Mercantilism and Neo-Imperialism in Russian Foreign Policy during President Putin’s 2nd Term*

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Abstract

This article makes the argument that 2004 was a good year both for Russia and for President Putin. Russian national power was measurably enhanced, and the Kremlin’s grip on all aspects of Russian public and private life was further strengthened. Russia largely improved its strategic position in the global environment thanks to internal mobilization of economic resources and political restructuring, favorable external trade conditions, skillful alliance-making, and diplomatic bargaining. Moscow was keen to penetrate the Oriental halls of power and Asian markets in order to use them as a geopolitical and geo-economic leverage against its exposure to and pressure from the United States and Europe. In Asia, President Putin seems to have chosen to give up space in exchange for time and money needed to rebuild the Russian empire. In general, Moscow is adept at pursuing the “divide and rule” strategy and playing all against all. President Putin repositioned Russia in Asia in such a way that Moscow, with its neo-imperial ambitions, is again seen as a ruthless power-balancer and a legitimate and tough contender in its own right for political influence and economic benefits in any power vacuum situation left open by the United States. The author concludes that Putin’s Russia is stronger today than ever, but he questions whether it makes the world a better and safer place.
The year 2004 was a good one, both for Russia and for President Putin. Russian national power was measurably enhanced, and the Kremlin’s grip on all aspects of Russian public and private life was further strengthened. Recent international developments have cumulatively benefited Moscow significantly, beefing up its treasury coffers, elevating its global prestige, and extending its worldwide influence to areas previously beyond its reach.

In today’s Russia, geo-economics appears to trump geopolitics. National interests are identified mostly in terms of power—economic, military, informational, and political; not values, which are expedient and malleable. The power of gas and oil is more fungible than the power of nuclear weapons; the power of electronic bytes is more far-reaching than the power of example. Accommodate the strong and bully the weak seems to be the rule. Respect for “universal values” and fair play is an exception. Russia seeks to participate in everything, but is reluctant to enter or commit itself to anything.

Economic Mercantilism

At present, foreign economic policy takes the center stage in Russian external behavior. It includes the energy diplomacy, arms sales diplomacy, high-tech development strategy, transportation networks integration strategy, financial diplomacy, and global trade regime management. These approaches are designed to guarantee Russia’s energy security, to facilitate self-reliance in defense procurement, to strengthen information security and transportation security, to ensure the financial stability of the Russian state, and to secure the benefits of global trade and Russia’s competitive trade advantages.

Energy diplomacy has been the key to Russia’s rebirth like a phoenix from the ashes of the 1998 financial meltdown. Having become a global oil and gas supplier to the energy-starving world, competing head-to-head with Saudi Arabia, Russia derives tremendous power from energy in bilateral relations (the so-called supplier’s power, which its dependents, like the European Union, seek to reduce, but to no avail), in terms of its influence on the worldwide market balance of global energy supply and demand (especially, its manipulation of the OPEC fears of the non-OPEC production increases), in terms of its political expansion as a result of Russian participation in energy trade and investment networks (for instance, Russian control of the Caspian oil and gas transportation, which worries the United States and its allies), and a demonstration effect on other bilateral relations, especially in East Asia (for instance, Japan-China rivalry for Eastern Siberian oil).

Russian global energy strategy seems to be aimed at curtailing the influence of the Saudi-led OPEC, still willing to mitigate price increases at Washington’s beck and call, through direct pressure on and cooptation of its non-Arab producers—Venezuela, Nigeria, and Indonesia—as well as aimed at hooking up Europe and Asia (China, Japan, India, Korea) to its own current and future oil and gas pipeline networks, and driving the global energy prices up to profit from rising global energy demand and the U.S. military quagmire in the Middle East. By January 1, 2006, the Russian government expects to pocket an extra US$25 billion in additional petrodollar revenues designated for its macro-economic stabilization fund, if the Urals crude price continues to stay above US$21-21.50 throughout 2005. If it stays above US$ 29-31, the

The views expressed in this article are personal views of the author, and they do not represent the official positions of the U.S. government, the Department of Defense, and the Asia-Pacific Center for Security Studies.

The Russian Federation.

2 Russia is important to world energy markets because it holds the world’s largest natural gas reserves (1,680 trillion cubic feet, TcF), the second largest recoverable coal reserves (173 billion short tons), and the eighth largest oil reserves (60 billion barrels). Russia is also the world’s largest producer (21 TcF) and exporter (6.5 TcF) of natural gas, the second largest producer (8.4 million bbl/day) and exporter (5.76 million bbl/day) of oil, and the third largest energy consumer. See Russia Country Analysis Brief, May 2004, available at http://www.eia.doe.gov/emeu/cabs/russia.html.

Kremlin hopes to add another US$10 billion to its petrodollar treasure chest. This is big money, which justifies aggressive re-nationalization of the oil industry at home and skillful manipulation of global energy markets abroad.

Russian arms exports were worth US$5.8 billion in 2004, according to the Russian Ministry of Defense and Federal Agency for Military-Technical Cooperation with Foreign Countries, constituting another lucrative avenue for generating government revenues and pursuing Russian geopolitical interests. China and India claim about 35–40 percent each of the Russian annual global arms sales. Since the mid-1990s, Moscow has been selling to the Chinese and Indian armies, air forces, and navies the modified weapon systems designed in the 1980s. But, there is an obvious technical limit to how much these armaments can be modernized and upgraded. Besides, traditional customers become choosier and demand the top-of-the-line weapons systems and platforms comparable with the precision-guided American weaponry. Although Russian Defense Minister Sergey Ivanov promised to “act with brains, elbows and all other body parts, using all legal means to fight for arms contracts,” Russia really has very few novel technologies and weapons for sale. Consequently, some “merchants of death” from ROSOBORONEXPORT are willing to sell everything, including the previously untouchable part of the Soviet heritage, namely the nuclear technologies. That is why Moscow is reportedly engaged in negotiations with Delhi regarding the sale of Russian nuclear submarines and strategic bombers TU-22 to India. If such a shift from conventional weapons sales to the strategic nuclear arms trade does take place within the Russian-Chinese-Indian triangle, it may further undermine the global nuclear non-proliferation regime, increase regional tensions, and lead to a new round of nuclear arms race in the Asia-Pacific region.

Robust economic development is unthinkable without a modern transportation infrastructure. The Russian government intends to develop a modern inter-modal transportation infrastructure, which can be used as the main trans-Eurasian Transportation Corridor connecting East Asia and Europe. Although the Russian government is still reluctant to allocate substantial budget funds from the ballooning stabilization fund to the modernization and expansion of major highway and railway networks, Russian private and public sectors began to invest on their own in the modernization of port facilities along the Russian Pacific coast, in the repair and modernization of railroads, tunnels, bridges, repair and maintenance facilities, cargo and passenger service facilities along the Trans-Siberian Railway. The Russian Railways Corporation studies ambitious projects to connect the Trans-Siberian Railway (TSR) with the Trans-Korean Railway (TKR), to build the “North-South” transportation corridor via Iran to India, to increase the number of connections between the TSR and Trans-Chinese Railway (TCR), and to connect the TSR with the Japanese railway system through a number of undersea railroad tunnels connecting the Eurasian mainland via Sakhalin with the islands of Japan. Its officials believe that low transit tariffs, efficient service, and shortened delivery schedules can lure substantial Asia-Europe transit cargo flows to Russia. It should not only save time and money for the international transportation concerns, but also provide additional financial resources for the infrastructure development of Siberia and the Russian Far East.

External government debt management strategy plays a very important role in Russian foreign economic policy, too. Since 2000, thanks to the windfall of petrodollars, the Russian government has been aggressively paying off its external debt obligations (almost US$50 billion—principal and interest), reducing its total net outstanding government debt from US$158.4 billion, on January 1, 2000, to US$113.4 billion, on January 1, 2005. In 2003-2004, it halted all new borrowings from the IMF and World Bank. At the same time, the Russian Central Bank continues to build-up its foreign exchange reserves (US$120 billion at the end of 2004), which have already exceeded Rus-

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sia’s foreign debt obligations (US$113.4 billion), making the Russian Federation a net creditor to the world in 2004. The Russian government, worried about the precipitous decline in the value of the U.S. dollar, is also engaged in moving its foreign exchange reserves from U.S. dollars to euros and yen.  

Moscow appears to be very discriminate and politically-motivated in managing its debt portfolio. The Russian government studies the possibility of paying off its entire US$46.1 billion debt to the Paris Club in 2005-2008. Within the Paris Club, the Putin administration is willing to first pre-pay Russia’s main trade partners and newly-found allies in the anti-Iraq war “Old Europe” coalition opposed to the U.S. hegemony and unilateralism such as Germany (US$20.7 billion), France (US$3.4 billion), and Italy (US$ 5.7 billion) and swap Russian government debts for their future equity in Russian industries (in 2005, US$7-10 billion in total), but not the United States (US$3.5 billion) and its closest allies, including the United Kingdom (US$1.5 billion), Japan (US$ 3.7 billion), and the ROK (US$1.47 billion). Moscow seems to be interested in borrowing more from Beijing (up to US$ 6 billion, in January 2005), but not from Washington. Russia is willing to swap Indian debts for equity in Indian industry (US$2.76 billion), but is reluctant to reschedule the Pakistanti debt (US$120 million). Giving in to political pressure from Washington, the Kremlin chose to forgive Iraq (US$8 billion) in December 2004, but not the DPRK (US$5 billion) or Cuba. And, to Washington’s profound displeasure, Moscow went ahead to write off US$9.7 billion, or 73%, of Syrian total debt in January 2005. In other words, global positioning, strategic bargaining, and alliance-making diplomacy appear to dictate the key priorities of long-term financial management in Russian foreign economic policy, too.

Admission into the WTO and subsequent full integration into the world economic system is the main short-term trade policy objective of

9 See German Greff, speech at the first all-Russian conference of the heads of foreign economic departments of the provinces of the Russian Federation, p. 14, July 2004, Moscow, Ministry of Economic Development and Trade, available at http://www.economy.gov.ru/wpa/portal/lut/p/_s.7.0_A/7_0_BD_.cmd/ad/ar/sa.detailURI/ps/X.c/6_0_6P/ce/7_0_1M5.p/5_0.JP/d/0/_th/l_0_documentId=1089717463734&documentType=1089717463734&dateJuly12, 2004. Mr. German Greff is the Russian Minister of Economic Development and Trade.


12 See interview with Maxim Medvedkov, “We Will not Leave Geneva,” Kommersant Daily, July 16, 2004, p. 6. Maxim Medvedkov is Director of the trade negotiations department of the Russian Ministry of Economic Development and Trade. He is the chief Russian negotiator with the WTO.


8 See Alexei Kudrin, interview at the Russian Ministry of Finance.
ernization project.” Preoccupied by geopolitical fantasies, messianic mission and superiority complex of the Russian ethnos and its exceptionalist beliefs, Cold War-era historical resentments, and neo-Soviet nostalgia, the Russian political class, rushing between Courchevel and Lefortovo, talks about the restoration of a Russian empire under all sorts of ideological banners and colors—from the “Liberal empire” (Chubais) to the “White empire” (Prokhanov), to the “Red empire” (Zyuganov), to the “Eurasian empire” (Dugin), to the “Patriotic empire” (Rogozin), to the “National-Bolshevik empire” (Limonov), and the “All-Russian Empire” (Zhirinovsky). Many of these concepts

Resurgence of Russian Nationalism and Political Neo-Imperialism

Empire-building based on national consolidation and external expansion is the most popular theme of public discourse, a magnet for elite opinions, and an integral part of President Putin’s “Russia mod-

15 Courchevel is an expensive French ski resort popular among Russian nouveaux- riches.
16 Lefortovo is the prison and investigation complex used by the Federal Security Service for the incarceration of high-ranking government officials, spies, and oligarchs.
17 An excellent introduction to the neo-imperial discourse within Russian political establishment can be found in the recent book written by Dr. Emil Pain, Between Empire and Nation (Moscow: Liberal Mission Foundation Press, 2004). Emil Pain is Director General of the Moscow Center of Ethno-Political and Regional Studies.
18 Mr. Anatoly Chubais, former Deputy Prime Minister, head of the union of right forces party, and chairman of the United Energy Systems (RAO EES) Corporation of Russia, was the author and most ardent proponent of the “liberal empire-building” school of thought. See Anatoly Chubais, “Russia’s Mission,” speech at the St. Petersburg State University of Engineering and Economics, Sept. 25, 2003, available at http://www.chubais.ru/cgi-bin/cms/personal.cgi?news=00000000048.
20 Evgeni Zyuganov is the leader of the Communist Party of the Russian Federation in the State Duma.
21 Alexander Dugin is the leader of the “Eurasia” Party, philosopher and political scientist, known for his geopolitical studies a la MacKinder.
22 Dmitry Rogozin is the leader of the nationalist “Rodina” (fatherland) Party in the State Duma.
23 Eduard Limonov is the leader of the chauvinist party “National Bolsheviks of Russia.”
24 Vladimir Zhirinovsky is the leader of the ultra-nationalist “Liberal-Democratic Party of Russia” (LDPR) in the State Duma.
are discussed as part of an amorphous grand anti-Western ideological project designed to compel the former Russian territories and satellites to make a strategic choice between Russia and the U.S.-led West and join Moscow in its late development catch-up drive.

The reversal of democratic transition and establishment of authoritarian rule under President Putin undermined the political foundation for various liberal concepts of humanitarian intervention, democratization, state/nation-building that were proposed in the 1990s as the guidelines for the leadership role of a new Westernizing Russia in the democratic transformation and market integration in the post-Soviet space. Instead of alleviating human suffering, promoting democratic values, and assisting indigenous institution-building, Moscow has been keen to rely on the power of energy and Russian language to undermine the national sovereignty and territorial integrity of its neighbors and to solidify imperial control over the former Soviet lands through the divide-and-rule tactics. Loss of traditional influence in the Balkans in 1999, establishment of American military bases in Central Asia in the aftermath of September 11, 2001, loss of political clout in Moldova in 2002 and the humiliating defeat of Russian interests as a result of the “revolution of roses” in Georgia in 2003 only cemented the Kremlin’s determination to resist Western encroachments on its traditional sphere of interests in the “near abroad.”

Russia’s strategic game plan appears to be focused on restoring a mini-USSR in one form or another (“Russia plus 11 CIS member-states” or “USSR minus 3 Baltic states”). The most truncated formula, “Russia plus 3,” would re-establish Moscow’s imperial control over the Slavic lands and encompass the entire territory of Belarus, the Ukraine (whole or a splinter state amalgamation of Eastern Ukrainian regions and Crimea), and Kazakhstan (whole or Northern regions only), as well as some former Soviet autonomous territories like Transdniestr, Abkhazia, Southern Ossetia, and others. Under this least ambitious scenario, Moscow would trade off vanishing Russian influence in the Caspian Basin and Central Asia for American and Western support for Russia’s integration into the global economy and the “civilized world.”

Russian-Western disagreement on the evaluation of the October 17, 2004, constitutional referendum allowing the Belarussian President Lukashenko to run for the third term and open confrontation during the November–December 2004 presidential election campaign in the Ukraine are clear signs that President Putin decided to draw a red line beyond which the Kremlin would not tolerate any more encroachments on Russia’s great power status and the EU and NATO expansion in the perceived Russian sphere of strategic interests, even at the price of boycotting key Western institutions and re-igniting a new mini-Cold War between Moscow and the West.

The United States is, of course, the key player with tremendous political, economic, financial, informational, and military resources, challenging Russia for the great power domination in the post-Soviet space and thwarting its neo-imperial ambitions. Increasingly recalcitrant and nationalistic Moscow has three basic options in coping with Washington’s challenge: 1) bandwagoning, i.e., pursuit of economic growth and allied modernization within the U.S.-dominated world order; 2) insistence on a completely equal great power partnership leading to global power politics and potential confrontation; and 3) reluctant conditional acquiescence with the U.S. global policies, protection of Russian vital national interests in the “near abroad,” and ruin-

26 See Andrei Piontkovsky, “Services of Empire will not be Welcomed,” The Novaya Gazeta, Moscow, Feb. 9, 2004, p. 1. Mr. Piontkovsky is a political observer of moderate liberal views.

27 Unhappy about the European involvement in the “Orange Revolution” in the Ukraine, Russian foreign minister Sergey Lavrov reportedly threatened to suspend Russia’s membership of the OSCE in December 2004. On numerous occasions, Russia also threatened to reconsider its participation in the meetings of the Council of Europe and its Parliamentary Assembly, which are perceived as being too biased and critical of Russia’s human rights violations in Chechnya.

ning sabotage of U.S. global influence by promoting multipolarity, de-emphasizing proliferation of non-conventional weapons, and fueling local challenges to American hegemony, especially in the Middle and Near East. Russia under the second Putin administration appears to be headed in the third direction, despite the often-cited personal chemistry between George W. Bush and Vladimir Putin and Russia’s high-profile cooperation with the United States in the global war against international terrorism. The “Third Way” approach attempts to balance Russia’s exceptionalist claims to uniqueness (“Russia is neither Europe nor Asia”) and realpolitick pragmatism seeking to benefit from Western capital and technology while restraining the exercise of Western power.

Relations with Europe constitute the third priority in President Putin’s foreign policy. During Putin’s second term, the Russian government is unlikely to seek either full integration or outright confrontation with the EU, let alone NATO, OSCE, and other European institutions. As the last EU-Russia summit in The Hague held on November 25, 2004, demonstrated, Moscow may strive to advance “equal partnership” with the Brussels in the so-called “four common dimensions”—economy; freedom, law, and internal security; external security; and science, education, and culture. But, since the EU is unwilling to grant Russia a privileged status, given obvious power disparities, and is unlikely to accommodate its substantive demands and major concerns in any of these four areas, due to the mounting pressures from the EU’s newest members from Eastern and Central Europe known for their historical anti-Russian prejudices, Moscow may be reluctant to show more compromise and continue to cooperate sincerely with the European multilateral institutions. Instead, the Putin government is keen to build a countervailing coalition with the European great powers like Germany, France, and Italy in order to pressure the Brussels bureau-

Asia constitutes another priority area for Russian foreign policymakers. Traditionally, when Russia’s relations with the United States and Europe deteriorated, Moscow tended to gravitate closer to Asia and embrace reluctantly one or two of its giants (for instance, the Stalin-Mao alliance at the dawn of the Cold War or the promotion of the Russian-Chinese-Indian trilateral cooperation by the Primakov government in the late 1990s). At present, any talk about the forthcoming “Asianization” or “Sinification” of Russia seems to be unwarranted and premature. But, Moscow is keen to penetrate the Oriental halls of power and Asian markets in order to use them as a geopolitical and geo-economic leverage against its exposure to and pressure from the United States and Europe. In general, Moscow is well adept at pursuing the “divide and rule” strategy and playing all against all in Asia. In particular, Russia is not shy to play off China against the United States; Japan against China; India against the United States, China, and Pakistan; Iran against Saudi Arabia and Iraq; Turkey against Iran; North Korea against South Korea and Japan, etc.

**Bilateral Relations in Asia**

**Russia-China**

The year of 2004 was a difficult year for the Russian-Chinese strategic partnership still characterized by a wide gulf between words and deeds. It was a trying time of “protracted pause” in military-technical cooperation, “uncertainty and indecision” in energy collaboration, “snags and procrastination” in bilateral WTO negotiations, Buddhist lobbying and disagreement on the Dalai Lama, controversial territorial

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30 As part of the quadrilateral coalition-building process, in addition to developing close and strong personal ties between President Putin and Chancellor Schroeder, President Chirak, and Prime Minister Berlusconi, Moscow granted Berlin, Paris, and Rome with numerous trade and investment privileges, agreed on a mutual visa exemption regime, opened unprecedented access to the Russian energy markets, offered to pre-pay the government debt obligations ahead of other Paris Club members, ratified the Kyoto Treaty, and took common political positions on many controversial issues at the United Nations, especially on the Iraq war and post-war reconstruction, Iran’s nuclear program, and the Arab-Israeli conflict.
Beijing decided to take a “pause” in military-technical cooperation in order to explore alternative options in military procurement, especially in Western Europe, and launched a full-blown political and diplomatic campaign aimed at lifting the EU embargo on arms sales to the PRC imposed after the 1989 Tiananmen Square massacre. Subsequently, the Chinese government repeatedly gave the “cold shoulder” to new Russian arms offers, and some experts began to speculate that Moscow was losing its grip on the lucrative Chinese arms market, which accounted for 58 percent and nearly 40 percent of the “ROSOBORONEXPORT” sales in 2002 and 2003 accordingly.

Second, the worsening YUKOS affair, prolonged delay of the Krem-lin decision on the routing of a new trans-Siberian oil pipeline, or the so-called “Eastern Project,” and escalating Russian-Chinese competition for energy equities in Central Asia (Kazakhstan) and the Caspian basin (Azerbaijan) continued to shake and chill bilateral energy cooperation, which constitutes the foundation of Russian-Chinese economic relations. These developments fueled oil price hikes and uncertainty in the global energy markets, created tremendous headaches for the Chinese National Petroleum Corporation (CNPC), SINOPEC, and Chinese gov-
ernment economic policy planners, and acted as indirect impediments to the steady growth of Chinese national economy (an object of constant envy for the Russian political class) starving for energy resources.

In particular, according to the inter-governmental agreement signed in March 2004, the YUKOS Corporation was obligated to ship by railroad to China 6.3 million tons of crude oil (2.5 million tons to the privately-held SINOPEC and 3.8 million tons to the state-owned CNPC) in 2004,\(^35\) 8.5-10 million tons in 2005, and up to 15 million tons in 2006, with the possibility of exporting up to 30 million tons annually in 2025.\(^36\) But, on September 28th, after the summer-long efforts to preserve its normal operations despite the lack of operational funds frozen by the Russian government, the YUKOS halted all crude oil exports to CPNC in the amount of 100,000 barrels per day,\(^37\) accounting for 3 percent of total Chinese crude imports. To be sure, Russian exports of crude oil to China reportedly resumed after the government renationalization of the Yugansksnneftegas assets in December 2004, bringing the total amount of Russian crude oil shipped to the PRC to 10.8 million tons in 2004, as compared to 5.3 million tons in 2003. But, political power grapple, re-nationalization of private property, and under-the-carpet energy politics in Moscow proved to be more important than the vital national interests of its strategic partner in the East.

Third, despite a double-digit growth in bilateral trade in 2004 to more than US$ 20 billion (which is projected to reach US$ 25–26 billion in 2005),\(^38\) the Russian government encountered considerable resistance from the Chinese government in various bilateral trade negotiations, especially on Russia’s accession to the World Trade Organization. The PRC entered into the tariff negotiations with Russia in April 2002, three months after its own admission to the WTO. Its original demand was that Russia must reduce its existing tariffs two-to-three-fold in one-to-two years on 3,763 different goods positions. Only after several rounds of talks, in fall 2003, did the Chinese side agree to divide its demands into two parts—1,525 priority goods (or 40 percent of the entire original list of disputed tariffs on goods) and non-priority goods, and moved to settle on 500 priority positions. Russian negotiators squared off with their Chinese counterparts three times in 2004—in February, April, and June, and were able to cut in half to 495 the number of the still disputed tariff positions, primarily tariffs on clothes, footwear, consumer electronics, and electric appliances. However, in the final stretch of bilateral negotiations, three problems proved to be very difficult for trade negotiators to resolve without the participation of supreme political leadership, namely greater access for Chinese auto transport carriers to Russian markets, Russian reluctance to establish joint Russian-Chinese universities, and liberalization of access to Russian energy markets for Chinese energy providers. During the Geneva negotiations on July 20, 2004, the Chinese delegation indicated that it would be only up to the leaders of the two countries to settle on the final terms of Chinese consent to the Russian accession to the WTO.\(^39\) The stakes for the Beijing summit in October 2004 grew a notch higher.

President Putin described his official visit to the PRC, scheduled to coincide with the celebrations of the 55th anniversary of the establishment of Soviet-Chinese diplomatic relations, and meetings with Chairman Hu Jintao and other Chinese leaders on October 14, 2004, as the “summit of breakthrough decisions,” in stark contrast to the official

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\(^{35}\) This amount means 150,000 barrels per day, which accounts for 7 percent of Chinese total daily consumption of crude oil, with 100,000 barrels going to CNPC and 50,000 barrels to SINOPEC.


\(^{37}\) The YUKOS management resorted to such a high-profile drastic measure in order to broaden the scope of conflict and draw the international attention to its unfair prosecution by the Russian government. Specifically, it wanted the Russian courts and Ministry of Taxes and Revenues to unfreeze its bank accounts so that it could continue normal business operations and pay its counterpart for the railroad tariffs and other utilities due as a result of its oil exports to China. See Erin Arvedlund, “A Clever Move by YUKOS,” New York Times, New York, Sept. 21, 2004.


\(^{39}\) See Memorandum on WTO talks with the PRC, Ministry of Economic Development and Trade, Moscow, November 2004, available at http://www.economy.gov.ru/wps/portal/lut/p/_s7.0_A/7.0_PL/_cmd/ad/ar/sa.dataiURL/ps/X.cx/6.0_AB/ce/7.0_IQ2/p5.0_NM/d/o/_th/J_0_documentId=110180499078&documentType=material.
Chinese evaluation of its results as simply “good.” The Russian leader brought some bad news and some good news to China.

The biggest blow was the Russian government’s surprise decision not to build an oil pipeline to China: to Beijing’s profound disappointment, after more than 10 years of internal deliberations in Moscow, the pro-Chinese Angarsk-Daqing project finally lost to its pro-Japanese rival Angarsk-Nakhodka project, which put into serious doubt the ostensibly bright prospects for long-term bilateral energy cooperation. Putin’s promise to allow Chinese energy companies to participate in the forthcoming liberalization of Russian energy markets failed to relieve the pain. Also stinging was the Russian government’s decision to reject Chinese overtures with regard to the sales of more advanced weapons systems to the PLA and joint co-development of the fifth-generation fighter jet. Moscow apparently called the Chinese bluff on the prospects for the early removal of the EU arms embargo, and Beijing had to admit that it was too early to discount a Russian role in the modernization of China’s military and defense industry. Finally, the Russian delegation reportedly informed the Chinese side about the MOFA’s decision to allow the Dalai Lama to visit Russia in November for the pursuit of religious rites, despite vociferous objections from the Chinese government. President Putin made a strong point that it was up to the Russian government alone to decide who will or will not be able to visit Russia. The Russian-Chinese strategic partnership was about to crumble.

But, resurgent Moscow needs Beijing as strategic leverage in its dealing with Washington and the West. Moscow also needs secure borders and political solidarity in the Far East, especially when it is contempating an expansionist push into the former Soviet republics and seeks to restore its traditional control over the Ukraine, Belarus, and Kazakhstan, despite strong opposition from the United States and European Union. Mr. Putin’s solution was to give up space in exchange for time, especially if it allowed him to remove one of the thorniest problems in bilateral relations.

So, despite potential popular opposition at home, he decided to secretly settle the centuries-old territorial dispute with China, by conceding one half of each of the three disputed islands—Bolshoy Ussuri and Tarabarov on the Amur River near Khabarovsk and Bolshoy on the Argun River. Russian nationalists immediately accused him of selling out historical Russian lands for the sake of political expediency, as well as a shaky Chinese promise to invest US$12 billion in the Russian economy in some distant future. But, the Chinese were happy, albeit surprised, and moved quickly to sign all the necessary paperwork. Moreover, they agreed to compromise on their terms for Russian accession into the WTO. Consequently, on October 14, 2004, senior trade representatives of the Russian and Chinese governments signed a Beijing Protocol on Completion of Bilateral Talks Concerning Access to Goods and Services Markets, which completely removed all Chinese objections to the Russian membership in the WTO—a big diplomatic victory for Mr. Putin.

In sum, one can say that President Putin skillfully used his territorial card to stave off the Chinese appetite for Russian gas and oil and advanced weapons without upsetting the Red Dragon too much. Moreover, he was able to trade a negligible chunk of Russian land, just half of three small Russian islands, to the Chinese for Russia’s early WTO membership. Only a few hundred Khabarovsk citizens whose dachas on the Bolshoy Ussuri Island may be bulldozed over by the new Chinese owners will have to pay the full admission price for Russia’s entry into the global trade system. The rest of the frightened Russian population chose to maintain a politically-correct silence at Mr. Putin’s audacity and tactical opportunism, being subjugated by the Kremlin’s propa-


40 In fact, the Russian government repeatedly blocked Chinese participation in the privatization auctions of such Russian oil majors as “Slavneft,” “TNK,” and, most recently, “YUGANSKNEFTEGAS.”
and rendered it out of touch with rapidly changing political and economic realities in both countries. The average annual trade volume decreased from US$5.5 billion in 1990 to US$1.3-1.5 billion in 2000-2003, according to Indian data, and ranged between US$1.6 billion in 2000, US$2.1 billion in 2002, and US$3.3 billion in 2003, according to the Russian Federal Customs Committee.43

This notwithstanding, there is growing appreciation of India’s rapid economic growth in the wake of market liberalization reforms of the 1990s. India, with its population of 1.3 billion, is increasingly regarded as the second potentially most powerful and influential Asian player after China, which is making a comeback on its own nationalistic terms in the world economy and politics. Russia is inclined to exploit resurgent Indian nationalism and great power ambitions in South and Southwest Asia, the Indian Ocean, and in the international institutions, especially within the United Nations system.

During his first year in office, President Putin signed a refreshing Declaration on Strategic Partnership with Indian leaders in December 2000 and once a year met with them alternately in Delhi, Mumbai, and Bangalore (or December 3–5, 2002, and December 3–5, 2004) and in Moscow (in 2001 and on November 11–13, 2003). In the summit talks, they consistently stressed the importance of the United Nations and the Security Council in a multipolar world (“hegemony and unilateralism undermine world peace and stability”), denounced religious extremism, separatism, and international terrorism (“double standards are inadmissible”), especially in Kashmir and Chechnya (“both conflicts have similar roots,” and “outside third party intervention must be stopped”), exchanged views on Iraq (“Iraq’s sovereignty must be preserved,” and “foreign occupation must end as soon as possible”), Afghanistan (“foreign troops must go home”), Pakistan (“Islamabad must stop its support for transnational terrorism”), and the Middle East, talked about the WMD proliferation (“every nation has a right to self-defense”), narcotrafficking, and other transnational threats. These discussions are usually further expanded at regular contacts between

Russia-India

For decades, Russians regarded India as an exceptionally friendly country whose huge population “grew plenty of tea and worshiped sacred cows,” whereas Indians viewed Russia as “a land of vodka, tanks, and cold winters.” Very few people realized that the Soviet Union had built and paid for nearly 50 large-scale industrial enterprises—the flagships of the Indian economy—including iron & steel works in Bhilai and Bokaro, coal mines, iron ore mines, oil refineries, 13 hydro- and coal-fueled electric power plants, heavy machine-building plants in Ranchi and Kota, medicine-making plants and so on, as well as trained more than 120,000 Indian specialists and technicians in various fields of national economy and science. Most of the bilateral trade was based on the Soviet exports of crude oil from the Iraqi fields, mineral fertilizers from Belarus, ferrous and non-ferrous ores from Kazakhstan, and metal coke from the Ukraine in exchange for Indian tea, coffee, rice, tobacco, spices, textiles, clothes, medicine, and daily necessities, resulting in a persistent trade deficit for the USSR, which was paid for by the Soviet financing and construction of metallurgy and energy plants and coal mines in India. At the same time, since 1960, Moscow sold arms and military equipment worth US$33 billion to Delhi, having equipped more or less 70–80 percent of the Indian armed forces, resulting in a ballooning arms trade deficit for India.42

But, these days are long gone. In the 1990s, Russia tried to squeeze the most from the Soviet legacy in India, without doing much to build on it, which drained the potential for bilateral economic cooperation


43 See Memorandum on trade and economic cooperation between Russia and India, Department of information and media, Ministry of Foreign Affairs, Moscow, May 7, 2004.
ONGC in partnership with Russian state “Rosneft” corporation invested US$1.7 billion and US$1.5 billion in the oil exploration, development, and production projects “Sakhalin-1” and “Sakhalin-3,” respectively in 2001 and 2004. Russian gas monopoly “Gazprom” and “Zarubezhneftegas” company set up a joint Russian-Indian consortium to explore and extract oil and gas on the continental shelf in the Bengal Bay. Also, “Gazprom” and “StroyTransGas” corporation are participating in the construction of gas and oil pipelines around India as part of the national project of gasification of all Indian states (17,000 km of pipelines). In 2004, ONGC agreed to invest US$1.5 billion in the Russian-Kazakh oil and gas field in Kurmangasy in the Caspian basin. ONGC reportedly attempted, albeit without success, to bid for the YUKOS assets at the December 19, 2004, state auction in Moscow.47 Despite existing international sanctions and nuclear proliferation concerns, Russia is actively building a 2,000 MW (e) nuclear reactor at the end of 2006, with the possibility of the construction of four more VVER-1,000 nuclear reactors on the same site.48 RAO “United Energy Systems” is participating in the modernization of the “Taeri” and “Koteshvar” hydro-electric power plants and “Korba” coal-fueled power plant (with two VVER-1000 nuclear reactors) in the southern Indian state of Tamil Nadu, due for completion at the end of 2006, with the possibility of the construction of four more VVER-1,000 nuclear reactors on the same site.48 Instead, they are preoccupied with promoting large-scale investment projects, especially in the energy sector, which is believed to be “vital to securing India’s energy independence” and very lucrative for the Russian state.46 For instance, Indian state oil and gas corporation

44 This commission consists of 12 sectoral groups and 12 subgroups; it is convened twice a year, and has already held ten sessions since formation. On the Russian side, it is headed by the First Deputy Prime Minister Alexander Zhukov.
45 Joint space exploration and collaboration on a flight to the Moon are also mentioned as possible areas of inter-state cooperation.
46 During his visit to Moscow in October 2004, the Indian Minister of Oil and Gas Mani Shankar Ayar made a rather emotional statement that “In so far as in the second half of the 20th century when India was developing as an independent state, Russia made a significant contribution to the preservation of our territorial integrity, these days Russia acts as a guarantor of our energy independence.” See Alexei Tamilin, “A New Russian-Indian Breakthrough in the Oil and Gas Sector is Coming,” Nov. 15, 2004, available at http://www.strana.ru/stories/02/02/01/2447/237279.html.
Iran to Russia, the possibilities for large-scale energy cooperation will remain very limited, and India will have to continue to rely on oil and gas delivered from Saudi Arabia, Nigeria, UAE, Iran, and Vietnam.

Russian strategists believe that in future there is no possibility of the emergence of any conflict situations with India on either territorial or geo-strategic grounds, which is very different from their strategic calculus for Russian-Chinese relations. As a result, the Russian government is open to the idea of selling the most advanced weapons systems and platforms to India, in sharp contrast to its long-standing policy in arms trade with China. 49 Moreover, now that the U.S.-Indian relations warmed up considerably and Washington began to remove trade sanctions from India, including in such advanced fields as space technology, atomic technology, and high-tech IT sector, and is even willing to partially lift its arms embargo, Russia appears to be ready to up the ante even more in its fight to preserve the Indian arms market for its near exclusive use.

Today, Moscow controls about 70 percent of the Indian arms market, supplying Kilo-class submarines, aircraft carrier “Admiral Gorshkov” and frigates, fighter jets SU-30MKI and MIG-29s, helicopters KA-27PS, KA-28, and KA-31, tanks T-90C, air defense and artillery systems (“Tunguska” M1 Air Defense Missile/Gun System and 9A52-2 BM-30 “Smerch” 300-mm MLRS), and jointly co-developing SLCM “BrahMos PJ-10.” The current Russian portfolio of Indian orders due for completion in the next five-seven years is worth about US$5 billion, and constitutes about 35 percent of all Russian arms sales around the world. 50 Some experts believe that Russia may get up to US$10 billion worth of new arms orders from India in the next 7-8 years.51

It is extremely important that the Russian government seems to be willing to provide the Indians with such strategic nuclear weapon delivery platforms as long-range bombers TU-22 (sell) and to lease a multipurpose nuclear submarine “Akula II/Schuka-B” (sell or lease for 3-5 years), capable of firing SS-N-15 anti-submarine missiles and SS-N-21 nuclear-tipped intermediate-range cruise missiles. This is a very serious step with potentially grave political ramifications, because India is not a party to the NPT and global nuclear non-proliferation regime. It appears that Moscow encourages India’s nuclear ambitions not only by transferring core nuclear technologies “for peaceful use,” but also by helping Delhi develop an enhanced strategic nuclear triad in total disregard of the will of the international community and in direct violation of its Nuclear Non-proliferation Treaty obligations. Strategic considerations and greed seem to be behind Moscow’s support for the release of the Indian nuclear genie out of the bottle.

**Russia-Japan**

The year 2004 was rather uneventful in regard to relations between Russia and Japan. Both capitals exchanged traditional barbs regarding the territorial problem and peace treaty. Although Moscow attempted to indicate some new flexibility in its approach on the eve of the APEC summit in Chile in November, following the surprising Russian-Chinese settlement of the long-lasting border dispute on October 14, 2004, Tokyo moved quickly to extinguish any hopes of an early compromise on the basis of the Russian-favored 1956 formula. President Putin may try again to find a political solution on this issue during his upcoming official visit to Tokyo to be devoted to the celebrations of the 150th anniversary of the establishment of diplomatic relations between the two countries. 52 One cannot exclude the possibility that one day the Russian leader may again surprise his own people and, despite widespread public opposition, may give up the Russian historical claim to parts or all four Southern Kuril islands (referred to as the Northern Territories by the Japanese) in exchange for the solid peace treaty, Japanese government consent to Russian admission to the WTO, and Tokyo’s commitment to make substantial investments in the development of industrial and transportation infrastructure in Siberia and the Far East.

Japan is one of the largest Russian trading partners in the Asia-Pacific region, although bilateral trade volume is still only one-third of


the Russian-Chinese trade turnover and tends to rise and fall periodically (it varied from US$3.846 bil to US$4.225 bil. to US$5.168 bil. to US$4.592 bil. to US$4.195 bil. to US$5.916 bil in 1998-2003); it is characterized by persistent Russian trade surplus worth US$2-3 billion. Russia exports non-ferrous and precious metals (37% of total exports), marine products (27%), timber (11%), as well as coal, crude oil, and refined oil products (up to 20%), while imports transport equipment, construction equipment, electric appliances, consumer electronics, telecommunications equipment, metal-processing equipment, and so on from Japan. Japan cumulatively invested US$1.9 billion in the Russian economy, including US$1.353 billion of direct investments, US$905 million of which went into the energy sector. The most promising joint venture projects in the bilateral energy cooperation are “Sakhalin-I”53 and “Sakhalin-II.”54 In the fall of 2004, the Russian Parliament ratified the Kyoto Protocol, which scored some points for Moscow in Tokyo. Japan supported Russian entry into APEC, but is slow to negotiate and is still reluctant to settle on its terms for Russian admission into the WTO.

An important domestic development affecting the long-term

53 The Sakhalin-I project is being led by Exxon Neftegaz, in conjunction with consortium members SODECO, ONGC Videsh, Sakhalinmorneftegaz, and RN Astra. The consortium members started drilling in May 2003 and expect preliminary oil production of 250,000 bbl/d in 2005. The project’s oil output will be piped westward to the Russian port of De-Kastri and pumped into the Russian system. Sakhalin-I’s natural gas is expected to be sent southward to Japan via a proposed pipeline. The partners are planning for natural gas exports to Japan to begin in 2008.

54 The Sakhalin-II project is being developed by Shell, Mitsubishi, and Mitsui and entails the development of Russia’s first LNG facility, to be built on the southern tip of the island, near the town of Prigorodnoye. Construction of the project’s two-train, 9.6-million-ton-per-year facility began in Spring 2003, and Shell expects that initial production could begin in 2005 with exports scheduled to commence in 2007. According to press reports, the Sakhalin-II partners have already secured sales contracts with four Japanese utilities worth 3.4 million tons per year, or approximately 35% of the plant’s output capacity, for roughly 20 years. The most recent of these contracts was announced in March 2004, and entails the sale of 300,000 tons of LNG per year to Japan’s Toho Gas between 2010 and 2033.

prospects for Russian-Japanese trade and economic relations was the Russian government’s final decision to choose the 2,500-mile Angarsk-Nakhodka route (at the projected cost of US$5-6 billion) for the Eastern (now also called Pacific) oil pipeline system, which should bring Russian crude oil to the future Pacific coast terminals of Russia for further shipment to the Japanese, Korean, and other Asian markets. China was upset, but Japan was happy. Now Moscow and Tokyo are engaged in detailed discussions regarding the long-term plans for bilateral energy and investment cooperation expected to be spurred by the construction of the Eastern pipeline system within the framework of the Russian-Japanese Inter-Governmental Commission on Trade and Economic Issues,55 as well as through various bilateral consultative mechanisms on the private level such as Russian-Japanese and Japanese-Russian Committees on Economic Cooperation, Russian-Japanese Association of Promoting Trade and Investments, Council of Elderly Wisemen, etc.

President Putin and Prime Minister Koizumi met twice in 2004—at the G-8 summit on Sea Island in June and at the APEC summit in Chile in November. They reaffirmed their governments’ commitment to the “epochal” Joint Plan of Action approved at the Moscow summit, on January 9-12, 2003, which emphasized increasing political dialogue, peace treaty negotiations, more cooperation on international arena, growing trade and economic cooperation, development of exchanges in the military and law-enforcement areas,56 and cultural ties. Despite lingering Cold War stereotypes (“Japan is not a “normal” state and is a U.S. surrogate without independent foreign policy”), Moscow and Tokyo were able to actively coordinate their positions on such salient

55 This commission has held seven sessions since its formation in 1994. It is headed by Russian deputy prime minister responsible for economy and a Japanese foreign minister. It has two sub-commissions - on economic relations with Far Eastern region and on trade and investments.

issues as global war against terrorism,57 nuclear non-proliferation, especially the North Korean nuclear problem within the framework of the six-party talks, fight against narcotrafficking, and the situation in the Middle East, while stressing the central role of the United Nations in addressing global threats and challenges, including the post-war settlement in Iraq and Afghanistan.

Although Moscow still has reservations about the potentially anti-Russian aspects of Japan’s role within the U.S. military alliance system in the Far East and Tokyo’s plans to deploy the TMD system along the Russian border, recent evolution in Japanese defense policy and thinking and emerging readjustments in the U.S.-Japan alliance relationship in the direction of greater “strategic autonomy” of Japan have opened the possibility for more strategic interaction between Russia and Japan, especially with regard to balancing off the growing geopolitical influence of the rising “Chinese dragon” and indirectly influencing the unilaterlist “American Gulliver.”

**Russia-Koreas**

The year 2004 marked the 140th anniversary of the beginning of voluntary migration of Koreans to the Russian Far East, the 120th anniversary of the establishment of Russian-Korean diplomatic relations, the 100th anniversary of the Russo-Japanese naval battle and the heroic tragedy of the Russian navy cruiser “Varyag” in February 1904 near the coast of Korea at Incheon, as well as the 55th anniversary of the first Soviet-DPRK agreement on economic and cultural cooperation signed in Moscow, on March 17, 1949. These symbolic events of great historical significance were widely marked in Russia, the ROK, and the DPRK throughout the year.

A balanced and even-handed policy toward the Korean peninsula remains one of the priorities of Russian foreign policy in the Asia-Pacific region. During his first term, President Putin was able to overcome the ideological barriers of the Cold War separating Moscow and Seoul and the political animosity of the post-Cold War era dividing Moscow and Pyongyang, and reached a good deal of mutual understanding with the political leadership of both Korean states, which allowed Russia to discuss with them any problems, including most controversial ones, in a constructive and partner-like manner. Although Moscow seems to favor Seoul, it sees no evil in any part of the peninsula and pursues a well-calibrated two-Korea policy. President Putin officially visited Seoul in February 2001 and Pyongyang in July 2001, which led to the development of the relations of “constructive and mutually complementary partnership” between Russia and the Republic of Korea, as well as “traditional friendly and cooperative relations” between Russia and the DPRK, in all fields, especially in political dialogue, trade and investment, and the development of military ties and military-technical cooperation, as pointed to in the joint statements signed as a result of these visits.

President Putin met with the ROK President Roh Moo-hyun at the APEC summit in Bangkok in October 2003 and at the APEC summit in Chile in November 2004, as well as during Mr. Roh’s official visit to Russia in September 2004. Russian Foreign Minister Lavrov visited both Pyongyang and Seoul in July 2004. The main topics in the ongoing political dialogue are centered on the situation on the Korean peninsula, joint search for ways to settle the North Korean nuclear weapons issue and a wide range of international cooperation activities. In their discussions with the South and North Korean representatives, Russian government officials play the intermediary role, promote the multilateral six-party approach and package solution to the nuclear problem, stressing that the vital national interests of both Korean states and other parties concerned, including security guarantees and inducements for socio-economic development of the DPRK, must be seriously taken into account.

Although Russian trade with North Korea is still miniscule, South Korea is one of Russia’s important trading partners. In 2003, the trade turnover rose from US$2.11 billion in 1998 to US$4.18 billion. Exports from Russia to South Korea are estimated at US$2.52 billion (increase of 13.7 percent, as compared to 2002), and imports at US$1.66 billion (increase of 55.7 percent). Russia exports mostly aluminum, special equipment, marine products, cast iron, rolling steel and cellulose, and a

57 Since October 2002, the two foreign ministries have been conducting regular consultations on various issues related to the global war against terrorism at the deputy foreign minister level.
little bit of machinery and equipment (2.35 percent), while importing machinery and transport equipment (31.9 percent), chemicals (25.6 percent), electronics (15.7 percent), food and agriculture raw materials (9.6 percent) and textiles (9.5 percent). The ROK invested only US$205.7 million in 135 projects in Russia, including US$44.6 million in direct investments, 56 percent of which is concentrated in the construction industry. Within the framework of the Russian-Korean Commission on Economic and Scientific-Technical Cooperation, the Russian government expressed considerable interest in attracting the ROK investment for such large investment projects as the construction of a Lotte business center in Moscow (expected investment could reach US$300 million), participation of LG Corp. in the construction of a large oil-refining plant in Tatarstan (expected investment could reach US$1 billion), and the ROK scientific-industrial park in the “Nakhodka” Special Economic Zone. In order to facilitate bilateral trade and ROK investments in Russia, Moscow agreed to sign the inter-governmental agreement on restructuring and repayment of the US$1.47 billion Russian debt to the Republic of Korea, which was followed by the resumption of cooperation in the banking sector.

In November 2004, Russia and the ROK successfully completed bilateral talks on Russian admission to the WTO. There are good prospects for bilateral cooperation in joint space exploration, the energy sector, including the future shipment of Russian gas to the Korean market, as well as in the fishing industry.

58 The commission has held six annual sessions since its formation in 1998.

59 It is worth mentioning that in 2004, the Export-Import Bank of Korea began to finance South Korean exporters through Russian commercial banks. The ExIm Bank concluded an agreement with Rosbank for a US$30 million credit facility. It is also in the process of negotiations with Alfa Bank for a US$50 million loan.

60 During President Roh Moo-hyun’s four-day trip to Russia, the two governments reportedly signed an agreement on space technology transfer, which would allow the ROK to develop its own rocket to launch satellites into orbit and put one of the country’s astronauts in space on a Russian spacecraft in the years to come. Russia also agreed to build a rocket-launch facility for civilian satellites in Goheung, South Jeolla province in the ROK by 2007. See “Russia to Send South Korea Joint Satellite Project Proposal,” Asia Pulse, Sept. 22, 2004; “Korea and Russia Agree on Space Launch Facility,” Joongang Ilbo, Oct. 28, 2004, p. 4.

Moscow demonstrates some interest in promoting trilateral cooperation between Russia, South Korea, and North Korea, especially in the rehabilitation and modernization of more than 50 industrial facilities built in the DPRK with Soviet technical assistance (in power engineering, ferrous and nonferrous metallurgy, mechanical engineering and other spheres), as well as in connecting the future Trans-Korean railroad to the Trans-Siberian railroad.

Russia is keen to preserve a certain degree of military balance and “rational defense self-sufficiency” on the Korean peninsula. Military-technical cooperation between Russia and North Korea has been rather anemic in the past decade. Russia cannot afford rearming the Korean People’s Army for almost free—what the DPRK wants and the Soviet Union used to do. Despite persistent rumors about unofficial Russian technical assistance to the DPRK’s missile development program, given financial constraints facing both governments, Moscow is only willing to help Pyongyang repair and properly maintain the obsolete Soviet armaments and military equipment already present in the North, without demanding any serious payments in return.

At the same time, Russian-South Korean military-technical cooperation has reached US$700 million, which creates alternative arms supply venues for Seoul and raises eyebrows in Washington; it also causes great concern to the KPA top brass and contributes to latent anti-Russian sentiment in Pyongyang’s political circles.

61 In 2000, Russia and the ROK signed the inter-governmental agreement on energy cooperation. Following this agreement, Russia Petroleum (a TNK-BP-led consortium), South Korea’s state-owned Korea Gas Corporation (Kogas), and the Chinese National Petroleum Company (CNPC) announced plans to construct a pipeline connecting Russia’s Kovykta field to China’s northeastern provinces and across the Yellow Sea to South Korea. The plan calls for a 1.2 Bcf per year pipeline, which would deliver roughly two-thirds of its gas annually to China, while delivering the rest to South Korea and smaller quantities to the domestic market en route. The partners expect that the pipeline could come on stream in 2008.

Russia is a strategic player with low economic stakes in the two Koreas. Both the maintenance of the existing status-quo and unification are acceptable policy alternatives to Moscow, as long as Russian influence is preserved in Pyongyang and Seoul, no other great power (either China or the United States) is able to establish its dominance over the entire peninsula, while the North-South reconciliation is rapidly intensifying and U.S. influence is increasingly marginalized and neutralized.

**Conclusion**

Under President Putin’s watch, democratic consolidation was interrupted and authoritarian reversal took place in Russia. Neo-Soviet restoration (partial renationalization of industry, political centralization, and repression of civil society) at home was accompanied by a revanchist neo-imperial foreign policy abroad. President Putin acted decisively to regain the great power status for Russia, to consolidate Russian spheres of influence in the world economy and global politics, and to catch up with the advanced Western countries. Instead of the nuclear stick, he relies primarily on crude oil diplomacy, arms sales, personal intrigues, and information operations to pursue Russian great power ambitions. Neo-Soviet cultural populism, underpinned by intellectual anti-Americanism and historical pan-Eurasianism, has succeeded in co-opting Russian global Diaspora. Moscow’s counter-terrorist rhetoric supportive of the U.S.-led Christian crusade against fundamentalist militant Arab Islamists allowed Russia to consolidate and expand its military bases in the near abroad, to prosecute the Chechen war without restraint, to reinvigorate its military-industrial complex, and to step up the modernization of its nuclear arsenal all under the pretext of the global war against terrorism.

In Asia, President Putin seems to have chosen to give up space in exchange for time and money needed to rebuild the Russian empire. He conceded territory to the PRC, but choked the long-term growth potential of the Chinese economy by denying it direct access to Russian gas and oil, which should give the Russian economy some breathing space and open the window of opportunity for catch-up. In the near future, Moscow may concede territory to Japan in exchange for substantial investments in the construction of Siberian and Far Eastern infrastructure, which should speed up Russia’s catch-up development, tie Tokyo down to Russian energy supplies, like Western Europe, and make it more sensitive, responsive, and vulnerable to Russian demands for decades to come. Russia is likely to give up the last component of the previously untouchable Soviet legacy to India—nuclear weapons.
delivery platforms—in exchange for new multibillion U.S. dollar arms contracts, which should fuel further modernization of Russian defense industries in the coming years.

President Putin was able to orchestrate a U-turn in Russian historical trajectory: a previously descending great power is again regarded as a comeback state aspiring to rise to the top of the world hierarchy. He repositioned Russia in Asia in such a way that Moscow with its neo-imperial ambitions is again seen as a ruthless power-balancer and legitimate and tough contender in its own right for political influence and economic benefits in any power vacuum situation left open by the United States. Putin’s Russia is stronger today than ever. But, whether it makes the world a better and safer place remains to be seen.