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Russia – Key Indicators and Forecasts

Economy and Trade	2002 ^a	2003 ^b	2004 ^b
GDP (\$tr) / (PPP GDP)	0.3 (PPP GDP in 2002 = \$1.1 tr)		
GDP growth (%)	4.3	4.0	3.5
Inflation (%)	16.0	13.4	9.7
Budget balance (% of GDP)	8.8	10.1	6.3
Major export destinations (2001)	Germany (10%), Italy (8%), U.S. (7%)		
Population and Energy	2002 ^a	2005 ^b	2010 ^b
Population (m)	145.0	143.7	142.3
Population growth (%)	-0.3	-0.2	-0.2
Oil production (m bbl/d)	7.6	8.1	9.1
Oil consumption (m bbl/d)	2.4	3.9	4.6
Politics			
President	Vladimir Putin (since May 2000)		
Dominant party	Communist Party (since 1995)		
Next election	December 2003		
Military			
Armed forces (2002)	676,500		
Defense expenditure (2001)	\$63.7 bn (est.) (4.3% of GDP)		
Conventional capabilities	Much diminished military, especially navy Professionalization of military continues alongside degradation of capabilities		
Weapons of mass destruction	Large nuclear arsenal (being reduced) Poor safety and security at WMD sites		

Sources: The National Bureau of Asian Research, compiled from International Monetary Fund, *World Economic Outlook*; Central Intelligence Agency, *World Factbook*; U.S. Census Bureau, *International Data Base*; Energy Information Administration, *Country Analysis Brief—Russia*; International Institute of Strategic Studies, *The Military Balance*. Notes: a) Data for 2002 may be estimates; b) Data for 2003, 2004, 2005, and 2010 are projections. Additional data on Russia are available in the Strategic Asia database at <<http://strategicasia.nbr.org>>.

RUSSIA'S SOFT BALANCING ACT

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ABSTRACT

The fallout between the United States and Russia over Moscow's opposition to U.S. policy on Iraq sparked a wave of doubt over the depth and sustainability of Vladimir Putin's turn toward pragmatic cooperation with the West. This chapter presents three assessments that are needed to assess this strategic uncertainty: a reprise of Russia's foreign policy in light of evolving geoeconomic and geopolitical realities; Russia's diplomatic maneuvering on Iraq, an assessment of which requires an understanding of Moscow's view of the coalition dynamics that now shape relations among the major powers; and Russia's strategic interactions with other key actors in Asia. All three assessments yield a single substantive conclusion—the dramatic events of 2003 left Putin's grand strategy intact. The background forces and incentives underlying the basic approach have strengthened over the past year. The implication is that Russia's diplomacy in Asia will continue along pragmatic lines, governed in the near to medium term mainly by the mix of “new security issues,” economic incentives, and modernization imperatives that have come to the fore in the last half decade.

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Introduction

In 2001, Vladimir Putin engineered a seemingly seminal shift in Russian foreign policy that entailed a more forthright recognition of the country's weakness and the priority that Moscow must place on economic rejuvenation. By the summer of 2002, analysts and policymakers in Washington, Moscow, Beijing, and most other major capitals had concluded that the strategic shift was meaningful and likely to endure. But in the winter and spring of 2003, U.S.-Russian relations appeared to sour as Moscow joined Paris and Berlin in opposition to Washington's Iraq policy. Russian officials once again began to express their preference for a "multipolar world," while Moscow's large contingent of geopolitical pundits relished the prospect that the Russian heartland might serve as the key link between the Russian-Chinese-Indian "Asian strategic triangle" and the Paris-Berlin-Moscow "European axis," thus forging a grand Eurasian alliance against U.S. unipolarity.

Did Russia's maneuvering on Iraq herald a new era in Russia's relations with West and East? Did it show that Putin's celebrated alliance with America's war on terror was illusory or oversold? Answering these questions is critical in assessing Russia's current policy in strategic Asia and its likely options in the years to come. The chief analytical challenge for Russia-watchers is to distinguish the tactical policy shifts that are consistent with the new more pragmatic grand strategy from more substantial moves that might portend a deeper rethinking of strategic priorities in Moscow.

Accordingly, this chapter presents three assessments that are necessary to meet this analytical challenge. The first assessment offers a reprise of Russia's foreign policy in light of the evolving geoeconomic and geopolitical realities on the ground. The second considers Russia's diplomatic maneuvering on Iraq, which requires an understanding of Moscow's view of the coalition dynamics that now shape relations among the major powers. The third assessment concerns Russia's strategic interactions with other key actors in Asia. Individual cases—notably Moscow's nuclear relationship with Iran—suggest dangerously destabilizing Russian behavior. Whether these are portents of more to come or sheer opportunism is a question that can only be answered in light of the larger patterns of strategic interaction.

The Realities Behind Russian Diplomacy

Russia's foreign policy is shaped by the monumental scale of the modernization challenge it faces as well as the powerful external constraint of U.S. unipolarity. Vladimir Putin's approach to both challenges has been marked by pragmatism. He has consistently stressed that Russia's number one task is economic growth, which requires integration into the world economy and

domestic institutional rebuilding. The quest to retain great power status that is so dear to the hearts of Russia's military and foreign policy elites, he insists, is inseparable from this modernization imperative.

Putin's oft-repeated goal is "that, in the foreseeable future, Russia will firmly take its place among the truly strong, economically advanced and influential states of the world."¹ He can claim progress in this endeavor, for Russia is in its fifth consecutive year of respectable economic growth, real disposable income has risen at a brisk pace, foreign and domestic investment as well as business confidence are up, capital flight has declined dramatically, and the government's budgetary and foreign exchange positions are strong.² Putin has helped to shepherd through major reforms: a revamped tax code; a landmark law allowing private ownership of farmland (including by foreigners); initial legal reforms; the first stages of a crucial restructuring of the judiciary; and many other lesser known regulatory and legislative adjustments. Pending are reforms of pensions, the banking system, subsidized housing and energy, the restructuring of Russia's giant electricity monopoly, and a host of other measures associated with Russia's bid for World Trade Organization (WTO) membership. Reforms on this scale required Putin to spend real political capital, but also reflected a new configuration of interests among major business and interest groups. To signal their assessment of the changes, both the European Union (EU) and the United States awarded Russia "market economy" status in 2003. "Extrapolating from recent experience," one economist concludes, "one might begin to entertain seriously the prospect of sustained Russian economic growth and therefore a sustained growth of business profits."³

This is a dramatic improvement from the "virtual economy" days of the late 1990s. But the challenges remain formidable, for Russia faces a unique portfolio of geopolitical and geoeconomic challenges. Though it is growing, the Russian economy remains tiny, with GDP in 2003 expected to total \$387 billion at market exchange rates—roughly the economic size of New Jersey. While there is no gainsaying the importance of the institutional and legal reforms accomplished during Putin's first term, recent economic performance also owes much to one-off effects of the 1998 ruble devaluation as well as rising world oil and gas prices.⁴ Though foreign direct investment (FDI) is on the rise, it remains comparatively tiny (cumulative FDI since 1991 in Russia by April 1, 2002 amounted to \$17.2 billion, compared with over \$350 billion in China during the same period). Russia's basic industrial and transportation infrastructure is decrepit (on average, more than three times older than the average among the rich countries that belong to the Organization for Economic Cooperation and Development), and updating it will require investments in the trillions of dollars over coming

decades—beyond the capacity of domestic sources. Foreign and domestic investment is likely to continue to grow, but most economists expect that it will remain much lower than is needed without extensive reforms in banking, corporate governance, Russia's legal system, and regional institutions.

All of this suggests that in the absence of further institutional reforms, Russian economic growth will remain susceptible to fluctuations in the world prices of oil, gas, metals, and other Russian export commodities. Moreover, Russia will remain geopolitically hamstrung by its inefficient and still unreformed military establishment. Military reform is expensive in economic and political terms, yet without it, increased budgetary outlays for the Ministry of Defense will come to little. The Chechen issue remains a bleeding wound. Meanwhile, other powers—notably China and the United States—are increasing their aggregate economic and military power relative to Russia's. Hence, Putin continues to express deep dissatisfaction with Russia's economic performance, calling for a doubling of the economy over the next decade.⁵

The bottom line is that Russia's chief priorities are and will remain modernization and economic rejuvenation, which create powerful incentives to maintain productive partnerships with the governments of the world's richest and most influential states. Putin is well aware that the fate of Russia's rejuvenation will be determined mainly by the success of domestic institution building. But he and his aides also understand that too much tension in relations with the other major powers may have negative spillover on a range of international economic matters where their support is crucial. A serious polarization in relations with the United States or any other major power could have catastrophic consequences for the state budget and the Russian economy. Moreover, Putin insists that the major near- and medium-term security threats Russia faces do not emanate from other great powers but rather demand their cooperation. As in the case of all the other major powers, new security issues such as terrorism, weapons proliferation, Islamism, organized crime, unregulated migration, and the like, have assumed an increased salience in Russia's hierarchy of strategic interests as opposed to traditional great power security concerns.

Even as it attempts to bargain its way into the world economy on favorable terms, however, Russia still seeks to play a role in the major-power coalition dynamics of unipolarity. Geography dictates Russia's concern with security and economics in most of the world's key regions, and most Russians assume that their bargaining leverage on economic matters is helped rather than hindered by their country's lingering status as a great power. Russian foreign policy reflects the reasonable assumption that the country's interests are better served by more rather than less influence on

neighboring regions, as long as the search for diplomatic prestige does not run afoul of the need to maintain good working relationships with each region's major powers.

When participating in bargaining with other major powers, Russia confronts a central feature of today's unipolar international system. America's extraordinary primacy poses problems for other major powers, but the costs of creating a genuine counterpoise to the U.S. giant are too great for them to bear. Scholars of international relations now generally acknowledge that traditional "hard" great power balancing against the United States is not in the cards for the foreseeable future. America's power is too great, too comprehensive, and too far offshore, while the putative balancing states are too weak, too close (and therefore potentially threatening to each other), and too vulnerable to collective action problems for genuine counterbalancing to occur any time soon.⁶ As a result, when other states are importuned by U.S. power they are reduced to engaging in "soft balancing," which Robert Pape defines as "the use of international institutions, economic leverage, and diplomatic maneuvering to frustrate American intentions."⁷

While the term "soft balancing" may be somewhat misleading—after all, it has no prospect of affecting the scales of world power—the behavior the term describes is real enough. The challenge for other major powers is that their capability to influence U.S. behavior through international institutions, economic leverage and diplomatic maneuvering is strictly limited. International institutions are a modest tool for checking U.S. power because Washington can act alone or with "coalitions of the willing" on many issues. When U.S. efforts to work within institutions fail because other states block them, Washington may suffer less than the putative soft-balancers themselves, leaving the institutions weakened and even less able to rein in the United States the next time around. Using economic leverage to punish Washington for its unilateral transgressions is also problematic, given that all the other major powers are more dependent on the world economy than is the United States, and so have much to lose if the U.S. economy falters. Finally, diplomatic maneuvering is vulnerable to the collective action problem, in that a "soft balancing" coalition against the United States is vulnerable to defection and free riding.

Russia's experience in its first post-Soviet decade was consistent with this analysis. It lacked the power for "hard balancing," and there is little evidence it seriously tried to exert power in this manner.⁸ Throughout the 1990s, Moscow periodically engaged in "soft balancing" under the rubric of its multipolar policy line, but often found its coalition efforts ineffective, damaging to its own economic interests, and subverted by the free

riding of other states. One of the precepts of Putin's strategic reassessment was that under Yeltsin and Primakov Russia had overplayed its hand by seeking to lead too many policy coalitions against Washington, setting itself up to be duped by other powers cutting side deals of their own with the Americans. Given Russia's overriding need for economic rejuvenation in order to survive as a major power, the argument was that it was time to scale back claims to leadership in the coalition dynamics of unipolarity.⁹

Diplomatic Scorecard: Putin Plays Coalition Dynamics

An inevitable by-product of Moscow's 2001 strategic reassessment was a reduction in the ambiguity Russia had previously maintained regarding its relationship with the West. Russia's focus on Europe and the United States was now clearer for all to see—both in the West and in Asia. But reducing that ambiguity does not mean eliminating it, for Putin and his foreign policy team believe that eliminating all ambiguity would eliminate Moscow's diplomatic flexibility and hence its bargaining power. Unless the costs become too high, Putin's default strategy is to hedge his bets by nurturing good relationships with all parties—including declared enemies of his new Western friends. At the same time, if the strategic assessments Putin and his aides propounded in the year before September 11 remain operative, then Russia cannot allow such diplomatic maneuvering to risk a genuine deterioration of relations with key economic and strategic partners, including the United States. Does this analysis hold up in light of Russia's falling out with America over Iraq?

In the late 1990s, Russia's policy on Iraq was largely driven by two concerns: constraining the United States via "soft balancing" in the UN Security Council, and extracting economic benefits from Baghdad. Russia reaped rich economic rewards under the UN's oil-for-food program, and Saddam Hussein also offered longer-term inducements, which Russia could realize only if sanctions were withdrawn: a major development contract with Russia's Lukoil (valued at about \$12 billion) and the prospect of settling Iraq's state debt to Russia of about \$8 billion. As long as there was some possibility that the Iraq issue could be settled with the Baathist regime in power, Russia had incentives to position itself to receive these promised rewards. From this perspective, its Iraqi policy had served Moscow well, especially given that until September 2002, when President Bush challenged the United Nations to confront and disarm Saddam Hussein, the United States did little to pressure the Russians to fall in line with Washington's position.

Until March 2003, Russia attempted to hew to its old policy on Iraq, but adjusted to the tough new U.S. stance by increasing the ambiguity of

its position. While Foreign Minister Ivanov made strong statements in opposition to U.S. pronouncements, Putin authorized official contacts with Iraqi opposition figures and chose to support UN Security Council Resolution 1441 in November, warning Iraq of “serious consequences” if it did not meet its disarmament obligations. U.S. officials sought Russian support by offering inducements—honoring Iraqi contracts with Russian oil majors, and a role in post-war stabilization—which they could only deliver after a clear victory. As long as Putin remained uncertain of U.S. resolve and capability to prevail, he would risk more by aligning himself prematurely with the United States than by standing aloof. If American policy had foundered at this stage, Putin would have lost the economic benefits Baghdad provided and gained nothing.

Moreover, Putin probably wanted to gauge the seriousness of the Berlin-Paris opposition. In the past, Europeans had been happy to exploit Russian opposition to Washington, and all the evidence suggests that Putin was wary of getting out in front on this issue. In keeping with the 2001 strategic reassessment, Putin studiously avoided taking a leading role. Putin’s policy stance was contingent on Jacques Chirac’s, and there was some uncertainty in Moscow—as in London and Washington—over the French president’s resolve. Putin’s noncommittal posture positioned him to tack toward Washington if the French lost heart. By the time the dynamics of negotiations in the Security Council forced Putin to choose sides, ministerial meetings and presidential consultations with the French and Germans had established the strong resolve of the “Old Europeans.” Certain that he would not be left alone against Washington, Putin played the Europe card. On March 5, Russia joined France and Germany in a declaration that “we will not let a proposed resolution pass that would authorize the use of force” against Iraq.

Having revealed his hand, Putin went public with restrained but pointed objections to U.S. policy. The lead-up to the war and the quick fall of Saddam’s regime also generated new information on the depth of Russo-Iraqi cooperation. U.S. officials charged that Moscow broke a UN embargo on military sales to Iraq by equipping Baghdad’s forces with night-vision goggles and anti-missile defense systems that were later used against U.S. troops. Moreover, Russian generals ostentatiously advertised their own role as “unofficial” advisors to the Iraqis prior to the coalition campaign, and after the war journalists turned up documents attesting to close links between Russia’s foreign intelligence agency and Iraq’s Mukhabarat. These revelations, coupled with Putin’s continued tough stance during and after *Operation Iraqi Freedom*, raised U.S.-Russian tensions to levels not seen since the crisis over Kosovo.

Why did Putin align with Europe? Elite and popular dissatisfaction in Russia with U.S. policy doubtless figured in Putin's calculations, but they simply reinforce the bargaining argument that Washington needed a reminder not to take Russia's deference for granted. In addition, Putin and his foreign policy aides, like their French counterparts, insist that their policy reflected sincere disagreements with Washington's approach to Iraq. And the policy stance on Iraq was consistent with Russia's low-cost "soft balancing" approach of trying to use international institutions to dampen the effects of U.S. hegemony. Given these considerations, there was no good response to U.S. policy on Iraq, only more or less bad ones.

The key, however, was that Putin's move had no effect on Russia's overall Western orientation, for it was a tactical shift between available Western partners. As Putin noted in an interview, "the European Union (EU) accounts for 37 percent of Russia's external trade turnover, and after the expansion of the EU this will increase to 52 percent. Russia is a European country in its geography, history, culture and mentality of the population."¹⁰ On many measures (trade, credit, investment) Germany constitutes Russia's single most important economic relationship. But there is little evidence that the "Paris-Berlin-Moscow axis" that took shape in the Security Council negotiations on Iraq will have much staying power. On the key economic matters, Paris and Berlin act multilaterally through the EU, while on strategic issues, they cannot sustain a consistently anti-U.S. stance. Both governments—especially the Germans—do not want a transatlantic rift, and they lack the capability to offer Moscow major strategic rewards for the costs it might incur with Washington. On economics, border controls, and a broad range of "soft" security issues, the EU—rather than the Germans or French—is Moscow's real interlocutor. And the EU is simultaneously challenging but non-strategic in its dealings with Russia.¹¹ EU members view Russia as a gas station and a pitifully small (4 percent of overall trade) trading partner. The asymmetry does not work to Russia's advantage in negotiations with Brussels on the issues that are arguably most important.

Hence, Putin and his aides insist that Moscow's tack toward Europe will not come at the expense of a working strategic partnership with the United States. As Putin's foreign policy aide Sergei Prikhodko put it: "Our partnership with the United States is not a hostage of the Iraq crisis. There are far too many common values and common tasks both short term and long term...our co-operation never stopped, even during the Iraq crisis."¹² And this was not just rhetoric; concrete cooperation continued on intelligence sharing, nuclear arms control, NATO expansion, peacekeeping in Afghanistan and the North Korea issue. The policy reflected a bet that the Americans would not allow Iraq to derail the most important parts of the

new U.S.-Russian relationship—the anti-terror coalition and managing Russia’s further entry into the world economy. As of the summer of 2003, Putin’s bet appeared to have paid off. U.S. Secretary of State Powell’s visit in mid-May, and Bush’s diplomatic tactics at the St. Petersburg summit in June reflected efforts to keep the relationship on track. The Moscow assessment was that Putin had played coalition dynamics like a balalaika. The fallout with Washington was manageable, while Russia’s influence vis-à-vis France and Germany was enhanced. Russia’s bargaining space was secured as the object of courting by both sides of the transatlantic rift, and the crisis left Putin more popular at home than before—even with congenitally disgruntled sectors of the elite.

Managing Pragmatic Partnerships in Asia

Neither Russia’s alignment with Washington after September 11 nor the brief falling out over Iraq had significant repercussions for Moscow’s strategic cooperation with neighboring powers in Asia, for the simple reason that the three key drivers of Russian strategy remained firmly in place. The first driver is military and economic weakness. All the manifold challenges of Russia’s modernization are manifested in particularly acute form in Asia. Russia’s crumbling industrial sector in its Asian regions is largely a legacy of expensive and uneconomic Soviet-era state subsidies, and much of it is unable to survive in market conditions. Demographic, health care, and HIV/AIDS crises are all especially acute in the Russian Far East, exerting downward pressure on productivity and performance.¹³ Russia’s overall dependence on raw materials exports makes it a candidate for the “resource curse:” the general tendency of countries with a high percentage of natural resources in their exports to under-perform economically.¹⁴ The issue has special salience for Russia’s sparsely populated eastern regions. By all appearances, the mechanisms through which resource riches translate into weak institutions, governmental rent seeking, and political corruption operate strongly in precisely those regions, presenting Putin with governance problems he has yet to tackle. Moreover, resource extraction requires a far smaller workforce than the declining manufacturing industry, so the shift toward the region’s real comparative advantage will only fuel its ongoing depopulation. As one noted Russian expert summed it up, “Eastern Siberia and the Far East have become the weakest link in Russia’s economic security.”¹⁵

The second driving force is the distorted nature of Russia’s trade portfolio. Trade is a larger share of Russia’s GDP than for all other major Asian powers, and over 55 percent of Russian exports are energy and metals. Hence, Russian officials will remain preoccupied with developing markets for these products in Asia. Moreover, Asia remains the chief market for

Russia's high value added and technology exports, with China and India by far the principal buyers. Military hardware and nuclear and space technology—both declining assets inherited from the Soviet Union—loom large in Russia's small share of such exports. Revenues from arms sales varied between 1.2 to 4 percent of exports from the mid-1990s to the present, and for nuclear materials and technology about half that figure.¹⁶ Despite their small share in Russia's trade portfolio, in both cases, there is virtually no domestic demand for either of these industries. With abundant hydrocarbon-fueled electrical generation capacity and declining demand compared to Soviet times, the domestic market for the Ministry of Atomic Energy (Minatom) has dried up. Similarly, even with recently increased defense spending, the Russian military's procurement needs are miniscule compared to the capacity of the military industry Russia inherited from the Soviet Union. Foreign military sales, therefore, are essential to keeping these two domestic industries alive, and the major markets are in Asia—China and India together accounted for nearly 80 percent of Russia's record arms exports in 2002.

Finally, Russian policy in Asia is driven by a common core of security interests that Moscow shares with the other regional powers, including the United States. While Moscow, Beijing and (much less frequently) Delhi periodically play up the anti-U.S. aspect of their nebulous "strategic triangle," each maintains deeper and wider relations with Washington than with others and none wants to engage in any costly balancing of the United States. All the key powers have defined their near- to medium-term core interests in complementary ways. It follows that Russia's interests require amicable relations with all, including the United States and Japan. Indeed, Moscow's sense of weakness fosters wariness of China's growing economic and diplomatic clout, and a general preference for balancing Russian relationships in the region.

Hence, just as Russia needs at times to balance between the United States and Europe in the West, so too does it seek to spread its bets among the major centers of power in the East. Putin has been careful to ensure that the strategic partnership with China works to his own benefit. For now, that implies a focus on the key near-term security threats that both sides regard as most important—terrorism, North Korea's nuclearization or meltdown, drug trafficking, Muslim extremism, separatism, organized crime, migration, and weapons proliferation—and the avoidance of commitments that would subordinate Russia's larger policies to China's. At their December 2002 summit meeting in Beijing, Putin and Jiang Zemin reiterated their support for a multipolar world order to contain U.S. unilateralism, but the substance of the meeting concerned deepening energy and trade coopera-

tion and the struggle against terrorism within the framework of the Shanghai Cooperation Organization.¹⁷ The reason for the focus on the pragmatic core of their strategic partnership was self-evident: both countries had made major efforts to improve their relations with the United States. While Chinese commentators fretted about Russia's westward drift, Beijing's new leadership proved much more cautious about risking ties with the United States over Iraq than Russia was.

Russia's behavior toward the other key players in the region attested to its underlying interest in hedging its bets among its eastern neighbors. At their summit in January 2003, Putin and Prime Minister Koizumi Junichiro signed a "Japan-Russia Action Plan" that reiterated their commitment to overcome the Kuriles' territorial dispute and broaden energy cooperation beyond the existing projects on Sakhalin. Russia's default hedging strategy was on display in a new "competing pipeline" drama. Japan lobbied insistently for a \$5 billion, 2,300-mile project that would link oilfields near the Siberian city of Angarsk to the port city of Nakhodka on the Japan Sea. Beijing championed a smaller and cheaper route to the Chinese city of Daqing. Typically, Moscow played both sides. Russia's Yukos Oil and China National Petroleum signed a preliminary agreement on the Angarsk-Daqing deal on the sidelines of the summit meeting between Putin and Hu Jintao in May. But in subsequent interviews, Putin expressed a clear preference for the Nakhodka plan, stressing its potential to diversify Russia's energy exports in Asia. "The only question is whether it is well-grounded economically," he stressed.¹⁸ Japan took the bait by offering generous subsidies, while Putin and other Russian officials tried to keep everybody happy with the idea of a branch line from Angarsk-Nakhodka to Daqing, provided there is enough oil.

As the chapter on Northeast Asia in this volume attests, Russia's policy on North Korea fits the general pattern of Russian maneuvering for economic advantage and political influence, but within the limits dictated by relative weakness and a basic interest—in this case, in nuclear non-proliferation—that it shares with the other major powers.¹⁹ The question that is likely to dominate the agenda going forward is whether the same analysis applies to Russia's relationship with Iran. In 2001, Moscow and Tehran signed a protocol on mutual relations that featured a commitment to develop cooperation in areas of vital interest to Russia's military-industrial and nuclear complexes: nuclear energy, weapons modernization, air defense, and space programs. Russia's desire for good relations with its Caspian Sea neighbor is understandable. Arms sales to Iran—as in the cases of China, India, and other customers—also present no puzzle. Russia wants to sustain a core defense manufacturing capacity until economic growth affords

it the opportunity to modernize its surviving military infrastructure and to transfer excess defense workers and production capacities into more productive sectors. Nuclear cooperation, however, appears to lack a similar strategic rationale. Large sums of money for Minatom are in play—the Bushehr project is worth about \$1 billion, more reactor projects are planned, reprocessing fuel is also lucrative, and significant numbers of high-technology jobs are also involved²⁰—but the deal is of marginal significance for Russia’s larger strategic economic objective of modernization.

In the summer of 2003, Russia’s Iran policy was in precisely the same stage of ambiguity as its Iraq policy had been in the fall of 2002. As in the Iraq case, both Putin and his officials stressed commercial concerns—especially the fear that if Russia backed away from its contract with the Iranians to pressure them to comply with U.S. demands, American or European companies might move in to exploit the opening. Still, Putin tacked toward the emerging international consensus that Iran must accept stricter International Atomic Energy Agency oversight. At the June G-8 summit in Evian, Putin seemed to say that Russia’s nuclear cooperation with Iran would be contingent on Tehran’s acceptance of such a regime—only to be contradicted by Foreign Ministry and Minatom officials the next day. Russian diplomats claimed that getting Iran’s agreement is their top priority, but Atomic Energy Minister Rumyantsev insisted that all Moscow required was an Iranian commitment to send all fuel to Russia for reprocessing.²¹

The analysis here suggests that Moscow’s policy is opportunistic. Putin’s willingness to bring Minatom and its domestic supporters to heel depends on the strength of the international consensus, the sustainability of Moscow’s official position that the project is not a proliferation threat, and the degree to which the United States and others can reassure Moscow regarding its commercial concerns. All of this leads to the expectation that if Washington and its other allies remain united and the Iranians continue to resist international pressure to open up their program, Moscow should be amenable to a revision in its relationship with Tehran.

Conclusion

The dramatic events of 2003 left Putin’s grand strategy intact. The background forces and incentives underlying the basic approach have strengthened over the past year. The implication is that Russia’s diplomacy in Asia will continue along pragmatic lines, governed in the near to medium term mainly by the mix of “new security issues,” economic incentives, and modernization imperatives that have come to the fore in the last half decade. However, the strategy is consistent with maintaining some strategic ambiguity on Russia’s stance regarding the United States vs. Europe in the

West, and China vs. Japan and the United States in the East. At times, ambiguity also reflects contestation among domestic elites that is magnified by Russia's weak political institutions.

Such ambiguity occasionally feeds the argument that Russia has embarked on a policy aimed at balancing U.S. power. The analysis presented here suggests that such arguments are at best premature. Under Putin, even Russia's propensity to engage in "soft balancing" has moderated. The problem is that balancing the United States risks making Russia less secure, by, for example, subordinating Russia to a rising China or transforming Iran into a nuclear power. Russia's soft balancing is thus often an act—a rhetorical cover for a multilateral strategy that allows a relatively weak Russia to maximize its diplomatic leverage and hedge its bets.

Putin prefers a soft balancing act, as would any likely Russian leader facing the same tough set of internal and external constraints. The question for Moscow is not whether the policy is desirable but whether it is sustainable. The short-term prospects for maintaining it are promising, given the confluence of interests with the other major Asian powers regarding terrorism and North Korea. The most volatile dynamic over the long run is far more likely to concern Chinese rather than U.S. power. The 75 percent of Russian territory that lies in Asia is rich in natural but poor in human resources. Market reforms—a key to Russia's economic recovery—contribute to the region's depopulation by shifting capital away from labor-intensive industry to resource extraction, which requires a much smaller workforce. The proximity of a vibrant Chinese economy with abundant labor resources and an exponentially growing appetite for energy may ultimately feed an expanding sense of China's global and regional role, making Moscow's soft balancing act much harder to sustain in the next decade. Russia may then be presented with a tougher and even more consequential choice than the one Putin made in September 2001.

Endnotes

- ¹ Transcript of Putin's State of the Nation address: BBC Monitoring, May 16, 2003; *Johnson's Russia List*, no. 7186, May 19, 2003.
- ² Economic Statistics here and below as reported in Keith Bush, "Net Assessment of the Russian Economy, March 2003," Center for Strategic and International Studies <www.csis.org/ruseura/index.htm>; and World Bank, "Russian Economic Report, March 2003," <www.worldbank.org.ru>.
- ³ Philip Hanson, "The Russian Economic Recovery: Do Four Years of Growth Tell Us that the Fundamentals have Changed?" *Europe-Asia Studies*, vol. 55, no. 3 (May 2003), p. 379. Hanson's excellent analysis also notes the major challenges to this scenario, along the lines of the paragraph that follows herein.

- ⁴ On the former effect, see World Bank, “Russian Economic Report,” and on the latter, Hanson, “The Russian Economic Recovery...”
- ⁵ State of the Nation Address, BBC Monitoring, May 16, 2003; *Johnson’s Russia List*, no. 7186, May 19, 2003.
- ⁶ See William C. Wohlforth, “The Stability of a Unipolar World,” *International Security*, vol. 21, no. 1 (Summer 1999), pp. 1–36; and G. John Ikenberry, ed., *America Unrivaled: The Future of the Balance of Power*, Ithaca, N.Y.: Cornell University Press, 2002.
- ⁷ Pape, “Welcome to the era of ‘soft balancing’,” *Boston Globe*, March 23, 2003, p. H1. For more extensive discussions, see T. V. Paul and James J. Wirtz, “The Enduring Axioms of Balance of Power Theory,” in Paul and Wirtz, eds., *Balance of Power: Theory and Practice in the 21st Century* (forthcoming); and Stephen M. Walt, “Keeping the World ‘Off Balance’,” in Ikenberry, *America Unrivaled*.
- ⁸ For a more thorough analysis of this assertion, see William C. Wohlforth, “Revisiting Balance of Power Theory in Central Eurasia,” in Wirtz and Paul, *Balance of Power*.
- ⁹ See William C. Wohlforth, “Russia,” in Aaron L. Friedberg and Richard J. Ellings, with Michael Wills, eds., *Strategic Asia 2002–03: Asian Aftershocks*, Seattle: The National Bureau of Asian Research, 2003.
- ¹⁰ Transcript of Putin’s interview with the BBC, as reported on *Johnson’s Russia List*, no. 7236, June 24, 2003.
- ¹¹ Andrei Zagorski, “EU Policies Towards Russia, Ukraine, Moldova and Belarus,” in Roland Dannreuther, ed., *The European Union and its Neighbourhood: Towards a Strategy?* (forthcoming).
- ¹² Quoted in Andrew Jack and Stefan Wagstyl, “Optimism on Russian postwar accord with U.S.,” *Financial Times*, May 16, 2003.
- ¹³ See Kennan Institute event summary, “Policy Implications and Consequences of the Demographic and Health Crises in Russia,” *Johnson’s Russia List*, no. 7184, May 17, 2003.
- ¹⁴ See the discussion in Hanson “The Russian Economic Recovery,” pp. 371–74.
- ¹⁵ Vilia Gel’bras, “Velikoderzhavnyi i voenno-promyshlennyi kompleksy (The great power complex and the military-industrial complex),” *Expert*, June 11, 2001, p. 29.
- ¹⁶ Calculated from statistics presented in Celeste A. Wallander, “Russia’s Interest in Trading with the ‘Axis of Evil’,” testimony for “Russia’s Policies toward the Axis of Evil: Money and Geopolitics in Iraq and Iran,” Hearing before the House Committee on International Relations, February 26, 2003.
- ¹⁷ For more on this, see the chapter on Central Asia in this volume.
- ¹⁸ Transcript of Putin’s press conference on June 20, 2003.
- ¹⁹ Russia’s official policy—which Putin reiterated emphatically at the G-8 summit in Evian—is that proliferation of weapons of mass destruction “is the main threat of the 21st century.” Transcript of Putin’s BBC interview on June 22, 2003, reprinted in *Johnson’s Russia List*, no. 7236, 24 June 2003.
- ²⁰ Minatom claims that the Bushehr contract alone will secure 20,000 jobs and involve work at over 300 Russian companies. Anatoly Andreev, “Mirnyi Atom

dliia Bushera (Peaceful atom for Bushehr),” *Trud*, December 27, 2002, p. 1. For more on Russia’s role in proliferation in Asia, see the chapter on proliferation in this volume.

²¹ Aleksandr Gol’ts, “Na chistuiu tiazheluiu vodu ([Revealing] clean heavy water),” *Ezhenedel’nyi zhurnal*, June 16, 2003, p. 47.