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From chaos to pragmatism?  
The domestic dimension of Russian  
foreign policy 1991–2008

Antje Kästner

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## Abstract

Whether the Russian-Ukrainian gas affair, stepped-up engagement in the Shanghai Cooperation Organisation or an active stance against NATO's eastward enlargement: Russian foreign policy under Putin underwent an evolution from a reactive, incohesive and at times contradictory OECD-centred approach towards a proactive, more coherent "multivectoral" policy.

This paper argues from a Political Economy perspective that shifts in Russian foreign policy from Yeltsin to Putin were mainly connected to developments in the sphere of domestic politics. With Russian politics strongly determined by small societal interest groups, the government's capacity to formulate and implement its own policy line was largely dependent on its financial situation and, thus, a function of the world oil price. Accordingly, the rise and fall of particular interest groups and their changing leverage over policy makers considerably shaped official foreign policy decision making.



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## Abbreviations

|         |   |
|---------|---|
| ABM     | Anti-Ballistic Missile  |
| CACO    | Central Asian Cooperation Organization                              |
| CDC     | Community of Democratic Countries                                   |
| CFE     | Conventional Forces in Europe                                       |
| CIS     | Commonwealth of Independent States                                  |
| COMECON | Council for Mutual Economic Assistance                              |
| CPRF    | Communist Party of the Russian Federation                           |
| CPSU    | Communist Party of the Soviet Union                                 |
| CSCE    | Conference on Security and Cooperation in Europe                    |
| CSIS    | Center for Security and International Studies                       |
| CST     | Collective Security Treaty  |
| CSTO    | Collective Security Treaty Organization                             |
| CTBT    | Comprehensive Nuclear-Test-Ban Treaty                               |
| DIE     | Deutsches Institut für Entwicklungspolitik                          |
| EADS    | European Aeronautic Defence and Space Company                       |
| FDI     | Foreign Direct Investment   |
| EU      | European Union  |
| EurAsEc | Eurasian Economic Community   |
| FIG     | Financial-Industrial Group  |
| FSB     | Federal Security Service (Federalnaya sluzhba bezopasnosti)         |
| G-7     | Group of Seven (industrialized nations)                             |
| GDP     | Gross Domestic Product  |
| GUAM    | Organization for Democracy and Economic Development                 |
| ICBM    | Intercontinental Ballistic Missile                                  |
| IDEA    | International Institute for Democracy and Electoral Assistance      |
| IISS    | International Institute for Strategic Studies                       |
| IMF     | International Monetary Fund   |
| IMU     | Islamic Movement of Uzbekistan                                      |
| INFT    | Intermediate-range Nuclear Forces Treaty                            |
| IR      | International Relations   |
| KGB     | Committee for State Security (Komitet gosudarstvennoy bezopasnosti) |
| LDPR    | Liberal Democratic Party of Russia                                  |
| MIC     | Military Industrial Complex   |
| MFA     | Ministry of Foreign Affairs   |
| MFN     | Most Favoured Nation  |
| MIA     | Ministry of Internal Affairs  |
| MoD     | Ministry of Defence   |
| MTS     | Medium Term Strategy  |
| NATO    | North Atlantic Treaty Organization                                  |
| NGO     | Non-governmental Organisation                                       |
| NIS     | Newly Independent States  |
| NMD     | National Missile Defence  |
| NRC     | NATO-Russia-Council   |



|        |  |
|--------|--|
| OECD   | Organisation for Economic Co-operation and Development           |
| OSCE   | Organization for Security and Cooperation in Europe              |
| PCA    | Partnership and Cooperation Agreement                            |
| PONARS | Program on New Approaches to Russian Security                    |
| PPP    | Purchasing Power Parity  |
| RFE/RL | Radio Free Europe/Radio Liberty                                  |
| RSFSR  | Russian Soviet Federative Socialist Republic                     |
| RUIE   | Russian Union of Industrialists and Entrepreneurs                |
| SCO    | Shanghai Cooperation Organisation                                |
| SIPRI  | Stockholm International Peace Research Institute                 |
| SME    | Small and Medium-sized Enterprises                               |
| START  | Strategic Arms Reduction Treaty                                  |
| SVR    | Foreign Intelligence Service (Sluzhba vneshney rasvedki)         |
| U.S.   | United States of America   |
| UN     | United Nations   |
| UNCTAD | United Nations Commission on Trade and Development               |
| USSR   | Union of Soviet Socialist Republics                              |
| VTsIOM | Russian Public Opinion Research Center                           |
| WTO    | World Trade Organization   |
| ZAO    | Closed joint stock company (zakrytoye akcionernoye obshtshestvo) |

## Introduction

Whether the Russian-Ukrainian gas affair, stepped-up engagement in the Shanghai Cooperation Organisation or an active stance against NATO's eastward enlargement: Russian foreign policy under Putin underwent an evolution from a reactive, incohesive and at times contradictory OECD-centred approach towards a proactive, more coherent "multivectoral" policy.

Contrary to studies that view Russia as homogenous entity and relate change in foreign policy to Russia's relative strength in the international system, this paper argues that shifts in Russian foreign policy from Yeltsin to Putin were mainly connected to developments in the sphere of domestic politics. Accordingly, the research focus will be on how alternating domestic conditions shaped Russian foreign policy making. In consequence, this paper seeks to employ an approach that, on one side, is capable of analysing change in domestic politics, that, on the other side, however, can also be transferred to the foreign policy context. As a promising concept can be expected to be actor-centred and to relate to incentive and constraint mechanisms, the core assumptions of this paper's theoretical framework will be characterized by a Political Economy perspective.

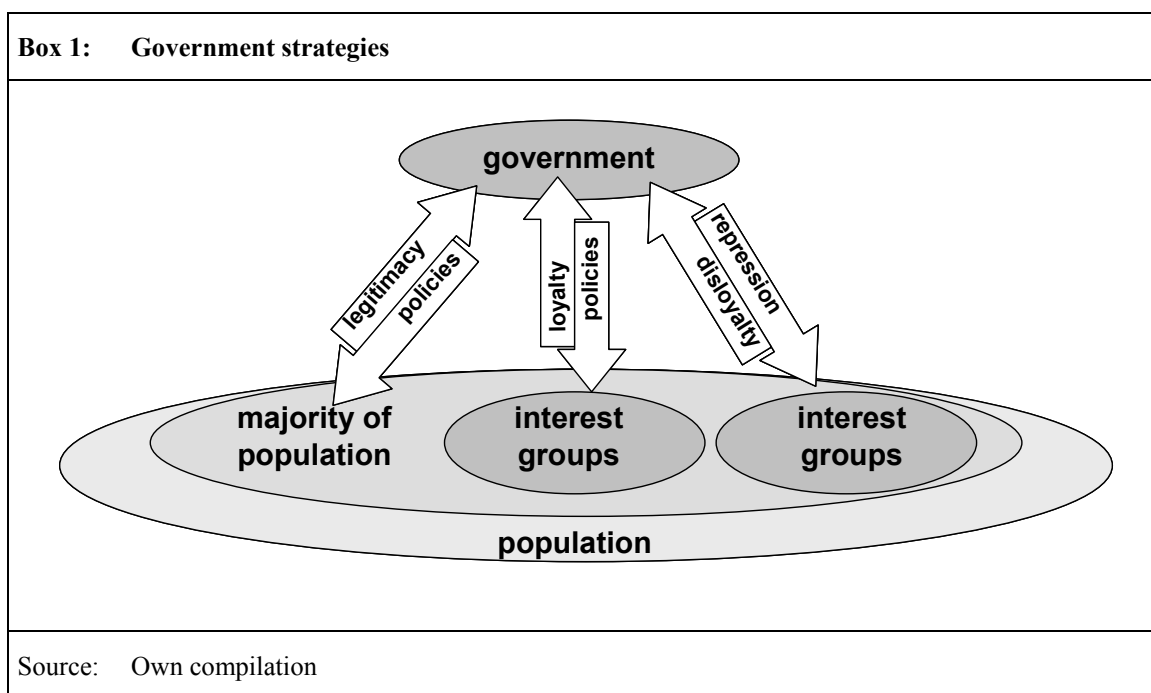
A rational choice perspective has with regard to Russian politics only been applied by a handful of authors. Prominent examples include Michael McFaul (McFaul 1995), Clifford G. Gaddy and Barry W. Ickes (Gaddy / Ickes 1998), Mancur Olson (Olson 2000) or CSIS's Program on New Approaches to Russian Security (PONARS). Their writings are all based on the conception that Russian domestic politics are shaped by the collective interest problem of Russian society and the subsequently strong impact of small interest groups on policy making. Although the close interrelation between Russian domestic and foreign policy is frequently interlinked with domestic issues, few studies focus explicitly on aspects of Russian foreign relations (McFaul 1999; Charap 2007; Blum 1998; Buckvoll 2003).

The reason for this research gap is that during the 1990s, Russian foreign policy has frequently been connected to the ongoing democratisation process inside the country (Malcolm / Pravda 1996; McFaul 1997; Wallander 1996a; Dawisha / Parrot 1997). In light of the political developments under Putin, this orientation has, however, become ambiguous if not obsolete. This paper argues that the basic assumptions of Political Economy provide independently from the regime type a useful mechanism to explain cause and action not only in Russian domestic, but also in Russian foreign policy. It will transfer the concept of homo economicus to the government as main player in a country's domestic and foreign politics, whose foremost aim is to preserve its claim to power.

Lifting this assumption to a more abstract level, the following argument will be employed: In the strive to consolidate its leadership, a government depends on a so-called distributional coalition made up of collective societal actors that are crucial for keeping the government in office (Olson 1982)<sup>1</sup>. To avoid a domestic power struggle, a government can employ three strategies. (see Box 1) First, it can coerce certain societal groups to subordinate to its rule.

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1 This theoretical framework forms the base of a larger research project at DIE examining Russia's, India's and China's impact on governance structures in their regional environments.

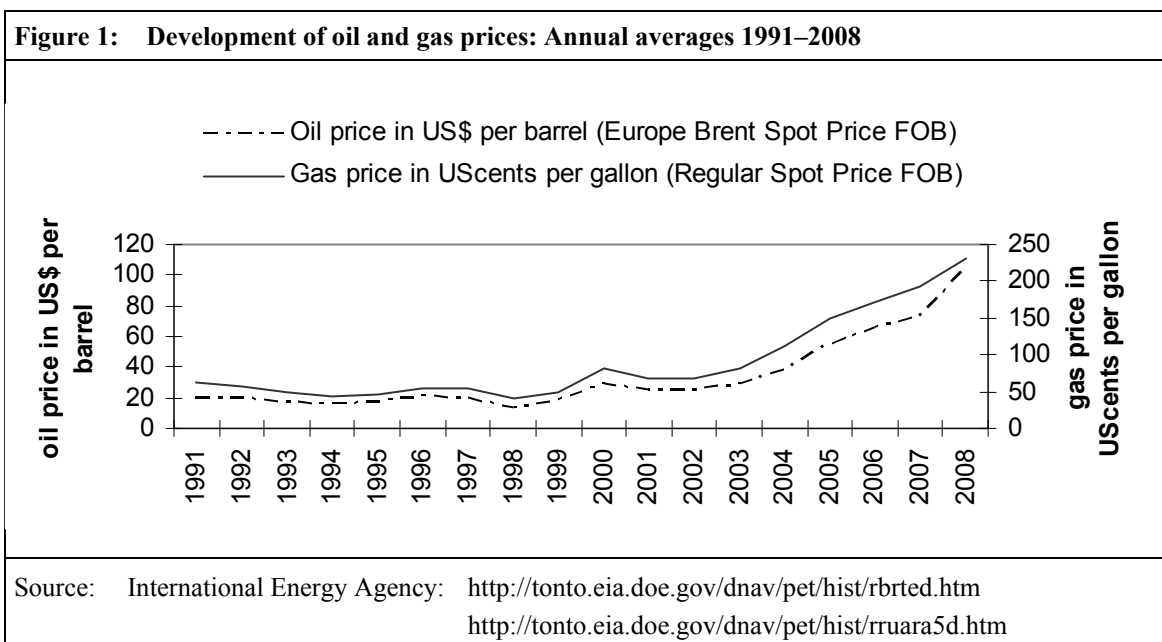


Applying repressive means, however, is comparatively costly, i.e. not rational, and creates mistrust in society (Wintrobe 1998). Secondly, a government can legitimise itself vis-à-vis a

large part of the population by standing for election or by policy performance with regard to the “encompassing interest”. (Olson 1982; Easton 1965). And third a government can confirm its claim to power by creating loyalty among a small number of societal interest groups critical to the stability of the regime by enhancing those groups’ utility in the government through the provision of privileges.

All three strategies, represent an exchange of policies or government performance for societal support or non-opposition. As long as the government is capable to perform vis-à-vis certain interest groups, it is able to maintain its claim to power. If, however, a government does not dispose of the allocation leeway necessary to compensate these groups for their support, it may be forced to hand over power to a new government.

In Russia’s case, the government’s allocation leeway and, thus, its performance, was directly related to the value of and government control over natural resources, namely oil and gas. At the domestic level, the distribution leeway was reinforced by the prevalence of natural resources and the government’s level of control over the production chain. At the international level, it was influenced by changes in the oil and gas price. Under Yeltsin, the government’s distribution margin was considerably restricted. Through privatisation and decentralisation processes the government had delegated control over oil and gas production to private businesses and regional executives, while resource prices were low. In the Putin era, the rise in the oil price created incentives for the government to expand its strength through a redistribution of property at the domestic level resulting in the partial re-nationalisation of the resource sector. (see Figure 1)



This dichotomy of performance and non-performance relates to the question of domestic stability. A government unable to perform vis-à-vis certain crucial groups creates political instability, while its successful performance generates stability. This concept can be transferred to the strong-state-weak-state nexus addressed by Peter J. Katzenstein, who relates a government’s performance to the relative influence of particular interest groups. He argues that state power, or for our purpose government strength, has two main components: ‘autonomy’ and ‘capacity’ (Katzenstein 1978, 16). 16. These components relate to the above description of politics as exchange for government policies for societal support. ‘Autonomy’ refers to the government’s ability to make major policy decisions independent of the demands of small economic interest groups, which entails the prevalence of a societal consensus. ‘Capacity’ measures the government’s ability to ensure the reliable implementation of its decisions through the state bureaucracy. It, thus, entails the loyalty of bureaucratic interest groups ensuring the efficiency of the administration.

According to Katzenstein’s definition of state strength, the Russian government in the 1990s lacked both autonomy and capacity. With the introduction of glasnost and the fall of communism, the weakness of the Soviet and ipso facto the Russian state was disclosed to the outside observer. This erosion of state power manifested itself in what Claus Offe titled the triple transformation (Offe 1991) encompassing the simultaneous sequencing of political and economic reform as well as nation-building processes. In Russia the political transition from communist one-party rule entailed that new political institutions were created. At the same time, however, old institutions continued to exist, thus, causing severe institutional rivalry which decreased the government’s capacity to implement policies. The transition from a command to a free market economy was synonymous with the redistribution of property rights from state to private ownership. While this was to result in the reshuffling of Russian society leading to the rise of a middle class of new SME-entrepreneurs, the impact of old and new elite groups compromised the government’s policy line. Finally, the disintegration of the Soviet Union created new borders and kicked-off a process of nation-building inside the new Russian state. At the same time, regional executives tried to use the wave of disintegration to increase their own autonomy.

Due to the disproportionate influence of small interest groups, the Russian government was weak with regard to both components of state strength: autonomy and capacity. The crucial factor that perpetuated the relative weakness of the Russian state until today was the low level of societal mobilisation. Considering the enormous size of the country as well as a history of centralist patriarchal rule, Russian society has so far not succeeded in sufficiently articulating collective interests through political institutions. The lack of self-governing institutions and interest groups operating independent of the Soviet state as well as the absence of competing sources of information were a significant barrier to the rise of democracy and civil society (Dawisha 1997). As a result, the Russian party system has remained weak and no independent active civil society has developed yet. Smaller collective actors have, in contrast, had less difficulties in formulating their interests vis-à-vis the state. This asymmetry resulted in the disproportionate representation of small interest groups on politics (Olson 1965), so that there were only a handful of examples of when Russian society deliberately impacted on government policy.

Legitimacy has, nevertheless, played an important role for the Russian leadership to justify its claim to power to the domestic opposition as well as to the international community. Nevertheless, Russian civil society was largely apolitical and underdeveloped in the post-Soviet era, so that political mobilisation naturally has been highest at election time. In contrast to Western Europe, where election turnout is traditionally high<sup>2</sup>, in Russia on average only 67.9 % of the electorate participated in presidential elections (1996–2004) and just 59.3 % in duma elections (1993–2007). Further, the notion of input legitimacy was weakened as early as 1993 with the introduction of the new constitution, in which the Russian parliament lost a good share of its competences to the presidency. A further decline set in with the manipulation of the 1996 presidential election, followed by the strengthening of the executive and the resurrection of government control over the media under Putin. In consequence, government strategies to obtain public support shifted towards output legitimacy, while the degree of political mobilisation in society remained low.

In-between elections, the political scene was dominated by small interest groups, whose support the government had to secure in order to stay in office. Therefore, the two other aforementioned strategies dominated the government's day-to-day business. Were interest groups potentially supportive, the leadership, most notably the president through his decree power, exchanged privileges for loyalty. When interest groups, however, acted against the government's vital interest, they were subjected to coercive measures which were implemented by law enforcement agencies and the military.

Recalling Katzenstein, these strategies aimed at two kinds of small groups which interact with the government at different stages of the policy process. With regard to autonomy, the Russian government was dependent on small economic interest groups such as the directors of large Soviet enterprises, the so-called oligarchs or the managers of large state corporations (Grävingholt et al. 2003). They compromised the government's definition of goals and decision making. Concerning capacity, special bureaucratic interest groups, often affiliated to certain ministries, executive agencies or regions, dominated the stage of policy implementation.

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2 According to International Institute for Democracy and Electoral Assistance (IDEA), in Western Europe 83 % of the electorate participate on average in elections (IDEA 2004).

Despite their differences, all these small collective actors had four crucial things in common. First, they were able to exert pressure on the government, either by bearing the potential to mobilise a large share of society against official policies or by being in a position to support the government by providing the financial, communicational, administrative or law enforcement means to sustain the leadership in office. Thus, the more the government was in need of support, the less it was capable of employing a coercive strategy. Whereas Yeltsin had to rely on a multitude of different interest groups and lacked the means to properly reimburse the security services, under Putin the threshold of perceived disobedience by small interest groups fell and the financial capability to employ repressive means rose.

Second, special interest groups have, although selectively backing the government, always pursued their own agenda, so that they frequently compromised official government policies. As they were generally interested in increasing their benefit, interest groups, economic and administrative alike, were either obstructing reform or favoured partial reform, which created new arbitrage opportunities (Hellman 1998). As a result of partial reform, economic and political institutions suffered from an inherent inefficiency.

Third, none of the small interests groups was in itself homogenous, so that their diverging interests only in certain situations or with regard to a certain policy area made them unite their forces. Accordingly, they selectively impacted on government policy, thus, leading to incoherent and contradictory policies. Nevertheless, with the so-called strengthening of the power vertical, economic and bureaucratic interest groups have become more integrated under Putin, so that a more coherent policy picture was generated (Taylor 2003).

Fourth, the structure of the Russian economy and the federal organisation of the Russian state combined with a weak rule of law and a potential for separatist tendencies have generated economic and bureaucratic interest groups at two different levels. Depending on their relevance for the state budget, economic groups had different access to the leadership. While large state enterprises, certain banks, the heads of certain ministries and the leaders of some Russian regions were able to directly impact on federal politics, most manufacturing enterprises, smaller banks and federal executives in the regions tried to influence regional policy makers (Simonia 2001; White / Khryshtanovskaya 2003).

The incapability of the Russian government to either subordinate economic interest groups to official policies or control federal as well as regional administrations was manifest in two developments. In the domestic sphere, it led in light of a weak rule of law to the formation of a peculiar form of bureaucratic capitalism (Simonia 2001), that is to a close informal connection between economic actors and bureaucratic structures which was pronounced at the regional as well as at the federal level. While bureaucratic capitalism arguably helped to prevent large-scale social unrest, it further contributed to the erosion of government power.

With regard to foreign policy, the high degree of small groups' independence led to an exceptionally strong interrelation between domestic and foreign policy. On the one hand, small group interests were also reflected in the pursuit of Russia's external relations, so that the domestic distributional coalition considerably shaped official foreign policy. On the other hand, however, the government tried to improve its domestic status through external support, so that foreign policy in turn also had an impact on domestic politics.

Recalling the above research question, this paper will examine how domestic conditions shaped Russian foreign policy making under Yeltsin and Putin. The first chapter will focus on

the independent variable - the domestic context. The analysis of interactions between the government and various small interest groups will be in the centre of attention. Here not only the composition of the government's distributional coalition and with it the interests and support potential of the various influential groups will be considered, but also how the rise and fall of a particular group implicates a shift in the coalition and with it frequently a change in policy. The chapter will be composed of two parts along the presidents' time in office. The first covers the years 1991 to 1999 and examines political developments during Yeltsin's terms in office. The second looks at Putin's distributional coalition between 2000 and 2008.

The second chapter will transfer the observations made with regard to the government's domestic coalition to foreign policy making and outcomes. To account for differences in the government's official foreign policy interest, representing the domestic deal with the relevant interest groups, and the eventual outcome, Robert Putnam's definition of foreign policy as two-level game will be consulted (Putnam 1988). Thus, the result of negotiations will not only be seen as dependent on Russia's domestic constellation, but also of that within the interacting country. In analogy to chapter 1, dynamics between the groups in the government's coalition will be examined and shifts in the domestic coalition will be related to change in foreign policy. The chapter tries to give a general overview of Russian foreign policy making from 1991 to 2008, concentrating mainly on Russian foreign policy towards OECD-countries and Soviet successor states. It, too, analyses change with the help of the two phases along Yeltsin's and Putin's terms in office.

## 1 Changes in the domestic distributional coalition

In the last fifteen years, the Russian government underwent a political evolution in its strive to consolidate state power. While the Russian leadership in the 1990s was strongly dependent on a wide range of economic and political interest groups, the Putin administration backed by windfall profits from oil exports managed to narrow its distributional coalition and to regain control over state affairs. This chapter will examine which interest groups served the political needs of the Russian governments since the RSFSR's declaration of independence and how they impacted on the formation and implementation of official policies.

Initially, however, a number of peculiarities of the Russian system that can be observed during the Yeltsin as well as during the Putin era shall be mentioned to put the analysis into context. First it should be emphasised that Russia since the disintegration of the Soviet Union has been a weak state. While a trend towards the consolidation of power can be observed under Putin, the leadership has remained dependent on small interest groups with different factions engaged in extensive infighting in the run-up to elections in their strive to catapult somebody from their rows into the leading office

For that very reason, Russia's political system has been dominated by the executive. After the failed coup initiated by parliamentary forces in 1993, the executive and the president at its core assigned themselves extensive competences with regard to legislation and policy making. The president's power to circumvent parliament through the issuing of decrees has been written down in the constitution and became a frequently employed instrument to push through the government's policy line.

Finally, the government has, partly due to the size of the country and partly due to immanent institutional rivalries, frequently faced difficulties in uniting the executive to collectively pursue statist goals. At the core of the problem was the demise of the Communist Party of the Soviet Union (CPSU), which had deprived the political system of its main information processing, decision making and coordinating mechanism. In consequence, the government had to tie together different factions of the executive both at the regional as well as at the federal level.

On the one hand, the federalist structure of the Russian state, offered opportunities for regional executives to increase their potential. In dependence on the government's capacity, centre-periphery relations under Yeltsin were characterised by the non-compliance of regional executives with federal policies and laws, while Putin's centralisation limited the leverage of regional actors. On the other hand, the federal executive itself was split as divergent political interests in the absence of governmental leverage manifested themselves in institutional rivalries. Under Yeltsin there was intense competition between the civil and the so-called power ministries<sup>3</sup> with bureaucrats exceeding their administrative competences and frequently starting to shape policies themselves. Putin's administrative reform tried to streamline ministerial extravagances by transcending institutions with security service personnel.

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3 The ministries exercising the government's monopoly of physical coercion are colloquially called power ministries or power structures and traditionally include the Ministry of Internal Affairs (MIA), the Ministry of Defence (MoD) and the Committee for State Security/Federal Security Service (KGB/FSB).



Despite certain continuities, Russian politics underwent important changes from Yeltsin to Putin. These are analysed in the following through an examination of shifts in the government's distributional coalition. Before change can be detected, however, a government's original coalition has to be captured. An assessment of official government interests and goals will provide insights into which groups have to be included to ensure the adoption of a certain policy.

Once the main coalition partners have been identified, the ascent or descent of certain interest groups allows to identify shifts in the distributional coalition. Through a reconfiguration of its coalition, the leadership tries to adjust its strategy to new situations to maintain in office. Shifts in the distributional coalition will be described in a series of key events arranged in chronological order. The government's aforementioned instruments to affirm its leadership aspirations, legitimacy, loyalty and repression, will be incorporated in the analysis. Accordingly, the leadership's strive for input legitimacy centres around presidential, regional and parliamentary elections, while output legitimacy is captured by the success of policies designed to obtain public support through the provision of material or idealistic goods, such as social reform or the promotion of nationalism. Concerning loyalty, small economic interest groups look for rent-seeking opportunities. They undergo change through a redistribution of property rights or the redirection of cash flows, while bureaucratic interest groups rise or fall through personnel reshuffles, the adjustment of a particular budget as portion of Gross Domestic Product (GDP) or through administrative reforms in favour of a particular administrative clan. Repression as strategy selectively applied against small groups in opposition to the government will be pictured by the introduction of administrative barriers, selective law enforcement or the outright use of violence through state agencies.

Apart from government-led strategies, a further cause for shifts in the distributional coalition can be attributed to the impact of external factors. This, on one side, refers to the involvement of other states in political affairs, such as United States of America (U.S.) support for Yeltsin's reformers, and, on the other side, may be caused by the progressing dynamics of globalisation as seen in the 1998 financial crisis, the rise of the oil price or the rise of international terrorism. In light of externally determined shifts, the government has to evaluate whether the changing composition of the distributional coalition constitutes a threat to stability or whether it is conducive to its leadership claim and, thus, initiate or discard a redistribution of power.

The first section of this chapter examines political developments in Russia under Yeltsin, while the second focuses on the Putin era. Both sections will follow the same pattern of analysis described above. They will first describe the composition of the prevalent distributional coalition, followed by the sketching of shifts initiated through the three strategies of government action or by external factors.

## 1.1 Yeltsin's army of interest groups

When Boris Yeltsin in June 1991 became the first freely elected president of the RSFSR, he enjoyed a high level of legitimacy claiming the support of 57 % of the Russian electorate. Having criticised the Gorbachev government for its slow pace of reform, Yeltsin had been expelled from the Politburo four years earlier, only regaining political momentum after Gorbachev introduced with the Soviet Congress of People's Deputies a new popularly elected institution. Due to his reputation as government critic and reformer, Yeltsin entered Congress

as representative from Moscow and also gained a seat in the Supreme Soviet, the highest legislative body of the USSR. When presidential elections were held in the union republics, Yeltsin assumed the highest office in the RSFSR.

Russia's transition from the Soviet system of one-party rule and command economy was complicated by the resistance of old elite groups. The perpetuating influence of Communist Party hardliners made their inclusion in the new political order imperative for the new liberal elite as hardliner control over administrative and economic networks could have otherwise prevented reform altogether (Hellman 1998; Boycko / Shleifer / Vishny 1997). As a result, old institutions were often not replaced, but "complemented" by new ones, which despite their public mandate remained institutionally weak and dependent on established institutions. Incomplete political reform generated stalemate between liberal reformers and conservatives and resulted in attempts to overthrow the government in 1991 and in 1993.

In the aftermath of the August 1991 coup, Yeltsin's government neglected political reform and instead focused on economic transition for several reasons. On the hand, the government's position at that time seemed secure. Yeltsin's decisive action during the coup had further boosted his popularity in society. The threat of a take-over by communist hardliners seemed to have decreased with the imprisonment of the conspirators. And in light of the strive for full independence from the Soviet Union, the Congress of the RSFSR which accommodated a good share of anti-reformist forces, and the reformers in government recognised their potential for cooperation. While this apparent political stability of late 1991 lead the government to abandon political reforms such as post-Soviet parliamentary elections, active support for a presidential party or a new constitution, it regarded the high level of public support as opportunity to further consolidate its legitimacy through far-reaching economic reforms.

When forming the new government and the Presidential Administration, Yeltsin avoided to include members of the Moscow and St. Petersburg liberal intelligentsia from the "Democratic Russia" movement that rallied behind him, nor did he include any of the liberal politicians who had shaped Gorbachev's perestroika such as Alexander Yakovlev, Eduard Shevardnadse or Grigory Yavlinsky. Instead, Yeltsin compiled a team of young reform-oriented economists, most notably Yegor Gaidar, who successively occupied the posts of Minister of Economic Development, Minister of Finance and acting Prime Minister and Deputy Prime Minister Anatoly Chubais, as well as of confidants from his hometown Sverdlovsk such as First Deputy Prime Minister and later state secretary Gennady Burbulis, chief of staff Yuri Petrov and his chief personal assistant Victor Ilyushin.

Gaidar was entrusted with authoring an economic reform programme in order to halt the economy's dramatic decline and to bring about macroeconomic stabilisation. The mounting economic crisis was rooted in the structural peculiarities of the Soviet economy, which central planners had created according to their own preferences for heavy and defence industry and against the rules of the market. While simulating to the outside observer the impression of a large industrial economy, the value adding sectors were heavily subsidised by underpriced raw materials and capital (Gaddy / Ickes 1998, 57). This reality combined with falling production and collapsing tax discipline caused the state budget deficit and with it inflation to rise to extremes. The aim of Gaidar's reforms was to create macroeconomic stability by transferring the Russian economy from its inefficient past to the capitalist market. Along with price liberalisation and privatisation, they also entailed a drastic cut in government expenditure including producer and consumer subsidies and defence spending (Gaidar 1995).

In the absence of political reform, the government lacked the capability to override anti-reformist forces in formulating and the support of the state bureaucracy in implementing a structural reform programme. The problem was reflected in what William Tompson called the micro/macro conundrum (Tompson 2001). The pursuit of immediate macroeconomic stabilisation goals was consistently favoured over structural reform on the micro-level, because an effective macroeconomic policy can also be conducted by a weak government, more so when it enjoys financial support from domestic interest groups and international institutions (Woodruff 1998).

The original reform plans aiming at macroeconomic stabilisation were, however, also curtailed by the weakness of the new Russian government. In Soviet times, the economy had been completely under the control of the Communist Party. With its demise, the government lost the main mechanism to coordinate business-state-relations. Likewise, the managers of the roughly 25,000 large and medium-sized enterprises had strengthened their bargaining position. As Michael McFaul argues “*directors had effectively privatized many of the property rights of state enterprises*” (McFaul 1995, 224). Content with their current situation, managers accordingly had little interest to support economic reforms that eventually either would lead to a restructuring of the enterprise or to bankruptcy.

The government was dependent on the support of the so-called red directors, although Congress had approved the reform plans and in November 1991 granted Yeltsin the right to issue decrees to implement his new economic policies for one year, even when contravening existing laws. Thus, they had to “*identify and mobilise potential supporters within the inherited social and economic structure, creating and sustaining coalitions in support of the major strands of reform*” (Tompson 2001, 173).

With the partial lifting of price controls at the beginning of 1992, the economic reorganisation process had been kicked off. Subsequently, a number of old economic groups profited from price liberalisation. First among them was the export oriented raw materials sector. In particular the oil and gas industry, but also the other natural monopolies<sup>4</sup>, scored well as price liberalisation allowed to sell products abroad at world market price. The same applied to manufacturing enterprises in the industrial sector that were export oriented, in particular the defence industry. And in the financial sector, the subsequent rouble devaluation and hyperinflation yielded profits for banks and ministries from the Soviet era such as Agroprombank or Alfa Bank, the former Ministry of Foreign Economic Relations, as well as new banks like Menatep and Oneksimbank.

Yeltsin tried to co-opt these winners of price liberalisation in order to maintain their support for the next step of economic reform. Profitable enterprises of the resource and manufacturing sectors received access to decision making through high government offices. For the resource sector, the former Union Minister of the Gas Industry Viktor Chernomyrdin and later the former general manager of Lukoil Yury Safranchuk were made responsible for energy issues. Export oriented manufacturing was represented by First Deputy Prime Minister Vladimir Shumeiko, president of the Russian Confederation of Entrepreneurs, as well as by Deputy Prime Minister. Georgy Khizha, who came in as representative of the military and space industry (Schmemmann 1992).

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4 The so-called natural monopolies were large state-owned companies in the oil and gas, transportation, electricity transmission, communication and transportation networks sectors.

In the financial sector, a great number of banks had been constituted since the late Gorbachev era, which in the years following the price liberalisation increased their wealth through speculation. Once a certain degree of macroeconomic stability was achieved, however, they had to find other sources of income. Yeltsin, therefore, co-opted ten to twelve major players by granting them the status of “authorised bank”, thus, allowing them to profit from state budget transfers to state enterprises, regions and other organisations.

With the support of profitable big businesses and banks the next step of economic reorganisation was enforced. Chubais in 1992 initiated the first stage of privatisation in which approximately 20,000 large and medium-sized enterprises were to be privatised. Price liberalisation had revealed which of these enterprises were profitable and which were not competitive and subsequently caused the once so unified lobby of large enterprise directors to split into many sectoral and regional groups. The large group of unprofitable businesses comprised most of the manufacturing enterprises in the heavy and defence sector, which had been strongly subsidised in Soviet times. A change in ownership of these enterprises would have meant massive restructuring and downsizing for the management. As these enterprises, however, often were the biggest employer in a region, their demise would also have had far-reaching social consequences (Gaddy / Ickes 1998; Gaddy 1996)

Therefore, in the years following 1992, the red directors backed by the support of their workers tried to maintain their influence in the enterprise by institutionalising their interest at the regional as well as at the federal level. They successfully gained the support of their region’s representatives in Congress and in the Supreme Soviet, thus, turning parliament in an anti-reformist body in opposition to the government. As both parliament and presidency had their own legitimacy base and competences had not been properly distributed between the two institutions, yet, the legislative process was deadlocked during much of 1992 and 1993.

This institutionalisation of industrial interests in parliament constituted a serious blow to government. Old forces in parliament achieved the appointment of the former chairman of Gosbank, the State Bank of the USSR, Victor Gerashchenko as chairman of the newly founded Russian Central Bank. In consequence, Yeltsin’s government faced problems to enforce the hard budget constraints prescribed by the reformers as the Central Bank continued to pay subsidies to unprofitable large businesses. It was estimated that in 1998 explicit and implicit subsidies to enterprises amounted to 16 % of GDP (Pinto / Drebensov / Morozov 1999). Further, criticism on the consequences of economic reform forced Yeltsin in late 1992 to dismiss Gaidar as Prime Minister and to appoint Chernomyrdin in his place.

This was topped by an unsuccessful parliamentary initiative of March 1993 to impeach the president after Yeltsin had declared to assume special powers to push through his reforms. In order to confirm public support for his policies, Yeltsin in turn called for a referendum in which 58.8 % of the population a month later voted for the continuation of economic reforms. Backed by this new legitimacy and in light of the constitutional crisis, Yeltsin resorted to coercive and unconstitutional measures when disbanding the Supreme Soviet by decree and removing delegates by force with the support of the military and the MIA in October 1993.

In the aftermath of the 1993 coup, Yeltsin attempted to shift the institutional balance in his favour. He called for elections for a new parliament and had a new constitution drafted which left parliament with considerably less competences and instead strengthened the presidency and the executive organs connected to it. Thus, the coup facilitated an upgrading of the power

structures<sup>5</sup>, which received better access to the leadership. Along with general Boris Gromov as Deputy Defence Minister and former KGB-general Alexander Korzhakov as head of the Presidential Security Service a number of high ranking military officials and representatives of the law enforcement agencies moved into government and Presidential Administration.

By late 1993, Yeltsin's liberal reform efforts had dire consequences for much of the population. GDP per capita had decreased by more than 20 % and life expectancy had fallen below 65 (see Table 1). In reaction, the majority of the Russian electorate, in contrast to the recent referendum, in the 1993 duma elections did not support pro-government forces, but voted for opposition parties. Taken together, one quarter of votes went to Communist Party of the Russian Federation (CPRF) and Liberal Democratic Party of Russia (LDPR), the main opponents of reform, and another third was given to independent candidates without a party affiliation, which had been elected in regional single mandate districts and, thus, also frequently represented anti-reformist views.

|  | 1991   | 1992   | 1993   | 1994   | 1995   | 1996  | 1997  | 1998  | 1999  |
|--|--------|--------|--------|--------|--------|-------|-------|-------|-------|
| GDP per capita, PPP (constant 2000 international \$) | 9,730  | 8,313  | 7,601  | 6,653  | 6,386  | 6,173 | 6,278 | 5,962 | 6,369 |
| Life expectancy at birth, total (years)              | 68.5   | 66.9   | 64.9   | 64.5   | 65.2   | 66.2  | 67.0  | 66.8  | 66.0  |
| GDP growth (annual %)                                | -5.047 | -14.53 | -8.669 | -12.57 | -4.144 | -3.6  | 1.4   | -5.3  | 6.4   |

Source: World Bank: <http://web.worldbank.org/>; IMF: <http://www.imf.org>

Although the influence of the old Communist elite abated after the coup, anti-reformist forces emanating from the old economic elite remained strong and influenced the legislative process. In order to win the red directors for privatisation, Chubais' privatisation programme, which originally did not envisage majority ownership by management and workers, was altered. Instead of mass privatisation, the scheme rather took the form of insider privatisation as management and employees were offered the opportunity to receive a significant fraction of shares either for free or with substantial discounts (McFaul 1995).

This reality considerably blocked reform as the focus of the privatisation programme now was simply on the transfer of property rights and not on the rationalisation of the economy (Stiglitz 1999). With the majority of stakes owned by insiders, the management had no incentive or pressure to modernise and restructure the enterprise. With the bulk of inefficient enterprises forming a large lobby, controlling legislation over the budget due to their representatives in parliament and securing the continuation of subsidy payments from the Central Bank, the Russian economy remained unproductive and the chances for structural reform were slim

5 "Power structures" (in Russian "silovye struktury) or "siloviki", are journalistic terms referring to executive actors exercising control over the monopoly of physical coercion: the MoD, the MIA and the FSB. In the context of this paper, these institutions are considered to have actor quality, so that the terms "power structures" and "siloviki" in the following will be used as collective term for those power ministries.

as long as the government was not able to find alternative pro-reform forces that could replace old groups in the coalition.

Yeltsin's government, however, not only experienced pressure from economic groups. At the same time, the weakness of the new leadership also created incentives for regional leaders to maximise their utility, so that a split emerged between the federal government and a number of regional executives. After the Congress of the RSFSR in 1990 declared the union republic's sovereignty over its natural resources and the primacy of Russian over Soviet legislation, two distinct categories of sub-national Russian entities emerged. The twenty-one autonomous republics of the RSFSR were given the right to elect their presidents, so that the new heads of republics from 1991 were able to obtain their own legitimacy base. In contrast, the remaining sixty-eight regions temporarily were denied the right to elect their own governors. In reaction to the involvement of some regional leaders in the 1991 coup, the governors lost their privilege of being elected, while Yeltsin obtained the right to appoint governors. In consequence, Yeltsin handpicked most of the governors himself, thus, co-opting the majority of Russian regions.

Accordingly, the heads of ethnic republics in the early 1990s had greater leverage over the federal government than the governors of the remaining regions. Their support was crucial to the centre in its strive to maintain the territorial integrity of the RSFSR in light of the dissolution of the Soviet Union. The upsurge in nationalism in the regions and the weakness of the Russian government, made separatism a realistic threat. Furthermore, many of the autonomous republics were located at the borders of the RSFSR, so that secession also physically seemed to be feasible.

Republican leaders tried to employ this advantage to negotiate privileges for their territories, thus, improving their own policy performance and, ipso facto their output legitimacy. In 1992 and 1993 the heads of autonomous republics met regularly and formed a coherent bargaining bloc when negotiating with the federal government. Subject of the negotiations were the division of budgetary funds, natural resources, policy jurisdictions, personnel appointments and other questions of fiscal and policy competence (Solnick 1996).

In the 1993 coup, the republics, however, did not support the president unanimously, so that Yeltsin cancelled the practice of collective bargaining in which a negotiated privilege between a republic and the federal centre had applied to all republics. Instead, he started to distribute autonomy and resources on an individual basis by signing bilateral treaties with republics (Solnick 1999). In this context, Tatarstan and Bashkortostan in 1994 gave up their claim to sovereignty and accepted the federal taxing authority, in return for the centre's acceptance of regional control over oil and other resources and the republics' autonomy over their foreign economic policy. At the same time, the republics were no longer the united lobby which they had been in the early 1990s, so that the restriction of certain privileges in one republic did not automatically result in the collective protest of all others.

In conclusion, the failed coup of October 1993 led to a first reshuffle of Yeltsin's distributional coalition. The first round of the privatisation programme did not lead to a dramatic turnover of property rights and, thus, economic reform was not stimulated from below like the reformers had initially anticipated. The red directors maintained their lobby in parliament, but the new *duma* was much weaker than its predecessor. Nevertheless, their access to the executive was thwarted compared to that of the raw material lobby and the authorised banks Yeltsin

further had co-opted regional leaders and granted the power structures a bigger say in government.

In the years following the coup, two groups, the bankers and the power structures, started to extend their influence over the executive. The banks initially stayed out of politics. During the years of hyperinflation they had been able to accumulate more capital and had used the first stage of privatisation to develop into so-called financial industrial groups (FIGs). The second group already in 1994 directly intervened in politics. The military and the law enforcement agencies saw the armed involvement in Chechnya as chance to improve their situation, which since the late Gorbachev era had been marked by drastic cuts in budget and manpower. Originally, the MoD anticipated the assault to take a few hours. To their misfortune, however, the army met strong local resistance so that the operation took more than two years before a ceasefire was negotiated in the context of the presidential election campaign. Further, the campaign had been initiated by presidential decree and not by parliament, thus, lacking a public mandate and being largely unpopular with the population.

The situation was exploited by the opposition which actively campaigned against the costly long-term military involvement at a time when the country was in stark social decline. With the president's popularity falling close to zero, CPRF and LDPR were able to almost double their votes in the 1995 дума elections accounting for close to half of all seats (McFaul 1996). As the elections were considered a trial for the 1996 presidential elections, a handover of power to the Communist challenger had become a realistic danger for Yeltsin.

Accordingly, the 1996 presidential elections were a watershed event after which the distribution of power was reshuffled. Before the elections, Yeltsin had come increasingly under pressure from the power structures. By 1996 he had removed all young reformers from his government, while entrusting the management of his re-election campaign to Oleg Soskovets, a former manager in the metallurgy industry with alleged connections to the Military Industrial Complex (MIC), who had become known as a supporter of the Chechen war.

The crucial shift was initiated when in early 1996, a group of entrepreneurs representing financial groups as well as the oil, gas and defence industry united their efforts for Yeltsin's re-election in light of a possible Communist victory. The so-called oligarchs offered to finance Yeltsin's election campaign and urged him to replace Soskovets with Chubais as campaign manager (Schröder 1999). Backed by Berezovsky's and Gusinsky's media empires, Yeltsin's popularity started to rise securing him the victory over the CPRF's candidate Gennady Zyuganov in the second round of elections with a slim margin.

With the 1996 presidential elections the oligarchs became a political force that directly shaped and benefited from Yeltsin's policies. Entrepreneurs like Vladimir Potanin and Boris Berezovsky<sup>6</sup> either served themselves in high government office or placed their agents in strategic positions. With Sergey Generalov, Mikhail Khodorkovsky introduced a former Yukos senior official as Minister of Energy from 1998–99, Berezovsky relied on Nikolay Aksenenko as First Deputy Prime Minister and Alexander Voloshin as Head of the Presidential Administra-

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6 Vladimir Potanin, president of Oneksimbank, served as Deputy Prime Minister responsible for macroeconomic policy (August 1996 – March 1997); Boris Berezovsky, president of LogoVAZ, served as deputy secretary to the Security Council (October 1996 – November 1997).

tion. Finally, it was Chernomyrdin, the former chairman of what later became Gazprom, who was Prime Minister for more than six years (Wolosky 2000).

After 1996, the oligarchs enjoyed preferential access to government resources and enriched themselves enormously in the second phase of Chubais' privatisation programme, when the five-thousand most profitable large enterprises were transferred into private ownership. In the so-called "loans for shares" auctions, the heads of those FIGs that had supported the government through loans were able to purchase high-value state enterprises at undervalued price. Potanin's Onexsimbank acquired controlling interests in the world's largest nickel exporter Norilsk Nickel, Khodorkovsky's Menatep in Russia's second largest company Yukos and Berezovsky's LogoVAZ in the Sibneft oil company and the state airline Aeroflot

With the oligarchs' rise to power, the influence of the red directors, the *duma* and parties at the federal level declined (Schröder 1999). Although strong in parliament, the CPRF lost many of its old financiers after Yeltsin's victory and took a more conformist line towards the president. Another structural shift took place in centre-periphery relations as many of the governors of Russian regions, which previously had been appointed by Yeltsin, stood for election in 1995/6. Overall, incumbents won only about half of the regional elections, so that oppositional forces gained ground. Nevertheless, party affiliation was of little relevance as the governors were a politically independent group without any strong political loyalties (Zlotnik 1997). With governors having gained their own public mandate, however, the linkages between regions and the federal government weakened. Regional executives had federal officials in the regional branches of the federal ministries increasingly under their control. Governors frequently controlled regional tax flows and began to press openly for the transfer of federal competences to make appointments within the power ministries for their region (White / Khryshstanovskaya 2003).

When the financial crisis hit Russia in August 1998, the financial groups without connections to the resource sector lost their fortunes. As a result, the central government lost access to financial resources and, thus, to the policy levers it needed to maintain a strategy of bilateral bargaining with regions. The centre's capacity to offer fiscal benefits had been curtailed and the most valuable enterprises had already been divested (Solnick 1999). Instead, the heads of FIGs, who previously had mainly invested in the extractive industries, after the devaluation of the ruble considerably expanded their operations in the Russian regions. In consequence, new alliances formed between entrepreneurs and regional executives challenging Yeltsin's government.

To protect their operations, managers of big businesses sought to gain control over the regional political systems in areas where they operated – either by directly replacing the governor or by co-opting the regional leadership for instance through the provision of campaign financing (Ortung 2003; Ortung 2004). As a result, the regional executives had an alternative source of finance which allowed them to impact more actively on federal politics. In the run-up to the 1999 *duma* elections, a number of governors blocs formed, most notably the 'Congress of Russian Communities', 'Vsyá Rossiya' and 'Golos Rossii'. They were headed by popular regional politicians like the mayor of Moscow Yury Luzhkov and the governor of Krasnoyarsk Krai Alexander Lebed, who had negotiated the 1996 ceasefire in Chechnya, both aspiring to the presidency in 2000 after Yeltsin would have completed his second term.



Following the political upsurge of the regions and the FIGs vis-à-vis the centre, the federal government was weakened. To preserve his claim to power, Yeltsin resorted to the support of the power structures, which, although in his distributional coalition throughout the 1990s, had been marginalised, underfinanced and understaffed. The military engagement in Chechnya left the army deeply demoralised, while the FSB had been broken down into several agencies with no director serving longer than two years (Taylor 2006). In 1998, however, it emerged that the government could only reassert its authority by strengthening the role of the military and security services and that Yeltsin's chosen successor would, thus, be someone with a military background who would enjoy the loyalty of the power structures (Trenin 2007; White / Khryshstanovskaya 2003).

In consequence, the number of high ranking staff members with a power structure background, who were considered potential successors increased. To name a few, the former head of the State Border Service Nikolay Bordyuzha was appointed Secretary of the Security Council, the former SVR-director and Foreign Minister Yevgeny Primakov became Prime Minister, followed in office by former FSB-director Sergey Stepashin (White / Khryshstanovskaya 2003). To reinforce the power vertical between the federal centre and the regions and to narrow the chances of governors to run in the 2000 presidential elections, Yeltsin appointed Vladimir Putin as presidential Deputy Chief of Staff for regional policy as well as head of the Commission for the preparation of agreements on the delimitation of the power of the regions and the federal centre. In his prior position as head of the presidential fiscal oversight Control Commission Putin had been responsible for investigating the misuse of budget funds by regional leaders, so that his appointment "*raised fears of an imminent vendetta against regional opponents of Yeltsin*" (Solnick 1999). In general, however, Putin's short time in this office mainly marked a shift away from bilateralism towards collective bargaining.

Although the federal government had found a way to contain regional activities with the re-emergence of the security forces, the succession question remained of importance. Among the candidates not backed by the Kremlin the leader of the CPRF Gennady Zyuganov and the mayor of Moscow Yury Luzhkov had the best chances. In 1999, the picture also became clearer with regard to Yeltsin's preferred successor. Evgeny Primakov had during his time as Prime Minister become very popular and started to act independently, so that Yeltsin fearing to lose control over the government dismissed him on dubious grounds. His successor Stepashin made a suitable candidate having served in three different government posts. He in turn had to leave the post after failing to derail Luzhkov as presidential candidate. Instead Putin was lifted to the post of Prime Minister in August 1999 accompanied by the good fortune of favourable external conditions.

After the financial shock of August 1998, the macroeconomic situation in Russia had stabilised. This development was exacerbated by the rise in the world oil price. Nevertheless, it was the second campaign on Chechnya starting in October 1999 following the alleged terrorist attacks on apartment blocs in Moscow and other cities as well as the armed incursions into Dagestan by militants stationed in Chechnya that immediately boosted Putin's popularity. In contrast to the first Chechen War, the operation was better organised and enjoyed due to the evident terrorist threat far-reaching public support. Thus, by late 1999, Putin's aspirations to the presidency were dependent on the success of the Chechen military campaign. Accordingly, he had to co-opt the military by giving in to demands for an expansion of the original

military mission from air strikes against military bases to reasserting Russian sovereignty over the independence-seeking region (Busza 1999; Trenin 2007).

The Duma elections in December 1999 resembled an opportunity for Yeltsin to employ the popularity of the new Prime Minister to consolidate the power of his preferred successor. In the run-up to the elections, Putin, although not becoming a member, decisively supported the new pro-presidential party Unity, thus, weakening the intra-parliamentary opposition as well as potential rivals in the presidential election. Unity came second after Zyuganov's CPRF, which lost one third of its seats, and scored slightly better than Luzhkov's Fatherland-All Russia, thus, certifying public support for Putin's policies. In light of this boost in legitimacy, Yeltsin sought to increase Putin's chances for the presidency by stepping down early at the end of 1999, thus, enabling the Prime Minister to prove his abilities as acting President prior to the presidential elections.

In summary, the Yeltsin era was marked by the resistance of old political and economic groups. Their struggle with new reformist forces generated a weak institutional background leading to incomplete early reforms that benefited certain groups disproportionately. In the political sphere, the government's capability to implement policies was obstructed by anti-system parties as well as by the regional leaders. The power structures and the military in turn lost much of their former influence. In the economic realm, the managers of the resource sector as well as the oligarchs limited the government's authority to formulate its own policies. While the directors of unprofitable large and medium-sized enterprises lost out in the transition process, the biggest losers were Russian SMEs.

Due to the government's incapability to redistribute privileges on a broader basis, the majority of the Russian population suffered tremendously from the consequences of transition, facing plummeting living standards, an enormous wage arrears crisis and losing their savings twice. At the same time, Yeltsin's government faced the dilemma that, on the one hand, it was dependent on the electoral support of society, while, on the other, being unable to perform to the electorate's satisfaction. The combination of incomplete reform and electoral democracy entailed the dominance of co-optation and legitimisation as strategies to ensure the government's claim to power. The relative fall of the power structures in turn explains the generally low level of government directed repression, which only came to the fore under exceptional circumstances. The inclusion of a high number of different interest groups in Yeltsin's distributional coalition and the weakness of Russian civil society made the government ultimately vulnerable to pressure from small economic and bureaucratic interest groups, so that Yeltsin's political system was instable.

## 1.2 Streamlining of the coalition under Putin

Putin's affirmation to the presidency in March 2000 had two immediate consequences. First, 52.9 % of the Russian electorate voted for him, so that his mandate now footed on extensive legitimacy. Although the elections due to the candidates' unequal access to the media were not considered fair by outside observers (OSCE 2000; PACE 2000), the gap to Zyuganov who came second was explicit. Second, with Putin's rise to power, the influence of the security services, in particular that of the FSB, increased dramatically and with it the frequency with which repressive measures were installed.

In 2000, Putin's government and the Presidential Administration showed much continuity to the Yeltsin era. In particular the heads of the key ministries did not change. Vladimir Rushailo remained Minister of Internal Affairs, Igor Sergeev Minister of Defence, Igor Ivanov Minister of Foreign Affairs and Sergey Shoigu Minister for National Emergencies, while Prime Minister Kasyanov had served under Yeltsin as Minister of Finance. At the same time, however, Putin, like his predecessor, brought in his own confidants who originated from two circles closely connected to his career. The first group consisted of a number of technocrats related to Putin's time at the St. Petersburg city administration such as Leonid Reiman, who headed the newly founded Department for Information Technology and Telecommunication, and Igor Sechin, the Deputy Chief of the Presidential Administration as well as of some close friends, liberal lawyers and economists also from St. Petersburg, such as the Minister of Finance Alexey Kudrin, the Minister of Economic Development German Gref and Deputy Energy Minister and later Chairman of Gazprom Alexei Miller. The second group emanated from Putin's time at the FSB including Sergey Ivanov, Minister of Defence from 2001 (Mereu 2008) and head of the FSB Nikolay Patrushev.

In light of the improving economic situation and a pro-reformist majority in the duma, the first group recognised the potential and need for structural reform in order to maintain social peace. The devaluation and debt default of 1998 had brought macroeconomic stability and with it the social side effects that had afflicted the Russian economy during the 1990s abated such as non-payments, wage arrears and reliance on non-monetary exchange. To ensure social and economic welfare in the long-term, however, drastic structural reforms were needed as the industrial capital stock was in desperate need of modernisation (Tompson 2001). German Gref, the new Minister for Economic Development and Trade drafted a plan for economic reform that in July 2000 was adopted by the government. The Gref Programme stipulated to raise economic growth to 8 %, to foster reform of the tax and banking system, facilitate accession to the World Trade Organization, regulated the natural monopolies and introduced a number of social reforms concerning a labour code, pensions, health care and education.

The Gref programme lay the institutional base for structural reform. Its implementation was, however, dependent on the support of other political and economic interest groups, namely the state bureaucracy, entrepreneurs, and regional leaders. Subsequently, Putin's government saw the need to reshuffle their distributional coalition. The capability to implement governmental policies was to be achieved by co-opting the power structures to control the state bureaucracy, while the enhanced capacities of the law enforcement agencies in turn made the use of coercive measures against entrepreneurs and regional leaders possible.

Although Putin's new government reflected continuity with the Yeltsin era, personnel reshuffles took place at the lower ranks of government favouring the security services. As White and Khyshtanovskaya note "*both the armed forces and the state security apparatus had retained an organization based on vertical subordination and regional structures that penetrated the entire society, allowing them to be used as a structure of national government*" (White / Khyshtanovskaya 2003, 291) and, thus, capable of filling the vacuum which the demise of the CPSU had created. In contrast to the Yeltsin era, the power ministries saw a dramatic rise in funding which increased their organisational capacity. Officials originating from the power ministries were sent for duty in the civil ministries. The so-called siloviki were most actively recruited by the ministries headed by Putin's St. Petersburg confidants and by 2003 accounted for 45 % of all deputy ministerial appointments to the civilian branches of the federal government (White / Khyshtanovskaya 2003, 296). Of the power structures, the

FSB saw the biggest upgrade. In March 2003, Putin reconstituted FSB control over the Federal Agency of Government Communications and Information and the Federal Border Guard Service that had become independent organs under Yeltsin. Further, he subordinated the FSB's other major rival agency by moving the tax police into the MIA.

The financial crisis of 1998 had weakened the government's bargaining position as it was forced to introduce hard budget constraints. In consequence, it was neither able to provide privileges to regions, nor in a position to continue the emission of non-transparent subsidies and tax exemptions to directors and oligarchs (Aslund 2004). Backed by the security services and parliament, however, Putin, in analogy to Mancur Olson's image of the "stationary bandit" (Olson 2000), started to restrict the privileges of the most influential interest groups of the previous era. This was either achieved by enacting reforms which were acknowledged by the democratically elected parliament, or through repression in the form of selective law enforcement.

To strengthen the government's capacity for the implementation of federal policies and, thus, ipso facto increase its output legitimacy, Putin shortly after taking office initiated a reshuffle of power between federal and regional authorities. The aim of the federal reform was two-fold: On one hand, Putin strengthened federal oversight over regions by introducing seven presidential envoys as a new administrative level between the centre and the regions. On the other, he weakened the influence of regional leaders on federal policy making by expelling them from the upper chamber of parliament, the Federation Council.

In April 2000, Putin tightened federal control over regions by founding seven new federal districts each headed by a plenipotentiary representative of the president, legally in line with Art. 83<sup>7</sup> of the Russian Constitution. Five of the seven appointed envoys had a military or security service background and the federal districts had been drawn up to closely match Russia's military districts in order to give them direct access to regional military networks and infrastructure (Ross 2003). The presidential envoys were equipped with extensive powers and responsibilities reaching from monitoring the regions' compliance with federal law and overseeing the selection of personnel in the regional branches of the federal executive to coordinating interregional economic programmes (Hyde 2001). The introduction of the additional administrative level considerably strengthened federal leverage over the regions. On the monetary side, governors lost their financial resources to the federal government, while the envoys started to oversee regional tax collection, so that federal revenues rose from just 9.1 % of GDP in 1998 to 20 % in 2002 (Aslund 2004). Further, the regional security and law enforcement agencies moved under the control of the presidential envoys, leaving governors with much less influence over the internal affairs of their own regions (Petrov 2003). In consequence, federal authorities were in a position to selectively investigate regional leaders, thus, preventing them to contest against the candidates favoured by the Kremlin in regional elections as seen in the Kursk, Saratov, and Rostov oblasts, in Chechnya and Ingushetia.

Part of the centralisation process was a reform of the federal executive at the regional level, which under Yeltsin had become dominated by the regional leaderships. To make the regional state bureaucracy conducive to federal needs and to reimburse the power structures for their loyalty to the president, most of the positions vacant in the regions were allocated to members

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7 Article 83 j) stipulates that "*The President of the Russian Federation shall ... appoint and dismiss plenipotentiary representatives of the President of the Russian Federation*" (Constitution 1993).

of the security forces (White / Khryshtanovskaya 2003). In this context, Putin actively encouraged a number of FSB and military generals to enter regional politics. The winners of the gubernatorial races in Kaliningrad, Stavropol, Ulyanovsk, Voronezh, Ingushetia and Smolensk all had connections to the power structures. The rise of governors with a military background, often having served in Chechnya, can be interpreted as co-optation strategy to compensate the military for not being included in the first row of government.

In August 2000, the federal reforms entered a new stage with the reform of the Federation Council. The restructuring of the upper house of parliament was supported by the pro-presidential duma and was in line with the legislative process also approved by the Federation Council itself, compiling the heads of regional executives and legislatures. As a result, the incumbent governors and heads of administrations were to be replaced by full-time delegates, one nominated by each region's executive branch and one by the legislature (Hyde 2001; Remington 2003). The governors supported the notion because they anticipated to maintain their influence on federal politics by controlling the nominees for the Council. To further allow the regional leaders direct access to the president, an extra-constitutional consultative council, the State Council, was created by presidential decree on 1 September 2000. In summary, Putin's federal reform of 2000 resembled a massive redistribution of power from the regional to the federal level. Although regional leaders further enjoyed a public mandate their competences had been markedly restricted and their actions were monitored closely by federal institutions.

The second group to experience the government's increased capacity to implement its policies were the oligarchs. The 2000 presidential elections had constituted that Putin's government became less dependent on input legitimacy, but in turn relied stronger on performance to secure social support. To improve their performance in the eyes of the public and to consolidate their power, the Russian leadership from 2000 onwards, on one hand, stepped up state involvement in the economic sphere, while, on the other, weakening the influence of large private businesses.

During Putin's first term, the government strengthened state control over the economy by making more active use of its leverage over state-owned and state-controlled enterprises. As in Russia's regions, part of the venture was a series of personal reshuffles in major enterprises in favour of Putin protégées, i.e. either to technocrats or to siloviki. Prominent examples are the replacement of Rem Viakhirev, the long time Yeltsin-era chairman of Gazprom, with Alexei Miller and the nomination of Dmitri Mevedev as the company's president, both having served under Putin in the St. Petersburg Committee for External Relations. Gazprom, thus, represented the interests of the liberal forces in the government. Leading positions in other state enterprises such as Russian Railways, the national rail transportation monopoly, or in Rosoboronexport and Almaz-Antei, two leading enterprises of the MIC, were filled with former KGB/ FSB officers.

Once the government had increased its capacity in the economic sphere, it started to reassert property that had been divested in the 1990s. The management of state-controlled enterprises under government guidance and with the support of the law enforcement authorities started to reintegrate formerly privatised or leased assets. Gazprom for example recovered Itera and Sibur (Barnes 2003, 177). At the same time, the leadership acted to limit regional leverage over strategically important state enterprises by creating centralised state holdings as seen in the aircraft industry and communications sector.

The increased presence of the political leadership in big enterprises was accompanied by a campaign against privately owned big businesses. In the second half of the 1990s, many of the oligarchs had extended their activities from the economic into the political sphere by shaping public opinion through their media holdings or by directly impacting on political decisions. Putin's reliance on output legitimacy, however, turned the media oligarchs into a threat to the government. When Berezovsky's and Gusinsky's tv-channels reported critically about the new leadership, they were faced with allegations of fraud from the tax authorities. To avoid prosecution, they were offered to sell their shares and were allowed to leave the country. After the episode, the news coverage of the tv-channels NTV, TV-6 and ORT became strictly pro-presidential.

Berezovsky and Gusinsky were by no means the only candidates vulnerable to fraud investigations. They, nevertheless, served as example for the government's new capability to make use of selective law enforcement. Their case demonstrated that the preservation of property rights was in the hands of the law enforcement agencies. In consequence the oligarchs were all too ready to trade political restraint for confirmation of their property rights. They *"adopted a lower political profile and accepted many of the constraints imposed on them by the new administration"* (Tompson 2004, 5). Further, entrepreneurs like Roman Abramovich started to explore strategies to ensure the safety of their property, for example by legally registering in consolidated assets abroad.

Apart from the oligarch's self-restraint from actively interfering in high level politics, the Kremlin limited their influence by restricting their access to the leadership. While under Yeltsin, individual oligarchs were in a position to directly consult with the president, Putin institutionalised the relationship. Oligarchs were now only able to bring their interests across to the political leadership at the president's quarterly meetings with the Russian Union of Industrialists and Entrepreneurs (RUIE).

Most oligarchs nevertheless continued to directly or indirectly impact on government interests. Putin's efforts to restrict their political influence over federal politics led them to refocus their activities to the regional level (Barnes 2003). They either tried to co-opt the incumbent governor or supported a representative of their enterprise to take the post. A few oligarchs decided to run themselves in the gubernatorial elections. Roman Abramovich for example became governor of Chukotka and Alexander Khloponin, the director of Norilsk Nickel, was elected governor of Taimyr and later of Krasnoyarsk

By 2003, the Kremlin realised that its plans for structural reform were obstructed by the oligarchs, who opposed higher taxation in the resource sector or a restructuring of the gas and electricity sectors (Tompson 2004, 8). To ensure its capacity to implement reform, the political leadership decided to set a clear example of its leverage over the property rights of big businesses.

Ironically, the subject of the biggest redistribution of property under Putin was Mikhail Khodorkovsky's Yukos oil company, which since 1999 had striven to create transparent business structures to be less vulnerable to selective law enforcement. Khodorkovsky had compromised the Kremlin's political and economic interests. He was financing liberal opposition parties and indicated that he might plan to run for president (Finn 2005). Most likely, however, it was Khodorkovsky's business aspirations that led to his imprisonment in 2003 and de facto the re-nationalisation of Yukos. Ownership of Russia's biggest oil company had given

him disproportionate influence over one of Russia's strategic industries. When he showed interest in constructing private pipelines, thus, threatening the state monopoly on oil transport, and presumably planned to sell the company to a US company giving external forces increased leverage over the Russian economy, he touched on issues vital to the government's survival. The dismembering of Yukos and the purchase of its most profitable asset Yuganskneftegas by the state enterprise Rosneft re-established state control over the oil industry.

Putin's strike against Yukos was paralleled by threats against other large enterprises in the resource sector such as Sibneft and Norilsk Nickel, which remained without serious consequences. Nevertheless, 2003 marked a fundamental reshuffle in the distribution of power between the government and the oligarchs. This not only shows that law enforcement was independent of the veracity of fraud allegations, but that the government had an obvious interest in regaining control over strategic sectors of the economy. Instead of seeing his reform plans contradicted by the oligarchs, Putin now instrumentalised big businesses for his venture. In his appearances at the RUIE, he started to stress the corporate social responsibility of large enterprises, in particular that of the oil and gas sector (Putin 2003).

Subsequently, oligarchs contributed apart from paying taxes in two ways to restore Russia's economic status (Tompson 2004). On one side, oil enterprises supported local economic development, either by making voluntary contributions to local government infrastructure funds or by ordering equipment from local manufacturing, even if products were not competitive. On the other, the largest resource companies were expected to contribute at the national level by pursuing certain policies in their foreign activity that furthered the geopolitical interests of the Russian state (Gaddy 2007).

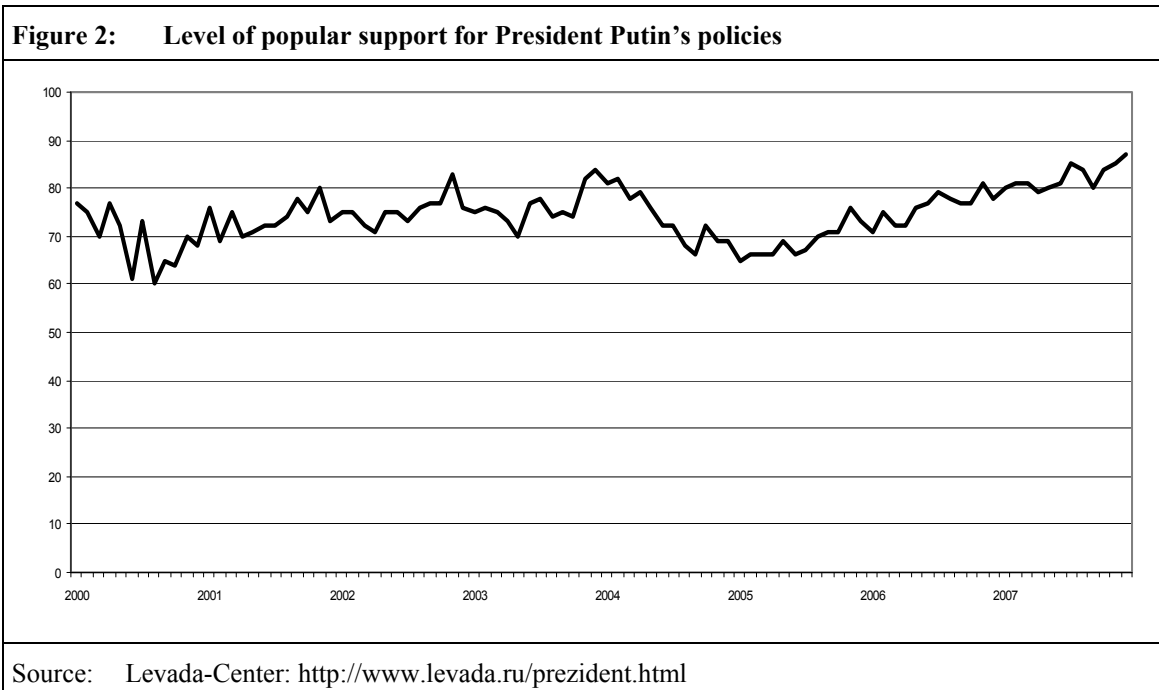
During Putin's first three years in office, the interests of large private business had impeded reform in key industries, thus, limiting government performance. In the eyes of the Russian population, Putin's first term had, nevertheless, been a success as it brought improvements with regard to living conditions and the rule of law. GDP per capita Purchasing Power Parity (PPP) rose from US\$ 7,006 in 2000 to US\$ 9,021 in 2004 (see Table 2) and the campaign against the oligarchs in the months prior to the 2003 дума elections further boosted Putin's popularity as it seized on the public's desire for order and justice.

**Table 2: Indicators for Russia’s performance 2000–2008**

|  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006   | 2007    | 2008    |
|--|-------|-------|-------|-------|-------|-------|--------|---------|---------|
| GDP per capita, PPP (constant 2000 international \$) | 7,006 | 7,380 | 7,765 | 8,376 | 9,021 | 9,648 | 13,173 | 14,692* | 16,085* |
| Life expectancy at birth, total (years)              | 65.3  | 65.5  | 65.1  | 65.0  | 65.4  | 65.5  | 65.6   | 65.7    | 65.8*   |
| GDP growth (annual %)                                | 10.0  | 5.1   | 4.7   | 7.3   | 7.1   | 6.4   | 6.7    | 7.0     | 6.5*    |

\* estimates  
 Source: World Bank-World Development Indicators (CD-Rom); [www.worldbank.org](http://www.worldbank.org);  
 IMF-World Economic Outlook Database; <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

Public support for Putin’s policies was also reflected by the results of the duma election in December 2003 in which the presidential party, now renamed United Russia, gained 49.3 % of the vote. Nevertheless, already in the run-up to the election, the government instrumentalised its high level of performance legitimacy in order to put restrictions on the opposition, not only through the assault on the media, but also by raising administrative requirements for political parties to run in the election. Thus, Putin on one side, further restricted access to his coalition, while, on the other, relying even more on the successful implementation of his policies.



The restriction of input legitimacy and the expansion of state capacity was further reflected in the 2004 presidential elections (McFaul / Petrov 2004) and the continuing ascent of the security services to the first tier of government in Putin’s second term (Bremmer / Charap 2006). When Putin was re-elected in March 2004 by an overwhelming 71.3 % of the Russian elec-



torate, international observers judged that the election lacked elements of a genuine democratic contest” (PACE 2004) as *“the election process failed to meet important commitments concerning treatment of candidates by the State-controlled media on a non-discriminatory basis, equal opportunities for all candidates and secrecy of the ballot”* (OSCE 2004).

Putin’s 2004 government exposed significant continuity with his first term cabinet, but included, with the exception of the long-serving Minister of Emergencies Sergey Shoigu, none of the members that had been associated with the Yeltsin era. The other two power ministries were now headed by ex-KGB/FSB officers. Sergey Ivanov became Minister of Defence and Rashid Nurgaliyev Minister of Internal Affairs

After 2004, the power structures not only continued their advance to the top of federal politics. They also strengthened their influence in the regions. During the federal reform of 2000, the governors had retained their right to be elected and, thus, backed up their claim to power through their own base of legitimacy. Taking the mismanaged liberation operation of the Beslan hostage crisis as pretext, Putin decided to change the mode of installing governors back to the practice of appointment. Following the governors’ rush to join the presidential party, Putin kept those loyal to the centre in office. The direct appointment of governors gave the centre greater leverage over regional leaders and cash flows. As Clifford G. Gaddy noted *“Putin needed governors to serve as ‘regional rent managers’ within a national structure of Russia Inc.”* (Gaddy 2007, 41).

The repressive assault on the governors has been paralleled by a strategy of state-promoted nationalism to generate public support in the regions. In contrast to the Yeltsin era, when the government promoted the emergence of a civic national identity, the Putin administration was leading a nationalist “Russia for the Russians” campaign, the ideological underpinnings of which were provided by the Russian Orthodox Church (Trenin 2007; Bremmer / Charap 2006). Although the campaign created the potential for regional unrest in the multiethnic state, it was positively conceived by the majority of the population, of which more than 80 % are ethnic Russians.

By 2004, Putin’s government had achieved a de facto majority in parliament, the compliance of Russian regions and a positive public image. Oppositional forces had been prevented from moving into parliament and the oligarchs had lowered their political image. During Putin’s second term, the government reinforced its influence in the economic realm by placing high government officials with a technocrat or power structure background at the top of large businesses. This phenomenon of reserving access to the levers of economic power to insiders and the notion to employ economic actors for state interests have been dubbed “ZAO Kremlin” (Aris 2007) and “Russia Inc” (Gaddy 2004).

According to research conducted by the Financial Times, Russian officialdom and business are much more intertwined than in any other G8 country. *“Of its presidential administration, 11 members chaired six state companies and had 12 further state directorships; 15 senior government officials held six chairmanships and 24 other board seats”* (Buckley / Ostrovsky 2006). Most notably the security services have reached out to positions in enterprises; controlling amongst others: resource, media and military-industrial assets. Several KGB veterans occupy senior management posts in Gazprom, Putin’s press secretary general Alexey Gromov sits on the board of Russia’s main tv-station Channel One and with Sergey Chemezov a KGB-colleague from his time in Dresden is in charge of Rosoboronexport – the monopoly on arms trade.

Siloviki, however, also have moved into the second tier of state and private enterprises. Most of them are drawn from the FSB's active reserve and are seconded to businesses (Economist 2007b). For the government, this is a possibility to retain control over economic activities, while being able to provide a financial reward to siloviki, as they are paid by the company they infiltrate, while also remaining on the FSB's payroll.

Ian Bremmer and Samuel Charap have argued that the siloviki, although lacking a coherent political philosophy, share a set of core values. In the economic sphere, they "*promote the continued consolidation of political and economic power within a highly centralized state*" and favour the state to "*play a decisive role in the country's economic life*" controlling strategic sectors (Bremmer / Charap 2006).

These interests were reflected in the government's economic policy, which in Putin's second term concentrated on the re-nationalisation of key sectors and economic centralisation in strategic industries. Thus, in the aftermath of the Khodorkovsky affair, a new wave of redistribution of assets was set off. The state-controlled oil and gas companies took over large profitable private enterprises from oligarchs which amounted to restoring much of the assets privatised in the loans-for-shares scheme in the 1990s to public ownership (Buckley / Ostrovsky 2006). Yuganskneftegaz, the oil company at the core of Khodorkovsky's Yukos group was de facto purchased by Rosneft. Russia's largest corporate takeover took place in September 2005, when Gazprom acquired a majority in Sibneft, the oil company formerly owned by Boris Berezovsky and now divested by Roman Abramovich. Both major oil companies were under the control of rival Kremlin clans. While Gazprom since 2001 has been headed by liberal technocrats, Rosneft has been under the influence of the security services since Deputy Chief of the Presidential Administration Igor Sechin was named chairman of the company in July 2004. The animosities between both groups have obstructed Putin's intended reform of the energy sector, which entailed a merger of both companies (O'Brien / Myers 2005).

The major threat to the further consolidation of the leadership under Putin, however, did not emanate from domestic actors. The "*source of greatest uncertainty lies in the external environment*" (Gaddy 2004, 123). Relying on the compliance of economic structures with government policies, the government had an immanent interest in avoiding foreign involvement in strategic industries. To tighten control, as well over private key businesses, a process of economic re-centralisation set in, in which large state enterprises, other than the natural monopolies, formed the core of strategic sectors in the nuclear energy, aviation, spacecraft and ship building sectors. They then purchased stakes in profitable private businesses, adding them to a strategic sector, thus, prohibiting the inflow of foreign capital (Moscow Times 2008; Kassianova 2006). Among the private enterprises concerned are major industrial companies like Silovye Mashiny, Kamov, OMZ, Avtovaz and VSMPO-Avisma.

In general, the government's economic policy has benefited Russia's macroeconomic performance. GDP growth between 2000 and 2007 averaged at 6.8 % and since 2000 the government budget recorded a surplus. To keep inflation low, windfall profits from the export of oil have been taken out of circulation and placed in a stabilisation fund which of January 2008 amounted to US\$ 157 billion. Private large enterprises, however, have made a point when noting that the emergence of "state capitalism" after 2003 has impeded economic growth as it depressed investment inflows, thus, limiting industrial output (Buckley / Ostrovsky 2006).

Accordingly, the government, although quite successful on the macroeconomic level, compromised on thorough structural reform to ensure state control over economic matters. The policy of deregulation and the lowering of licensing requirements combined with informal subsidies provided by oligarchs to the regions have, nevertheless, promoted the development of SME in the non-resource sectors. At the same time, SME's dependence on the performance of the resource sector and, thus, on the oil price constitutes their weakness.

The economic recovery of the country and United Russia's nationalist campaign have constituted the main pillars of Putin's performance-based legitimacy. In the 2007 *duma* elections, the party received more than two thirds of votes cast, thus, controlling the parliamentary majority required to pass constitutional amendments. Public support for the government remained generally high as living conditions for large segments of society had further improved. At the same time, the Russian population was further shrinking, a condition incompatible with the rising demand for qualified workers in a growing economy. Also, the gap between poor and rich was widening. While a number of regional centres like Nizhny Novgorod, Yekaterinburg and Saratov are booming, living conditions in agricultural rural areas are deteriorating, thus, in the medium-term creating potential for social unrest. The government's attempt to implement a social benefit reform which was to monetarise the non-fiscal privileges permutated from the Soviet era to many social groups was followed by widespread protests, thus, demonstrating society's potential to put pressure on the leadership. To improve living conditions on a national scale, the government in 2004 announced its so-called four National Priority Projects relating to the development of the agricultural, housing, education and health care sectors, which since were covered by tv-channels on a daily basis.

From the leadership's point of view, the greatest potential for unrest, however, emanated not from the Russian population, but from foreign political actors. Their perception was, that the Orange Revolution in Ukraine had shown that foreign NGOs are capable of supporting regime change. In turn, the *siloviki*, first among them the head of the FSB Patrushev, started a campaign against foreign and externally-financed NGOs (Saradzhyan / Schreck 2005). A number of repressive actions followed, reaching from the new NGO-law introducing high administrative requirements and putting smaller organisations under financial pressure, to raids of NGO-offices or the outright expulsion from the country (Arnold 2007). In addition, the Kremlin devoted massive resources to the creation of state-sponsored and state-controlled NGOs to back its political image. The most prominent example is the youth movement "Nashi", which has been rallying in Russian streets since 2005 (Hammerschlag 2007).

Despite the success of United Russia in 2003 and the rise in patriotism especially among the younger segments of the population, the leadership wanted to ensure the victory of the presidential party in the 2007 *duma* election. The new election law discriminated smaller parties as well as independent candidates by raising the threshold to seven percent, prohibiting the formation of electoral blocs, abolishing the single mandate constituencies and assigning seats exclusively from party list proportional representation (On the election 2005). In consequence, the number of political organisations registered for election fell from 33 in 2003 to 17 in 2007 (Styckow 2007). Both liberal parties Yabloko and the Union of Right Forces did not possess the seven percent hurdle, while the CPRF lost many voters to the new left-of-centre Kremlin construct Just Russia. The electoral success of United Russia was reinforced by the presidency as opinion polls for the party went up steeply once Putin had declared, in October 2007, that he would head the party list (Hale 2007). Nevertheless, the 2007 election was neither free nor fair. In large enterprises and in the military, people were forced to attend elec-

tions, the state-controlled media was biased towards United Russia and rallies of opposition groups were dissolved by force (Levy 2008).

The conduct of the 2007 *duma* elections mirrored the government's growing insecurity approaching the end of Putin's second and *de jure* last term. In light of the upcoming presidential elections, a succession struggle had erupted between two groups in government: the *siloviki* and the liberal technocrats. First rumours about a potential successor came up when Putin replaced prime minister Mikhail Fradkov with Victor Zubkov, a former colleague from the St. Petersburg mayor's office. The succession was, however, fought out at the level of Deputy Prime Ministers. The *siloviki* supported former Minister of Defence Sergey Ivanov, who was in favour of a further strengthening of the security forces and the military and who was expected to become a strong president able to push through his own policy line. The technocrats, on the other hand, promoted with their choice of Dmitri Medvedev a more liberal candidate, dedicated to social reform (RFE/RL 2007b; NPR 2007; RFE/RL 2007a), but without connection to the security services and, thus, deprived of a power base.

The internal fights between government factions remained largely intransparent to the public. The choice of Medvedev as Kremlin-backed candidate for the presidency marked a victory for the technocrats, but also communicated to the population that the leadership prioritised social, health care and educational issues. Medvedev's announcement that if he was successful in the 2008 presidential election he would nominate Putin as prime minister, thus, guaranteeing political stability, reconciled the *siloviki* and generated public support for Medvedev, who was elected in a landslide by 70.3 % of votes.

Under Putin, as at the beginning of the Yeltsin era, old political forces and economic groups continued to dominate the political scene. The imperative to strengthen state capacity paired with the opportunity to instrumentalise windfall profits, however, led to the rise of the power structures. In consequence, the cohesiveness between political institutions was reinforced, so that the chances for structural reform improved. In the political sphere, the government's capability improved with the subordination of regional leaders to the federal centre, the creation of a compliant parliament and the suppression of political opponents and the press. In the economic sphere, the redistribution of property in favour of public actors further strengthened the government's capacity to implement its policies. The immanent congruence of political and economic forces, however, became an impediment to state autonomy and structural reform.

From the reign of Russia's first president Boris Yeltsin to the Putin era, Russian domestic politics underwent drastic changes. In summary, four features represent the most obvious shifts. They relate to alternations in the three afore mentioned government strategies (legitimacy, loyalty, repression) as well as the government's proneness to external influences.

First, the Russian population lost much of its direct leverage over political life. While elections under Yeltsin had been free and relatively fair, they became more strongly manipulated by the executive during the Putin era. With the rise of the oil price, the government was able to improve its performance, thus, opening the opportunity to put restrictions on input legitimacy. Despite the decline in political mobilisation, the standard of living improved as well as a sense of national identity rose among large parts of the population, so that the Putin regime experienced by far more and more continuous support than Yeltsin's government ever did.

Second, the number of small interest groups declined. Under Yeltsin, there had been a multitude of clans, representing very diverging views. Therefore, the Russian government in the 1990s had to satisfy a multitude of different interests to ensure support for the regime. Government policies subsequently appeared inconsistent, erratic and at times contradictory. Putin, in contrast, secured the loyalty of a smaller number of interest groups, thus, limiting open disagreement and infighting among different factions and streamlining government interests. Accordingly, official policies in the 2000s have been more coherent and stable.

Third, the security forces experienced a revival, which led to a raise in the level of repression. Under Yeltsin, the siloviki were only one of many groups. In light of their marginalisation, their capacity to support the government only flared up at critical political junctures, so that the level of government-directed repression was comparatively low. The explicit inclusion of the security forces in Putin's distributional coalition induced a rise in the application of coercive measures and selective law enforcement. Opposition forces such as political opponents, regional leaders or disloyal oligarchs more and more often had to experience the government's regained capacity to impose its policies.

And, finally, with the rise of the oil price, the Russian government was less prone to the leverage of foreign actors and is better prepared to face the challenges of globalisation. During the Yeltsin era, the government, highly dependent on foreign loans, had to accept the conditions set by the U.S. administration and Western organisations. The lack of self-determination undermined the government's legitimacy, for example, due to the social catastrophe following the prioritisation of macroeconomic stabilisation over structural reform. Under Putin, the Russian government paid off most of its foreign debt and, thus, dramatically increased its autonomy over policy formation. Following its enhanced financial position, Putin's government has further created better conditions to bolster certain external pressures.

## 2 Domestic change and foreign policy making

Under both Yeltsin and Putin, Russian foreign policy reflected the shifts that occurred in the constellation of domestic coalitions. Accordingly, Russian foreign policy making underwent major developments in analogy to the domestic situation. It experienced an evolution from a weak state lacking autonomy and capacity, dependent on the economic and financial support of OECD-countries, to a stronger state, backed by a solid material base and a streamlined bureaucracy, able to formulate a more independent and coherent foreign policy.

Recalling the rational choice approach, a government is seeking support for its policies by generating legitimacy among the population and by granting privileges to small interest groups. In this context, foreign policy is one of many policy fields in which the government strives to form a domestic coalition. Accordingly foreign policy serves the government to improve its domestic performance to win public support, while simultaneously satisfying the interests of particular economic and bureaucratic groups. Or, in other words, a government's foreign policy is mainly a strategy to gain legitimacy and loyalty.

This chapter attempts to analyse how domestic dynamics have shaped Russian foreign policy making. With reference to the introductory remarks of the previous chapter, four peculiarities of the connection between internal and external politics in the Russian case can be highlighted. First, Russian foreign policy making has been dominated by small interest groups. As a rule, foreign policy in any state is one of the least democratic policy fields. In a comparatively weak state like Russia the population is characterised by a low level of political mobilisation, but at the same time small interest groups exert disproportionate influence over politics. Despite the lack of a direct leverage of the majority of the population on foreign policy, the leadership considered the implications for its expected performance in defining foreign policy priorities

Second, in line with the first observation, foreign policy making has been dominated by the executive. In Russia foreign policy traditionally has been an elite preserve (Checkel 1995). The dominant roles of the Secretary General of the CPSU in the Union of Soviet Socialist Republics (USSR) and of the tsar in pre-revolutionary Russia lay the foundations for a personalistic leadership under the presidency in post-Soviet Russia (Breslauer 1999; Shevtsova 2003). The impact of political parties and parliament has been very restricted. The 1993 constitution locates decision-making with the President, who determines the basic guidelines of foreign policy (Art. 80 III), represents Russia in international relations (Art. 80 IV), conducts international negotiations, signs treaties (Art. 86 b) and appoints diplomats (Art. 86 d). Nevertheless, the executive also uses foreign policy issues to gain parliamentary support for its domestic policies, so that issue linkage increased the leverage of domestic interest groups represented in the legislative over foreign policy.

Third, despite the assignment of foreign policy competences to the president, its implementation remained dependent on the government's capacity to control other bureaucratic actors. In general, the lack of an overarching coordination mechanism and the autonomy of executive institutions other than the presidency fostered confusion about the distribution of foreign policy tasks and created institutional rivalries. Under Yeltsin, the coexistence of old and new institutions at federal and regional level and the president's incapability to streamline policies and information resulted in a high number of agencies involved in the implementation of Rus-

sian foreign policy. Under Putin, the foreign policy process was centralised and streamlined, although competition at the federal level to small degree persisted.

A fourth continuity in Russian foreign policy making was related to the governments' prioritisation of economic over security interests. As a state with a comparatively weak and resource-oriented economy, both Yeltsin and Putin ranked Russia's relations with OECD-countries higher than those with the Newly Independent States (NIS) or other developing countries. At the same time, the foreign policy outcome was dependent on the governments' financial autonomy vis-à-vis Western governments. In consequence, economic considerations have been ranked higher than security concerns, although the latter continued to play a role. While Yeltsin had to give in to Western conditionality, Putin was in a better bargaining position.

Accordingly, while Russian foreign policy making stands at the centre of this analysis, the actual outcome and success of foreign policy were not only determined by the domestic situation, but also by the interests of foreign governments. Robert Putnam constituted that

*“international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favourable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own stability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments”* (Putnam 1988, 434).

As stated earlier, foreign policy is a national strategy to obtain legitimacy through performance as well as the loyalty of small interest groups. The common foreign policy goals of states have been named by Kal Holsti as (1) autonomy, (2) security, (3) economic welfare and (4) prestige or great power status (Holsti 1992). These goals correspond with the objectives of the population as well as with those of small economic and bureaucratic interest groups. Autonomy or political sovereignty makes a government more self sufficient and less dependent on the support of other governments, but also gives economic and bureaucratic interest groups greater leverage over domestic politics. Security corresponds with the population's desire to avoid the high cost of war and underlines the importance of security related bureaucratic groups in the coalition. Economic welfare enables the widespread distribution of profits to the population and to interest groups, thus, generating performance legitimacy and loyalty, while prestige mainly plays on the sentiments of nationalist minded segments of the population.

Although all states have common foreign policy goals in the above sense, their actual interests are defined by each state's individual win-set, encompassing all possible agreements at the international level that would *“gain the necessary majority among the constituents – when simply voted up or down”* (Putnam 1988, 437). For an international agreement to be concluded, the governments of two states have to have overlapping win-sets.

Nevertheless, the size of a government's domestic win-set compared to that of the foreign government *“will affect the distribution of the joint gains from the international bargain”* (Putnam 1988, 440). A government with a larger win-set has more bargaining leverage, but at the same time can be pushed more by its foreign counterpart in negotiations. Weak states have smaller win-sets due to divisions in their domestic coalitions. In consequence, the government of the relatively weaker state is more dependent on the support of the government of the relatively stronger state, as a successful foreign policy and the recognition of the international community can be an important factor in establishing the legitimacy of the state

(D'Anieri 2001; Wallander 1996b). At the same time, the government of the relatively weaker state has also better chances to reach the desired outcome, if it can convey that its win-set is restricted and an agreement outside the win-set will be rejected at home.

In relative terms, the Russian government has been both strong and weak after the end of the cold war. Compared to the governments of the OECD-countries which are democratically elected and have a broad legitimacy base, the Russian government was weak. In relation to the governments of the newly independent states, with the exception of the Baltic states, however, the Russian leadership was comparatively strong. In consequence, the Russian negotiating position vis-a-vis these two groups has been diverging. The relative strength of the Russian government has influenced the size of its win-set. With the Russian economy heavily dependent on exports to OECD-countries, the government's win-set has been relatively larger than that of Western governments. Therefore, the Russian leadership had more bargaining leverage than OECD-governments, but at the same time was restricted by their smaller win-sets. In contrast, the economic asymmetry was reversed for the Soviet successor states. Here the governments benefitted more from cooperation with the Russian leadership than the other way around. As a result, the Russian leadership's win-set was relatively smaller than that of the NIS, so that less policy issues were on the Russian agenda, while the leeway to direct foreign governments was larger.

This chapter will concentrate the analysis of Russian foreign policy making by transferring the Political Economy approach introduced in chapter 1 to the foreign policy context. The formation of foreign policy interests and foreign policy making will be discussed along the major domestic groups within the governing coalition. As the success of foreign policy outcomes, however, tends to trigger a redefinition of foreign policy interests, the outcome of Russian external relations will be considered at critical junctures in order to make a smooth process analysis possible. The first section analyses the formation and implementation of Russian foreign policy under Yeltsin, while the second section concentrates on the Putin era.

## 2.1 Yeltsin's many foreign policies

In October 1990, when the former Soviet career diplomat Andrey Kozyrev was named Foreign Minister of the RSFSR, Eduard Shevardnadze remained head of the Soviet MFA, Yeltsin was not elected president, yet, for another eight months and the Soviet Union was to exist for over another year. The MFA was among the first Russian executive institutions that were founded in the ongoing process of Soviet decentralisation. Accordingly, the MFA was close to the political line of the new Supreme Soviet of the RSFSR under its speaker Boris Yeltsin and later to that of the newly elected Russian president. At the same time, the Russian MFA until the end of 1991 shared competences with the Soviet MFA and only after the disintegration of the Soviet Union developed its full potential.

Accordingly, Kozyrev's MFA had direct access to the Russian leadership, but could at the same time draw on the resources inherited from the Soviet MFA, thus, ensuring a certain degree of continuity. Due to this organisational advantage, the MFA in the early 1990s was able to exert an extraordinarily high influence over foreign policy. It was not only responsible for the implementation of foreign policy, but also had considerable leeway in shaping Russia's external relations (Malcolm / Pravda 1996; Trenin / Lo 2005; Wallander 1996b; Sakwa 2002).



Considering the socio-economic crisis of the time and the leadership's preoccupation with economic reform, Russian foreign policy was adapted to the government's domestic needs. Although the new president in 1991 enjoyed a high level of legitimacy, the group of reformers around him was rather small. Therefore, Yeltsin's official foreign policy aimed at winning the support of external actors to assist the country's economic transition and, thus, to prevent a return of Communist forces.

Eventually, only the governments of the OECD-countries combined the financial capacity and a genuine interest to back Russia's political and economic transition. In consequence, Kozyrev's policy had a strong pro-Western orientation. The government's reasoning was that a policy of integration into the international capitalist economy would, first, enhance the long-term benefit of increased trade and, second, attract considerable aid to help rebuild the Russian economy (Bowker 1997; Crow 1993).

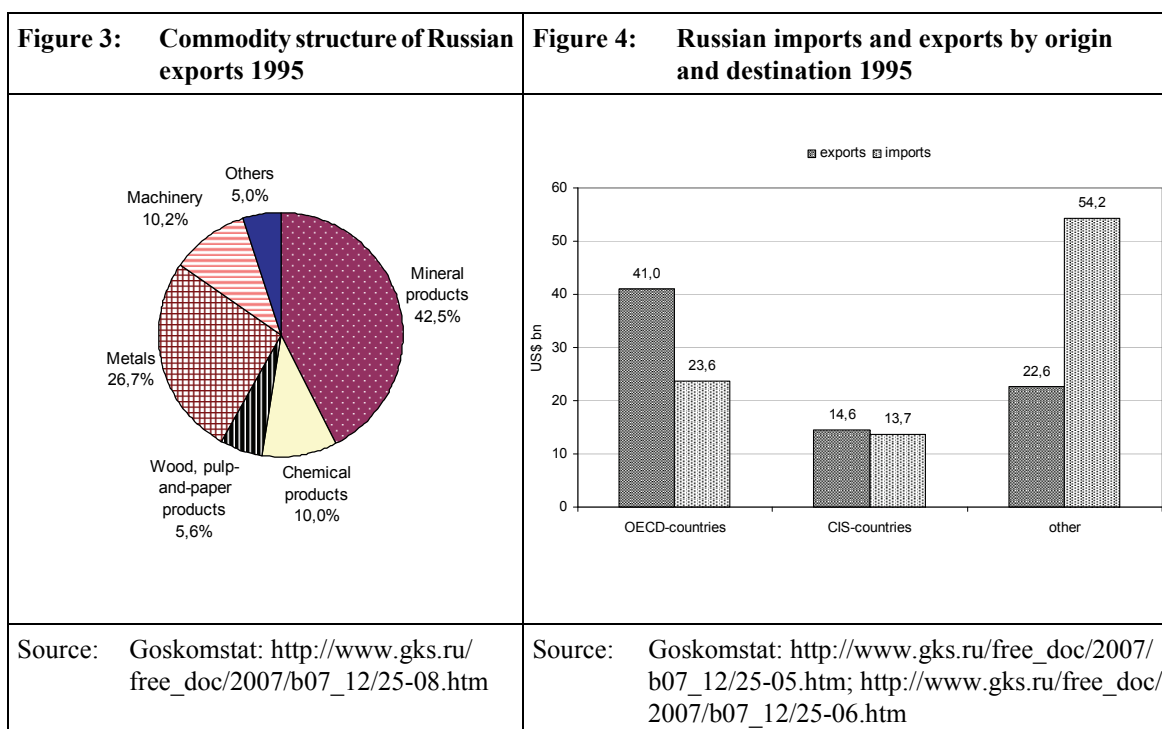
These expectations met exceptionally benign OECD-governments. Dependent on the support of the majority of their populations, the leaders of Western democracies, however, had to justify their policy towards Russia at home. After the uncertainties of the cold war, their interest was to ensure military and macroeconomic stability as well as to promote democracy in the former Soviet sphere of influence. Apart from that, Western governments also answered to demands of small economic interest groups to gain access to the Russian market.

As Yeltsin's coalition was dominated by pro-reformist economic interest groups, the Russian win-set was rather large, thus, paving the way for cooperation in the security sphere<sup>8</sup> in exchange for economic freedom and financial support. Russian authorities entered in negotiations with the U.S. government on START II and cooperated in amending the Conventional Forces in Europe (CFE)-treaty to the new geopolitical circumstances (Bowker 1997). Despite its focus on economic matters, the MFA acted in the understanding that NATO after the dissolution of the Warsaw Pact would also cease to exist. Instead Kozyrev favoured more inclusive arrangements such as an upgrade of the Conference on Security and Cooperation in Europe (CSCE), an institution in which Russia enjoyed voting rights, or the foundation of a new pan-European security structure (Kozyrev 1993). Thus, the likelihood of a potential NATO-enlargement to Eastern Europe was not recognised by the Russian leadership. The formation of the North Atlantic Cooperation Council in 1991 and the Partnership for Peace of 1994 were not seen as prelude to enlargement, but as substitute for full membership (Bowker 1997).

In the economic sphere, the Russian government profited from the cooperation with OECD-countries as this buffered the country's decline to a certain degree. (see Figure 4) The European Union (EU) had reduced tariffs on certain Russian goods, while the U.S. accorded Russia MFN-status in 1992 (Bowker 1997). Following the disintegration of the Council for Mutual Economic Assistance (COMECON), a drastic reorientation in Russia's trade patterns

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8 The biggest bargaining chips had already been given away in the last years of the Soviet Union. Gorbachev had agreed to the withdrawal of Soviet troops from Eastern Europe, the dissolution of the Warsaw Pact, negotiations on strategic disarmament, the unification of Germany as well as its entry to NATO.



had taken place shifting from Eastern to Western Europe with the EU by 1993 becoming Russia's biggest export market (Sakwa 2002).

At the same time, however, OECD-governments had to attend the economic priorities of their domestic coalitions, so that Western policies were also frequently not in line with the interests of the Russian leadership. The EU-governments, for example, in supporting the economic recovery of their Eastern neighbourhood, denied Russia reduced tariffs on goods such as coal, steel, textiles and agricultural products, which Eastern Europe had traditionally been competitive in (Bowker 1997). The U.S. government, pressured by its domestic military industry, became increasingly concerned over Russian arms sales to developing countries like Iran, China or India, while the Russian MIC remained the one branch of manufacturing in which Russian goods were competitive (Light 2001).

With regard to Western aid, the picture was also ambivalent. From an objective point of view, the Russian government was offered high amounts of cash inflows and technical support. After joining the International Monetary Fund (IMF) and the World Bank in April 1992, the G-7 offered US\$ 24 billion to the Commonwealth of Independent States (CIS), out of which US\$ 18 billion were determined for Russia. A year later the sum had risen to US\$ 43 billion (Bowker 1997).

To facilitate the country's smooth economic transition, the Russian government would have needed the kind of massive Marshall Aid that the U.S. had offered Western Europe in 1948–49. Having entered a long period of economic recession after the end of the cold war, OECD-governments were not in a position to justify more financial support (McFaul 1997). Further, Western assistance to Russia, undermined the government's reform efforts as Western leaders used Russian dependence to support specific domestic interest groups. The IMF's fixation to tie aid to compliance with macroeconomic stability criteria, benefited U.S. investors, but delayed structural reform in Russia and resulted in a large part of aid being invested in financing

Russia's debt. Another frequent practice was to tie aid to the purchase of Western products, thus, benefiting OECD-economies, but undermining the competitiveness of Russian products (Cohen 2000; Bowker 1997).

In the Russian domestic context, the policy of trading off security for economic gains was also supported by a number of, mainly economic, interest groups, namely those that had profited from price liberalisation and the first round of privatisation. The managers of profitable export oriented businesses in the resource sector as well as in the MIC were interested in gaining access to Western markets. The bankers in turn were looking for partnerships with Western capital and wanted "*Western financial institutions to remain engaged in Russia's economic reform process, so that they [would] not have to pay for it alone*" (McFaul 1999, 400). In consequence, they lobbied the Russian government to continue its pro-Western line and to ensure that the terms of trade remained favourable for them. At the same time, the foreign policy interests of these groups were limited to economic matters and, with the exception of the natural monopolies, almost exclusively focused on relations with OECD-countries. This allowed other interest groups to dominate other policy fields, in particular with regard to security issues in the NIS (McFaul 1999; Schröder 1999).

With the disintegration of the Soviet Union at the end of 1991, the Russian leadership had to adapt to new circumstances, as the relations to the other Soviet successor states became part of Russian foreign policy. In this context, Russia emerged as strongest post-Soviet state in terms of territory, population, industrial capacity and military potential. At the same time, the political, economic and social networks between the Soviet republics had been intense. Economic dependencies were much stronger than those between former European colonial powers and their overseas colonies (Allison 2001) and even stronger than within the European Union (D'Anieri 2001). Further, the collapse of the Union had left 25 million ethnic Russians abroad. In consequence, continued involvement was de facto important for the leadership's legitimacy. Nevertheless, the government's preoccupation with economic reforms and Kozyrev's pro-Western orientation put limits to official Russian involvement.

The leaders of the other NIS, too, had to consider the implications of their newly gained legitimacy in their relations with the Russian government. On one hand, their leadership was sustained by a rise in nationalism among their populations following the countries' independence from the Soviet Union, thus, stipulating Russian disengagement in internal affairs. On the other hand, cooperation within the post-Soviet space was highly important for economic reasons. Large sectors of the economy were dependent on Russian energy subsidies and access to post-Soviet markets.

The emerging compromise for Russian and other NIS leaders was to choose a form of loose voluntary integration. Shortly before the official dissolution of the Soviet Union by the Belovezh Accords in December 1991, the presidents of the three Slavic republics agreed to found the CIS. After intense lobbying by Kazakhstan's President Nazarbayev, they were joined a few days later by the governments of the five Central Asian republics, Armenia, Azerbaijan and Moldova<sup>9</sup>.

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9 Azerbaijan's and Moldova's CIS-membership did not come into effect in the early 1990s, because the parliaments refused to ratify the treaty.

Nevertheless, the CIS failed to ensure the continuation of close economic ties. Russia was more self-sufficient than the other newly independent states and due to its new connection with Western markets and capital less dependent on the Soviet market structure. To sustain economic reform at home, the reformers in the Russian government actively promoted isolationism in the post-Soviet space. After the freeing of prices at home, the Russian government, backed by export oriented businesses, forced the NIS in 1992 and 1993 out of the ruble zone seeking to profit from the introduction of market prices vis-a-vis their neighbours and avoiding wasteful spending and credit policies (Olcott / Aslund / Garnette 1999). Subsidies to other republics were cut through raising the prices of Russian energy exports closer to world prices and, thus, being able to redirect more oil and gas to international hard currency markets (Pravda 2001). The subsequent severing of economic ties was a shock to the economies of the region. Trade between the former Soviet republics collapsed by 50 % in the first two years after the formation of the CIS (Webber 1996), contributing considerably to the economic crisis. It was estimated that the break-up of the Soviet Union was responsible for 20 % of the economic decline in Russia, 40 % in Ukraine and 70 % in Central Asia (Bowker 1997).

While the government was blocking economic cooperation within the CIS-framework in the early 1990s, it remained engaged in the security sphere. In light of the sharp rise in nationalism in most NIS, a number of longstanding ethnic conflicts suppressed in Soviet times came to the surface. As Russian minorities were involved in many of these conflicts, the Russian government saw the need to intervene, not only on humanitarian grounds, but also to prevent the unpredictable socioeconomic consequences that a mass migration might have brought for the country. In early 1992, however, the Soviet army had not yet been officially disintegrated. Nevertheless, military assets in the near abroad had become increasingly vulnerable (Baev 1997).

The Western foreign policy orientation of the reformers and economic interest groups allowed the military to access the leadership with regard to CIS-related security issues. In the debate on transferring the Soviet military to a joint CIS military command, the leaders of the Russian armed forces showed concern about the projected cost of Russian involvement. In the wake of nationalising the Soviet forces, the Russian military was able to gain ground politically. With the formation of the MoD in May 1992, their interests were institutionalised in the executive and, subsequently, the MFA lost its monopoly on foreign policy (Trenin / Lo 2005).

In light of erupting ethnic conflicts in other NIS and the government's concern that a spill over could threaten the territorial integrity of the Russian Federation, the leadership opted for a policy of extended border control, in which it promoted Russian security by ensuring stability in the NIS (Pravda 2001; Lynch 2001). At the same time, Russian authorities denied any imperialist intent and emphasized that they acted as stabilising force in the region as the NIS-governments were not capable to ensure the security of their countries (Bowker 1997). In consequence, Russian troops, still scattered throughout the former Soviet Union, intervened in the five major conflicts arising on the territory of the former Soviet Union: Nagorno-Karabakh, South Ossetia, Abkhazia, Transnistria and Tajikistan.

In the early 1990s, Russian military involvement in the NIS was not only aimed at reducing the leverage of separatist groups. The Russian leadership also tried to convey to the public that it was committed to continued engagement in the Soviet successor states and to demonstrate the OECD governments that they conformed with international standards. According to Garthoff, the Russian military acted with moderation and reasonable goodwill. None of the

conflicts had been instigated by the Russian forces, all had already existed before the break-up of the Soviet Union. Further, the government was determined not to question the territorial status quo by redrawing boundaries by force or taking back regions, such as Crimea, South Ossetia or Abkhazia, which had expressed the wish to be reintegrated into Russian territory (Garthoff 1994).

Further, the government at the same time hoped that by adhering to international norms, it would be attributed great power status by the West, which in turn would improve its domestic performance. In this context, the military sought not to act unilaterally but as part of a multinational CIS force. In this context, a Collective Security Treaty (CST) was signed in early 1992 by the governments of Russia, Armenia, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan. Further, Russian diplomats actively lobbied the United Nations (UN) and the CSCE to recognise the CST so that Russian-led peacekeeping operations in the post-Soviet space would be legitimised by the international community (Ehrhart / Kreikemeyer / Zagorsky 1995; Crow 1994)

Until 1993, Russian foreign policy thoroughly reflected the interests of pro-governmental forces. The managers of export oriented industries and banks supported Kozyrev's pro-Western course and in the CIS the military acted largely in accordance with international peace-keeping standards. Following the implementation of the government's privatisation programme, a new group with great potential for domestic mobilisation started to enter the coalition. The red directors relied on Soviet economic networks, which following the sharp decline in trade and production led to the leadership's neglect of economic ties within the NIS.

During Yeltsin's confrontation with Congress, anti-reformist forces came to the fore and later materialised in the large share of votes for CPRF and LDPR in the 1993 дума election. It was, however, not so much parliament as the general institutional reshuffle of the 1993 constitution that had an impact on foreign policy. In principle, the дума's influence over foreign policy making was formally restricted by the new constitution to approving or rejecting international treaties (Art. 106d). Therefore, the дума only undermined the presidential policy line directly by refusing to ratify international agreements such as START II (Lippman 1998).

Despite parliament's low leverage over foreign policy, the leadership made concessions to the opposition regarding foreign policy issues to gain domestic support for other policy issues. This in principle was marked by a change in the leadership's foreign policy rhetoric. Official statements stressing Russian economic and security interests in its relations with the West as well as a declared refocusing on the NIS moved into the foreground. In its Foreign Policy Concept of April 1993 (Foreign Policy Concept 2005), the Russian government warned against the dangers of excessive economic openness to the West, which might exploit its leverage to reduce Russia to a raw materials exporter. The passive stance towards NATO was replaced by Yeltsin's warning at the 1994 CSCE conference in Budapest, that the cold war would be replaced by a "cold peace" (RFE/RL 1994) and, in 1995, that an offer for NATO-membership to the Baltic states meant war (Bowker 1997). With regard to the NIS, Yeltsin in March 1993 announced a Russian Monroe Doctrine for the near abroad, when calling upon the UN to make Russia "*guarantor of peace and stability in regions of the former USSR*" (Gelb 1993). By 1994, even Kozyrev stated that "there is never a vacuum - if we refuse to live up to our geopolitical role, someone else will try and clean up the mess in our home" (Moscow Times 1994).

Despite the more assertive and nationalist tone, the government supported by economic interest groups was able to maintain its pro-Western foreign policy course. As Yeltsin's domestic win-set had declined, however, the conditionality which Western governments bound to aid increasingly undermined the leadership's domestic position. European governments insisted on the adherence to European values such as social welfare and the protection of human rights and accordingly expressed their displeasure with the conduct of the Chechen war by suspending moves towards Russian integration into Western institutions (Sakwa 2002). The EU delayed the signature of the 1994 Partnership and Co-operation Agreement until 1997, while the Council of Europe only allowed Russia to join in 1996. The U.S. government mainly channelled its notions for conditionality in the security realm, in connection with the war in Yugoslavia or NATO-enlargement.

Although the Russian leadership was able to continue its pro-Western line, foreign policy towards the NIS and non-OECD countries from late 1993 became more dependent on small bureaucratic interest groups. The MFA's strong stance of the early 1990s was eroded by the president's mandate of the 1993 constitution and the subsequent uncontrolled rise of other executive agencies<sup>10</sup> As the Presidential Administration lacked the organisational back-up to achieve control over foreign policy institutions, the MFA became sidelined as other institutions claimed authority in their own right (Malcolm / Pravda 1996).

At the federal level, a number of institutions previously not occupied with international matters strove to get involved in selective external policy issues. The MoD operated independently in the post-Soviet space and the Balkans, the Ministry of Atomic Energy got involved in exports of dual-use technology to Iran, the Ministry of Economic Development and Trade made its stand over Caspian Sea energy projects and the Presidential Administration channelled the relations with certain countries (Lo 2003). Most of these institutions acted independently without notifying the MFA, which let Russian foreign policy appear uncoordinated and contradictory.

In particular the MoD saw its enhanced position vis-à-vis the MFA as a chance to improve its stance in the government's coalition. In consequence, Russian foreign policy towards the NIS after 1993 became more assertive. Russian-led peacekeeping forces became more biased, supporting separatist movements in Transnistria and Abkhazia, putting Russian authorities in a position to control the negotiation of cease fires and, thus, eventually forcing Moldova and Georgia into the CIS (Lynch 1999). At the same time, the Russian government did not contribute to filling the CIS agreement with content, but continued to provide raw material subsidies to NIS-governments.

With regard to centre-periphery relations, Yeltsin's practice to conclude bilateral agreements with regions shifted foreign economic competences away from the centre. This concerned in particular the ethnic republics which were granted a higher degree of autonomy. The regional executives of Tatarstan, Bashkortostan, Buryatia, Tuva and Sakha experienced little resistance from Yeltsin when declaring themselves sovereign states in their constitutions. They enjoyed privileges such as the right to sign international agreements, although restricted to economic

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10 While the 1993 constitution failed to clarify the division of executive authority between the MFA and the President, it encouraged a proliferation of presidential structures and advisory groups instructed to formulate the main lines of foreign and security policy and to supervise the current work of the ministries (Sakwa 2002).

issues such as trade and investment. Many regions founded their own executive institutions for the conduct of their foreign economic relations and opened representative offices abroad (Melvin 1995). As a result, the regions as independent international players, were increasingly bypassing the centre (Perovic 2000, 8).

By 1995, the government had effectively lost its monopoly on foreign policy. While Yeltsin could maintain his cooperative strategy towards OECD-countries, relations with NIS-leaders and developing countries in the far-abroad were shaped by an increasing number of federal and regional executive agencies. Anti-reformist forces in parliament, however, held the government's course towards the West responsible for the country's economic decline. After their overwhelming success in the 1995 duma election, Yeltsin hoped to improve his chance for re-election by replacing Kozyrev in early 1996 with the former head of the SVR Yevgeny Primakov, whose appointment was applauded by the CPRF due to his reputation as anti-Western pragmatist.

Nevertheless, as representative of the power structures Primakov had little experience in economic matters (Gordon 1998) and during his time in the MFA did not dominate the definition of foreign policy goals. Instead, having supported Yeltsin in the 1996 presidential election, the oligarchs started to assert their influence over the leadership. They favoured a perpetuation of the pro-Western course, so that Primakov himself acknowledged that *"The main goal of our foreign policy remains unchanged. We must create a favourable external environment for the successful implementation of Russian democratization and economic transformations."* (Rossiiskaya Gazeta 1997). At the same time, the government's westward orientation came increasingly under pressure from the domestic opposition in light of NATO-enlargement. Although the leadership did not support enlargement, the government under the influence of the oligarchs *"did not allow NATO expansion to derail Russian relations with the West"* (McFaul 1999, 403). Primakov in turn paid tribute to anti-Western forces by stressing the multipolarity of the international system and the need for a multivectoral Russian foreign policy.

With regard to its policy towards the NIS, the MFA after 1996 increasingly lost leverage over the formulation of foreign economic priorities. The 1995-6 gubernatorial elections strengthened the influence of governors of border and transit regions putting the economic viability of their regions on the centre's foreign policy agenda. At the same time, the financial groups in the 'loans for shares' scheme established their control over enterprises in the resource sector, thus, having a genuine interest in gaining access to resources in the Caspian Sea and control over pipelines. Together with the natural monopolies, those groups united to lobby their interests in the MFA. As a result, by mid-1997 the previous "policy of blocking energy development and transportation" was replaced with a profit-oriented more cooperative approach (Blum 1998).

Russia's official policy towards the West only changed in light of the 1998 financial crisis. With the decline of the pro-governmental financial groups, the Russian leadership was deprived of its access to financial resources, so that it became less capable of securing the loyalty of regional leaders. To ensure domestic stability, Yeltsin promoted the rise of the power structures. In this context, Primakov was elevated to the post of prime minister, while his former Deputy Foreign Minister Igor Ivanov took over as head of the MFA. *"With this new configuration of power internally, Primakov had the opportunity to play a much more influential role in Russian foreign policy"* (McFaul 1999, 403).

During his time as foreign minister, Primakov's advances to prevent NATO-enlargement did not have much effect. Although the Ukrainian government under Kuchma accepted the debt repudiation in exchange for stationing part of the Russian fleet in Sevastopol, the Baltic states refused to accept Russian security guarantees for not joining NATO. When enlargement became a reality in 1999, Russian protests had only helped to delay the timing of expansion and to obtain NATO commitments not to station nuclear or conventional forces of existing NATO states to new members in Eastern Europe, as well as Russian membership in a permanent joint NATO-Russia Council (Lynch 2001; Mutual Founding Act 1997).

The issue of enlargement and even more so the bombing of Yugoslavia in 1999 turned Russian public opinion against NATO (McFaul 1999, 405). As prime minister, Primakov was able to lead a more proactive policy towards the Alliance. In the weeks leading up to the Kosovo crisis, the MFA stressed the importance of international law in the UN Security Council and after unilateral NATO action against Yugoslavia had materialised, withdrew from the Partnership for Peace and acted as mediator in the conflict. Depicting Russia as important player in international politics compensated partly for the government's poor performance following the financial crisis. Protest against NATO's out-of-area-operation was, nevertheless, also to prevent a dangerous precedent, which could have implications for the country's own separatist conflict in Chechnya (Levitin 2000). The strategy, however, also meant a diversion from Russia's pro-Western policy line underlining Primakov's anti-Western pragmatism and his notion of multipolarity as it exposed the governments of NATO-countries to domestic and foreign criticism.

The rising popularity of Primakov resulted in his dismissal as prime minister, as Yeltsin saw the outcome of the "operation successor" move beyond his control. Although Ivanov remained Minister of Foreign Affairs, Primakov's dismissal led the power structures to impact on some aspects of Russia's westward policy. In consequence, Russia not only in the CIS, but also in the Balkans appeared to conduct two separate foreign policies at the same time, one run by civilians and another run by the military (Sakwa 2002). With regard to Kosovo for example, Ivanov, in an interview in June 1999, denied that Russia had plans to send peacekeepers to Yugoslavia. At the same time, however, the MoD had already transferred troops to Pristina (BBC 2000). In general, however, economic interests continued to dominate Russia's policy towards the West and the overall policy line remained cooperative, although issue linkage of economic and security policy became more difficult.

In summary, Russian foreign policy under Yeltsin was determined by a multitude of economic and bureaucratic interest groups which impacted on the formulation and making of the government's external policy. As a result, Yeltsin's official policy course often appeared uncoordinated, incoherent, erratic and at times contradictory. While relations with the governments of OECD-countries were determined by the government and loyal economic and bureaucratic interest groups, namely export oriented business and the MFA, Russian policy towards the Soviet successor states and developing countries in the far-abroad increasingly came under the influence of groups in the legislature, in regional administrations and in the armed forces, whose interests contradicted those of the government. Therefore, Yeltsin's policy towards the West was very cooperative with regard to economic matters and relatively reluctant in the field of security. The official line towards the former Soviet republics, however, reflected the leadership's policy of benign neglect in the economic sphere, while with regard to certain economic and most security matters it was contradicted by other interest groups undermining its implementation capacity.



## 2.2 Putin's 'multivectoral' foreign policy

In post Soviet Russia, foreign policy was probably the policy field in which most continuity could be observed. Nevertheless, the handover of power from Yeltsin to Putin generated a reshuffle of the government's coalition which was also mirrored in the foreign policy realm. With Putin's rise to power, foreign policy became more determined, better coordinated and less contradictory. Both the government's autonomy to formulate policies and its capacity to guarantee their implementation improved.

Following the large windfall profits after the rise of the oil price, the government had a sounder financial backing and became less dependent on oligarchs and on other governments. In consequence, Russia's budget expenditure on foreign policy increased dramatically. Compared to 1996, spending on external relations had almost doubled in 2007 (Safranchuk 2007). Also the government had limited the influence of small economic interest groups by increasing its stake in the resource sector. The placement of technocrats, loyal to the government, at the top of state-controlled oil and gas companies further contributed to an increase in revenues.

Nevertheless, the making of foreign policy remained dependent on small groups interests, namely of those of Putin's confidants. The leverage of the population and of parliament on the formulation of foreign policy further declined. With the decline of input legitimacy, Putin's government, however, became more dependent on the public's approval of his policies to back his position against attacks from within the power apparatus. The restrictions on the media depoliticised foreign policy and instead pronounced Russian national interest as legitimacy strategy. Great power rhetoric and the identification of "new enemies" dominated the public debate as seen in the anti-American outbursts that followed a TV-campaign alleging the U.S. to have been biased against Russian athletes at the Salt Lake City Winter Olympics in Spring 2002 (Trenin / Lo 2005; Trenin 2002).

In parliament, too, the restrictions put on political pluralism depoliticised the former anti-system parties and with it the *duma's* role in defining foreign policy goals. In any case, Putin's increasingly centralising, statist approach combined with his multivectoral foreign policy line appeased many interests. For liberals his agenda offered the promise of increased security and economic integration with the West, for national pragmatists the circumvention of a one-sided fixation on the West and for imperialist forces an activist approach in the post-Soviet space (Lo 2003). Putin's domestic coalition building skills, thus, showed competing political actors that different interests were not excluding one another, even if ideas were not compatible and subject to deferring (Trenin 2002). Further, the loyalty of the *duma* in foreign policy matters was assured by staffing key posts with Putin confidants. After the 1999 parliamentary election, the chairmen of the external relations committees were replaced by supporters of Putin. While the other committees lost their say in external affairs, the *duma's* and Federation Council's committees on foreign relations headed by Konstantin Kosachev and Michail Margelov respectively, became the president's instrument for explaining foreign policy to the outside world (Lo 2003; Trenin / Lo 2005).

While the leverage of the state over economic interest groups increased and the impact of population and parliament declined, the locus of strategic decision-making shifted presumably to a very small circle of advisors around Putin, most notably to the foreign policy office in the Presidential Administration headed by Sergey Prikhodko. As Bobo Lo noted, the influence of

the office was, however, limited by its small size, the absence of a substantial autonomous information base on international matters and very little personal and institutional knowledge of international economic issues (Lo 2003). In consequence, compared to the Yeltsin era, the win-set of the Russian government was much smaller as it had to include less interest groups in defining its foreign policy goals.

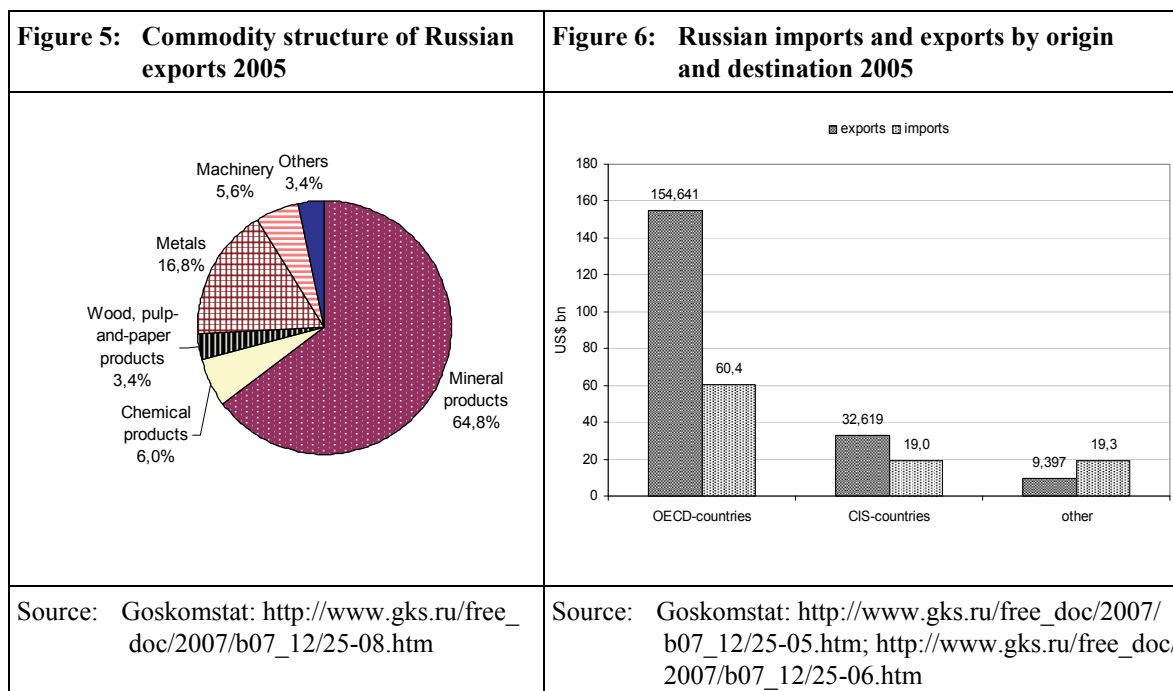
With foreign policy decision making shifting towards the presidency, the government not only strengthened its autonomy over external relations, but also increased its capacity. While the implementation of foreign policy under Yeltsin had been obstructed by the diverging interests of independently acting executive institutions at the federal and regional level, the number of actors involved in the process of foreign policy making decreased and hierarchies were defined formally and informally. Putin's policy of centralisation eliminated the regions' direct impact on the foreign policy process. Instead the external relations of regions were coordinated by the regional branches of the MFA and independent foreign policy initiatives on part of the regions were prohibited (Kurilla 2006).

Further, Putin's administrative reform placed siloviki at positions in the majority of executive institutions, not only in the MFA, but also in its rival institutions. Thus, while the MFA under Igor Ivanov and Sergey Lavrov has lost the independence it had under Primakov in the late 1990s and concentrated on executive rather than on advisory functions (Lo 2003), it also improved its position in relation to the other institutions involved in the foreign policy process. Following the government's appointment of Putin's confidant Sergei Ivanov as head of the MoD, the subordination of the Ministry to civilian control and the reduction of the General Staff's autonomy, tensions and institutional rivalry between MFA and MoD decreased and the president extended his control of the decision making process (Trenin 2007). While the MoD remained a leading player in strategic disarmament, assuring it an equal status with the MFA in negotiations with the U.S., the more centralised bureaucratic context has also set an end to its unrestricted intervention in foreign policy (Lo 2003).

The government's improved position in foreign policy making affected its relations with foreign governments. Regarding its westward policy, Putin was less dependent on Western aid and loans. To free his policy from the conditionality imposed by OECD-governments, he paid off Russia's entire remaining debt to the IMF more than three years ahead of schedule in January 2005 and to the Paris Club in August 2006 (Gaddy 2007). While the Russian government gained strength, the bargaining position of Western countries deteriorated in light of new challenges to national security and the rise of strong regional economies in Asia. The U.S. government after 9/11 faced difficulties in defending its unipolar world view (Huntington 1999), while the governments of EU-member states in light of mounting global energy competition came under pressure to amend their energy strategies. Thus, while the win-set of the Russian leadership decreased, that of Western governments increased, so that Putin vis-à-vis the West was now in a better negotiating position to push through his foreign policy line.

As a result, Russian foreign policy towards OECD-countries during Putin's first term was cooperative, but more pragmatic. The rise of the oil price led to an increase in the share of resource exports, so that the government sought favourable conditions for the export oriented sectors of the economy (see Figures 5 and 6). In 2002, Igor Ivanov started to propagate oil and gas as the new currency of Russian foreign policy (Bachkatov 2002). In its relations with the European Union, the Russian government under prime minister Putin for the first time clari-

fied its position on EU-enlargement (MTS 1999), welcoming the integration of the former COMECON-countries and reflected this development in its own institutional structure by creating a single department for European affairs in the MFA. The closer and more even cooperation resulted in the creation of the “four common spaces” in 2003 and the extension of the Partnership and Co-operation Agreement to new EU-members. Despite these moves towards multilateralism, the majority of relations remained bilateral.



Apart from the oil and gas, the Russian government promoted the interests of other profitable enterprises in the metallurgical, petrochemical and timber producing industries. The stepped-up promotion of Russia’s accession to the World Trade Organization was to eradicate the trade barriers which all of those sectors encountered in the West, while at the same time imposing external control over illegal activities of large businesses. Simultaneously, the Russian government already extended its influence over the second largest export sector, the MIC. By merging the previously independent enterprises Rosvooruzhenie and Promexport into Rosoboronexport, the government controlled near to all exports of military equipment to developing countries, with the lion’s share going to India and China.

In the security sphere, the Russian leadership in its relations to the West had to balance the interests of the power structures and of economic forces. On one hand, following the Kosovo, official foreign policy rhetoric had been aggressive and criticism on U.S. plans to build a system of National Missile Defence (NMD) to invoke the threat of a nuclear attack by “rogue states” was voiced with constant frequency. On the other hand, the Russian authorities had a number of incentives to continue the cooperation of the 1990s with a more pragmatic tinge making more use of issue linkage. Although, the 2000 versions of the Military Doctrine, the Foreign Policy Concept and the National Security Concept displayed a “*more ‘muscular’ approach to the use of force and a more pessimistic view of international relations*” (Trenin 2007), the declining dependency on Western conditionality paired with an increase of the defence budget and the abrogation of international law by U.S. authorities placed the Russian

government in a position to regain international prestige as a great power by leading a more proactive foreign policy and simultaneously stressing the importance of international norms.

In this context, Putin initiated the Duma's long delayed ratification of the START II, attached, however, amendments giving Russia the right to revoke the agreement if the U.S. violated the 1972 Anti-Ballistic Missile (ABM) treaty (Light 2001), which eventually happened in December 2001 with the U.S. government's unilateral pull-out in light of NMD. Then, the Russian leadership gave its reluctant consent to NMD, noting that new technological developments such as the Topol-M missile would enable it to penetrate the U.S. system (Pravda.ru 2005).

Further, after 9/11, Putin was the first to offer the U.S. leadership collaboration in the fight against international terrorism. While granting Russian consent to the stationing of U.S. troops in Central Asia (RFE/RL 2006), this move was not so much determined by solidarity with U.S. authorities, than by the combined incapacity of Russian and NIS troops to prevent the expansion of Islamic fundamentalism into Central Asia. Accordingly, the U.S. filled "*a security vacuum that Russia, with its lack of resources, was unable to fill*" (Trenin 2003). Or as put by Gleb Pavlovsky, one of Putin's advisors, the Russian government chose to "*rather have the U.S. in Uzbekistan than the Taliban in Tatarstan.*" (Cohen 2001).

A similar shift towards pragmatism could be observed with regard to Russia's relations to the newly independent states. The governments of resource rich countries like Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan and to a certain degree Georgia saw their relative position enhanced by the rise in the oil price. While their domestic legitimacy base improved, their win-sets declined, so that they became less dependent on external support. As economic interest groups pressed for increased integration in Western markets, governments opted for stronger cooperation with OECD-countries. At the same time, they also became subject of Western conditionality. In contrast, the governments of poorer countries such as Armenia, Belarus, Kyrgyzstan and Tajikistan were not able to strengthen their domestic position. Their claim to power was threatened by their poor output legitimacy and they remained dependent on external support, so that their win-sets were relatively larger. As political and economic networks cultivated in Soviet times continued to dominate policy making, the governments of those countries looked towards Russia for economic subsidies and political support.

During Putin's first term, the relations to NIS-governments were increasingly dominated by the economic interests of the oil and gas sector. To consolidate Russia's position on the global energy market, the Russian leadership installed a more pragmatic bilateral approach trading subsidies for economic concessions. Accordingly, the government's relations with their counterparts in resource-rich, economically important countries became more businesslike, while those with the governments of poorer countries moved towards integration.

Of the Slavic republics, Ukraine was of high importance as the lion share of Russian energy exports to Europe passed through Ukrainian territory. In the Caucasus, Russia displayed a growing interest in Azerbaijan's and to a lesser degree in Georgia's energy resources. And in Central Asia, Kazakhstan remained Russia's main target, although to a lesser degree and depending on circumstances the Russian leadership also established closer economic contacts with Turkmenistan and Uzbekistan (Allison 2001). In line with the nationalist legitimacy base of those states' governments, Putin framed relations in bilateral settings technically on a more equal base, while playing on their economic dependence on Russia.

In parallel, however, the governments of OECD-countries in contrast to the 1990s now started to project their economic interests stronger into the region. While the EU became more actively involved in Ukraine and the U.S. authorities concentrated their economic efforts on Azerbaijan and Georgia, other governments also expanded their influence in the post-Soviet space. In the Caucasus, Turkey and Iran became increasingly involved in energy matters. and in Central Asia the Chinese leadership became a major competitor for Russian engagement (Nikitin 2007).

The Russian government pursued its economic interests by putting its relations to those countries on a more businesslike footing. First, it raised the cost of its energy exports closer to world market prices, so that these countries were deprived of the benefits of massively subsidised energy prices. Second, the Russian government threatened to boycott the economies of transit countries by proposing or opposing particular transit routes for oil and gas. In the case of Ukraine, the government, following Russian threats to build new pipelines bypassing the country, in 2000 agreed to a kind of debt for equity deal whereby Gazprom could acquire stakes in the Ukrainian transit network (Stern 2005). Similarly, the Russian government made use of its monopoly over Kazakhstan's infrastructure for refining and transporting Kazakh oil and gas, in order to prevent the construction of new pipelines, so that Kazakh oil would enter the world market through Russian and Turkmen pipelines only (Trenin 2003). In the Caucasus, however, the Russian authorities were less successful in advocating the route going through Russian territory to Novorossiysk as alternative to the Baku-Tbilisi-Ceyhan oil pipeline from Azerbaijan via Georgia to Turkey (BBC 2002; Baran 2001).

In contrast to the economically important countries, the governments of the poorer NIS-countries deliberately cooperated with the Russian leadership. Although energy prices for them, too, were raised, their economies remained heavily subsidised. In particular Belarus profited from a very low gas price. To extend Russian influence over these countries' economies, Putin initiated the deeper economic integration with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan and elevated the Customs Union to the Eurasian Economic Union.

As a result, the Russian government had less difficulties in countering the economic influence of OECD-players. Despite Russian fears of a Chinese take-over of the under-populated and isolated Eastern regions<sup>11</sup> in the long term (Sakwa 2002; Trenin 2002), Putin used the cooperation with China to fend off Western advances in Central Asia (Halbach 2005). While the toleration of cross border trade enabled Chinese economic interest groups to take over Central Asian consumer markets, Russian energy players won the race over the region's resources and started to invest in their infrastructure. Russian state-controlled businesses, led by Gazprom, Lukoil and Transneft, attained exclusive rights in 2003 to export all gas produced in Turkmenistan for the next twenty-five years, made a large-scale investment in Tajikistan's hydropower stations in 2004, invested in a number of oil and gas projects in Kyrgyzstan and negotiated a deal on producing and transporting natural gas in and through Uzbekistan (Halbach 2005).

In the security sphere, the MoD followed a similar line of pragmatism and integration. On one hand, the Russian government made use of its military leverage over states of economic im-

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11 Russia's Far East and Siberia combined have a population of 33 million which is in decline. The population of Northeast China, in contrast, is approaching 300 million; see: Sakwa (2002).

portance, in particular those which aspired to the West for their national security<sup>12</sup>. Despite the government's 1999 Istanbul commitments, which bound the ratification of the new CFE-treaty to the withdrawal of Russian forces, troops remained stationed in the separatist regions of Georgia and Moldova. Further, Russia put pressure on Azerbaijan's leadership by deploying additional military equipment from Georgia to Armenia (Himmelreich 2005).

On the other hand, the Russian government offered greater military cooperation to the proponents of Russian influence, namely to the governments of Belarus, Armenia and Central Asian states, which was acknowledged by the other NIS-leaders. In light of the Islamic Movement of Uzbekistan's (IMU) incursions into Kyrgyzstan, all governments of CIS-member states supported the idea of multilateral security cooperation within the CIS and CST (Jonson 2004; RFE/RL 2004) and welcomed the installation of U.S. military bases in Uzbekistan, Tajikistan and Kyrgyzstan to fight the Taliban. The Collective Security Treaty Organization (CSTO) was from 2002 transformed into a fully-fledged organisation and developed into the main instrument for security cooperation among the pro-Russian states.

Apart from the CSTO, a second organisation emerged in the region which also reflected the growing multilateralism in Russian foreign policy. The Shanghai Cooperation Organisation (SCO) emerged in 2001 from the Shanghai Five. Its members included apart from Russia and four Central Asian states also China, while India, Iran, Mongolia and Pakistan were granted observer status. The SCO started to operate as a regional mechanism for security and cooperation in the fields of border protection, terrorism, extremism, separatism, drug trafficking and information security.

In addition to the government's more pragmatic conduct vis-à-vis the Soviet successor states, the advocacy of multipolarity was also reflected in the revival of Russia's relations to the governments of a number of developing countries. First, Putin revived Russia's role as conflict mediator in the Israeli-Palestinian, the North and South-Korean as well as in the Indian-Pakistani conflicts (Nikonov 2002; Trenin 2002) and tried to promote non-proliferation by negotiating with "rogue states" like Iran and North Korea, instead of isolating them. The leadership's main objective in this new political dialogue was arguably to improve its domestic and international prestige by stressing Russian influence at the international stage as well as the government's adherence to international norms.

In 2004, the dynamics of Russian foreign policy underwent a number of changes. In the domestic sphere, the success of United Russia in the 2003 дума elections followed by Putin's re-election in 2004 signalled an overwhelming consensus among the population not only for the government's domestic, but also for its foreign policy. It further underlined the government's autonomy with regard to its external relations as the now conformist дума was not expected to refuse ratification of international treaties (without official consent). In addition, the government further strengthened its grip over export related branches of the economy. After the Khodorkovsky affair many high ranking siloviki were placed at the top of renation-

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12 Moldova agreed to an EU border monitoring operation on the border between Transnistria and Ukraine, Georgia applied to the EU and NATO to replace Russian peacekeepers in Abkhazia and South Ossetia and Azerbaijan received U.S. and Turkish military assistance and welcomed the EU's potential role in Nagorno-Karabakh. (RFE/RL 13.12.2005). Ukraine, although due to domestic tension less able to get involved, suggested to establish a Organization for Democracy and Economic Development (GUAM) peacekeeping force as alternative to Russian or CIS mandated peacekeeping (Today.az 2005).

alised enterprises, while the government de facto prohibited independent action by privately owned large businesses. Although the oligarchs further controlled a significant share of Russian exports, their terms of trade and the conditions for foreign investment were determined by the government. With regard to capacity, the implementation of the government's foreign policy came even more under the control of the power structures during Putin's second term, with a growing number of siloviki working in the MFA.

From the point of view of OECD-governments, their relative position deteriorated. While they at large relied on multilateral arrangements in their relations with Russia in the 1990s, these mechanisms now reduced their autonomy in their policies vis-à-vis Russia. When in 2004 both the EU and NATO opened their doors for new member states in Eastern Europe, the organisations' ability to formulate coherent policies was undermined. Although, the governments of new member states have promoted a more pro-active European policy towards the countries to their East, they also carried their bilateral conflicts with Russia into the EU (Fischer 2007), so that win-sets have decreased and decision-making has been impeded.

As a result of more limited win-sets on both sides, relations between the Russian leadership and their counterparts from OECD-countries have become more restricted and conflicting over Putin's second term. The involvement of the power structures in economic affairs has become increasingly pronounced. In the multilateral setting, Russia's accession to the World Trade Organization (WTO) has long been impeded by the U.S. and the EU, while relations with the European Union deteriorated after the accession of Eastern neighbours.

Western conditionality as for example laid out in the Partnership and Cooperation Agreement (PCA) has led the Russian leadership to adopt the concept of "sovereign democracy" stressing the country's political sovereignty over its internal affairs and, thus, ipso facto rejecting foreign involvement (Lipman 2006). For this reason, Putin has striven to renegotiate the PCA which stipulated that mutual cooperation was dependent on the implementation of political and economic reform (Zagorsky 2007). Yet, attempts to adapt the new base for EU-Russian relations have been deadlocked since 2007 following a number of bilateral conflicts with some EU-governments putting Russia's foreign policy practices into question. The Russian-Polish meat dispute<sup>13</sup> and Poland's subsequent veto on the new PCA (RIA Novosti 2007b), the failure to protect Estonian diplomats in the dispute following the removal of the Soviet war memorial in Tallinn (RIA Novosti 2007a) and the allegedly FSB driven assassination of Aleksandr Litvinenko in London and the Russian authorities' refusal to extradite the suspect (BBC 2007) all contributed to a cool down in EU-Russia relations in a multilateral setting.

The shift towards pragmatism and the increasing leverage of the siloviki over the economy has also become apparent in bilateral relations. On one hand, Western foreign direct investments beyond consumer and agricultural goods have been restricted. The strategic sectors are excluded from majority ownership by foreign companies and operations are subject to state monitoring and approval (OECD 2006). Western oil companies fell victim to the leadership's new protectionist line in the Sakhalin II (Gregory 2006) as well as in the Shtokman project (Times Online 2007).

On the other hand, Russian large businesses under state guidance have massively expanded their investments in Western economies during Putin's second term and in a number of cases

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13 Russia in 2005 imposed a ban on Polish meat claiming it did not conform to Russian import standards.

obtained majority ownership. Outward Foreign Direct Investment (FDI) were directed towards United States, Canada, Australia, Italy and Finland, as well as towards developing countries such as South Africa and Nigeria. They were mainly invested in the exploration and production of oil, the extraction of precious metals, the production of steel and in telecommunications (Liuhto / Vahtra 2007). In addition, the government's economic interests have also extended to the strategic sectors. In 2006, the state-owned Vneshtorgbank purchased a 5 % stake in the European Aeronautic Defence and Space Company (EADS) (Clark / Kramer 2006).

During Putin's second term, the strategic relations with Western governments became more determined reflecting the upgraded interests and enhanced capability of the MoD. While realities such as NATO-enlargement to a number of Eastern European countries including the Baltic states were reluctantly accepted (Kelin 2004)<sup>14</sup>, unilateral military action by the U.S. authorities was massively criticised. On one side, the relation with the leaders of many NATO-member states improved and became more balanced once the Russian leadership received its own voice with the formation of the NATO-Russia Council in 2002 prior to the second wave of enlargement relations (Monaghan 2007).

On the other hand, the U.S government distanced itself from decision making within the NATO-framework, as the increase in the number of member states prevented the formation of a consensus. Instead, U.S. authorities entered bilateral negotiations with the governments of Eastern European states which in contrast to those of most old members pressed for a more robust approach towards Russia. The Russian leadership, in turn, started to link its westward security policy stronger to its policies towards Eastern Europe and the former Soviet republics. U.S.' attempts to maintain influence in Central Asia were opposed in conjunction with China in the SCO's declaration on the need to withdraw all coalition troops and bases from Central Asia (SCO 2005). In reaction to U.S. plans to base troops in Bulgaria and Romania (RFE/RL 2005), a venture that violated the 1999 CFE-treaty<sup>15</sup>, Putin withdrew from the Treaty in December 2007 and reconfirmed the deployment of Russian troops in Moldova and Georgia. When the U.S. leadership announced to deploy a missile shield in Eastern Europe, allegedly to be able to counter the growing threat emanating from Iran (Reuters 2007b), Sergei Ivanov brought up the question of Russia's withdrawal from the Intermediate-range Nuclear Forces Treaty (INFT), thus, retargeting Russian strategic missiles at missile defense installations in Europe (RIA Novosti 2007c). Finally, president Putin directly attacked the U.S. authorities' unilateralism in his speech at the Munich security conference in February 2007 stating that *"Unilateral and frequently illegitimate actions have not resolved any problems. Moreover, they have caused new human tragedies and created new centres of tension."* (Putin 2007)

The Russian leadership, however, not only applied aggressive rhetoric, but also tried to use its improved position to *"stop further changes in the European status quo and particularly in its*

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14 Russian Deputy Foreign Minister Vladimir Chizhov told a Russian TV studio discussion programme on 2 April 2004 that Russia takes a "calmly negative" attitude towards the recent accession of seven new states to NATO. *"I would describe our attitude to the current wave of NATO expansion, just as to the process of the alliance's expansion in principle, as calmly negative. Of course, it doesn't cause us any joy or enthusiasm, but we are not making a tragedy out of it,"* he said (BBC 2004; Kelin 2004).

15 According to the 1999 CFE Treaty, NATO can only deploy troops to Eastern European countries if the national troop levels have been reduced accordingly.



*immediate vicinity, and possibly reverse some of the concessions it was forced to make under Yeltsin*” (Zagorsky 2007, 9). The two issues which the MoD had opposed most related to the status of Kosovo and to NATO-membership of former Soviet republics, namely of Ukraine and Georgia which after their coloured revolutions had looked westwards for support (Eurasia Daily Monitor 2006; RIA Novosti 2006). In the case of Kosovo, the introduction of UN administration from 1999 left the region’s status unresolved and did not settle the conflict with the Serbian government. When the UN scheduled a referendum in 2007 without Serbian consent, Russian protests gained momentum (Reuters 2007a). The province’s subsequent independence from Serbia and its recognition by the governments of major OECD-countries, however, provided the Russian government with new leverage for the separatist conflicts in the Soviet successor states. When sending unarmed troops into Abkhazia in May 2008, they de facto linked the separatist issue to Georgia’s potential NATO-membership as the settlement of pending territorial conflicts is a precondition for accession. It is, however, hard to judge whether this “*marks the first overt Russian move to change the post-1991 internationally recognized borders*” (Socor 2008).

The U.S. leadership’s unilateralism has not only caused a strong Russian reaction, but also contributed to a change in Russian-NIS relations. While Russian support for the leaders of poorer pro-Russian countries in most cases helped them to stay in office, Western support for governments of resource rich countries has been ambivalent. The political conditionality which OECD-governments bound to economic cooperation at times considerably weakened incumbent governments. In particular attempts by NGOs supported by Western governments to strengthen civil society and calls to better integrate the opposition put governments under pressure (Pannier 2004). Since 2003 a number of so-called coloured revolutions led to changes in leadership in Georgia, Ukraine and Kyrgyzstan. Further, Western criticism on human rights abuses, most notably in Uzbekistan after the events in Andijan, have created incentives for governments to refrain from conditionality and to look for alternative sources of support, which in a number of cases resulted in a realignment with Russia.

The Orange Revolution in Ukraine was the watershed event that demonstrated to the Russian leadership that Western support for the development of civil society could result in regime change. According to Putin the Russian government is not per se “*against changes in the former Soviet space. We want to be sure they will not lead to chaos*” (Kobrinskaya 2005). In reality, Putin, has tried to preserve the status quo in the post-Soviet space by opposing “*Western democratization policies in post-Soviet countries such as Belarus and Uzbekistan by forging partnerships with like-minded non-democratic leaderships in strategically important neighbouring states*” (Wallander, 2007). 107. This policy was most successful in Central Asia. Uzbekistan, which had been the most sovereign-minded state in Central Asia, in 2005 resigned from GUAM. And Kyrgyzstan, that had hosted the Tulip Revolution, opted for Russian support following Western pressure to grant more political rights to the opposition.

In light of the coloured revolutions, the Russian government stepped up its integration effort with the leaders of pro-Russian successor states. (see Box 2) Immediately after the Orange Revolution, Russia joined the Central Asian Cooperation Organization (CACO) in October 2004. A year later CACO was merged with EurAsEc. According to Pavel Baev this organisational optimisation tied “*closer together under the Russian aegis Belarus and Uzbekistan, both on the forefront of confrontation with the color revolutionary forces*” (Baev 2005, 201).

| <b>Box 2: NIS membership in Intergovernmental Organizations in the post-Soviet space</b> |           |           |   |                              |               |          |                   |                   |  |
|--|-----------|-----------|---|------------------------------|---------------|----------|-------------------|-------------------|--|
| State  | CIS       | GUAM      | CDC   | Black Sea Forum              | Customs Union | EurAsEc  | CACO              | CST/CSTO          | SCO                                      |
| Russia   | 1991      |           |   |                              | 1995          | 2001     | 2004              | 1994              | 1996                                     |
| Belarus  | 1991      |           |   |                              | 1995          | 2001     |                   | 1994              |  |
| Kyrgyzstan   | 1991      |           |   |                              | 1995          | 2001     | 1991              | 1994              | 1996                                     |
| Tajikistan   | 1991      |           |   |                              | 1999          | 2001     | 1991-1994<br>1998 | 1994              | 1996                                     |
| Kazakhstan   | 1991      |           |   |                              | 1995          | 2001     | 1991              | 1994              | 1996                                     |
| Uzbekistan   | 2000      | 1999-2005 |   |                              |               | 2006     | 1991              | 1994-1999<br>2006 | 2001                                     |
| Turkmenistan   | 1991-2005 |           |   |                              |               |          | 1991-1994         |                   |  |
| Armenia  | 1991      |           |   | 2006                         |               | observer |                   | 1994              |  |
| Ukraine  | 1991      | 1997      | 2005  | 2006                         |               | observer | observer          |                   |  |
| Moldova  | 1994      | 1997      | 2005  | 2006                         |               | observer |                   |                   |  |
| Azerbaijan   | 1993      | 1997      | observer  | 2006                         |               |          |                   | 1994-1999         |  |
| Georgia  | 1993      | 1997      | 2005  | 2006                         |               |          | observer          | 1994-1999         |  |
| Estonia  |           |           | 2005  |                              |               |          |                   |                   |  |
| Latria   |           | observer  | 2005  |                              |               |          |                   |                   |  |
| Lithuania  |           |           | 2005  |                              |               |          |                   |                   |  |
| Other member states  |           |           | Macedonia<br>Romania,<br>Slovenia   | Romania                      |               |          |                   |                   | China                                    |
| Observers  |           | Turkey    | Bulgaria,<br>Czech<br>Republic,<br>Poland,<br>Hungary,<br>U.S., EU,<br>OSCE | Bulgaria,<br>Turkey,<br>U.S. |               |          | Turkey            |                   | India,<br>Iran,<br>Mongolia,<br>Pakistan |

Source: Own compilation

Further, Uzbekistan cancelled the agreement to host U.S. military bases and entered CSTO. Russian military assistance in the form of arms trade at non-commercial prices and free military training by the Russian military was an important integrative factor of CSTO. Among the major successes of the organisation were the re-establishment of a system of antiballistic missile defence to include all seven member states as well as the installation of a collective air defence system (SIPRI 2007).

In the economic sphere, Russian energy subsidies and access to transit routes provided Putin with leverage over other leaders in the post-Soviet space, as well as in Eastern Europe. Although exploring alternative transport routes, the leaders of landlocked resource-rich countries further relied on the transport of oil and gas via the Russian pipeline system. Therefore, the presidents of Uzbekistan and Kazakhstan, but also of Turkmenistan heavily lobbied the Russian leadership in light of the rising oil price.

Further, Gazprom's announcement in 2005 to raise the price of gas<sup>16</sup> applied to pro-Russian and pro-Western governments alike. The poorer countries, however, were comparatively more prone to give in to Russian demands as the increase meant a disproportionately higher government debt, which had direct consequences on their performance legitimacy. Most prominently, the Ukrainian leadership refused to accept the increase, thus, leading Gazprom to reduce the gas supply to Europe at the beginning of 2006 (Sokov 2006) and to the subsequent channelling of its exports through RosUkrEnergo. Similarly, the Belarusian government signed a deal with Gazprom in January 2007 according to which the company was granted to purchase a large stake in the state company Beltransgas in return for not raising the price for Russian gas (Economist 2007a). Nevertheless, also the governments of other countries agreed to an increase in Russian ownership of their transport routes in exchange for lower prices for oil and gas. For example Gazprom has full control over the gas pipelines running through Moldova and Armenia as well as majority shares in the pipelines in the Baltic States and Serbia (UNCTAD 2007, 65).

In general, the Russian government also encourages investments in the other sectors of the economy in Soviet successor states. For example, Russian companies have bought stakes in the Kazakh and Uzbek telecommunication sectors. Georgia is the one case where the interests of the security forces outweigh those of economic interest groups. Following the arrest of four Russian military officers on espionage charges, the Russian government in 2006 closed the border to Georgia for trade and transport and banned sea and air travel, thus, worsening the socioeconomic situation in the country (Daria 2006). The Russian leadership, thus, attempts to limit Western influence over the country by weakening the performance legitimacy of the pro-Western government that emerged from the Rose Revolution.

In contrast to the Yeltsin era, the number of groups impacting on the definition and implementation of foreign policy decreased considerably under Putin. In consequence, Russian foreign policy became better coordinated and more conditional. Both, the relations with the governments of OECD countries and Soviet successor states were dominated by economic and bureaucratic interest groups loyal to the government. While Russian foreign economic policy was determined by the interests of state corporations and loyal privately-owned large businesses and coordinated by the MFA, security policy was determined by the MoD. The growing influence of the security forces in the MFA, in comparison to the 1990s, ensured more continuity between the two policy fields. Due to the emerging link between power structures and big business, Russian foreign policy towards the West, although more pragmatic, remained largely cooperative. The relations with the leaders of the post-Soviet republics, too, saw a turn towards pragmatism. The multilateralism of the 1990s was replaced by bilateral settings in which the Russian leadership individually negotiated the extent of Russian support in exchange for economic privileges.

In conclusion, Russian foreign policy underwent massive changes over the last seventeen years. While the leadership's decision making in the 1990s was obstructed by a multitude of small interest groups resulting in domestic instability and Russian dependence on Western governments, the more stable domestic context under Putin and the enhanced economic situa-

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16 The increase concerned Ukraine, Georgia, Moldova and the Baltic states and meant a rise from around US\$ 60 per 1,000 cubic meters of gas to well over US\$ 120 depending on the country, which was further well below world market price.

tion of the country have cultivated a more reliable base for a more pro-active and independent foreign policy.

### **3 Conclusion**

Russian foreign policy making underwent a decisive evolution in recent years. Under Vladimir Putin's presidency, the formerly reactive, contradictory and OECD-centred foreign policy approach was replaced by a proactive, coherent "multivectoral" policy. This paper has argued that these developments have been rooted in the changing interrelation between the government and small interest groups. The aim of this research has been to show how alternating domestic conditions shaped Russian foreign policy making under Yeltsin and under Putin.

In answering this question, this paper diverted from the school of thought which analysed Russian foreign policy in light of the country's transition from communism and its alleged move towards democracy. Instead, a Political Economy perspective has been chosen in order to explain domestic developments regardless of a stagnation in the democratisation process. This paper, therefore, hopes to have offered an innovative analysis of Russian foreign policy on the basis of an existing theoretical approach. Further, it hopes to make a valuable and encompassing empirical contribution by offering insights into the process of foreign policy making during the first seventeen years of the post-Soviet period covering the reigns of Russia's first two presidents Boris Yeltsin and Vladimir Putin.

It has been argued that Russian foreign policy has been a function of the world oil price as well as of the government's level of control over the resource sector. Change in Russian domestic and foreign policy has taken place largely as a result of developments with regard to both of these factors. They decisively determined the government's distribution margin and, thus, its capability to set its own agenda and to implement its policies. This reasoning has, inspired by Katzenstein, been embedded in a strong-state-weak-state-nexus.

Accordingly, the Yeltsin government during the 1990s was rather weak and dependent on small interest groups. By promoting decentralisation and by granting more rights to the population, the leadership hoped to compensate for its underperformance in light of low resource prices, thus, giving up control over much of the extractive industries. This development was mirrored by the involvement of many different interest groups in the definition and execution of foreign policy goals, thus, leading to a fragmentation of Russian foreign policy. With the rise of the oil price in 1999, the new government under Putin was able to expand its allocation leeway and to restore its strength. It re-established executive control over economic and bureaucratic interest groups by initiating the partial re-nationalisation of the resource sector as well as the streamlining of the administration.

The paper has analysed the domestic dimension of Russian foreign policy in two successive steps. In a first step, the independent variable, the domestic constellation, has been examined along the established categories for possible government strategies to stay in office – legitimacy, loyalty and repression. This was followed by an analysis of the dependent variable, Russian foreign policy making.

Accordingly, the first chapter has depicted the dynamics of domestic interest groups entering, leaving or impacting on the government's distributional coalition to underline which constel-

lation of forces dominated the definition of specific policies. It documents change from a relatively weak Russian government under Yeltsin, financially and administratively highly dependent on a multitude of old and new interest groups, to a relatively strong government under Putin, which managed to generate more income and could, thus, narrow its coalition. In a nutshell, the leadership under Yeltsin lacked the autonomy to formulate its own policies as well as the capacity for implementation. Accordingly, the interests of small economic and bureaucratic groups, such as managers of big businesses and regional leaders, determined official policies and blocked structural reform. Although the government was democratically elected, it failed to provide basic collective goods and was, thus, deprived of output legitimacy. With the rise of the oil price, the leadership's financial situation improved and ipso facto its dependence on small economic groups decreased. Putin's federal and administrative reforms further streamlined small bureaucratic interest groups and improved the government's implementation capacity. The leadership's enhanced capability upgraded its performance legitimacy, despite the depoliticisation of the population.

This line of argument demonstrating a shift from a weak to a strong government is taken up in the second chapter with a focus on foreign policy. Under Yeltsin the formation of foreign policy was impeded by one-sided interests of certain economic actors, while the implementation was conducted by largely independent bureaucratic interest groups connected to economic interests. The partial re-nationalisation in the energy sector and the clarification of bureaucratic hierarchies enabled Putin to formulate Russian foreign policy interest more concisely and to oversee its implementation. With regard to the foreign policy outcome, Putnam's concept of two-level games was employed to hint to the relevance of changing domestic win-sets in an international context. Due to the dependence on Western aid and trade, Yeltsin's policy was largely restricted by the interests of OECD-countries, while neglecting relations with the former Soviet republics. In light of growing energy dependency and mutual dependencies in the fight against terrorism, Russian relations with Western governments became more balanced under Putin, while foreign policy reoriented towards the post-Soviet space.

In addition to offering an alternative explanation of Russian foreign policy making, this paper hopes to give an impetus for future research on the topic. First, it may provide a starting point for students of Russian foreign policy under the new president Dmitri Medvedev. The final judgement on whether Putin's reforms will eventually lead to a consolidation of government strength or whether they only rang in an interim-period of tentative domestic stability will have to be made by others.

Further, the focus of this paper was to examine Russian foreign policy making, and not on the actual impact of foreign policy measures. To account for the fact that the success of a policy may determine the re-definition of foreign policy goals and, thus, to make a process analysis at all possible, at certain junctures a short excursion to Putnam's (1988) concept of two-level games has been included to also shed light on the output dimension. This, however, has due to the general nature of this study been done in a very cursory manner. For a thorough account of Russian foreign policy towards a certain state or region the interplay of foreign policy agendas and actions would have to be placed at the centre of analysis.

Finally, this paper may also offer a suggestion of how the transition focus of studies on Russian foreign policy from the 1990s can be linked to the Putin era. The crisis of this school of thought relates to its concentration on democratisation processes in light of democratic regression. Since the end of the cold war, little research has been done on autocracies

(Schlumberger 2007). The argument that Russian policy has been determined by the availability and value of resources could be combined with the problem of regime change. The stagnation of democracy in Russia given the rise of resource prices relates to Michael Ross' argument that oil hinders democracy (Ross 2001).

Arguably, the future of Russian domestic and foreign policy as well as the nature of the political system will depend on the development of the oil price and the limitedness of resources. The juxtaposition of the Yeltsin and the Putin periods have demonstrated the importance of resources for the government's domestic position. Although Russia's oil may have hindered the country's democratic development, it also generated an increased budget and more domestic stability.



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