting taxes inside the country. At the same time, Russia's accession to the WTO will complicate the recovery of the whole CIS market, since the Commonwealth countries are unable to develop a joint position concerning the decisions to be sought by them in the WTO.

It must be recognized that, in practice the important questions of Russia's economic development are decided upon not by Moscow, but by the World Bank and the IMF. In the end, this situation can well cause more harm to Russia than benefit.

Thus, Moscow is paying back old debts with one hand while accumulating more and more loans with the other. The Russian Federation has turned into a sort of "financial drug addict," becoming more and more dependent on foreign credits. Where will it leave the country by the next decade, when the national economy is expected to start gaining momentum?

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16. *Commersant Daily,* 17 February 1998.

Russia outside global and regional integration

Unfortunately, we must also acknowledge that in the 1990s Russia has been left outside the global and regional integration processes.

First, the positions that Moscow has inherited from the Soviet Union in organizations such as the United Nations and the OSCE (Organization for Security and Cooperation in Europe) allow it to exert only limited influence over global and regional developments. Unfortunately, for a number of reasons, the UN has not been able to find a "new lease of life" in order to fully put into practice the powers endowed to it by its Charter. Bureaucratic and financial obstacles, and also, quite often, lack of support by the United States, do not allow the UN to fulfill its functions in the area of international security. The OSCE is even less effective. It has been relegated to a marginal position as the more powerful competition of NATO has become the center for resolution of European security issues.

Second, the Commonwealth of Independent States (CIS) is serving only ornamental functions. Instead of enabling the re-integration of the former Soviet Republics, for several years the CIS has in fact been doing little more than managing a "divorce process." As a result, the former single market of the Soviet Union has disintegrated. Practically all CIS members have turned towards new partners. It was Russia itself that encouraged these centrifugal tendencies, viewing the CIS countries as "dead weights," a burden for the Russian economy. In 1990, the former Soviet Republics accounted for 63 percent of Russian exports, while in 1997 their share of the Russian Federation's exports had dropped to 21.5 percent.[17] Russia's industry is losing its natural market—countries of the "far-abroad" are becoming the main partners of the other CIS states.

17. *Finansovye Izvestiya,* 29 January 1998.

Third, in the first half of the 1990s, Russia had not been accepted into any of the leading world and regional international organizations. At a time when integration processes were suddenly accelerating in the rest of the world, Moscow found itself at the epicenter of the disintegrating "post-Soviet area." In the Soviet Union, nearly a quarter of the GDP was used for inter-Republic product exchanges; today, this figure for CIS countries has dropped to less than one tenth. There is a danger of a weakened Russia being isolated from international integration processes, whether in Europe and the Asian-Pacific region or at the global level.

A situation has emerged in which the post-war order of the world is being organized without Moscow's participation and at the expense of Russia's interests.

Russia excluded from European security and NATO

Russia's exclusion was most visible in the West's decision to begin enlarging NATO by including in its ranks some of the former Warsaw Pact allies of the USSR. This expansion of the North-Atlantic Alliance towards Eastern Europe could be interpreted as an attempt by the West to consolidate its "victory" in the Cold War, to give an official form to the new geo-political order, and to make NATO the dominant security organization in Europe at the beginning of the 21st century.

In the system of institutions of the Western community, NATO is the only effective multilateral military and political organization that combines the North American and the Western European poles of the modern West. Were the North Atlantic Alliance to follow the example of the Warsaw Pact, the exclusively economic institutions of the Western world would most likely not be able to ensure a stable consensus on security among the Western powers. It is sufficient to see how the both the Americans and the states of Europe remain wary of a re-united Germany's growing power, which, at least theoretically, could well return to its dominant position in Europe. That is why these countries' interest in maintaining the existing NATO mechanism of coordination between foreign and military policies has still remained predominant, despite the centrifugal forces that have clearly became stronger in the West after the end of the Cold War.

That is why the NATO military and political alliance still exists today, despite the disappearance of the common enemy—the Soviet Union—which used to cement it together.

Naturally, the fact that NATO has become the core element of the European security system creates extremely serious problems for the Russian Federation and for other countries that are not members of the alliance. Indeed, this military and political bloc has de facto pre-empted for itself the functions of an all-European security system, pushing aside the OSCE, even though NATO is, and will remain in the foreseeable future, an organization in which a minority of European countries is represented. But in practice, NATO's transformation into the dominant European security structure means that Russia is in danger of becoming a secondary participant in the process of maintaining European security. Moscow could well be excluded from the mechanisms of decision-making on key questions of European security.

One can probably believe NATO's assurances that it has no aggressive intentions with respect to Russia or anyone else. But intentions, after all, can change. And, as our Western partners and adversaries of the Cold War years have taught us, what they considered important at the time was not the Soviet regime's declarations of peaceful intentions, but the Soviet Union's real, material capability, including its superiority in a number of components of weapons and armed forces.[18]

Today, the countries of the North Atlantic Alliance account for 55 percent of the world's military expenditures and for more than 80 percent of all expenditures on military R&D and procurement of new weapons and military equipment, although it is the United States alone that spends the lion's share of these expenditures. NATO is the largest, and, in fact, the only effective multilateral military alliance whose members are capable of "projecting" military power not only towards any part of Europe, but also on a global scale.

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18. Ed. comment: Soviet ideology—which many in the West read as an ideology of world conquest—had a lot to do with it as well.

Russia and Asia

One can hardly consider satisfying the situation that has developed for Russia in the Far East. We have inherited from the Soviet Union a territorial dispute with Japan. Relations with China have been normalized, mostly thanks to concessions made on our side. Finally, the exclusion of Moscow from the four-sided negotiations for a peaceful resolution of the conflict on the Korean peninsula (in which the United States, China, North and South Korea are participating) is clear evidence of Russia's diminished role in that region.

Russia and the former Soviet area

At the same time, there have also been efforts to weaken Moscow's position in the former Soviet area. The support of the independence of former Soviet Republics is now being interpreted as a way to prevent the restoration of "the Russian empire." This was most evident in the case of the Baltic states, where Soviet sovereignty had never been accepted in the West, and that the West now claims as a sort of "zone of special interests." The question of accepting the three Baltic states in NATO is still on the agenda. This scenario would clearly convey an unfriendly message to Russia and could lead to serious political consequences.

Also, the West has had a marked tendency to play with the contradictions between Russia and Ukraine. Ukraine is often considered as a sort of "a grey zone," or even as a counterweight against Russia. NATO is clearly seeking to establish "special relations" with Kiev. At the same time, almost any steps towards a strengthening of Russian-Ukrainian relations are automatically denounced by the West as evidence of imperialistic intentions on part of Moscow.[19]

Today it has become clear that the former "soft underbelly of the South" of the Soviet Union, i.e., the states of Central Asia and the Sub-Caucasian region, are rising to a leading position in the world economy. After having been submitted to almost two centuries of undivided Russian rule, these regions are becoming an object of economic and geo-political rivalry. The power vacuum that was left in this zone is beginning to be filled with outside forces. Leading Muslim

states, China, the United States, and other Western countries are actively expanding their influence into Central Asia and the Sub-Caucasian region. Upon the break-up of the Soviet Union, and even before the extent of the gas and oil resources there had been recognized, these regions, extending from Bosnia to Tajikistan, had been identified as "the belt of instability."

Today we can point out at least some of the reasons for such a flurry of foreign activity in this part of the world:

- First, there are the oil and gas resources of the Caspian basin, which could significantly change the distribution of power on the world energy market. The natural deposits of this area could, to a certain extent, diminish the world's dependence on oil from the Middle East. The energy resources of the Caspian area could have particular importance in satisfying the rapidly growing oil and gas needs of China and a number of other Asian "tigers." At the same time these sources of energy could compete with Russia's, which are playing the dominant role in Moscow's exports to Europe and will probably have equal significance in Russia's trade relations with China and Japan in the next century. In addition, a special role is played, not only economically but also politically, by the question of the routes to be followed by strategic pipelines.

- Second, Central Asia and the Trans-Caucasian region could become part of the re-emerging "Great Silk Road." That is, the countries in the area host the lines of communication, above (and below) the earth's surface, that are to link China to Europe, thus strengthening the weakest link in today's global

19. Ed. comment: The West has certainly taken a special interest in seeing that the sovereignty of Ukraine is respected by Russia. The West has even implied that Ukraine is under some kind of protection, as represented by the NATO-Ukraine charter signed about the same time as the NATO-Russia Founding Act was signed. From my reading of newspaper commentary in the United States, the West does not object to normal relations between Russia and Ukraine, even within the Commonwealth framework, but would object if Russia were coercing Ukraine in an economic or military way.

market. New railways and roads, pipelines, air lines, as well as fiber-optic telecommunication lines can dramatically accelerate and increase product and information exchanges between the markets of Europe and the Asian-Pacific region. This will have major geo-political consequences. In the year 2000, China will finish building a railroad across Central Asia, which will be several thousands of kilometers shorter than the Trans-Siberian Railroad. The first gas pipeline between Turkmenistan and Iran has just been opened.[20] The revival of the "Great Silk Road" could well become an alternative to the "Eurasian Bridge" that now crosses the Russian Federation.

- Third, these regions are being dragged into a geo-political battle for control over the "post-Soviet area" at a time when Russia's economic, political, and military positions in the former Soviet Republics are threatened.

  — On the one hand, Turkey is obviously aiming at taking on a special role in the Muslim states of the CIS. Some other nations of the Middle East are also active in these states, including Iran, Afghanistan, Pakistan, and Saudi Arabia.

  — On the other hand, China has a natural desire to revive the "Great Silk Road."

  — Then, the United States has some stakes in these regions.

  — Finally, Western Europe is also showing visible activity in these regions, which could strongly increase if Turkey were admitted into the EU.

  — At the same time, there also seem to be efforts to form a sort of counterweight to Russia by "gluing" together a number of former Soviet Republics that are dissatisfied with Moscow's dominant role in the CIS. Four countries have joined together as the "GUAM axis" (Georgia, Ukraine, Azerbaijan and Moldova). This axis could also be extended towards the Central Asian states, particularly Uzbekistan, which has been increasing its distance from Russia.

20. *Finansovye Izvestiya,* 20 January 1998.

In addition, this area is, to a certain extent, affected by the political problems of the Middle East. At any rate, Washington's policy of "dual containment" of both Iran and Iraq has its repercussions in the battles over the processing and transportation of energy resources from the Caspian basin.

And finally, it should not be forgotten that the events in the Trans-Caucasian region and Central Asia also have consequences for the Russian Federation's own internal political development. For Moscow, Islam is not only an external political factor, but also an internal one. The Russian State's ability to survive will in great part depend on the outcome of the question of Russia's new national identity. Will Chechnya remain a temporary episode, or will it be a prelude to a chain reaction that could engulf not only the Northern Caucasus, but also Tartaria and Bashkiria? Russia has an obligation, in the next century, to find successful answers to these problems that the Soviet Union could not solve. Otherwise, the Russian Federation will follow the same fate as the Soviet Union, and Brzezinski's scenario will become a reality.

The consequences for Russian security

Russia's geopolitical situation is determined by its unique position on two continents at once. The Russian Federation belongs to Europe and to Asia, having vital interests in both of these regions of the world. Unlike the Soviet Union, the Russian Federation cannot claim to play the role of a "super-power." And yet, given the size of its territory, its population, and its economic, scientific-technological, and military potential, Russia could become of one of the main actors in a multipolar world. It could take a part commensurate with its geographic position, resources, and potential in the resolution of questions that touch upon its own legitimate interests.

At the beginning of the 1990s, it was fashionable to speak of the emergence of an entirely new system of international security, "from Vancouver to Vladivostok," in which the former "Cold War" adversaries would be gathered together on an equal footing. But the West then forgot this idea, preferring to maintain and reinforce the well-tried

and reliable military and political mechanism of Cold War times, namely NATO, rather than setting up a new security system.

Overall, therefore, one can conclude that there are reasons for alarm. Russia could very well indeed lose its great power status and become a weak, secondary nation unable to defend its interests on the international scene.

Russia is not in a very good position now

What strategy can Moscow put forward to counter plans of others to undermine or even dismantle the Russian federation? What can Russia offer to the global market?

The products that are in greatest demand in today's world are capital, high technologies, and energy. Unfortunately, Russia itself is in need of capital investments and modern technologies. Savings dropped from 27 percent of the GDP in 1990 to 8.7 percent in 1997.[21] Capital investments coming into the Russian economy dropped by another 5.5 percent in 1997.[22] The Russian Federation accounts for only 2 percent of world capital investments, while the share of the USSR was about 10 percent.[23] The volume of investments in Russia is currently eight times less than in the United States, six times less than in Japan, and from one-and-a-half to two times less than in the main Western European countries.

Today the Russian Federation is experiencing an extraordinary hunger for capital. All the main production assets are being used at nearly 60 percent of their capacity, and in some branches of the economy that figure has reached 80 percent.[24] According to experts' estimates, replacement of all the physically and technologically outdated production facilities would require approximately 550 billion dollars (i.e., an amount equivalent to Russia's annual GDP). Annual investment needs in the country's main production assets amount to at least 400 billion new rubles (i.e., at the rate of about 6 rubles to one dollar), while in practice these investments have not exceeded 200 bil-

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21. *Russia in a Changing World* (Moscow: 1997), p. 325.

22. *Nezavisimaya Gazeta,* 31 January 1998.

23. *Izvestiya,* 20 February 1998.

24. V. S. Zagashvili, *Russia's economic security (Ekonomicheskaya bezopasnost' Rossii)* (Moscow: 1997), p. 77.

lion rubles.[25] To achieve a GDP growth rate of more than 5 percent per year by the middle of the next decade, that figure needs to be increased to one trillion new rubles per year. But that will require the tripling of the share of production accumulation in the GDP.[26]

Federal capital expenditures are so low that the notorious "development fund" in the budget will most likely not exceed 50 billion rubles (7–8 billion dollars), which is totally insufficient to satisfy the country's needs for investments. Even in the best-case scenario, the federal government will need a lot of time before it can repay all the debts it has accumulated to the country's budget-financed companies, pensioners, industry, and the scientific sector.

Seventy percent of all investment in Russia is done by the enterprises themselves.[27] But their financial resources are extremely limited because barter deals and money surrogates account for 90 percent of their net income.[28]

As for the Russian private and semi-public sectors, for the time being they are lagging far behind their foreign counterparts. The total value of all the registered statutory capital funds of Russian credit organizations last year came to 33.2 trillion old rubles, i.e., only slightly more than 6 billion dollars.[29]

It will be sufficient to note that in the list of the world's 500 largest corporations, only three are Russian: Gazprom (91st), Lukoil (223rd) and the "Energy System of Russia" group (224th).[30] Thus, because they lack their own financial means, even Russia's most powerful companies are forced to look abroad for help. For instance, to repay its debt to the state budget, Gazprom, which accounts for 8 percent of the Russian Federation's GDP,[31] was obliged in 1997 to accept 4 bil-

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25. *Vlast'*, No. 1, 1998, p. 27.

26. Ibid., p. 30.

27. *Izvestiya,* 6 March 1998.

28. *Finansovye Izvestiya,* 26 January 1998

29. *Commersant Daily,* 20 January 1998.

30. *Nezavisimaya Gazeta,* 29 January 1998.

lion dollars in European loans. In the autumn of 1997, new forms of strategic partnership appeared between Russian and Western corporations. Thus the Gazprom-Lukoil-Shell and ONEXIM-British Petroleum groups were formed, and Inkombank sold a substantial package of shares to the European Bank for Reconstruction and Development.

It must be noted that one of the reasons for the investment crisis in Russia is the ongoing, illegal flight of capital out of the country. These illegal capital movements have been estimated to reach anywhere from 50 to 300 billion dollars. In Swiss banks alone, according to the estimates of local authorities, there are over 40 billion dollars of Russian capital.[32] That is considerably more than the level of foreign investments in the Russian Federation, and quite comparable to the total amount of investments made in the country over the last few years. Repatriating Russian capital from abroad could, to a great extent, help solve our domestic problems. But for the time being this has only been talked about, and practically no action has been taken.

Russia is also very much behind world standards in the technological area. While the Soviet Union exported high-tech goods worth 50–60 billion dollars annually, Russia's entire export of machines, tools and equipment dropped to 17.2 billion dollars in 1996. In the 1990s, the proportion of new equipment and innovative products in the country's industry has sharply diminished. The average age of equipment in the Russian industry has grown from 10.8 years to 14.9 years. The share of machine building and metallurgy in Russia's overall industrial production has fallen to 18.3 percent, while it is at 29.5 percent in China, 39.5 percent in the United States, 48.1 percent in Germany, and 50.2 percent in Japan. The production of computerized metal-cutting equipment and forging and pressing machines has dropped by almost ten times.[33]

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31. *The Moscow Times,* 29 January 1998.

32. *Commersant Daily,* 24 January 1998.

33. *Finansovye Izvestiya,* 29 January 1998.

Expenditures on scientific research in the public sector have been cut by many times, and private sources have only to a small extent been able to compensate for this lack of funds. Expenditures on R&D have fallen to 0.6 percent of the GDP. That is several times less than in other developed countries. Employment figures in the scientific sector have dropped by half. As a result, a great number of research programs in the field of space technology have been practically abandoned, whereas Russia had traditionally been a leader in those areas. The development of the replacement for the long-outdated "Mir" orbital space station has been canceled. Russia's space sector is surviving today thanks mainly to its participation in the Alpha space program. In 1997, out of the 48 space satellites that were put into orbit by Russian launch vehicles, almost half were foreign-made.[34]

In Soviet times, the civilian sectors of the economy had practically no access to modern technologies. As a result, they have become obsolete even in the Russian market. For instance, the country has practically stopped producing television sets, radios, vacuum cleaners, washing machines and other household appliances. Production in the machine-building sector has been cut by almost four times. Russia is becoming increasingly backward in innovative technologies, including micro-components, computers and communication equipment, and information technologies as a whole.

At the same time, conversion of military industry has been occurring chaotically, if at all, without government direction. The reason for this is the lack of appropriate funding from government and private sources and also the often-insuperable problems posed by the technical refurbishing of military enterprises. The program for the privatization of the military and industrial sector has also failed, and this is continuing to weigh heavily on the State budget.

The production of weapons and military equipment has dropped by 85–90 percent in the 1990s. The government cannot pay for even the remaining orders. At the beginning of 1998, the Defense Ministry's debts to military-industrial companies amounted to almost 25 billion new rubles.[35] Most of the country's current production is exported,

34. *Commersant Daily,* 21 January 1998.

but foreign markets cannot compensate for the fall in domestic demand for military products. Compared to the mid-1980s, world trade in armaments and military equipment today is four times lower. Having lost its traditional sales markets, Moscow has cut its military exports at least ten-fold. Russia's military production in the last few years represented only 5 or 6 percent of the country's overall exports. The total value of Russian armament supplies fell to 1.4 billion dollars in 1994, then rose to 3.3 billion dollars in 1996, but dropped again last year.[36] The financial crisis beginning in 1997 and continuing through 1998 has ruined all prospects of a breakthrough on what had appeared as a new, promising, and rapidly growing market in Southeast Asia.

Exports of energy resources have practically become Russia's only entry ticket into the world market. In recent times, the fuel and energy sector has been accounting for approximately 60 percent of Russia's overall exports, with an additional 15–17 percent for light metals.[37] In 1997 the Russian Federation exported approximately 22 billion dollars worth of oil and petroleum.[38] Thus, the niche that Russia has managed to occupy in the world economy has made us a source of cheap but environment-polluting raw materials, primarily energy resources.

Our country owns approximately 13 percent of the world's foreseeable oil reserves, 42 percent of its gas, and 43 percent of its coal. Russia accounts for 11 percent of the world's oil production, 28 percent of its gas production, and 14 percent of its coal production.[39] We are the only great power that can fully cover its energy resource needs. Meanwhile, Japan depends for 82 percent of its energy

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35. *Finansovye Izvestiya,* 27 January 1998.

36. *Commersant Daily,* 13 February 1998.

37. *BIKI,* 27 March 1997, p. 3.

38. *The New York Times,* March 20, 1998.

39. *Russia's economic development and world tendencies at the turn of the century (Ekonomicheskoye razvitiye Rossii i mirovye tendentsyi na rubezhe vekov)* (Moscow: 1996), pp. 167–168.

resources on foreign sources: Germany and France, 50 to 52 percent; and the United States, 23 percent.

And yet, these natural gifts with which Russia is endowed could play a nasty trick on us. Since 1991, the share of fuel and energy products in the country's GDP has increased by almost 1.5 times and exceeded 30 percent, while at the same time the share of the machine-building sector has declined. In the last ten years, Russia's production of chemical fibers has been cut down by almost four times. Production of synthetic resins, plastics and mineral fertilizers have dropped by more than half. As shown in table 2, year after year Russia has been exporting an increasing proportion of the energy and other raw material resources that it produces.

Table 2. Exported share of Russia's production of raw materials (in percentages)[a]

	1992	1993	1994	1995	1996	1997
Crude oil	35	35	40	40	43	43
Oil derivatives	15	20	25	26	32	34
Natural gas	30	28	30	32	34	36
Mineral fertilizers	69	72	75	78	78	72
Wood in logs	7	9	12	21	18	NA
Sawmill materials	7	11	21	17	14	NA
Cellulose	41	66	79	79	90	85

a. Source: *The Bulletin of International Commercial Information,* 27 March 1997, p.2; *Finansovye Izvestiya,* 13 January 1998.

At the same time, Russia's overall production of oil chemicals has diminished by more than half, and its production of chemical fibers, synthetic colorings, etc., has fallen by 70 percent.[40] The extensive factors of development of Russia's foreign trade have practically been used up. The Russian Federation is losing income as a result of the aggravation of the world economic situation, in particular the shrink-

40. *Finansovye Izvestiya,* 15 January 1998.

ing of prices on oil, oil derivatives, coal, fertilizers, light metals, and ferrous alloys.

But these resources are not eternal. In the 1990s oil production has diminished by approximately 40 percent, coal production by 30 percent, and natural gas production by 10 percent. The explanation is—again—a lack of investments in new production technologies and the sharp cuts in expenditures on geological exploration. As for the mineral deposits that had been earlier discovered on the Sakhalin shelf and in the Timan-Pechora region, and that have actually drawn the attention of large Western corporations, Russia's inability to resolve the problems linked to foreign investment regulation is still preventing these projects from being taken into their practical stage.

We must also note that the world energy market is subject to very abrupt fluctuations. Let us remember the lessons of OPEC, which tried for two decades to dominate the oil market. The income that OPEC member-states derived from oil sales grew from 23 billion dollars in 1972 to 283 billion dollars in 1980, then dropped to 77 billion dollars in 1986, and later increased to 132 billion dollars in 1995.[41]

The energy market is still unstable today. Thus, oil prices tumbled from 21 dollars per barrel on October 6, 1997, to 14 dollars on January 21, 1998.[42] By March 1998 the prices had gone down to about 11 dollars per barrel.[43]

Because of the price drop, Russia is obliged to keep increasing its exports while at the same time receiving less income. That income is greatly needed, not only to use the "oil-dollars" for reviving other sectors of the economy, but also to maintain production at even its current level in the oil and gas sector itself. The total losses of profits incurred by Russian oil companies at the beginning of 1998 may have been nearly 700 million dollars.[44] As a result, some of these compa-

41. *Foreign Policy*, winter 1997–98, p. 127.

42. *The Economist*, 24 January 1998, p. 70.

43. *The New York Times*, March 20, 1998.

44. *Nezavisimaya Gazeta*, 17 February 1998.

nies have decided to reduce their production and cut back their personnel.

According to then-First Deputy Prime Minister Chubais, "the decline of the oil prices is a serious problem for Russia and the national economy."[45] The drop in the world price for oil is expected to result in the loss of many billions of dollars of revenue for the Russian government. By some Western estimates the losses can reach 3.5 billion dollars.[46]

In addition, Russia faces strong competition in the international markets. There are vast reserves of oil in the Persian Gulf. Norway has started to win over parts of Russia's traditional European gas markets at the expense of Russian gas. Large-scale exploitation of oil deposits has begun recently on the Indochinese shelf. Finally, the former Soviet Republics, which inherited the energy resources of the Caspian basin, could start competing against Russia, both in Europe and in Asia.

In the West, the use of energy-saving and environment-friendly technologies has practically frozen oil demand. OECD countries have kept their oil consumption down to its level of 1978, although their purchasing power has increased by 42 percent over the same period. Nevertheless, according to some estimates, world energy demand is expected to grow by another 40 percent by the year 2010.[47] Until now, the strongest increase in demand for energy resources had been expected to occur in Asia (44 percent of the overall world increase), but the recent financial crisis is likely to slow down economic growth in the countries of the Asian-Pacific region. However, Russia's energy exports are mainly directed to Europe.

The Russian Federation's energy resources are an enormous asset and can be used as a starting point for our country's integration into the global market. With approximately a quarter of all the energy

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45. *The New York Times*, March 20, 1998.

46. Ibid.

47. *Foreign Policy*, winter 1997–98, p. 139.

resources of the planet on its territory, Russia will naturally take on a leading role in catering for the growing energy needs, first of all in gas and oil, of the Euro-Atlantic and the Asian-Pacific regions. However, this is not sufficient for Russia to occupy a position suitable for a great power in the world economic hierarchy.

Russia is located at the center of the geo-economic map of the world, which gives it the opportunity to play a unique role in shaping the global market. As shown in table 3, the most rapidly developing type of trade relations today are intra-regional relations, a trend that is further encouraged by organizations such as the EU, NAFTA and APEC.

Table 3. Share of the main economic regions in world trade (in percentages)[a]

COUNTRY	1980	1993
Trade within each of the three regions	40.3	49.7
Western Europe	28.0	31.0
North America	5.9	7.5
East Asia	6.1	11.2
Trade among the three regions	19.4	25.8
Western Europe—North America	7.7	7.2
East Asia—North America	7.1	11.1
Western Europe—East Asia	4.6	7.5
All other regions	40.6	24.5

a. Source: *Foreign Policy into the 21st Century: the U.S. Leadership Challenge* (Washington: Center for Strategic and International Studies, 1996), p.131.

Despite their fast growth, trade relations between Europe and East Asia today do not yet correspond to the full capabilities of these key economic blocs. One can justly expect that economic relations between Europe and the Asian-Pacific region will continue to grow at a fast pace. One sign of this is the regular dialogue that was started between the leaders of these two regions in Bangkok and will continue this year in London.

However, for the time being, trade between these two blocks is being carried out only by sea, across the Indian Ocean and the Suez Canal.

That can hardly be considered the most economic route. At present, the costs of shipping goods by railway from Vladivostok to European Russia are running 20 percent higher than those by sea, but these costs had skyrocketed when the railways were privatized. The railways will be more competitive once their charges are more representative of the market. Right now, the railways carry only 5 percent of the foreign trade from East Asia to Europe.[48]

Transport across the Russian Federation could cut in half the length of communication lines between Europe and East Asia. Russia controls the only road on the surface of the earth that links the Euro-Atlantic and the Asian-Pacific regions. Our advantage over all other options is that we have a single state overseeing the entire route.

The Soviet Union used to be the most intensive user of transportation networks in the world. Our transportation network was six times more efficient than the USA's. As shown in table 4, today the Russian Federation is in possession of a whole range of elements that, although they are in an underdeveloped state, could be combined to ensure a real breakthrough in communications. Transportation and communications represent 9.2 percent of Russia's GDP (compared to 6.3 percent in Japan, 5.9 percent in the United States, 6.0 percent in China, and 5.5 percent in Germany). Russia has one of the world's highest employment figures in its transportation and communication sectors (7.9 percent) compared to its overall employed population. Transportation and communications account for 15.1 percent of the gross value of basic capital accumulated in the country.

Unfortunately, today the Russian transportation and communications network is rapidly deteriorating. Only 0.2 percent of Russia's federal budget is allocated to expenditures on transportation and communications, while the comparable figure is 1.1 percent in China, 2.7 percent in the United States, and 4.3 percent in Germany. Overall, goods transportation in Russia has fallen by half in the last ten years.

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48. *Nezavisimaya Gazeta,* 20 February 1998.

Table 4. Share of each type of transportation means in overall goods transportation (excluding gas pipelines, in percentages)[a]

COUNTRY	Year of data	Railways	Roads	Internal rivers	Sea	Air	Pipelines
Russia	1995	51.7	1.5	3.8	13.5	0.1	29.4
England	1993	1.7	16.1	0.01	80.5	0.4	1.3
Germany	1994	18.8	48.5	13.7	14.5	1.2	3.3
Italy	1993	3.8	22.9	0.01	71.0	0.2	2.1
China	1994	37.5	13.5	12.6	34.5	0.1	1.8
United States	1993	31.6	24.1	9.9	18.7	0.4	15.3
France	1993	9.2	23.0	1.7	60.9	0.8	4.4
Japan	1993	1.0	10.5	—	88.3	0.2	—

a. Source: *Russia and the Countries of the World* (Moscow: The State Statistical Committee, 1998), pp. 384-385.

It must be stressed that despite the general reduction in capital investments made into the Russian economy, the proportion of investments made in transportation and communications has been growing in the last few years. While in 1992 these sectors represented, respectively, 8.2 percent and 0.6 percent of all investments, by 1995 those figures had risen to 13.8 percent and 1.3 percent. However, bearing in mind the tremendous tasks that we are facing, this is clearly not sufficient.

Progress in Russia's integration in the world community

In 1997, it appeared that an end had come to the international tendencies that have been unfavorable to Russia:

- In the spring of 1997, Russia signed several important agreements with two key CIS partners, Ukraine and Belarus.
- At the G-7 meeting in Denver, Russia was able to obtain a substantial enhancement of its status, which has allowed it to come closer to full participation in this prestigious international forum.
- In May the Founding Act was signed between Russia and NATO. This could become a major instrument in ensuring Russia's positions in resolving questions of European security.
- Russia was admitted as a member of the London and Paris Clubs of creditors.
- In the autumn, the Russian Federation took part for the first time in the summit of the Council of Europe, where an agreement in principle was reached on creating a special mechanism of consultations between Moscow, Berlin, and Paris.
- Throughout the year, important negotiations were held at the highest level with the leaders of China and India.
- Russian diplomats also took significant initiatives, one of which may have prevented another war in the Persian Gulf area.

Russia as part of the G-8

At the summit in Birmingham in May 1998 Russia joined the G-7, which thus became the G-8. This was the first meeting in which Russia

was a full participant in all the discussions at this prestigious international forum. The countries that belong to the G-8 have about 15 percent of the population, 42 percent of all investments, approximately half the GDP, more than 65 percent of government expenditures, and more than 95 percent of nuclear arms worldwide. Such impressive economic and military power cannot be matched by any other group of countries in the foreseeable future.

The transformation of the G-7 into the G-8 has been a major achievement of Russian diplomacy. During the 1990s Russia had been invited to annual meetings of the leaders of the seven largest countries of the West, but with a limited status: Russia's participation was limited to a "report" on the progress of market reforms in Russia. As as matter of fact, however, the G-7 has not been disbanded: it discussed the financial crisis in Asia and the rendering of economic help to Ukraine before the full meeting—that is, without President Yeltsin.

Does the creation of the G-8 upon Russia's admission represent a step towards creation of some kind of system of security stretching "from Vancouver to Vladivostok"? It could evolve in that direction. At the Birmingham summit, questions of global and regional security received a lot of attention. They were given more time than economic problems, not less. The list of security issues on which the heads of state formulated a common point of view included nonproliferation of weapons of mass destruction, strengthening of export controls, the fight against international crime, a political settlement in Northern Ireland, the situation in Indonesia, implementation of the agreements on Bosnia, the peace process in the Middle East, and the nuclear tests in India.

Thus the Birmingham summit may have far-reaching consequences. For 25 years the G-7 had been a kind of exclusive club of the West, an informal coordination center of the leading capitalist countries on key economic and political questions. Following Russia's accession to the group, its nature may begin to change. But it's unclear whether admission of the Russian Federation into the club of Western democracies with the most advanced economies will improve the prospects for acceptance of Moscow in other major Western institutions, for example, the OECD or even NATO.

Russia's accession could lead eventually to a fundamental transformation of the G-8 forum. Today there are proposals to invite other leading states to join the forum. First of all China is mentioned. Among the other potential candidates are India, Brazil, and some other countries who may strive to become centers of power in the 21st century. In that case, if some other non-Western countries follow Russia, the G-8 will lose its Western shape and may turn into "the global concert" (by analogy with "the European concert" of the 19th century). It could be a mechanism for the coordination of economic and political interests of all the main great powers in the world, despite their differences in political systems and cultures.

For the multipolar world of the next century, there seems to be a great need for such coordination. Today, quite a few countries surpass not only Russia, but also some other members of the G-8 in their economic potential. As a result, the UN Security Council and its permanent members today do not reflect the geopolitical reality of the new system of international relations. Several states would like to become permanent members of the Security Council, but this will be extremely difficult to arrange among the present permanent members. There are also proposals to grant a place in the Security Council to some regional associations—for instance, the EU.

That's why a further transformation of the G-8 into the G-9 or the G-10 can present a more flexible and effective method to engage the new centers of power in informal coordination of actions in lieu of expanding the Security Council. Expansion of the G-8 might preclude having to negotiate infinite clarifications in the resolutions of issues with the almost 200 states that are members of the UN.

The Russian Federation presently maintains closer connections with such large powers as China and India than the other states of the G-8 do. As the first "non-Western" state included in the group, Russia may be able to play a key role in its next expansion if that expansion is meant to give the group a more global character. Moreover, in the coming years it is possible that relations between the United States and one of the new centers of power on the Asian continent—for instance, China—could become aggravated. A new East-West confrontation would present Moscow with a hard choice, but, as the Eurasian

bridge, Russia could play an important role in prevention of this confrontation scenario.

Other unpleasant variants are also possible (or even probable). For example, Indian-Chinese relations can enter a phase of antagonism that could result in catastrophic consequences for the entire world. There are already predictions that the recent nuclear tests in South Asia will accelerate the nuclear arms race not only between India and Pakistan, but also between India and China. While Russia has close military-technical connections with both parties, only the most primitive interpretation of Russian interests can lead to the conclusion that Moscow could gain from these arms races.

The G-8 ministers of foreign affairs met in London on June 12, 1998, to discuss the consequences of the nuclear tests in India and Pakistan. But if this subject is to continue on the G-8's agenda, the full participation of Japan and Germany in such discussions of nuclear questions should also be necessary.[49] The G-8 can assume an even more important role in global affairs if it transforms its agenda to include the entire range of political and military questions.

The NATO-Russia Founding Act

The Founding Act legally established cooperation between NATO and Russia as an important element of a new comprehensive European security system. This document provided a strong political commitment, given at the highest political level, which should enable it to become the foundation of the positive and stable relations between Russia and the West in the 21st century. It defined the mechanism of consultations, coordination, and—to the maximum extent possible where appropriate—joint decision-making and action on security issues of common concern. The Founding Act also reflected the need for a profound transformation of NATO, including its political and peacekeeping dimensions.

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49. For a more extended treatment of the issue of nuclear arms races, see Sergey M. Rogov, *Nuclear Weapons in the Multipolar World* (Alexandria, Virginia: Center for Naval Analyses, Information Memorandum 582, October 1998).

The implementation of the Founding Act might be of crucial importance for the integration of Moscow into the new international system, if the mechanism to coordinate the adoption of decisions and their fulfillment by Russia and NATO is created. The form of the sides' interaction is quite unusual: without being a NATO member, the Russian Federation will actually have a voice during the discussion of European security issues. This will preclude the isolation of Russia and help it to maintain its role as a major European power. Although the sides have not managed to iron out all their differences, the most important thing is that the document on Russia-NATO relations is a solid base for practical cooperation under the auspices of the Permanent Joint Council (PJC).

The parties pointed to the necessity for realizing the potential of the OSCE and to strengthen it as the framework for European security. After all, OSCE is the organization in which all states of the continent are equally represented. They recognized the need to enhance the operational capability of the OSCE.

The reaffirmation of the role of the OSCE is directed against the actual transformation of NATO into the backbone of the all-European security system, but there is no reason to overestimate the importance of these words. That is, the NATO members will not permit the OSCE to really become, as we hoped a few years back, a sort of "UN for Europe." Alas, its role will remain limited. But the preservation of the OSCE limits the claims the North Atlantic Alliance and other Western institutions can make for a monopoly in the sphere of European security.

Unfortunately, since the signing of the Founding Act, not much has been done to realize its stipulations. There is a real concern that the PJC will get lost among numerous institutions acting in sphere of the European security. Moreover, the low efficiency of the political mechanism of cooperation between Moscow and NATO will obviously slow down development of military contacts between the NATO countries and Russia. NATO gives a much greater priority to the various measures undertaken in the "Partnership for Peace" (PFP), but the PFP evokes little enthusiasm among Russia's militaries. NATO tends to discuss only secondary issues within the PJC framework, while the key

problems of the European security are decided in the North Atlantic Council where Russia is not represented.

The escalation of the crisis in Kosovo threatens to turn into the most dangerous conflict on the European continent. The PJC should be playing the decisive role in the search for the solution of this question, including economic sanctions or directing a peacekeeping operation. This approach would allow the creation of a precedent for the fulfillment of the security functions stipulated by the Founding Act. The success or failure of the PJC in resolving the Kosovo problem will determine its future role in the European security system.

It will be extremely important to implement the agreed-upon measures on development of cooperation between the military structures of Russia and NATO. The permanent contacts of the military representatives include regular meetings at the level of the Ministers of Defense and Chiefs of General Staffs. They exchange information on military doctrines, strategy, and the structure and equipment of the armed forces. Military liaison missions at various levels are supposed to be established. According to the Founding Act, the parties will jointly prepare and, if necessary, implement peacekeeping operations, but only under the mandate of the UN Security Council or the OSCE.

At the same time, the United States and the West Europeans are continuing their discussions about the concrete forms the Combined Joint Task Forces (CJTF) should take. Russian interests would probably be accommodated by an arrangement through which Moscow could participate in the definition of the parameters of the CJTF at the earliest stage. Possible variants could include creation of a CJTF or a quasi-CJTF in 1999 with the participation of Russian troops. This could include some of the units deployed in the Kaliningrad area, Polish forces in Poland, and appropriate military units of the United States, Germany, and some other NATO countries that are deployed outside the territory of Poland.

A passive approach will reduce Russia's role to that of a helpless observer, deprived of real influence in the European affairs. If a more active approach is to be undertaken, the interests of the Russian Federation will be secured by the transformation of the PJC into the key

political decision-making body on all-European security. Only thus will it be possible to limit the claims of the North Atlantic Council for unilateral application of military force for peacekeeping and other purposes on the European continent.

Today it is necessary to promote much greater interaction of Russia and NATO under the aegis of the Founding Act. Otherwise, this document may turn into another unimplemented declaration of good intentions. This interaction is possible only through promotion of serious and far-reaching initiatives meant to realize the spirit and letter of the Founding Act. Therefore it is necessary to move forward and establish appropriate working institutions (commissions, working groups, exchanges, direct links between military units, etc.) and resolve the questions of financing of these joint activities. It would allow the mechanisms of the Russian-NATO partnership to be institutionalized.

The EU-Russia Partnership and Cooperation Agreement

Equally important was the entering into force on December 1, 1997 of the Partnership and Cooperation Agreement between the Russian Federation and the European Union, an agreement that had originally been signed in June 1994.

The Partnership and Cooperation Agreement between Russia and the EC opens up the possibility for our country to be included in the list of the market economy states of the world. This agreement in principle puts an end to the anti-dumping measures that Western Europe had been actively using in relation to a whole range of Russian products.

- According to the terms of the agreement, the EC has an obligation to lift all the quantity restrictions on its imports from Russia, which include approximately 600 types of products.[50] Some discriminatory measures that the EC applied against 15 types of Russian products will be cancelled after certain anti-dumping investigations are made.[51] Due to these anti-dumping restric-

50. *Nezavisimaya Gazeta,* 2 December 1997.

tions, Russia has been losing more than 3 billion dollars each year.[52]

- At the same time, Moscow still has the right to introduce restrictions on imports of European products if the corresponding sectors of the Russian industry are in the process of being restructured and if they are in danger of losing their internal markets.
- In addition, Moscow can have access to the financial resources of the European Investment Bank (if, naturally, it fulfills the necessary requirements).

The EC accounts for nearly a quarter of all foreign investments in Russia, 40 percent of the Russian Federation's total exports, and 36 percent of its imports.[53] However, on the EC's side, the volume of trade with Russia does not exceed 4.5 percent. The structure of the exports and imports between the two entities is also unsatisfactory: two-thirds of Russia's exports are represented by mineral ore, wood, and metals, while it imports 30 times more machine-building products from Europe than it exports.[54]

One can expect, therefore, a sharp acceleration in the development of trade and economic relations between Russia and Europe.

However, the Partnership and Cooperation Agreement requires that Russia bring up to international standards its procedures for paying contributions for customs clearance and official registration of transactions. This will lead to a reduction in the prices of imported products, but will also entail a reduction in customs revenues.

The European Union's recognition of Russia as a country with a market economy was enshrined in the Joint Action Program for the year 1998, which was adopted at the first session of the EC-Russia

51. *Finansovye Izvestiya,* 2 December 1997.

52. *Commersant Daily,* 28 January 1998.

53. *Nezavisimaya Gazeta,* 29 January 1998.

54. Ibid.

Cooperation Council set up under the framework of the Partnership and Cooperation Agreement. The parties also agreed to support Russia's accession to the WTO and to organize a free trade zone in the future.

The less developed members of the European Union voted against enhancing Russia's status, fearing competition from Russian products.

This has particular significance with relation to the upcoming enlargement of the EC. Russia's exports already suffered to a certain extent in 1995 when the EC was extended to three neutral states, Sweden, Austria, and Finland. The accession of Eastern European countries to the EC could definitely bar access for Russia to a market that was traditionally used by our country.

A number of opportunities will also arise from the agreement in principle that was reached between the leaders of Russia, Germany, and France at the Council of Europe summit in Strasbourg. For two centuries, the relations between these three countries have been at the core of major all-European and worldwide conflicts. Today, the special Franco-German relations have become the driving force in the consolidation of the European Union and in the definition of a "European identity in the area of foreign policy and security." The addition of Russia to this team could ensure long-term stability in Greater Europe.

The first Russian-Franco-German summit meeting took place on March 25–26, 1998 in Moscow. One of the questions on the agenda may have been cooperation not only in the political and economic, but also in the defense area. In particular, Russia has already mentioned the possibility of developing a new European transport aircraft on the basis of the AN-70. This question has already been discussed between Russian representatives and experts from Germany and France.

It must also be noted that at the Second All-European Conference, nine main air transport corridors were approved, including the Berlin-Warsaw-Minsk-Moscow corridor with an extension to Nizhny-Novgorod and further links to the Trans-Siberian area.[55]

In January 1998, at the meeting of the Baltic Sea Countries, Russia proposed to set up a kind of Baltic branch of the Common Market. This would include a common regional market of energy products, a single transportation infrastructure, and a united system of observation and control for rescue operations in the Baltic Sea.[56] If implemented, this proposal could become an important means of preventing the emergence of an economic wall between the European Union and the Russian Federation.

Cooperation between Russia and APEC

Finally, one can count among the major achievements of Russia's foreign policy its accession to APEC at the Vancouver meeting of November 1997. We had been waiting in its anteroom since 1993.

This coalition, including the United States and the other American states, represents nearly 40 percent of the world's population, 55 percent of its GDP, 42 percent of state expenditures, 53 percent of its military expenditures, 42 percent of world exports, 47 percent of electric power consumption and more than 55 percent of investments.Of the 500 largest corporations in the world, 342 are from APEC (including 222 from the United States and 71 from Japan).[57] It is the fastest-developing region in today's world. At the beginning of the next millennium, the Asian-Pacific region's share of the world economic system will increase further. A common regional free trade zone is expected to be set up in that area by the year 2020.

Without its participation in APEC, Russia would find itself isolated from the most dynamic market in the world. In addition, Russia's control over Siberia and the Primorye region could be threatened (let us remember Brzezinski's geo-political scenario). Our country's military positions in that region are currently being reduced, and its economic links are at a minimal level. APEC countries today represent only 10 percent of our foreign trade (and only 5 percent if we exclude

55. *Finansovye Izvestiya,* 29 January 1998.

56. *Commersant Daily,* 24 January 1998.

57. *Finansovye Izvestiya,* 17 February 1998.

the United States and Canada). Moscow's participation in the economic development of that part of the world will also create the preconditions for the development of the Asian regions of the Russian Federation.

True, the fact that we still today do not have a precisely, well-thought-out plan for participating in APEC is disquieting. Unfortunately, it is impossible to understand what exactly we wish to offer to our new partners of the Asian-Pacific region.

Russia's position is also unclear with regard to the dialogue between Europe and the Asian-Pacific region, which is of primary importance for us. A second summit meeting between leaders of the EC and Asian-Pacific countries is taking place soon. Moscow was not invited to the first summit two years ago, which, of course, did not help Russia to build its status as a great Eurasian power. The coming Asia-Europe Meeting (ASEM) is expected to bring a special statement on Asia, in which 25 participating countries will agree to act "decisively" over the Asian financial crisis, and call for a stronger role for the IMF and its reform programs.[58] Will Russia be invited to this meeting? And if so, what role do we intend to play in it?

Asia was the fastest developing region in today's world until the financial crisis of 1997–1998. Most of the East Asian countries, including economic superpower Japan, suffered a painful decline in GDP for the first time in many years. The revenues of the largest Asian corporations have dropped by a staggering 53.6 percent.[59] Only China and Taiwan continue to grow, but at slower rates.

The Asian flu is infecting the United States and threatens to weaken even the robust American economy. In the first four months of 1998, the American trade deficit with Pacific Rim nations, including China, Japan, Indonesia, and South Korea, widened by 38 percent from a year earlier, to $46.7 billion. American exports were expected to fall because weakened Asian markets have less capacity to absorb American goods and services.

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58. *USA Today*, 24 March 1998.

59. *Fortune*, August 3, 1998, p. 76.

But the big surprise has been the absence of a boom in imports from the region. An import surge had been anticipated because the collapse of Asian currencies made goods from those countries less expensive in the United States. But in South Korea and Indonesia, for example, exporters had difficulty lining up financing to expand their production capacity and to ship their goods to the American and other markets.

So far, the weakening U.S. trade position hasn't had much effect on the overall American economy because the domestic economy has been so vibrant. But according to estimates by Merrill Lynch, the trade deficit knocked 1.5 percentage points off U.S. GDP growth in the first and second quarters of 1998.[60] By August 1998 the Dow Jones industrial average had dropped by 9 percent.[61]

While the consequences of the present financial crises will not disappear soon, it's estimated that at the beginning of the next millennium, the Asian-Pacific region's share of the world economic system will increase further. A common regional free trade zone is expected to be set up in that area by the year 2020 (by 2010 for the developed countries).

Without participation in APEC, the Russian Federation would find itself isolated from the East Asian market, which is the most dynamic in the world. In addition, Russia's control over Siberia and the Far East regions could be threatened (let us remember Brzezinski's geopolitical scenario cited earlier). Our country's military positions in that region are currently being reduced, and its economic links are at a minimal level. The APEC countries today represent only 10 percent of our foreign trade (and only 5 percent if we exclude the United States and Canada). Moscow's participation in the economic development of that part of the world will also create more favorable conditions for the development of the Asian regions of the Russian Federation.

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60. *The Wall Street Journal Europe,* June 19–20, 1998, p. 2.

61. *The Economist,* August 8, 1998, p. 13.

The interdependence of Russia and East Asia has already become clear: the East Asian financial crisis became one of the reasons for the collapse of the Russian stock market. Moscow has been hurt by the investors' panic that started in Hong Kong last year. So while Russia gets few benefits from its economic relations with the APEC countries, it's pretty vulnerable to the fluctuations of the markets in Asia.

The fact that today we still do not have a precise, well-thought-out plan for participating in APEC is disturbing. Unfortunately, it is impossible to understand what exactly Moscow wishes to offer to its new partners in the Asian-Pacific region.

Russian relations with China

In the meantime, there has been further rapprochement between the Russian Federation and China. Today Russia and China are enjoying their best relationship in decades. The rhetoric of Russian President Boris Yeltsin and Chinese President Jiang Zemin is sprinkled with references to a "strategic partnership." But in most cases Moscow has had to make serious concessions to Beijing in order to improve bilateral relations. Moscow's willingness to make concessions helped the parties settle questions of the demarcation of their common border. Their 4,300-km-long border, although still disputed in a few places, is peaceful, which is a far cry from the large military clashes of the late 1960s.

Russian-Chinese bilateral trade rings up around $8 billion annually. Moscow and Beijing say they want to boost it to $20 billion.[62] But Beijing is much more interested in modern Western technologies than in the outdated goods produced by Russian civilian industries. The likely limits of the Chinese market for Russian machinery were demonstrated by China's disappointing decision not to give Russia the order for turbo generators for the Three Gorges hydroelectric dam. Russia may, on the other hand, manage to maintain a relatively strong position in some of its established areas of strength, such as oil and natural gas, which are badly needed for the energy-thirsty

62. *The Washington Times,* June 8, 1998.

expanding economy of China. And the Russian Federation is selling the People's Republic of China numerous advanced weapons systems.

Some American experts are concerned about a possible Russian alliance with China against the United States.[63] But most Russians understand that their most significant security challenges today lie elsewhere from Chinese influence.

Chinese economic and technological growth has outstripped Russia's by far. While Russia has failed to successfully implement economic reform, China is enjoying very high rates of growth, which have allowed her to outstrip Russia's GDP. If during most of the 20th century Moscow had enormous economic, military, and political superiority over Beijing, the situation will be just the opposite in the next century. China has the potential to become a new superpower.

China is not yet ready to contend for leadership, even in the Asian-Pacific region, although some alarmist Russian experts are concerned that "its strategy of accumulating forces and building up economic and military strength is aimed precisely at domination—at first on the scale of the Asian-Pacific region, but then on a global scale."[64]

Sino-Russian rapprochement comes at a time when China's last generation of Soviet-educated leaders is in power. Jiang Zemin, among others, was educated in Moscow. Nonetheless, plenty of potential exists for a souring of relations, including conflicts over dormant territorial issues, the resources in Siberia and the Far East, transportation routes in Central Asia, the future of the Korean peninsula, and other foreign-policy concerns involving regions outside the immediate border areas of either country.

High transportation costs have shattered trade between western Russia and its Maritime Province (Primorskiy Krai), which now imports most of its goods from Asia. China is a huge source of cheap

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63. Ariel Cohen, *NATO Enlargement Is No Threat to U.S.-Russian Relations* (Washington: Heritage Foundation, Executive Memorandum 510, February 24, 1998).

64. *Rossiyskaya Gazeta*, February 5, 1998.

consumer goods for the region. Simple demographics paint a bleak picture for Moscow. Only about 8 million Russian citizens inhabit the vast territory from Lake Baikal to the Pacific Ocean. The economic crisis and political instability in the Maritime Province is even greater than in the rest of the Russian Federation. Meanwhile half a million Chinese immigrants settle every year in the largely empty Russian land between Lake Baikal in Siberia and the Pacific Ocean. As more Chinese move in, they are taking greater control of local economies. By the next decade the demographic issue could be a serious one.

Russian relations with Japan and Korea

China's growing economic and political power probably poses a greater challenge to Russia than its military potential. If Russia is to counter that rising power, it will have to stimulate its moribund economy in the Far East—a formidable task that will require improved relations with Japan and Korea. Japan and Korea are the most likely sources for the massive capital needed to develop Russia's Far East, rich in resources but devoid of infrastructure. Better relations with Japan and Korea would also help counter China's growing political weight in the neighborhood.

In the past few years, tensions have decreased between Russia and Japan, though the territorial claims by Tokyo still complicate the conclusion of a World War II Peace Treaty. The return of the Southern Kurile islands to Japan is still very important for Japan, but Moscow tries to delay the solution to this "territorial question." Nevertheless, President Yeltsin promised to solve the problem by the year 2000, although there is a consensus in Russia against giving up the territories.

In the economic sphere, trade with Japan has developed only very slowly. Japanese investment is very small even in the Russian Far East.

Russian relations with the two Korean states are also rather weak. Moscow curtailed its support of North Korea and now has very little leverage there. But Russia quickly accumulated a serious debt with South Korea and has gained very little from her new relations. The economic crisis, which has hit South Korea badly, will probably serve

as a serious impediment to further development of economic and political relations with Seoul.

In the meantime, the United States has excluded Russia from the deal that results in the closure of the Soviet-built nuclear reactor in North Korea and from the four-party negotiations on a Korean peace settlement. The inability of Moscow to play a more active role has forced it to accept these humiliating developments.

Russia is excluded from the dialogue between Europe and the Asian-Pacific countries

Russia's position is also unclear with regard to the dialogue that is opening up between Europe and the Asian-Pacific region, even though participation in such a dialogue is of primary importance for Russia, a country whose prime identity is Eurasian. The Russian Federation was not invited to the summit meetings between leaders of the European Union and Asian-Pacific countries (ASEM) in Bangkok in 1996 and in London in 1998. Appendix B discusses the decisions the ASEM countries made at these meetings. In summary, they took extensive steps to create cooperation, as described below, all without the participation of Russia:

At the ASEM meeting in London, for example, China had its first-ever summit with EU and secured its support concerning conditions of its admission to the WTO. Beijing has for many years pushed for conditions of its membership in the WTO that would allow China to protect its industry from more powerful competitors. It is possible to believe that EU support will support China to achieve this goal.

Russia had already announced that it would enter the WTO in 1998, though for the Russian market the removal of customs barriers can have a catastrophic effect. Russia's participation in ASEM might have given the Russian Federation an opportunity to achieve support from both the EU and the East Asian countries for conditions of joining WTO and for the terms for the transition period that would be more favorable to Moscow.

Clearly, the issues discussed at the ASEM summits are of vital importance to the Russian Federation. It's a shame that Russia was not invited to the London meeting, in which the leaders of 16 European countries and ten Asian states took part. This does not help to promote Russia's position as a great Eurasian power. The strategic questions of development of trade, technological, transport, and cultural cooperation of Europe and Asia discussed by ASEM also caused some nervousness in Washington, where some people have presumed that the EU and East Asia are "oriented" only to the United States.

While Russia was excluded from the dialogue among the leaders of Europe and the Asian-Pacific region, even more worrisome is the impression that nobody in Russia, except for a few experts, noticed the ASEM summits. Will the participation in the dialogue of the leaders of Europe and Asia become one of priorities of Russian policy? In what role (as a European or an Asian power) would we want to participate? Will the Russian Federation be invited to the next meeting, which is to be held in Seoul in 2000? And if so, what role we are going to play in this forum and what is Russia ready to offer to the other participants?

A Eurasian bridge strategy for Russia

As a Eurasian power, the Russian Federation has a vital interest in establishing the closest possible ties both with Europe and with Asia. In other words, we must think not of keeping at an equal distance, but rather of keeping equally close to the EC and to APEC. This may also gain us admission to ASEM.

Russia can no longer afford to act chaotically and impulsively, where our left hand has no idea what our right hand is doing, and vice-versa. We must not have a separate policy for Europe, a separate policy for the Far East, and a special policy in the South. The main point is to avoid a conflict with any center of power (whether it is a major power or a coalition of states) whose strength is superior to ours—but to do so without giving up our legitimate interests. We can hardly hope to remain a great power if we do not have allies and partners. Any other strategy would be suicidal for us.

The gravest error we could commit would probably be to try to obtain a privileged relationship with the West against China, or with China against the West. That indeed would mean that Russia would take the position of a lower-ranking partner, or a client, of a stronger center of power.

It would be equally mistaken for Russia to try to play the role of "the balancer" in maintaining the international power balance in a multipolar world.

- First, to play such a role, one has to have the appropriate economic and military resources, which can be quickly added onto the plates of the geo-political "scales" so as to prevent any sudden shift of weights in favor of the adversaries of that balance. But today Russia does not have such a surplus of capital and military strength.

- Second, after having suffered the hyperextension naturally brought about by fulfilling the functions of an empire and a super-power, the Russian people today do not feel particularly enthusiastic about the idea of throwing their country and the lives of their families into another dangerous adventure in a remote country. Both psychologically and politically, Russian society wants stability at home, not activism on the international scene.

- Third, and perhaps most important, whom in today's world should Russia "counterbalance?" The vital interests of our country hardly need a revival of the old geo-political confrontation, neither with the United States, nor indeed with any other large world power or coalition.

Russia's survival and development will be ensured only if our neighbors, both in the West (the Euro-Atlantic community) and in the East (the Asian-Pacific community), come to realize that it is in their interest to cooperate with Moscow. Russia will obtain maximum benefits from interdependence if it is able to take on a role in the global economy that can transform it into one of the pillars of the world market. In that case, we could count not only on the absence of incentives for other power centers to engage in a confrontation with Russia, but even on their support, should anyone attempt to undermine that role and to threaten not only the interests of the Russian Federation but also those of our partners.

Russia's extensive infrastructure forms the bridge

Russia has an extensive communications infrastructure that could enable it to serve as the Eurasian bridge, connecting the economies of East Asia and Europe. The elements of this infrastructure are described in detail in appendix A. They include air, rail, road, and sea transport, pipelines, telecommunications, and electric power. However, Russia is losing almost 10 billion dollars annually in payments for imported services, and about half of that is on transportation services. Because of this, the surplus of our balance of payments has been almost half of what it might have been.

According to experts' estimates, almost 600 different projects are now under way in the area of communications development, covering practically each of the country's regions. However, their full implementation will require investments of at least 200 billion dollars. Indeed, most of these building sites (sea ports, railway terminals, roads, airports, etc.) have been started separately, without any connection between them, without any well-thought-out business plans nor real investors, relying only on budget funding.

Russia as the Eurasian bridge would pull Russia together

A Eurasian strategy will have significant influence over the relations between the country's federal center and its regions. On one hand, it will stimulate the development of infrastructures in practically every region, district, and Republic of the Russian Federation. At the same time, the "remote depths of the provinces" could find themselves right on the central axis of world scientific and technological progress. Moreover, an economic strategy of integration will help to reverse separatist and fragmentation tendencies within Russia, i.e., to consolidate the internal unity of the Russian state.

A Eurasian strategy will enable us to avoid further differentiation between the regions of Russia, where a dangerous gap between regions with poor and rich energy resources has already begun to appear. If such a strategy is implemented, it will lead to more intensive economic exchanges between the regions, and, consequently, to a more rational geographic distribution of capital investments.

This is particularly important from the point of view of certain border regions of Russia, including the Kaliningrad enclave and the "drifting" Far East. A Eurasian strategy will enable us to re-integrate such regions as these into the Russian economy, not through re-establishing Moscow's authoritarian control, but as a result of economic incentives. Former Prime Minister Chernomyrdin's proposal for transforming Kaliningrad into a "Hong Kong of the Baltic" fits perfectly into this scheme.[65]

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65. *Commersant Daily,* 24 January 1998.

One must also take into consideration the fact that, by refusing to envisage such a large-scale plan, we could quite simply condemn to death our regions of the Far North. Indeed, 70 percent of Russia's territory belongs to that category (it includes practically all of Eastern Siberia and the whole of the Far East). Only 8.2 percent of the population of the Russian Federation currently lives there (600,000 people fewer than in 1990). The low level of development in these regions is shown by the fact that the operational length of railroads per 10,000 kilometers of land is only 14 km in the Far East and 21 km in Eastern Siberia, while in Central Russia that figure reaches 270 to 276 km. Constant difficulties in preparing the Far North for the winter, as well as the "non-payments" of salaries in the Primorye region, are evidence of the total absence of a state policy for the preservation and development of these regions. Without a Eurasian strategy, Moscow could simply deprive itself of these extremely rich lands.

A Eurasian strategy will also have positive effects on Russia's relations with the former Soviet Republics, which today are otherwise distancing themselves more and more from Moscow. The Treaty on the Creation of a Free Trade Zone, signed in April 1994, has still not been ratified. It will be difficult for us to compete with our partners in CIS countries—not only in the West, but also in the South—as long as the Russian economy continues to tug and pull. The situation will be totally different if Russia can be at the center of the global market operations of the 21st century. That will give an objective impulse to centripetal tendencies in the CIS and transform it into a real commonwealth.

To become a world leader in the area of communications, Russia must accomplish a leap forward by realizing the fantastic potential of its fundamental research. Population mobility, which will increase as a result of the development of the communication network, will enable substantial GDP growth.

A Eurasian strategy could give work to our disintegrating scientific and technological sector, and bring a full workload of orders to engineering research units and to machine-building companies. According to experts' estimates, between now and the year 2010 Russia will need more than 800 new civilian aircraft.[66] Other figures predict that

until the year 2015, the country will need to acquire 6,500 aircraft and helicopters.[67] Russia's trains and aircraft, which have used up 60 or 70 percent of their service lives, urgently need to be renewed.[68]

A Eurasian strategy should open up unprecedented opportunities for Russia's self-realization. By bringing ground, air and electronic communication lines between the EC and APEC to their maximum effectiveness, Russia will receive a needed impulse for its own economic development.

Extensive investments are needed if Russia is to play this role

A Eurasian strategy could change the whole investment situation in Russia. The modernization of Russia's communications infrastructure would also have an extraordinarily important role to play in guaranteeing employment within Russia. Indeed, employment figures in the transportation and communication sectors of the Russian Federation dropped from 5.6 million in 1992 to 5.3 million in 1995.

Naturally, a Eurasian strategy can only be implemented if it becomes the foundation for the entire budget, taxation and credit policy of the federal government. But the main actor in its realization must be the private sector. Indeed, the draft federal budget for 1998 allocates only 1.54 percent of all budget expenditures (or 0.2 percent of GDP) to the transportation, road, communications, and computer technology sectors.[69]

Unfortunately, the financial capability of the Russian private sector is limited by its long-overdue debts and is also undermined by the continuing expatriation of capital to foreign countries. As for public funds, according to the draft budget for 1998, federal investments will amount to less than 15 billion rubles, or only 3.3 percent of the total volume of investments coming from all sources.

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66. *Izvestiya,* 13 February 1998.

67. *Finansovye Izvestiya,* 11 November 1997.

68. Ibid., 29 January 1998.

69. *Vlast',* No. 11, 1997, p. 36.

Therefore, it will not be possible to ensure the normal revival of Russia's production capability if direct foreign investments are not multiplied by several times. Foreign investments must be able to cover at least half of our country's needs in capital. According to experts' estimates, we would require every year up to 80 billion dollars of imported capital, which is ten times more than the current figure.[70]

However, Russia's attractiveness on international investment markets is very low. Many real investment projects cannot be carried out because of the general backwardness of our country's economic infrastructure. Even the most effective technologies for taking control of new natural resource deposits or for setting up new enterprises can prove unprofitable if exporting products to the world market is made too difficult.

The global volume of foreign investment is estimated to reach 360–370 billion dollars.[71] Unfortunately, Russia is able to attract no more than 1–2 percent of this pool, although lately the situation has begun to change.[72] In 1994, the Russian Federation received only 538 million dollars of direct foreign investments. In 1995, the figure grew to 1.7 billion dollars; in 1996, 2.5 billion; and in 1997, 4.5 billion dollars.[73] The accumulated foreign investments in Russia today are estimated to be 21.8 billion dollars.[74] That is approximately as much as small Hungary received, but 15 times less than Communist China got.

In accordance with a decree signed by President Yeltsin in February 1998, foreign investors contributing more than 250 million dollars to the Russian economy will be allowed to have their own "mini-free economic zones." However, five years later, more than half of the production value of these companies' products must be represented by Russian components.[75]

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70. *Vlast',* No. 11, 1997, p. 36.

71. *The Boss,* N1, 1998, p.29.

72. *Finansovye Izvestiya,* 4 December 1997.

73. Ibid., 19 February 1997.

74. *The Moscow Times,* 7 March 1998.

It must also be remembered that for the time being, foreign investments are distributed among Russian regions in an extremely unequal way. In 1997, 66 percent of all foreign investments were made in Moscow, only 5.5 percent in the Far East, 5.1 percent in the North-Western region (including Saint Petersburg), and 0.3 percent in Kaliningrad.[76] In other words, the regions of Russia that must become gateways to the EC and the Asian-Pacific region are receiving a miserably small portion of the investment pie.

75. *Izvestiya,* 6 February 1998.

76. *Finansovye Izvestiya,* 20 January 1998.

Conclusion

Thus, before our eyes the first (albeit approximate) outline of a new Eurasian strategy for Moscow is emerging. The time has come to give this process a qualitatively new character and to place the Eurasian strategy at the core of the Russian Federation's internal and external policy.

Today, and for the foreseeable future, the main task of Russian foreign policy is to prevent the international isolation of our country and to maintain favorable conditions for our participation in regional and global integration. The processes of this integration have sharply accelerated since the end of the Cold War. The protection of Russia's interests in the multi-polar world requires that Moscow join these integration processes and institutionalize cooperation with the most important interstate associations.

Modern means of transportation and communications have led the world community to unprecedented interdependence within the framework of the global market. A state that is not participating in the definition of the new rules of game of the world arena cannot expect to see its interests protected and accommodated.

The creation of a new security system "from Vancouver to Vladivostok" would answer the interests of the Russian Federation, as a major Eurasian power, to the greatest degree. Unfortunately, in first half of the 1990s we have made little progress toward realizing this idea. As a result, a new system of international security that includes Russia has not been created. In the meantime, the balance of economic power both in the West and in the East has changed sharply, and not to Russia's advantage. Russia is the only country in the world that belongs to, and has vital interests in, both Europe and Asia. We want the main centers of power, in both the West and the East, to be our partners instead of our opponents.

Russia's survival and development will be ensured only if our neighbors, both in the West (the Euro-Atlantic community) and in the East (the Asian-Pacific community), come to realize that it is in their interest to cooperate with Moscow. Russia will obtain maximum benefits from interdependence if it is able to take on a role in the global economy that can transform it into one of the pillars of the world market. In that case, we could count not only on the absence of incentives for other power centers to engage in a confrontation with Russia, but even on their support should anyone attempt to undermine that role and to threaten not only the interests of the Russian Federation but also those of our partners.

The gravest error we could commit would probably be to try to obtain a privileged relationship with the West against China, or with China against the West. Either of those steps would mean that Russia would take the position of a lower-ranking partner, or a client, of a stronger center of power. As a Eurasian power, the Russian Federation has a vital interest in establishing the closest possible ties with both Europe and Asia. In other words, we must think not of keeping the two regions at an equal distance, but rather of keeping equally close to the EU and to APEC. That is, it would be mistaken for Russia to try to play the role of "the balancer" in maintaining the international power balance in a multi-polar world.

- First, in order to play such a role, Russia has to possess the appropriate economic and military resources that can be quickly added onto the geo-political "scales" so as to prevent any sudden shift in favor of the adversaries of that balance. But Russia does not have such a surplus of capital and military strength today.
- Second, after having suffered the hypertension naturally brought about by fulfilling the functions of an empire and a super-power, the Russian people today do not feel particularly enthusiastic about the idea of throwing their country and the lives of their families into another dangerous adventure in a remote country. Both psychologically and politically, Russian society wants stability at home, not activism on the international scene.

- Third, and perhaps most important, who in today's world should Russia "counterbalance"? The vital interests of our country hardly need a revival of the old type of geo-political confrontation, either with the United States or with any other large world power or coalition.

The Russia government has been not capable of collecting the taxes due to it and it cannot pay its bills. It cannot maintain its social-welfare system. Nor can it provide support for Soviet-sized armed forces. While the Russian Federation is immersed deeply in an economic crisis, the federal budget of Russia depends every month on loans from the IMF and the World Bank. This dependency is increasing the Russian external debt at an accelerating rate. The blunders in realization of economic and budget policies and the vulnerability of the Russian economy to the consequences of the global financial crisis have sharply increased Moscow's dependence on external help. In turn, this has created problems for Moscow's realization of an independent foreign policy.

Meanwhile, the military power of Russia, lacking an adequate economic base, has been drastically diminishing. The consequences of this diminution in military power can be seen in the defeat of the Russian armed forces in Chechnya.

Russian diplomacy has achieved some major successes in the last two years. But there is no reason for euphoria. Its place in the international system cannot be considered assured. On the European security side, the NATO-Russia Founding Act has created only the basis for a long-term compromise that would define the character of relations between Russia, the United States, and the West as a whole. The Russian Federation faces serious diplomatic challenges in negotiating the conditions of Russian participation in the G-8, the system of European security, conventional arms control, tactical nuclear weapon arrangements, the START III Treaty, and the ABM Treaty. And it's not at all clear yet that the West really wants to fully admit Moscow into the core Western institutions in Europe—NATO and the EU.

But the Russian Federation possesses a tremendous potential for economic growth. With its unique natural resources, huge territory, and large and highly qualified population, Russia can revive at the begin-

ning of the 21st century as a major international player, both in the Euro-Atlantic and Asian-Pacific region. But this will be possible only if Russia overcomes its domestic crisis and establishes its new identity. Without the restoration of its economic might and its social and political stability, Moscow cannot regain its role a great power. Only the recovery of the Russian economy and the creation of normal economic and political conditions for the citizens of the Russian Federation will permit Moscow to perform an important role in world affairs. But all this will require many years, if not decades. Then Russia, as a great Eurasian power, can ensure a more equal partnership with the West and gain full acceptance into the new European system, protect its positions in the south, and achieve integration into the fast-developing Asian-Pacific region.

It is no secret that the Russian government depends today on Western loans, which cover about half of its budget deficit. This dependence became even more obvious during the world financial crisis in 1997–98, when Russia was directly hurt for the first time by the collapse of the international financial market. But the efficiency of these loans in restoring financial stability in Russia is by no means assured. Moreover, IMF and World Bank requirements for their loans drive the key economic decisions of the Russian government. Many in Russia express concern that the country will become economically dependent on the West and its financial institutions for the indefinite future.

Russia's economic diplomacy has been aimed at creating better conditions for integrating the Russian Federation into the world economy. In 1997, Moscow was able to negotiate arrangements that may allow Russia to rise upwards in the global economic hierarchy.

If Russia wants to become a great power again in the 21st century, the government needs to take an absolutely different approach to the choice of priorities of national development. There may be three scenarios for our country's development:

- **Case One: stagnation.** If the existing tendencies persist, Russia's recession is likely to end in 1999, but stagnation may follow if there are no investments. Without investments, there will be no possibilities for growth. The role of the state in the economy

will be limited by withholding bureaucratic rent, i.e., access to favors, facilities, and bribes by favored parties. In this case, political and economic instability will persist in Russia for many decades. Within a generation, Russia may enter the list of less developed countries.

- **Case Two: return to a command economy.** Another possibility is rejection of market reforms and return to the administrative command system of administration of the economy aimed at mobilization of the country's resources with the help of state coercion, as advocated by the Communists. This course is not likely to be possible unless political democracy is suppressed and mass repression resumed. It would also include forcible renationalization of the private sector. In such a case, social and political polarization in the country would inevitably cause civil war, which would result in the breakup of the Russian Federation.

- **Case Three: fast growth with preservation and strengthening of the democratic state structure.** A Russian economic miracle is possible only if the state can master modern mechanisms of administration and stimulate the market economy. A lot will depend on the federal government developing an economic strategy. It is necessary for the government to start implementing a budgetary and fiscal policy that will allow the inflow of investments and the required restructuring of the economy along with simultaneous growth of the population's living standards, while avoiding a return to hyperinflation and a collapse of the social sphere and of defense industry.

Russia possesses the necessary conditions to become a great power again. It has an enormous territory and has maintained qualified manpower. The total value of Russia's natural resources is evaluated at $28 trillion.[77] The Russian Federation is the only country in the world that is self-sufficient in power and other natural resources. Russian scientific and technical potential has not yet been fully destroyed. The resources for Russia's revival have not yet been lost.

77. *Passport to the World,* March/April 1996, p. 57.

The problem is to assess soberly the dangers and the ways to fight them and to develop and implement a strategy for Russia's exit from its crisis.

Appendix A: Russia as the Eurasian bridge

Russia, as a Eurasian power, could become the link connecting the EC and APEC, which would enable it to dramatically accelerate the emergence of the global market.

Russian air transportation capabilities

At the beginning of the next century, the world is expecting a revolution in the aviation industry. Airlines will have a new generation of passenger and cargo aircraft. The volume of shipments will increase dramatically. This could prove extremely profitable for the Russian Federation. Russia's aircraft today are carrying only 0.4 percent of its total shipments and 15.8 percent of its total number of passengers. The comparable figures in the United States are, respectively, 0.4 and 14.3 percent; in Japan 0.2 and 9.3 percent; in China 0.15 percent and 6.7 percent; and in Germany 1.2 and 6.3 percent.

The Russian Federation has a relatively well developed network of air terminals, including military ones. Our country has 756 airports, including 68 of nationwide importance. There are 5,691 civilian aviation aircraft (including 1,891 long-distance passenger aircraft and 838 cargo aircraft) and 2,445 helicopters.[78] In Soviet times, Aeroflot used to carry more than 12 percent of the total number of passengers in the world.[79]

Today these aviation assets are on the decline. Many have been broken down and taken apart. Over half of the country's federal airports are in need of serious repair and do not meet operating standards in terms of the strength and condition of their runways. Almost

78. *Krasnaya Zvyezda,* 18 February 1998.

79. Jane Holt, *Transport Strategies for the Russian Federation,* World Bank, Washington, DC, 1993, p. 25.

every aircraft has used up more than 70 percent of its working life.[80] Each year, approximately 500 aircraft are decommissioned, while not more than five new ones are purchased.[81] Instead of buying new planes, Russian airline companies prefer to lease Boeings and Airbusses. Russia's aviation industry is facing a sales crisis, which can be explained in great part by its backwardness in engine building. According to the claims of the new Chief Commander of the Russian Air Force, manufacturing defects were at the origin of the AN-124 cargo plane crash that occurred in December 1997 in Irkutsk.[82] To eliminate the defects in the plane's D-18T engine, nearly 200 million dollars will be needed.[83]

The air navigation and traffic control network has also become obsolete, including control towers, runway beacons, and radars. There are not enough funds to support and maintain the equipment. A substantial part of the Russian territory (in the Polar zones, Siberia, and the Far East) is totally uncovered by radio control systems. Public spending in support of air transportation facilities in remote areas has practically come to an end.

As Marshall Evgeny Shaposhnikov, Presidential Counselor on Aviation and Space, has declared, a decree is expected to be signed by President Yeltsin on the restructuring of the aviation sector, including the setting up of a Ministry of Aviation to coordinate national policy in the field of research and development, as well as the creation and exploitation of civilian and experimental aircraft.[84]

Russia has a total of more than 330 companies in the air transportation sector. Most of them are financially insolvent. Last year, the losses of Russian airline companies amounted to 450 billion rubles. According to estimates of the Federal Aviation Department, by the year 2000

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80. *Krasnaya Zvyezda,* 18 February 1998.

81. *Izvestiya,* 3 February 1998.

82. Ibid., 13 February 1998.

83. *Commersant Daily,* 11 February 1998.

84. *Nezavisimaya Gazeta,* 31 January 1998.

there will remain only eight nationwide and 40–45 regional airline companies.[85]

To solve this problem, the Russian government has taken a decision to use the GLONASS system of satellite orientation, which had initially been developed exclusively for military purposes. The decision proposes to transfer this system from the Ministry of Defense to the Russian Space Agency. In coordination with the existing American satellite system, GPS/NAVSTAR, this will allow us to control global air flights with a precision of up to a few tens of meters, and will substantially reduce expenditures on ground works to equip runways accordingly. At the same time, special signal-receiving equipment will need to be installed on all aircraft.[86]

It must be noted that Russia has the largest number of transportation aircraft (including military) in the world. In 1990, Russian air carriers transported 80,000 tons on international routes; in 1996, they were able to move 300,000 tons. In 1997, the world volume of goods transported by Russian air carriers increased by 7 percent.

Modernizing Russia's aviation assets would allow a substantial increase in air transportation traffic and, in the long run, ensure deliveries of tens of thousands of tons of goods from the Euro-Atlantic market to the Asian-Pacific one and vice-versa, literally within 24 hours. The stop-over aerodromes of Siberia could be used for refueling, which would allow not only transcontinental, but also mid-range transportation aircraft to be employed on this air route.

Let us remember that during the Second World War, several thousand American fighter planes were flown "on their own" from Alaska to Siberia to supply the Red Army, although the range of these fighters was not long, and the airport network to the east of the Urals was extremely underdeveloped.

Creating a new "airlift" between Europe and East Asia could truly bring about a revolution of world significance in the transportation

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85. *Finansovye Izvestiya,* 10 February 1998.

86. *Izvestiya,* 10 February 1998.

area. Indeed, today any large shipment of goods from the EC to the Asian-Pacific region takes at least two or three weeks. Although air transportation is likely to always remain more expensive than other transportation means, the substantial reduction of delivery times would make airlift cost-effective. For instance, Russia has more than 70 An-124 "Ruslan" aircraft today; its cargo capacity is unrivaled in the world.[87] An AN-124-100 cargo aircraft can carry 120 tons of goods over a distance of 4,500 kilometers.

Russia's largest airline company, Aeroflot, which has broad experience in international flights (it accounts for 70 percent of all the international flights provided by Russian airline companies), provides airlinks to 150 destinations in 93 countries of the world and has 110 aircraft at its disposal, whether privately owned or leased (including 2 Boeing-767-300s, 8 Airbus-310s, 6 long-distance Il-96-300s, 13 cargo Il-76TDs and 1 cargo DC-10/30F). In 1996, Aeroflot carried almost 3.9 million passengers and 90,000 tons of goods and mail.[88] Russian-made aircraft are as reliable as foreign ones in terms of their freight and distance capabilities. For instance, an Il-76TD has a maximum commercial capacity of 50 tons and can cover a distance of 4,000 kilometers, while a McDonnell-Douglas DC-10/30F aircraft has a commercial capacity of 72 tons and can fly 6,000 kilometers.[89]

And yet, Russian companies this year are planning to purchase 15 new, foreign-made aircraft, which are more comfortable than the Russian ones.[90] They have already bought or leased nearly 40 foreign planes.[91]

The world aviation market is dominated today by America's Boeing and Europe's Airbus Industrie. Last year Boeing sold 375 aircraft, while its European competitor sold 182. The American company has

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87. *Izvestiya,* 13 February 1998.

88. Aeroflot - *Rossiiskiye mezhdunarodnye linii,* December 1997 - January 1998, p. 89.

89. Ibid., p.93.

90. *Commersant Daily,* 21 January 1998.

91. *Finansovye Izvestiya,* 15 January 1998.

received confirmation on orders for 502 aircraft (with a total value of 39.1 billion dollars), and Airbus has confirmed orders for 438 aircraft (27.8 billion dollars).[92] It will not be easy for Russian aircraft producers to compete with these giant monopolies. The aircraft that are flying in Russia today were developed in the 1960s and 1970s. In 1997, the Federal Program for "the Development of Civilian Aviation Equipment in Russia until the year 2000," which was supposed to ensure a full workload for 2 million people in the aviation and related industries, was practically abandoned. Il-96-300, Tu-204, Il-114 and An-38 aircraft that had been duly certified for flight capability face an uncertain future.

Russian railroad transportation capabilities

The Russian Federation also has significant ground transportation capabilities. Russia has a relatively well developed railroad network. Soviet railroads used to carry half of all the world's goods shipments and a quarter of its passenger traffic. The Trans-Siberian railroad has been operating for a hundred years.

Railroad transportation in Russia accounts for 51.2 percent of the country's overall goods traffic and for 42.4 percent of all its passenger traffic. In Japan the comparable figures are, respectively, 1.0 and 33.3 percent; in Germany 18.8 and 6.9 percent; in the United States 31.6 and 0.4 percent; and in China 37.5 and 45.5 percent.

The operational length of Russia's railroads is 87,000 kilometers (including 38,500 electrified), compared to 178,000 kilometers (1,700 electrified) in the United States, 53,800 (8,900) in China, 43,600 (17,200) in Germany, and 27,200 (11,600) in Japan. However, the density of Russian railroads is extremely low. There are only 5.1 kilometers of railroad per thousand square meters of territory (compared to 72 km in Japan, 122 km in Germany, 19 km in the United States, and 5.6 km in China). Less than half of Russia's railroads have double or multiple tracks.

92. Ibid., 20 January 1998.

In recent years, railroad transportation prices have reached such unprecedented heights that goods deliveries by rail are no longer cost-effective. Losses in the goods transportation sector are being compensated for by price increases on passenger tickets. In the 1980s, the Trans-Siberian railroad yielded profits of 5 to 6 billion dollars on transit shipments. But its volume has fallen from 140,000 to 20,000 containers per year. At the same time, the port of Vostochny alone has an output capacity of 600,000 containers per year.[93] It should also be noted that the tracks in Finland and the Baltic States are the same width (gauge) as those in Russia. This permits goods to be transported to the EC countries without losing time in changing the wheel carriages.

The average weight of a goods train in Russia is more than 3,000 tons. In the United States, it is 4,700 tons; in China, approximately 2,500 tons; and in Germany, 700 tons.

Today, railroad transportation technologies are experiencing a second birth. Express railroads are multiplying traffic speed by several times. Today it costs 20 percent more to move goods from Europe to East Asia through the railway than by sea, although it takes a cargo ship at least five weeks to reach its destination.[94] For a transit goods shipment on the Trans-Siberian railroad to be profitable, transportation time from the Maritime Province to the western frontiers of the Russian Federation must not exceed 17 or 19 days. If the speed of rail transportation could be increased to 200 or 300 km per hour, that would allow cutting to a week (or even less) the time needed for goods shipments to travel from Vladivostok and Nakhodka to Saint Petersburg and Kaliningrad.

In April 1998, the railroads began an experiment to bring goods by the railway from Nakhodka to Brest. The tariffs for goods that are to be transported through the Trans-Siberian railroad have been cut by 50 percent for this experiment.

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93. *Krasnaya Zvyezda,* 14 February 1998.

94. *Nezavisimaya Gazeta,* 20 February 1998.

The "Concept Plan for a Structural Reform of the Federal Railroad Transportation System" adopted by the government of Russia in January 1998 suggests, in a first stage (from now until the year 2000), setting up new goods and passenger transportation companies and to stop the cross-financing of passenger transportation at the expense of goods shipments. This will lead to a 15-percent reduction in goods transportation rates and a further 50 percent decrease by the year 2005.[95]

Road transport in Russia

The total length of Russia's automobile roads is comparable to that of the United States, but road density in Russia is low. There are only 27 kilometers of roads per square kilometer of territory in Russia (compared to 3,024 km in Japan, 1,775 km in Germany, 597 km in the United States, and 104 km in China). The length of general-purpose roads and of special-service networks totals less than one million kilometers, of which more than 200,000 have no hard covering. Nearly 40 percent of Russia's villages and small towns (including 139 district centers) are still not connected by hard-paved roads to the general network, and only 3 percent of our roads are classified as highways. Out of Russia's 37,000 bridges, 11,000 are made of wood.[96] Forty percent of the bridges and over 23 percent of the roads need to be repaired or totally reconstructed. Federal budget financing for road construction covers less than 20 percent of the necessary funds.[97]

There are more than three million trucks in Russia, but compared to world standards, the average running capacity of road vehicles in Russia is extremely low. Due to the low quality of the roads, the average speed of road vehicles is not higher than 30 kilometers per hour. This increases petrol consumption by 1.5 times, increases the cost of transportation by 20–50 percent, and reduces the lifetime of each automobile by a third.[98] Only 1.5 percent of all goods shipments and 15.8 percent of passenger traffic travel by road in Russia, compared

95. *Nezavisimaya Gazeta,* 30 January 1998.

96. *Finansovye Izvestiya,* 29 January 1998.

97. *Commersant Daily,* 28 January 1998.

to 10.5 and 56.9 percent in Japan, 12.6 and 45.8 percent in China, 24.1 and 85.2 percent in the United States, and 48.5 and 86.6 percent in Germany, respectively.

Significantly, only 14 percent of the market of road transportation services on the territory of the CIS is serviced by Russian companies, while the rest is covered by foreign companies, which make four billion dollars a year in profits on these shipments.[99] That income is limited by highway robberies on Russian roads: in 1997 alone, according to data of the Ministry of the Interior, 40,000 trucks carrying valuable goods failed to reach their destination, and nearly 30,000 gangster robberies on trains were registered.[100]

The Federal Road Department is drawing up a program for the construction of a network of toll highways. Investment projects are also being planned in the framework of the "Roads of Russia" Presidential Program. Due to the lack of budget funds, the Federal Road Department has proposed to solve the problem by setting up a toll road network. One of the first commercial projects, a bridge across the River Don in the Voronezh region, was put into service last year.

Russian pipelines

Russia has a well-developed network of major pipelines. Their total length is 210,000 kilometers, including 148,000 kilometers of oil pipelines, 47,000 kilometers of gas pipelines and 15,000 kilometers of pipelines for oil derivatives. Pipeline transportation in Russia accounts for more than half of the country's total goods shipments, which is significantly higher than in the United States and other large states of the world. Russia's pipelines carry 29.4 percent of total goods shipments, compared to 15.3 percent in the United States, 3.3 percent in Germany, and 1.8 percent in Japan.

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98. *Finansovye Izvestiya,* 29 January 1998.

99. Ibid.

100. *Commersant Daily,* 11 February 1998.

Plans for the construction of two gigantic pipelines, Yamal-Europe and Yamal-China, have started to be implemented. A Russian-Turkish agreement has been signed on the "Blue Flow" project (for the construction of a gas pipeline on the bottom of the Black Sea). Other projects to come include pipelines that will bring gas to China and South Korea from Yakutia and the Irkutsk region (i.e., from the Kovytkin deposits). At a later stage, deliveries could also be extended to Japan and Taiwan by sea. A meeting of representatives of energy organizations from Russia, China, Mongolia, Japan, and South Korea took place in December of 1997 in Moscow, where plans to export Russian gas to the Asian-Pacific region were discussed.[101]

The Russian Federation could derive substantial income from pipelines that would bring oil and gas to Europe from the Caspian basin. Oil deliveries from the Tengiz deposit in Kazakhstan alone could bring Russia more than 20 billion dollars over time at the beginning of the next century.[102]

Russian sea transport

Russia ranks second in the world by its number of commercial ships, and fourth by its overall tonnage. True, as a result of the ill-planned policy of privatization that has been followed so far (at times verging on piratical practices), most of the fleet has been lost. There are nearly 250 shipping companies registered today in Russia.[103] But Russia still remains a great maritime power capable of managing not only its own foreign trade but also deliveries of goods to the gates of the "Eurasian Bridge." The Russian Federation has 5,200 ships, which can carry 13.2 million tons of cargo. However, today our own seagoing ships carry only 13.5 percent of all of our shipments, compared to 88.3 percent in Japan, 34.5 percent in China, 18.7 percent in the United States, and 14.5 percent in Germany.

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101. *Nezavisimaya Gazeta,* 29 January 1998.

102. *Izvestiya,* 22 January 1998.

103. Ibid., 13 February 1998.

Russia has 43 sea ports, which can handle 165 million tons of cargo annually. But after the collapse of the USSR, she lost major ports on the Baltic and Black seas. According to then Deputy Prime Minister Vladimir Bulgak, the government of Russia holds the construction of three ports on the Baltic Sea to be among the state's major tasks today.[104]

The implementation of the federal program of 1998 entitled "Revival of the Commercial Fleet of Russia" is planned to be supported by nearly one billion dollars, including 400 million dollars in foreign investments. SovComFlot and Novorossiiskoye Parokhodnoye Agentstvo (the Novorossiisk Shipbuilding Agency) are each expected to receive ten modern tanker-and-cargo ships. Thanks to foreign credit loans, another 12 tankers will be built at the Far East, Murmansk, Primorye, and North Sea shipbuilding wharfs.[105]

Let us remember that the Great Route of the North is two to three to times shorter than the other sea routes that go through the Suez and Panama canals. However, less than one percent of its capabilities have been put into use. In the 21st century, extensive exploration of the ground of the World Ocean will begin, including, naturally, the Arctic Ocean. A fantastic leap will then take place in the development of submarine transportation. We have indeed a unique experience in the construction of nuclear and diesel submarines. In the next few years, some of them could already be used for underwater (or "under-ice") towing of goods caravans between the Pacific and Atlantic oceans. True, an accident involving the nuclear reactors in submarines may have forbidding ecological consequences. But today Russia is the world leader in diesel submarine technology (the United States has stopped producing diesel submarines altogether). In other words, here too there are tremendous potential opportunities.

Unfortunately, during the fire at the building of the Department of the Sea Navy of the Ministry of Transportation on 12 February 1998, a unique center of satellite communications was damaged. This

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104. *Nezavisimaya Gazeta,* 29 January 1998.

105. *Finansovye Izvestiya,* 10 February 1998.

center had allowed us to establish communications with most of Russia's commercial ships at sea.[106] The need for such communications is particularly great for the SovComFlot State Company, which has 70 ships sailing around the world under the flags of different countries.[107]

Russian telecommunications

Because of its geographic situation, Russia offers unique opportunities for developing ground-based communication means. However, the main fiber-optic lines of digital communications between the Asian-Pacific region and Europe that have already been installed and those that are being installed today circumvent Russia (going through Singapore, India, and the Middle East).

Our achievements in the development of modern communication technologies are extremely modest, although they are particularly important for the largest country in the world. In Russia today, nearly 200,000 villages and small towns have no telephone lines.[108]

The share of fiber-optic cable lines in our overall communications network today is only 2 percent. There are only 70,000 fax machines registered in the country. Between 1992 and 1995, the proportion of satellite telephone channels in the total length of inter-city telephone channels dropped from 3.3 percent to 2.3 percent.

In 1997, the market of digital communications in Russia grew by more than 300 percent and has reached 200 million dollars. Local digital communications networks have been set up in 60 Russian cities. In Moscow alone, there are now more than 100,000 subscribers to digital communication networks.[109] Nearly 500,000 people in Russia own cellular telephones. By the year 2002, that figure should reach five million.[110]

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106. *Commersant Daily*, 13 February 1998.

107. *Izvestiya*, 13 February 1998.

108. *Nezavisimaya Gazeta*, 14 February 1998.

109. *Finansovye Izvestiya*, 29 January 1998.

Russia also has unique capabilities in the development of space communication technologies. Our rocket-building industry is still today unrivalled in its capacity to put fantastic weights into orbit. According to some early estimates, we could satisfy up to 50 percent of all the world's needs in that area. The cost of launching a Russian space vehicle from the Baikonur space station amounts to 65–70 million dollars, while sending Ariane into space from Guyana costs 110 million dollars.[111] Each kilogram of useful weight costs between 9,000 and 40,000 dollars to launch on foreign rockets, compared to 4,000–20,000 dollars on Russian rockets.[112]

Russia's military space communications do not fall short of international standards. This is precisely the area in which a real breakthrough could be made in the emergence of a global information system. However, budget financing of civilian space programs was cut down from 3.3 billion dollars in 1989 to 0.7 billion dollars in 1997. This year, Russian companies are expecting to receive an additional 500 million dollars for fulfilling the orders of foreign companies.[113]

Unfortunately, Russia was not among the signatories of the Telecommunications Agreement of 1997 concluded among the United States, China, the EU, and ASEAN on the installation of trans-Eurasian transportation and information lines.

Russian electric power

Russia is the world's fourth-largest producer of electric power, but it exports only 1 percent of its production. At the same time, our economy still consumes extremely high amounts of energy (electric power production has fallen much less than GDP). In December 1997, only 13 percent of payments for heating and electric power were made in "real money."[114] At the beginning of 1998, the Russian government examined a new federal program entitled "Energy Saving in Russia

110. Ibid., 12 February 1998.

111. *Izvestiya,* 11 February 1998.

112. *Finansovye Izvestiya,* 12 February 1998.

113. Ibid., 12 February 1998.

from 1998 to 2005." Its implementation will significantly increase our country's competitiveness in world markets.

In past times, the surplus of electric power produced in Siberia and in the Far East made possible the emergence of a single energy network uniting the USSR and the countries of COMECON. This surplus capacity should make us think seriously about the possibility of setting up a single energy network uniting Europe and the Asian-Pacific region in the next century.

114. *Finansovye Izvestiya,* 15 January 1998.

Appendix B: Decisions of ASEM

At the first meeting of the leaders of the EU and East Asian countries (ASEM), in Bangkok in 1996, a new partnership between Asia and Europe was proclaimed. The participating countries created an Asia-Europe Fund to assist the opening up of exchanges among centers of science, peoples, and cultural groups. The Asia-Europe Business Forum meets annually. In 1997 in Japan the first meeting of the economic ministers of the countries of Europe and Asia took place. The Investment Promotion Action Plan (IPAP), and the Trade Facilitation Action Plan (TFAP) were adopted, taking due account of the economic diversity within and between the countries of Asia and Europe. Plans to assist investments and trade were accepted. The ministers have also agreed on cooperation in the WTO.

At the second ASEM summit in March 1998, the leaders of the EU agreed to create a special fund to help the World Bank assist in the reorganization of the economies of the East Asian states. They also decided to organize an expert group that would allow the Asian states to use the European experience in bank supervision and financial restructuring. The last ASEM meeting agreed to a special statement on Asia in which the 25 participating countries agreed to act "decisively" to solve the Asian financial crisis and called for a stronger role for the IMF and its reform programs.[115]

At the London summit, British Prime Minister Tony Blair announced "four key challenges" for ASEM: to work together to resolve the financial crisis and limit its impact on the global economy, to limit the social impact of the crisis, to maintain open markets and trade liberalization to help resolve the crisis, and to strengthen the international monetary system to prevent this type of crisis from recurring.

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115. *USA Today*, March 24, 1998.

At its several meetings, ASEM has issued communiqués that have covered the following points:

- The leaders of ASEM recognized "the growing interdependence of the economies and economic policies of the ASEM countries and agreed on the importance of deepening dialogue and cooperation between Asia and Europe." They welcomed "the strengthened dialogue on macroeconomic and financial issues including the opportunities and challenges presented by the introduction of the euro" and agreed to cooperate to help their business communities prepare fully for the introduction of the euro.

- The leaders of ASEM emphasized the important contribution that increased trade and investment, based on open markets and firm adherence to applicable international rules, could make to the early restoration of broad-based economic growth in the Asian region. They agreed to promote two-way trade and investment among ASEM partners. They agreed to encourage business to play an active part in the restoration of economic confidence and growth in the affected Asian countries and to maintain and extend business investment activities in both regions.

- They agreed to strengthen further the World Trade Organization "as the main forum for negotiation and to provide the means for further global liberalization of trade within the multilateral framework." They agreed that "it was essential in a highly integrated world economy that all trading nations were members of the WTO." They stressed that full participation in the WTO by ASEM partners will strengthen the organization, and they undertook to step up efforts in that direction with a view to obtaining an early accession of these nations to this organization "on the basis of congruous market access commitments and adherence to the WTO rules."

- The ASEM leaders agreed that it was important "to reinforce the role of the IMF at the center of the global response to what is a global concern." They expressed their strong support for full implementation of the programs of reform agreed-upon

with the IMF, the World Bank, and the Asian Development Bank, which would be vital in restoring confidence in Asian economies and financial markets.

- They also agreed that, since science and technology has increasingly become "the key factor and chief engine for economic growth," there is enormous potential for mutually beneficial cooperation between Asia and Europe. Thus, the ASEM summit called for further efforts "to strengthen technological cooperation between Asia and Europe" and discussed a possible meeting of ministers for science and technology.[116]

The summit did not limit its agenda to economic issues only.

- In the political sphere, the ASEM participants confirmed their "commitment to pursue a more secure and stable international environment." In an increasingly inter-dependent world where regional problems could have worldwide impact, members of the international community are required to tackle those problems jointly. They discussed regional and international issues of "common interest," such as the situations in Cambodia, on the Korean peninsula, and in Bosnia and Kosovo, and the enlargement of the EU. They agreed "to intensify their efforts to contribute to peace, stability and prosperity through cooperation between Asia and Europe." The summit approved the expansion of Asia-Europe dialogues on general security issues.

- The ASEM leaders confirmed their resolve to pursue global political issues. They welcomed progress achieved already in the work to promote effective UN institutional reform, with particular reference to the Secretary General's Track II reform package and reaffirmed their continued commitment to cooperate in promoting reform with a view to reinforcing its preeminent role in maintaining and promoting international peace and security and sustainable development. The leaders took note of recent positive developments in the spheres of arms control, disarmament, and non-proliferation, including the entry into force of the Chemical Weapons Convention

116. Chairman's Statement, ASEM-2, April 4, 1998.

(CWC) and the opening for signature of the Comprehensive Test Ban Treaty (CTBT). They underlined the importance of strengthening global initiatives on arms control, disarmament and non-proliferation of weapons of mass-destruction, and their determination to deepen ASEM cooperation in these fields. They also agreed on regular meetings of the ministers of foreign affairs.

- The summit adopted an Asia-Europe Cooperation Framework to guide, focus, and coordinate ASEM activities in political dialogue, in economic and financial fields, and in other areas, established an Investment Experts Group, and discussed a report on the Trans-Asian railway network project coordinated by Malaysia.[117]

- A group of leading international affairs institutes from the two regions has formed the Council for Asia-Europe Cooperation (CAEC). The CAEC's main aim is to encourage and facilitate greater cooperation among Asian and European intellectuals and policy specialists, in order to enhance discussions about the future direction of Asia-Europe relations.

- The summit commissioned an Asia-Europe Vision Group to develop a medium-to-long-term vision to help guide the ASEM process into the 21st century. The group will submit its report to its foreign ministers in 1999 and then to ASEM 3, along with the ministers' views on its recommendations.

The next summit meeting of the ASEM will be held in 2000 in Seoul. It is supposed to adopt a "universal framework of cooperation of Asia and Europe," for the first decade of the next century.

117. Chairman's Statement, ASEM-2, April 4, 1998.