

# The Economization, Rationalization, and Normalization of Russian Foreign Policy

Celeste A. Wallander  
August 1997  
PONARS Policy Memo 1  
Harvard University

Russian foreign policy is increasingly driven by economic factors which rationalize and make it more like that of "normal" countries. Russian foreign and security policy is being "economized" in that international trade and related issues (debt, currency stability, balance of payments, and integration in the world trade system) have become priorities. Even in traditional security arenas such as military capabilities and balances, economic issues play a major role in Russian policy choices. Russian foreign and security policies are increasingly subject to "rationalization" in that decisions balance costs and benefits.

The result of economization and rationalization is normalization, in that Russian foreign and security policies increasingly present the United States with the same kinds of issues, challenges, and opportunities as those presented by the foreign and security policies of other "normal" states. Of course, in dealing with Russia the stakes will always be great because of Russia's power, geopolitical situation, and nuclear weapons. Although not as unusual as the Soviet Union, Russia was not a "normal" country because of the mis-match of the Russian economy with that of the international system and a predominance of geopolitical and traditional power considerations in Russian policies, primarily in the "near abroad."

This is changing. Even in the face of yearly declines in its GDP, Russia's foreign trade is growing in real terms, with exports up 19.2% and imports up 20.6% in 1995 (see Table 1). What is more, while earlier increases in Russian foreign trade were due to the re-establishment of trade among the former Soviet countries, since 1994 exports to non-CIS countries have grown faster.

**Table 1: Growth in Russian Foreign Trade**

	1993	1994	1995
EXPORTS	9.1%	13.9%	19.2%
excluding CIS countries	4.5%	20.0%	24.2%
IMPORTS	16.2%	7.3%	20.6%
excluding CIS countries	27.5%	5.6%	17.0%

Source: World Bank, *Statistical Handbook 1996: States of the Former USSR*

This trend toward truly international Russian trade, rather than merely intra-CIS trade, is further illustrated in Table 2. Russia's largest regional trading partner is Europe, with over 50% of all Russian exports and imports. Trade with the CIS countries accounts for about 20% of exports and about 30% of imports, substantial given the size and development level of those economies, but less weighty than trade with Europe. Russia's largest trading partners are Ukraine, Germany,

the United States, Japan, Switzerland, China, and Italy. Russia's three main trading partners with the formerly eastern European Soviet bloc countries happen to be the three NATO aspirants of Poland, the Czech Republic, and Hungary.

Thus Russia's involvement in the international economy has grown, even despite the contraction of the Russian economy overall. Russian trade does not exhibit the characteristics of a highly developed economy, with about 70% of Russian exports accounted for by natural resource and raw materials. Russia is far from the kind of participant in the international economy that the G7 countries are. Yet these figures indicate that Russia is nonetheless a large and increasingly interested participant in the international economy, and the direction of its trade indicates that a foreign policy focused exclusively on the CIS countries at the expense of Europe and Asia is not in the interests of the country as a whole, and certainly is not in the interests of powerful economic and financial enterprises which have been the mainstay of President Yeltsin's political support in the last year. By the 1996 Presidential elections, it was clear that the military and security forces which had sustained the Yeltsin presidency in earlier confrontations had been replaced by the financial and industrial powers of the Russian economy: they funded his campaign, manipulated the media, and are the source of many leading government officials in the Yeltsin leadership as well. These interests have been reflected in the "troika" of Prime Minister Chernomyrdin, Deputy Prime Minister Chubais, and Deputy Prime Minister Nemtsov. This leadership has been a powerful force for reform and stabilization this year.

**Table 2: Russia's Main Trading Partners (in million US\$)**

	Exports		Imports	
	1994	1995	1994	1995
<b>TOTAL</b>	66,862	79,910	38,661	46,680
<b>CIS</b>	13,861	14,244	10,317	13,525
Ukraine	6885	6998	4404	6617
Belarus	2998	2940	2094	2088
Kazakstan	1938	2416	1996	2726
<b>Europe</b>	36,916	42,102	20,090	24,053
Germany	6376	6041	5675	6536
Switzerland	3719	3577	539	668
Italy	2984	3397	1596	1851
Finland	1891	2365	1628	2041
Poland	1414	1995	946	1321
Czech Republic	1279	1905	430	597
Hungary	1408	1804	761	842
<b>Asia</b>	10,878	15,699	4657	4580
China	2889	3432	952	865
Japan	2823	3621	1114	763
<b>Americas</b>	4608	6990	3055	3975
United States	3561	4537	2070	2648

Source: World Bank, *Statistical Handbook 1996: States of the Former USSR*

Therefore, in terms of both aggregate international economic interests and the specific economic interests of Russia's ruling circles, integration and active participation in the world economy

have become top priorities. There are clear signs that these priorities are reflected in Russian foreign policies. Although there may have been no explicit quid pro quo, membership in the now reformulated "Summit of the 8" as a G7 successor was clearly the payoff for Yeltsin's very grudging signing of the NATO-Russia Founding Act in May. Russia has also become a member of the Paris Club, the group of international creditor countries, after successful negotiations on payment of Soviet and Russian debts involving about \$10 billion a year. One reason for Russia's commitment to the Paris Club was to maintain its international financial credibility in order to participate in the global economy. In addition, as a Paris Club member Russia has some hope retrieving the \$140 billion it is owed by countries such as Vietnam, Cuba, Iraq, and Libya. Russian government officials state quite clearly that Russia has an interest in international organizations such as the Paris Club because of the resources and benefits of participation in the global economy the country stands to gain.

The next step in Russia's integration in the global economy is membership in the World Trade Organization. Russia has been involved in negotiations for years, because accession to the WTO requires extensive adjustments and change in Russia's domestic and foreign trade regulations and processes. For example, recently the government decided to allow foreign investment in natural resources. While adjusting to the international rules of free and fair trade have very difficult and painful domestic consequences for Russia, as for all countries, the benefits now outweigh the costs. Even in trade relations where Russia enjoys a great deal of access and growth--trade with the European Union--Russia's exclusion from the WTO creates trade disadvantages because Russian exports remain subject to restrictions and anti-dumping sanctions. Recently, Nemtsov canceled a meeting with the EU trade minister on the issue. Once Russia is a member of the WTO, it will no longer be subject to these kinds of restrictions.

Russian relations with the "near abroad" are increasingly driven by "economization" as well, leading to tentative resolution of some of the thorniest issues between Russia and its newly-independent neighbors. Russia, Chechnya, and Azerbaijan have recently come to an agreement on transit of Azerbaijan's Caspian Sea oil through Chechnya to the Russia Black Sea port of Novorossiisk. Russia and Kazakstan have also recently agreed on the route and ownership of a pipeline from Tengiz to Black Sea which involves a consortium of international firms. The Russia-Ukraine friendship treaty signed in May 1997 includes the division of the Black Sea Fleet and the leasing of the Crimean naval base Sevastopol, with Russia paying by forgiving Ukrainian debts of \$2.5 billion. And when this year Gazprom (the Russian quasi-private energy company) threatened to shut off energy supplies to Moldova, the motive was clearly economic: the demand was for payment of a debt of \$550 million. In 1992-93 Russia had used shutdown threats for political pressure.

Russian relations with China have been similarly driven by economic issues and opportunities. In response to the prospect of NATO enlargement, Russian government leaders spoke of a "strategic partnership" to balance NATO's enhanced power. In fact, nothing of the "strategic" aspect in political or military terms of note has developed: instead, Russian-Chinese economic relations have been the focus. In June 1997 a visit by Chernomyrdin to China resulted in an agreement to lift Russian-Chinese trade from 1997's estimated \$6.8 billion to \$20 billion by 2000. This ambition was supported by agreements on Chinese purchase of Russian electricity and a \$7 billion project to build a pipeline from oil and gas fields in Siberia to China. Much of

Russian-Chinese trade is arms sales: Russia is China's main arms supplier and arms account for the bulk of China's imports from Russia. But a sale to China of 2 destroyers with anti-ship cruise missiles worth \$8 billion was from the Russian point-of-view strictly an economic venture: one Russian official complained that the deal had run into problems because the Chinese were undervaluing the destroyers by more than \$100 million. More generally, Russian and Chinese economic interests in better relations have so far been a boon for Asian stability, including an agreement signed in April 1997 by Russia, China, Kazakstan, Tajikistan, and Kyrgystan to reduce the number of military forces along their borders.

The influence of economic priorities has not been limited to foreign policies, but affects traditional security interests and priorities as well. NATO is but one example: arms control and the Russian military have also been affected. In arms control, crucial obstacles to Russian cooperation are not hostile intentions, but financial constraints. Arms control turns out to be very expensive. For example, Russian government sources estimate that destroying Russia's stocks of chemical weapons in accordance with the Chemical Weapons Convention would cost \$3-5 billion. The Russian Duma, hardly known for its deference to international law and opinion, has declared that it cannot ratify the convention because of the expense of the commitment which Russia cannot meet. The Duma sent a letter to the members of the CWC explaining the reason in distinctly non-defiant tones, and even asked that Russia not be excluded from CWC agencies. This angle on Russian security cooperation makes clear why programs such as Cooperative Threat Reduction have more impact than the numbers involved might otherwise indicate. No one expects the United States to pay for Russian obligations, but even amounts on the order of \$100 million to construct a chemical weapons destruction facility might make a difference in Russian calculations.

The Duma has been much more defiant and critical of the military and security implications of START II, but even here financial stringency is central. One Russian complaint is that adherence to START II through cuts alone will result in a Russian strategic nuclear force of about 2300 warheads, well below the 3000 allowed by the treaty. The cuts themselves will be costly to implement: if on top of this Russia needs to build *up* to its limit of 3000, compliance becomes irrational. Russia simply does not have the resources to build and deploy 700 missiles, and this dilemma is made particularly acute in the context of US plans to build a missile defense system. Ironically, if one takes the nuclear military balance seriously even only in terms of a secure second strike deterrent capability, it may not be in Russia's economic interests to ratify START II.

Economic considerations and constraints play an even starker role in Russia's basic national defense. The overall decrease in Russian military spending from 1992-95 was about 45%, and the decline continues. In 1995 Russian defense spending was 5% of GDP, and in 1996 the approximately \$19.6 billion military budget was 3.5% of GDP. The defense budget for 1997 was originally 88.3 trillion rubles (\$15.3 billion), but was later reduced to 67.2 trillion (\$11.6 billion), a further decline. Much of this decline was necessary, as Soviet military spending was, to say the least, excessive. But the Russian military budget has been cut to the point where maintenance, training, and basic needs have suffered. The Russian government owes back wages of some 8.1 trillion rubles to soldiers (about \$1.4 billion). Russian soldiers have starved because of malnutrition, and the terrible conditions have had effects on control and stability.

Recently, a Russian serving with peacekeeping forces in Abkhazia shot and killed 14 fellow soldiers, leading Russian security analysts to observe that the greatest threat to the life of a Russian soldier these days is the Russian army itself.

The Russian military must be cut. Regular military strength stands at 1.7 million soldiers, and Yeltsin plans a reduction of 500,000 to 1.2 million. This would save money, enhance stability, and if accomplished along with a restructuring of the Russian armed forces far better match the kind of security environment Russia really faces. But the problem is that reducing the overall forces by half a million means retiring at least 100,000 officers, at an estimated cost of 20 trillion rubles (\$3.5 billion). It is difficult to see where this money will come from. Russian Duma member and security specialist Alexei Arbatov has referred to this situation as the "paradox of Russian military reform:" Russia cannot pay for its army, but it also cannot afford to cut it.

The core of any country's security policy must be its capacity to defend itself with reliable military forces: Russia is at the turning point where it nearly has lost this capability. There are many reasons for this state of events, including appalling failure of political leadership, corruption within the Russian military, and the general breakdown in Russian society. But a major factor in this development is simply economic stringency.

This brings me to my final point: not all aspects of the influence of economization of Russian foreign and security policies are positive for American foreign policy. This is part of what I mean by the "normalization" of Russian foreign and security policy: as with most other countries, the United States faces both common and conflicting interests in relations with Russia. The disintegration of Russia's military is not in our interests, nor is failure to ratify arms control treaties. The "economization" of Russian foreign policies has created a strong interest in foreign arms sales and sales of civilian nuclear technology. With the failure of defense conversion, Russia now seeks to keep its defense industry alive through active foreign arms sales.

Russia's arms exports in 1996 amounted to \$3.6 billion, and contracts for 1997 stand at \$5 billion. Approximately \$4 billion of Russia's 1996 defense budget was for procurement, so foreign trade finances some 50% of all Russia's defense industry. Chernomyrdin has said that this trade must be maintained and even increased because of the need to support defense enterprises. Russian arms sales appear to have little to do with direct national security or political influence concerns. Besides China, Russia's largest arms customers are India, Malaysia, Kuwait, Vietnam, and United Arab Emirates, and Indonesia has expressed an interest in major Russian arms purchases. Russian sales of nuclear technology and equipment for research and reactors are also a priority. Russian nuclear sales abroad were \$2 billion in 1996, and include contracts with China, India, and Iran.

Therefore, the economization of Russian foreign policies presents a mixed bag for American policy. On the one hand, the trend is clearly positive. The more Russia as a whole and its leading circles have an interest in foreign trade and the interrelated and complex global economy, the more Russia will develop an interest in maintaining and profiting from that system. In particular, economization shifts Russian interests from the geopolitics of the "near abroad" and elevates the importance of acting as a responsible power in security affairs.

But as my examples show, economic priorities and constraints have made traditional security relations extremely complicated. Military and security issues are now constrained and driven by the Russian economy, and this means that the United States cannot assume that Russian foreign policies based upon the increasing role of economic and financial concerns are positive for American interests. Economic factors are driving the growth of Russian arms sales, its interest in the (legal) international nuclear market, problems with international treaties, and the dangerous crisis in Russia's military. It is important to understand the sources of these differences, and it is crucial to understand that these conflicts are increasingly the kinds of conflicts of foreign policy interest--military, political, and economic--that the United States has with other "normal" countries.

© PONARS 1997