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Journal on  
International  
Security

# SECURITY

# INDEX

No. 2 (87),  
Spring 2009

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Roland Timerbaev

**NUCLEAR-WEAPON FREE WORLD:  
WAYS OF MOVING AHEAD**

Sergey Zhiltsov  
Igor Zonn

**WAR FOR WATER**

Georgy Toloraya  
Vladimir Khrustalev

**THE FUTURE OF NORTH KOREA**

William Potter

**U.S.—RUSSIAN NUCLEAR COOPERATION  
IN COLD PEACE ERA**

Jürgen Scheffran

**CLIMATE CHANGE AS A SECURITY THREAT**

SECURITY INDEX No. 2 (87), Spring 2009

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# SECURITY

# INDEX

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## CONTENTS

### F R O M   T H E   E D I T O R

- 7 **“Soft Security – Back to the Stage.”** In his Editorial, **Dmitry Polikanov** speaks about the growing importance of soft security in the current conditions of economic crisis and the potential balance between hard and soft security in the changing global *modus vivendi*.

### A N A L Y S E S

- 11 **Sergey Zhiltsov and Igor Zonn, “War for Water.”** “Today water conflicts are becoming an integral part of the global geopolitical system since they are about control over an essential resource for modern technological society. Politicians and experts might soon be talking about *water pipeline infrastructure*, similar to gas and oil pipes. Water conflicts are similar to those over oil and gas splitting producing and importing countries. The only difference is that oil and gas can have an alternative route or supply source, while it is much more complicated and expensive to implement for water. So, water is becoming a *global commodity*, which in the new century could exceed oil in terms of price,” claim the authors.
- 21 **Jürgen Scheffran, “The Gathering Storm: Is Climate Change a Security Threat?”** The author analyzes the implications of climate change and global warming on the economic and social security of different regions of the world. In his article he also reviews the efforts of various international bodies to find a common solution to this global issue.
- 33 **Eldar Kasaev, “Investment Climate in Iraq and Interests of Russia.”** The author gives a comprehensive view of the legal, political and economic aspects of investment climate in Iraq and tries to figure out whether the Russian companies can find their niche on the Iraqi market. The article contains a set of valuable recommendations for potential investors in this Middle East country.
- 47 **Galina Pastukhova, “Eminence Grise of the Iranian Crisis.”** “When it comes to the Iranian nuclear dossier, there is less talk about China’s interests and motives than about Russia’s or the West’s. So from its position behind the curtains, China can become a kind of eminence grise of the Iranian crisis,” writes Galina, who attempts to understand the actual state of Sino-Iranian relations and bilateral cooperation in various spheres.



## V I E W P O I N T S

- 59 **Georgy Toloraya and Vladimir Khrustalev, “The Future of North Korea: Waiting for the Resolution?”** Two renowned experts on Korea discuss the prospects of the totalitarian regime, the future of the nuclear program and the opportunities that the Korean settlement may bring to Russia from economic and geostrategic point of view.

## R O U N D T A B L E

- 69 **“Russia, NATO and Global Security.”** Is it necessary and possible to find a compromise and promote new forms of interaction between Russia and the major military structure of the West, i.e. NATO? To what extent does the modern role of NATO in maintaining international security meet or contradict Russia’s interests? Will bilateral relations between Russia and the United States be extrapolated on Russia-NATO relations? The key issue is also how much NATO is able to respond to the current international security challenges. And finally, one cannot forget about the prospects of NATO expansion. All these matters became a core of a debate that involved PIR Senior Advisor Lt-Gen (ret.) **Gennady Evstafiev** and MGIMO Professor, PIR Center Board Member **Andrey Zagorsky**.

## C O M M E N T A R Y

- 77 **Alexander Kovalev, “International Legal Status of the Arctic and Russia’s Interests.”** The new area of disputes is the Arctic with its rich resources and geopolitical importance for the large nations of the world. The author comments on the international legal regimes and evaluates the positions of various countries that claim to control the Arctic territory, notably the Russian vision of the problem.
- 83 **Yevgeny Yevdokimov, “Olympic Diplomacy as an Instrument of Chinese Foreign Policy Propaganda.”** Sport has become another powerful tool in the modern international relations. Public and business fuss about the Olympic games, related political battles and media wars – all this makes the Olympics one of the key events in global affairs. As Russia plans to host the Winter Olympic games in Sochi in 2014, it is useful to learn some lessons from Beijing, which has succeeded in making maximum benefit of the 2008 event.
- 91 **William Potter, “Prospects for U.S.-Russian Cooperation in Nuclear Nonproliferation in a Time of Cold Peace.”** Prof. Potter, a world famous nonproliferation expert and new member of the PIR Center Executive Board, sets forth a list of practical recommendations to the new U.S. administration aimed at intensifying security dialogue between Moscow and Washington and eventually come to some positive results concerning the nonproliferation and disarmament.
- 97 **Roland Timerbaev, “Nuclear-Weapon-Free World: Ways of Moving Ahead.”** There has recently been growing interest in the issue of nuclear disarmament, nuclear-free world, but world open towards peaceful nuclear energy uses for the benefit of mankind. Such interest is to a large extent caused by the immediate task of strengthening the nuclear nonproliferation regime, especially on the eve of the 2010 NPT Review Conference. Amb. Timerbaev presents some of his solutions to the problem of achieving *nuclear zero*.

REVIEWS OF RECENT WORLD EVENTS :  
DECEMBER 2008 – FEBRUARY 2009

- 107 **The *iSi* index – a comprehensive index of international security.** The uncertainty of global economic crisis combined with rising tensions in different parts of the world does not contribute much to the rise of the index. Members of the International Expert Group – Marian **Abisheva**, Konstantin **Eggert**, Dayan **Jayatilleka**, Abdulaziz **Sager**, and Yevgeny **Satanovsky** – comment the events.
- 110 **Yury Fedorov, A View by a *Russian Liberal*: “It Almost Starts... World Politics Enters a New Period.”** “When the global financial crisis starts to abate, the old strategic and geopolitical problems will come to the fore once again, undiminished and possibly even more severe than ever. That is why the current situation is being made use of by the Iranian leaders with their nuclear arms aspirations, by the numerous Marxist radicals and leaders of Islamic terrorist groups, by pompous Latin American caudillos and other political buffoons as well as their sympathizers among Russian politicians, sloganeering about Russia *rising from its knees*. There are all trying to seize the opportunity and boost their standing both domestically and internationally, while the attention of the world leaders is fixed on the financial crisis.”
- 121 **Dmitry Evstafiev, A View by a *Russian Conservative*: “World Politics in Time of Uncertainty.”** “The drastic increase in uncertainty in the system of international relations that we have been witnessing over the past six months is a consequence of the emergence of real multipolarity, including in military and political sphere and resources. This in itself results in that the actions of the significant players in international relations no longer fall under conventional models and templates. This is why we no longer understand what is going on, whereas in reality we simply do not know the models and principles along which the new world is developing.”



C  
O  
N  
T  
E  
N  
T  
S

H I S T O R I C A L P A G E S

- 133 **Oksana Skopych, “Manbar Nahum and Iranian-Israeli Arms Trade.”** Notorious arms dealer Manbar Nahum was quite successful in his trade operations with Iran despite any sanctions of the Israeli government. The author assumes that secret services must have been involved in these undertakings. She analyzes the story and tries to understand how much it affected Israeli national security interests.
- 139 **Elena Geleskul, “The History of the Libyan Nuclear Program: The Reasons for Failure.”** In her historical review the author focuses on various aspects of the Libyan nuclear program, open and hidden sources of support to the Gaddafi regime in development of its nuclear energy capacity, and the lessons learned by the international community.

B O O K R E V I E W S

- 147 **“Energy at the Edge of War and Peace,” Yevgeny Petelin.** “The importance of the energy factor in politics today can hardly be called into question. In the search of new sources of energy import the states use mechanisms of political dialogue and strategic partnership; energy issues are on the agenda of international organizations that have nothing to do with the energy policy at all. How much does the energy

affect the military doctrine? How does the energy vulnerability of the state influence the modernization of the army?" asks the author who reviews the book on China's maritime policies and the role of energy recently published in the United States.

- 151 **"Free Market in the Times of Economic Challenge," Seth Kinkade.** "The authors depict a comprehensive panorama of successful economic development in nations that built institutions that support entrepreneurship. Furthermore, they posit that any nation can experience rapid and boundless economic growth, if only there is a coordinated system that allows its people to achieve their entrepreneurial potential," notes Seth Kinkade in his review of *Making Poor Nations Rich*, a new manifesto of free market.

153 A B O U T T H E A U T H O R S

---

158 P I R C E N T E R A D V I S O R Y B O A R D

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F I N A L Q U O T E S

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III cov. **On fear and happiness**



## SOFT SECURITY – BACK TO THE STAGE

Global financial crisis brought back to the stage the issues of soft security. It turned out that even the mightiest and the most stable states cannot feel protected, despite the availability of modern armies, sophisticated weapons, and state-of-the-art police forces. On the contrary, they are the most hurt by turmoil on financial markets, irregular gas supplies, and social unrest – from Greece to the Baltic Sea.

The state of the world economy is totally unpredictable. Various international institutions give the crisis from one to three years to vanish; some optimistic forecasts argue that the situation may improve already in 2009. However, it is clear that this is a systemic problem and the global finance, along with other sectors, will get out of it totally anew, or will not get out of it at all.

It is noteworthy how quickly the leading nations abandoned their free market manifestos and resorted to classical socialist regulation of economy, including tough protectionism. Despite the victorious declarations at the Washington summit in November, most of the *G-20* countries rush to save their own companies, pump enormous government funds in the economy and cut off the jobs for migrants. Another quite leftist way to save the industry would be the increase in defense expenditure – ordinary taxpayers may thus save the monsters (car-building, aircraft building, construction, etc.) benefiting from state contracts.

What will the implications for the global security be? The answer is inevitable – it is time to think more about soft security challenges. Energy, food, water, finance, human resources – all these issues cannot be neglected and cannot be resolved with the help of missile defense systems, nuclear weapons, or a new generation of tanks.

There is also an urgent need for new legal instruments. How can the international community bear the killings in Gaza or in the Democratic Republic of Congo and reconcile with the fact that the decisions of the UN Security Council are fully ignored? And this is just the fresh example of UN impotence. Nonetheless, the nations that were so enthusiastic in condemning unilateralism do not seem to rush to invent the new multilateral mechanisms. Or even to support them! A response to the Russian European security initiative at the OSCE ministerial, or the reaction to the proposal to make the INF Treaty global clearly indicate – latent unilateralism and selfish approach to alleged «national interests» dominate the minds of decisionmakers. And only some real global shock, such as the financial crisis, may eventually change this mentality.

A perfect proof for that is the inability to fight piracy in Somalia. Warships from all over the place are sent to patrol a relatively small zone of the World Ocean. Important international decisions are taken. But pirates continue to seize the vessels. And after all they do it not only in East Africa, but also in the Strait of Malacca and in many other parts of the planet. Does it mean that today there is less commitment to put an end to piracy than in the 19th century when the monarchies were even more selfish in their foreign policy?





As Dmitry **Evstafiev** puts it in his analysis,

«Now the issue of piracy off the Somali coast is considered by the UN Security Council, as if that body did not have any more pressing matters to turn its attention to. Although it does. Take, for example, the fact that states that once were civilized are now introducing torture to their arsenal of standard and legitimate means of inquiry. Or the fact that a conference to review the implementation of the NPT has been set for 2010, however so far not even the basic necessary steps have been taken, let alone any real research and thinking have been made.»

Hence, it is a general problem that requires global solution – from restoring order in the failed state of Somalia to enhancing cooperation in fighting organized crime networks that ensure the sales of seized goods or render money-laundering services to legalize the ransoms paid to pirates.

Such mobilization becomes even more topical, as many *rogues* may try to fish in troubled waters and benefit from the collapse of the world order, or let say the ruins of the world order which still remain in place after the end of the Cold War. Terrorist attacks in India, new proclamations of Osama bin Laden, impunity of Talibs and aforementioned pirates – who else is going to pop up on the horizon?

«When the global financial crisis starts to abate, the old strategic and geopolitical problems will come to the fore once again, undiminished and possibly even more severe than ever. That is why the current situation is being made use of by the Iranian leaders with their nuclear arms aspirations, by the numerous Marxist radicals and leaders of Islamic terrorist groups, by pompous Latin American caudillos and other political buffoons as well as their sympathizers among Russian politicians, sloganeering about Russia rising from its knees. There are all trying to seize the opportunity and boost their standing both domestically and internationally, while the attention of the world leaders is fixed on the financial crisis,» emphasizes Yury **Fedorov**.

Therefore, we devote this issue of the *Security Index* journal mainly to various soft security challenges trying to predict the potential vectors of global and regional confrontation.

One of the key sources of tensions in the next two decades or more will be water. Russia with its immense fresh water resources may become a lucrative target in a new spin of confrontation. As Sergey **Zhiltsov** and Igor **Zonn** put it in their article,

«Today water conflicts are becoming an integral part of the global geopolitical system since they are about control over an essential resource for modern technological society. Politicians and experts might soon be talking about water pipeline infrastructure, similar to gas and oil pipes. Water conflicts are similar to those over oil and gas splitting producing and importing countries. The only difference is that oil and gas can have an alternative route or supply source, while it is much more complicated and expensive to implement for water. So, water is becoming a global commodity, which in the new century could exceed oil in terms of price.»

One of the reasons for such popularity of the scarce water resources is global warming. Climate change is not a bogus, as some assume. The gravity of the issue has recently been reaffirmed at the UN-sponsored conference held in Poland. General consensus could make this problem a reuniting factor for the international community. However, so far it only divides the nations further. As Jürgen **Scheffran** maintains,

«Whether societies are able to cope with the impacts and restrain the risks of climate change depends on their responses and abilities to solve associated problems. Some responses to climate change may rather aggravate the problem, by inducing additional security issues. For instance, the revival of nuclear power to prevent climate change might raise concerns about nuclear proliferation and other risks for safety and security. The rapid and unsustainable growth of biofuels for carbon emission reduction could aggravate land use conflicts and increase food insecurity. If the military finds a justification in fighting the impacts of global warming, this would hardly be a sustainable solution to the climate problem.»

So here again there is an urgent need for new approaches, since the very survival of the mankind is at stake.

Global warming and fierce search for cheap and available resources discover new geographical areas where rivalry was not typical before. One of them is the Arctic region, the strategic importance of which grows. And it is not only the matter of mineral wealth, but also the problem of new transportation routes. Arctic is in the focus of attention of the European Union and the United States. Some experts assume that the recent directive by the U.S. President is underpinned with the desire to get control over the new Northern route that would make the easiest and shortest connection between the Atlantic and the Pacific Ocean. Prof. Alexander **Kovalev**, a well-known expert on international law, claims in his commentary that the goal of the Western nations today is to squeeze Russia out of the region under various pretexts. One of them is socioeconomic degradation of the Arctic zone, another is environmental damage – all this could be a good cause for humanitarian intervention. Hence, the real battle over the Arctic is still ahead.

A significant role in contemporary wars over resources, and wars as such, is played by the media. They become a substantial security factor, sometimes even more serious than weapons. In today's world it is less important to win the war rather than to create a favorable public opinion and to propagate the victory. There are no reports from Kosovo and everyone assumes that everything is stable there and the problem is generally solved, or at least, very close to its solution. There are no reports from Southern Kivu and the world so much concerned about Darfur and Gaza misses another area of humanitarian catastrophe. Let alone the war in South Ossetia in August 2008, which was virtual to a large extent and where news reports about the hostilities were more deadly than the hostilities. And to many, the current economic crisis is a child of the media as well and exists rather in the minds than in reality – after all any collapse at the stock market is always a matter of psychology, trust and asymmetric information flows.

Therefore, PR-support becomes a crucial element of any foreign policy efforts. Yevgeny **Yevdokimov** raises the issue of Olympic diplomacy and dwells on the example of China. After all, the Olympics turned into a political factor long time ago. One can easily remember the Soviet-U.S. confrontation in 1980 and in 1984, or cast a quick glance at the Georgian attempts to block Russia's right to host the Winter Olympic games in Sochi in 2014.

The author states that

«an important step China made was adjusting its *openness* ahead of the Games. These steps boiled down to spreading China's economic, humanitarian and other types of influence abroad, while at the same time limiting foreign influence on the country and ensuring generous coverage of the excellent organization of the Games to spread China's ideological influence. Given the high likelihood of anti-Russian campaigns in the Western media ahead of the Sochi games, Russia should waste no time in developing its counterpropaganda capacity. It should focus on moving away from the confrontational thinking and Cold War logic that are often forced upon Russia by the West. In this regard, it is worth studying China's experience of formulating its measures to counter Western propaganda and defend its national interests using relatively mild wording, such as international *responsibility* and *harmonious world*.»

By the way, China is in the focus of two other articles in this issue. Galina **Pastukhova** studies the role of Beijing in the Iranian crisis, «Iran's oil wealth and China's rapidly growing economy mean that China has important strategic interests in Iran. These interests boil down to ensuring energy security, buying energy resources (so far Chinese imports are not sufficiently diversified), selling arms (to generate income) and participating in multi-million dollar infrastructure contracts in Iran.» She provides a comprehensive analysis of various aspects of Sino-Iranian cooperation and assumes that the countries make a good example of «compatibility of civilizations.»


Yevgeny **Petelin** looks at a similar area – China's attempts to get rid of oil dependence and the influence of energy diplomacy on Beijing's military strategy. In his review of a U.S.-published volume on China's maritime policies, Petelin concludes that more attention should be paid not



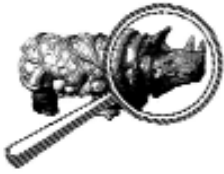
only to the efforts of the Celestial Empire in Central Asia or in the Middle East, but also to Beijing's endeavors to expand cooperation with Africa and Latin America in desperate search of diversification of energy supplies.

Finally, even hard security issues require a substantial amount of new thinking. William **Potter** focuses in his commentary on the priority measures for the U.S. and Russian governments as far as nonproliferation and disarmament are concerned. Even though the relations between the two countries are not at their height, there are still good chances for the promotion of new arms control agreements and for strengthening the existing regimes, especially now when the new U.S. administration demonstrates such zeal. And there are practical steps that would not require significant concessions from both parties but eventually would ease the tensions and enhance global security.

Roland **Timerbaev** in his article mostly agrees with such approach and suggests similar recipes. The world will always face an imminent threat unless it reaches *nuclear zero*, whatever tough this road can be. In fact, psychology must be the most complicated issue. «The nations, including nuclear weapon states and large states as such, will have to start thinking anew. They will have to get rid of some obsolete but convenient stereotypes, to find new ways of meeting their demand for raw materials, markets, etc., without resorting to force, especially nuclear force. Now it is not clear how it will happen, but the process may be long and painful, for the most powerful states in particular,» notes Amb. Timerbaev.

The mankind is entering a new phase of its development. The global economic crisis may eventually force the nations to start the search for non-traditional solutions, since the previous paradigms have proved their inefficiency. After all, the longer the great powers stick to the centuries-old mechanisms of greed and selfishness, to traditional recipes of saber-rattling, territorial conquests and protectionism, the further away will they move from truly universal and effective tools to tackle global problems. Probably the time has accidentally come to unite the efforts and seek compromises, in order to save the sinking boat that we are so eagerly rocking? 

**Dmitry Polikanov**



Sergey Zhiltsov and Igor Zonn

## WAR FOR WATER

Throughout its history the human race has been competing for resources, this driving power behind any world order. At different times the focus could be on different resources, like land, gold, timber, or others. Over the last century that focus has been on energy: oil and gas. They have a feature: they are non-renewable. We are close to a point when they are exhausted completely, which will be *the end of the pipe*. Some real and even bloody fighting (Iraq is the most recent example) is not for largest oil reserves, but for reserves to last longer. However, water is another resource essential for survival of humans. Only recently it was abundant, its consumption uncontrolled. Now it is common knowledge that shortage of fresh water is a global issue. 97 percent of all water on Earth is in seas and oceans, and just 3 percent is fresh, but hard to get to, since it is available in the form of ice, soil moisture, and ground waters. Over 50 percent of fresh water is locked up in glaciers and ice caps.

All the way through human history water has been a cause of conflicts. Peter H. Gleick, author of *Water and Conflict*, saw *the water weapon* used dozens of times in the five continents over the last five centuries in the form of destroying large water facilities to dictating water usages rules as a radical means of pressure against the opponent. In other words, water is not only a source for life, but also a joker in political games.

The issue of water supply was seen growing in the second half of the 20th century. It is mainly explained by the fact that there is an increasing gap between an upsurge in consumption and the volume of available resources, which remains unchanged. Consumption upturn is caused by an unprecedented global economic growth and a recent food crisis in many countries of the world. It could be that the balance between available resources and increasing consumption is now critical. In April 2000 Kofi Annan, the UN Secretary General at the time, said that *the water issue* had become a priority problem for humankind to tackle in the 21st century.<sup>1</sup> Keeping existing sources and finding new ones is one of the most urgent tasks in the new millennium.<sup>2</sup> For that reason many Western scholars decided to nickname the new centennial a “water century”, while hardcore pessimists opted for “*water war century*”. Sandra Postel, an American expert, wrote: “Forget oil. Sharing freshwater equitably poses political conundrums as explosive and far-reaching as the global climate change.”<sup>3</sup>

### WATER GEOPOLITICS

The issue of water supply reflects historical development of many countries and regions. About 50 percent of the planet’s population live on banks of ten largest rivers, which are now in a critical condition, says World Wild Fund. Those are: the River Plate, the Danube, the Rio Grande, the Ganges, the Murray and the Darling Rivers, the Indus River, the Nile, the Yangtze River, the Mekong, and the Euphrates. 41 percent of people in those river basins are facing water shortage, chiefly caused by numerous dams, excessive water draw-off, climate change,



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basin contamination with plant and animal communities, and immoderate fishing. According to UN sources, 60 percent of the world's largest 227 rivers have dams and canals in excess of their capacity, thus ruining the ecosystems. Eventually, water resources have grown into an issue of national security with many states.

Limited water resources in river basins lead to competition in countries' economic development strategies. Since states are guided by their legitimate economic interests, there is a conflict potential for the amount of water shared by countries, as well as its quality for upstream and downstream lands. In some cases, there is a major choice between two alternatives: irrigation or hydropower.

Water shortage and the related negative environmental impact by humans cause conflicts in many countries. Many water issues are clearly international.

When sharing water resources it is extremely hard to manage river basins, which leads to conflicts on various levels: between states and between regions. Technological improvements and a growing shortage of water resources increase probability of new conflicts. Extra factors to impede cooperation include differences in traditions of water use, governing authorities, etc.

According to various sources, today over one billion people in the world face insufficient availability of water resources, while in 15–20 years this figure could go up to 50 percent of world's population. By 2025 about 3 million people will be living in countries with water shortage, and the United Nations says it will be an issue for 2/3 of the population by 2050. Climate change should also be taken into account, which could further aggravate the situation.

The situation with water resources and their consumption is already tense in many regions. Over the last 50 years there were about 500 conflicts caused by it. Nearly 40 countries that are geographically distant from water resources and located in dry areas depend to a great extent on external supply.

Water is becoming a commodity that could exceed hydrocarbons (oil and gas) in price in the 21st century. This can happen in the coming decades thus increasing competition of neighboring states for control over water reserves.

Back in the mid-1980s U.S. secret service analysts defined at least ten regions in the world with conflict potential for shortage of water resources.<sup>4</sup> Those are mainly the Middle East and the Arab Peninsula. Dr. Joyce Starr, a former Chair of the Global Water Policy Project in Washington, thinks that "water security will soon rank with military security in the war rooms of defense ministries."<sup>5</sup> *Worldwide battle for water*, a series of BBC reports, demonstrates how it may happen: it looks at the planet's water hotspots, America's West, the Middle East, and Central Asia (the Aral Sea and the vicinity). This video produces an impression that the Middle East will be the first region of *water crisis* in decades to come.

In the coming years competition for water could become stronger between China and India, Egypt and Ethiopia, Angola and Namibia. For that reason Michael Klare's book called *Resource Wars*, published in 2001 in the United States, also bears a subtitle: "The New Landscape of Global Conflict". In addition to oil wars from the Persian Gulf to the Caspian Sea he looks into water-related conflicts in basins of the Nile, the Tigris, the Euphrates, the Jordan River, and the Indus River.

UN Secretary-General Ban Ki-moon remarked that an armed conflict in Darfur, Sudan ignited at the time of drought, when "for the first time in memory, there was no longer enough food and water for all". A battle in Sri Lanka in 2006 was for a water reservoir serving 60,000 Sinhalese. *Liberation Tigers of Tamil Eelam* claimed the government was not ensuring equitable access and captured the reservoir. The bloody battle took many days and many lives (over 1,000), also serving as a pretext for wider combat.

There are numerous examples of similar fights. A lot has been said about the need for cooperation in order not only to remove tension between countries, but also to establish an efficient mechanism for water distribution. So far, to no avail.

## WATER DOMINO IN THE MIDDLE EAST

The situation of water shortage is most tense in the Middle East. All countries of the region are located in most torrid areas with very limited supply of water resources. Deserts represent 60 percent of Israel, 70 percent of Syria, 85 percent of Jordan, and 90 percent of Egypt. More populated areas with high water availability are located along river banks.

The borderline Tigris and the Euphrates basins together with their tributaries are largest in the region. Passing through Turkey, Syria, and Iraq, they represent most important economic and geostrategic resources for development, as well as a *bone of contention*.

Water shortage in the Middle East has been especially visible in recent decades. Indeed, not only history, but also present of the Middle East has rich examples to demonstrate that competition for access to water resources could cause tension between countries if not a military conflict. It is especially important not just to have the resource, but to control its upstream, since major regional rivers—the Nile, the Tigris, the Euphrates, and the Jordan River—flow across borders. Examples include conflicts between Israel and Arab states, Israel, Syria, and Jordan for water draw-off from the Jordan River and the Yarmouk River, as well as those between Egypt and Sudan, Turkey, Syria, and Iraq.

Let's take the example of Saudi Arabia, Kuwait, and the United Arab Emirates with a single available water source: the Persian Gulf water after desalination. H. E. Sheikh Muhammad al-Sabah, Kuwait Minister of Foreign Affairs, remarked in one of his interviews: "The Gulf is our only water source. Should there be a nuclear disaster [meaning an accident at a nuclear facility in Iran—S. Zh., I. Z.], we will have nothing to drink. We will have no water."<sup>6</sup>

Water issue adds a different dimension to some old conflicts, like the Arab-Israeli one. The Golan Heights in Syria, now under Israeli occupation, are the springhead of the Jordan River, Israel's major water source. Occupation of the Palestinian territories was caused by Israel's intention to control subsoil waters, plenty in historical Palestine.

It is worth mentioning that religious issues are often used to justify claims for water resources, some supported with military force. The picture is exactly the same as in the case of religious and ethnic conflicts used to cover up the battle for oil over the last century.

The Euphrates is a historic river, home to one of the oldest civilizations in the world. Its basin covers 58 mln ha (580,000 square km) shared between Iraq (49 percent), Turkey (21 percent), Syria (17 percent), and Saudi Arabia (13 percent). Starting in Turkey, the river flows across Syria and Iraq to merge with Tigris and goes further down to the Persian Gulf. Its importance is different for all the countries. Turkey, with its rich water supply, used the Euphrates rather modestly until recently. For Syria it is just the only source of fresh water, also for agricultural needs. Iraq has another river, the Tigris, to balance the contribution of the Euphrates.

In recent decades Turkey decided to increase its consumption from the Euphrates, which poses a problem. Competition for the Euphrates started back 20 years ago. In 1983 Turkey came up with a master plan to develop six underdeveloped provinces in south-eastern Anatolia, with 40 percent of all arable lands it has. The plan provided for water from the upstream Tigris and the Euphrates to be used for irrigation and hydropower. It stipulates 13 large projects with 22 dams (seven of which on the Euphrates), 19 large power plants, and irrigation for 1.7 mln ha of semi-arid land. This would allow building up annual power generation to 27 bn kWh. Project budget amounted to \$32 billion at the initial state. This plan to control water resources is regarded by Turkey as a key element for the country's power and security. By controlling water flow to the downstream Syria and Iraq, Turkey gets a strong leverage over those country's policies. The Turkish government also expects to sell extra produce in Europe and the Middle East for \$20 billion.<sup>7</sup> Excessive damming of water flow in Turkey resulted in shortages in Syria, which decided to establish a reserve for its own agricultural needs and built a dam at az-Zawr and Assad Lake.

Syria and Iraq were concerned that the Turkish dams would cut 40–90 percent of water flow they receive in the Euphrates. In 1987 Turkey and Syria achieved an agreement on the Euphrates water distribution. Turkey committed to 500–850 m<sup>3</sup>/s (17,650–30,000 cubic ft/s) of guaranteed flow to Syria. Still, Arab media have frequently criticized Turkey claiming it to



have cut the Euphrates water flow to exercise political pressure over its neighbors. Turkish officials, in their turn, deny those allegations.

The regional problem was further aggravated after a strong 1989 drought pulling down water flow in the Euphrates. The drought affected Turkish economy and had a strong impact in Syria cutting short its water and power supply for Damascus, Aleppo, and some other locations.

In early 1990s Syria and Iraq had new concerns that Turkish Atatürk Dam will take most flow of the Euphrates for Sanliurfa area in Turkey. The concern was caused by Turkey itself cutting the Euphrates completely for one month to fill the dam's reservoir.<sup>8</sup>

That temporary cut caused a very serious concern of Turkish south-eastern neighbor. Syria was particularly worried since the Euphrates flows along 675 km through the country's territory. Majid Daud, chairman of International Water Use Committee of the Ministry of Irrigation of Syria mentioned: "For Syria the Euphrates means electric power, fresh water, and food crops. Unlike Turkey and Iraq, our water resources are limited, for this reason the situation with the country's main river directly impacts Syrian economy, and mostly agriculture."<sup>9</sup>

For decades regional countries have been trying to agree on water resources distribution and on a mechanism to settle disputes over them. However, both are hardly beyond mere declarations. Eventually, Turkey is trying to play its *water muscles* in the form of the extensive construction plan for water facilities and control of water flow to downstream Arab lands.

In order to reduce international tensions Turkey proposed *Peace Pipeline*, a large pipeline project to stream water from the Ceyhan and the Seyhan Rivers to torrid Middle Eastern lands: Syria, Jordan, Israel, and states of the Persian Gulf. Besides, there were negotiations with Israel to supply 50 million cubic meters of water annually over 20 years. The many-year talks were finally crowned with success.

*Water domino* also affected downstream Iraq, which has a better feel of flow shortage. In Soviet times Iraq used assistance of experts from the Soviet Union to build a large Tartar water facility on the Tigris. Its lake accumulates 69 percent of the country's total runoff: 105 cubic km.

Back before the Kuwait crisis Iraq had plans to invest over \$300 million into flood retarding structures, hydropower plants, water reservoirs, and irrigation systems on the Tigris to control its runoff.

Waters from the Nile are also subject of a long dispute between Egypt and Sudan, which may later be joined by other countries in the basin: Ethiopia, Tanzania, Kenya, and Uganda. Bilateral and multilateral regional agreements provide for two things: transportation of water from areas with sufficient water supply to where it is scarce, and its desalination. In early 1990s the water dispute even caused a conflict on the Nile. Increased competition was explained for the most part by growing population in countries that depend on the river: in Egypt, Sudan, and Ethiopia.

Egypt is one of the most densely populated countries of the Arab world. It is situated in the downstream of the Nile and has practically no leverage over governments of eight upstream countries. Back in the 1950s Butros Ghali, a former UN Secretary-General, remarked that "controlling access to water is vital for Egypt's national security". To ensure reliable water supply for agriculture, it was decided back then to focus efforts on providing year-round irrigation by building Aswan High Dam. Sudan agreed for Egypt to draw off extra 7.5 cubic km of Nile water in addition to its regular 48 cubic km. Thus, the country's guaranteed safe yield from the Nile amounted to 55.5 cubic km annually.

There are several reasons capable of causing a crisis in the Middle East. Firstly, the area is torrid, ambient temperatures are high, precipitation low. Surface waters are present in the form of minor rivers, some dry up in summer time, and a number of large rivers flowing across vast deserts: the Nile, the Euphrates, the Tigris, and the Jordan, which all go without frequent tributaries, all used mostly for agriculture and water services. Secondly, the population here is expanding fast. The region is one of the world's leaders in population growth. Overpopulation is especially visible along river banks, e.g. 55 million people in Egypt live in just three percent of the country's territory. The region has countries that historically, socially, and economically have been in conflict with one another.

Thus, the Middle East is one of the most vulnerable regions in this respect. Competition for water may lead not only to conflicts between countries, but destabilization of the whole region as well.

## CENTRAL ASIA STRIVING FOR WATER

Collapse of the Soviet Union destroyed the *pool arrangement*, and water was the resource hardest to share. During Soviet times relations between the republics and sharing water resources were based on a system of limits and a balanced set of agreements between republics and the federal government. After its collapse the only thing left was a huge number of outstanding claims and disputes related mostly to drawoff volumes on the free market, weaker investment flows to water industry, transition of large water reservoirs (from irrigation to power generation), etc.

Collapse of the Soviet Union raised the question of water as property since it was now split across national borders. Free water supply, which used to be the case before, was no longer in place. This caused countries of the Central Asia to get together and do water diplomacy. So far, they have not managed to come to an agreement for direct payments for water, and they only do barter trade: gas for water (Uzbekistan with Kyrgyzstan and Tajikistan) and water for power (Tajikistan with Kazakhstan), etc.

Central Asian countries are facing serious problems in ensuring water supply, a key element of sustainable development. The capacity is used up nearly in full. According to different sources, annual river water capacity amounts to 120 km<sup>3</sup> supplied from two largest rivers of the region, the Amu Darya and the Syr Darya heading from snow and glaciers in mountains of Kyrgyzstan and Tajikistan.

The Syr Darya goes down from Kyrgyzstan through Tajikistan into Uzbekistan (with its densely populated Fergana Valley) and Kazakhstan, while the Amu Darya goes from Tajikistan into Uzbekistan and Turkmenistan. The *downstream* countries – Turkmenistan, Uzbekistan, and Kazakhstan – rich in oil, gas, and other natural resources, depend on water from the *upstream* states: Tajikistan and Kyrgyzstan supply 85 percent of surface water runoff in the region. It should be noted that regulated runoff for the Amu Darya is 96 percent, and for the Syr Darya it exceeds 85 percent.

Back in the late 1980s scientists had to admit that the Amu Darya and the Syr Darya were being used to their full capacity, which led to the Aral Sea disaster.<sup>10</sup> It can hardly be recovered (except the Small Aral part in its north in Kazakh territory), but the example of the Aral Sea should serve as a warning and prevent too prompt and inconsiderate attempts to resolve *water issues*.

As a result, water resources have become particularly topical for Central Asian countries. The fact is, on the one hand, river systems and regional seas (the Aral, the Caspian Seas, and others) unite the region, but on the other hand water shortage and desire of all states to use them in full capacity lead to tensions in the area, possibly reaching an interstate conflict. Less than 60 percent of population in Central Asia have access to centralized water supply. Forecasts tell that the current population of 60 million people will expand by 40 percent by 2025 requiring extra water resources.

International tensions are mostly about waters of the Syr Darya basin and a cascade of reservoirs on the Naryn River and the Syr Darya, the largest one being the Toktogul Reservoir.<sup>11</sup> Water resources from Syr Darya are shared as follows: 74 percent go to Kyrgyzstan, 14 percent are streamed to Uzbekistan, 9 percent are used in Kazakhstan, and 3 percent follow to Tajikistan.<sup>12</sup> The main problem lies in the fact that over 80 percent of all surface water in the region are controlled by Kyrgyzstan and Tajikistan. Using upstream water reservoirs built during the Soviet times (1965–1985), these countries can regulate flow available in downstream countries. Using this powerful *lever*, Kyrgyzstan and Tajikistan can influence neighboring states of Kazakhstan, Uzbekistan, and Turkmenistan.





The problem was aggravated in February 2004, when Kazakhstan, Kyrgyzstan, and Uzbekistan focused on competing for the Syr Darya basin they share: in winter 2004 Shardarin water reservoir was overfilled by 70 million cubic meters and posed a real threat to cities and industrial facilities.

Water apportioning and shared use of it in Central Asia has been in discussions for over 15 years. Back in 1993 all differences on this issue were to have been tackled by Agreement on Cooperation in Shared Control, Use, and Protection of Transfrontier Water Resources, however, the document could not be enforced. Other ones followed, but also failed to settle the dispute of how to share the resources. Eventually, relations between Turkmenistan and Uzbekistan, Kyrgyzstan and Tajikistan, Kazakhstan and Kyrgyzstan remain controversial because of the water issue.

It should be noted here that if the situation in Afghanistan gets better (it has been unstable over the recent decade) and the country takes the course of peaceful development, it can legally claim more drawoff volumes from Amu Darya for agricultural needs. According to international basin laws, it can have about 10 cubic km of water, which would mean Uzbekistan will receive half the fresh water it has now, already covering just 70–85 percent of its needs. Similar issues are in place in Kazakhstan and Turkmenistan. By the way, the United States is investing huge sums (\$82 million) into developing rural districts of Kazakhstan, including irrigation projects. Additionally, China and Kazakhstan have an issue related to flow regulation at the upstream Black Irtysh.

September 1, 2006 witnessed an attempt for a mutually acceptable solution to the water issue. Astana hosted an informal meeting of heads of Central Asian states: Kazakhstan, Tajikistan, Turkmenistan, and Kyrgyzstan, where *water issue* was the pivotal one. Each of the sides pursued its own interests. Kazakhstan strives to be a regional leader, while Tajikistan just wants to raise its *partnership status in Central Asia*, especially in relations with Uzbekistan. Controversies between Tajikistan and Uzbekistan often tend to be close to a cold war. For Kyrgyzstan the water issue serves just as a cause to strengthen its positions in relations with Uzbekistan, which has been exercising political pressure over Bishkek. The meeting has again demonstrated that the water issue has not reached the *boiling point* yet, but is still used by local countries to pursue their own political and economic goals, leaving the question of water in the background.

Dry years tend to frequent Central Asia, and in the foreseeable future global warming could make them into a norm. In the meanwhile, glaciers giving water to Syr Darya and Amu Darya have shrunk by nearly 40 percent, significantly reducing the yield. As a result, Turkmenistan and southern parts of Kazakhstan and Uzbekistan are facing increasing difficulties with quality fresh water supply. Lack of coordination in water resource management causes regular tensions between Kyrgyzstan, Kazakhstan, and Uzbekistan.

All known areas of sustainable water management have their technical and economic limitations. Various sources say water supply in Central Asia will suffice only until 2015–2025. Total water consumption by priority industries may reach a level when they will only be satisfied by reducing agricultural use thus shrinking irrigated areas in the region. All that would happen against the background of a demographic boom, which is a key factor making it an urgent issue to secure water supply from donor regions. That is why Central Asian countries are looking at Russia with its huge water reserves. It is about redistributing river runoff to share water resources in a way that would be mutually beneficial in geostrategic terms. It is believed that water from Russia streamed into Central Asia would resolve scarcity of this resource in regional countries and yield extra profits to Russia.

Nursultan Nazarbayev, president of Kazakhstan, made this proposal numerous times trying to revive a Soviet project to divert Siberian rivers. The project contemplates for a canal to be built from Khanty-Mansiysk to Kazakhstan and Central Asia. The canal would be 2,550km long, 200m wide, and 16m deep, capable of drawing off six-seven percent of the Ob River waters. President Nazarbayev's project is very pragmatic: Kazakhstan understands that tensions between the neighbors may soon involve the water issue possibly detonating the political situation in Central Asia. If the question of sharing water resources is not tackled, and especially if

it causes a larger regional conflict over water, an economic breakthrough of Central Asia will be questioned, its countries much less likely to become global players.

If the ambitious project is carried out, Kazakhstan may get more than just water problem solved: it could take a dominating position in Central Asia, where water might soon become a commodity, like oil. Notably, President Nazarbayev made his proposal at an informal summit in Astana with Islam Karimov and Kurmanbek Bakiyev, his Uzbek and Kyrgyz colleagues. The Kazakh president said: "Water is soon going to cost money," so leaders of Asian countries without abundant water might want to consider this carefully.

While former Soviet republics are looking for ways or principles they could apply in their water cooperation, other countries actively implement projects in international water transfer. In 1997 the Yellow River (Huang He in Chinese), one of world's largest watercourses, dried up before it reached the sea, simply because too much water had been drawn off to feed irrigation systems in upstream provinces. In 2003 it recorded its lowest water level in 50 years. Sixty of China's 560 rivers have already dried up or are nearing depletion.

Meanwhile, work is underway on a gigantic project to build a canal for about 60 cubic km of water yield connecting the Yangtze River to the country's north. The project's total budget is about \$100 billion. It could possibly resolve water shortages in northern provinces and in Beijing, at least temporarily.<sup>13</sup> China plans to provide water pipelines to homes of over 60 percent of their rural citizens by 2010, even though now they have an annual shortage of up to 6 cubic km of water in the northern provinces.

In India 400 million people depend on the Ganges, which is getting shallower. To improve water supply they have a project for complete refurbishment of the country's hydrographic arrangements. Similar project are construed in Spain and Mexico. There is yet another pipeline project from Russia to China with its water shortages in the north. Same is true for Mongolia, which doesn't have enough in the south. Some time ago Armenia proposed a project to sell water to Qatar through a pipeline from the Aras River via Iran to the Karun River that would further take water down to Qatar. However, this project was abandoned. So, many countries facing water shortages have advanced a great deal in implementing water transfer projects.

Recent research studies and developments looking at water transfer from Siberian rivers to Central Asia and Kazakhstan have proved that water is going to be a long-standing constraint for productive powers in the Aral Sea region. The project's objective is to ensure quality water supply to the local people, all other uses are to remain secondary.

Central Asian states tend to give an increasing attention to water issues. Kazakhstan plans to establish a Eurasian Water Center, whereas Kyrgyzstan is going to have a Water Academy.

Thus, significant imbalance in water allocation specific to Central Asia and the Middle East increases tensions between the local countries. On top of that, there are regular droughts mostly affecting agricultural yields. All of those lead to social tensions and lower economic security for Central Asian states, especially given their increased importance after the collapse of the Soviet Union at the geopolitical and geostrategic crossroads of the modern world. Having declared independence, the new states decided to go for a market economy, independently controlling and sharing water resources.

The situation with water resources in Central Asia could be a potential source of social, political, ethnic, and international conflicts. The area faces repeating crises (fresh water shortage in Turkmenistan (Dashoguz region) and Uzbekistan (Xorazm province and Karakalpakstan), lowering water levels in Kazakhstan's Shardarin reservoir, which could exercise a serious impact on geostrategic, social, and economic situation in the region. The facts that local countries have a lot of natural resources and high fertility rate as well as the level of unemployed coupled with authoritarian regimes, lead us to an assumption that the water issue could significantly destabilize the regional situation.

The paradox is that Kazakhstan and Uzbekistan are more developed industrially and have most population, but in tackling *the water issue* they have to depend on Kyrgyzstan and Tajikistan controlling Amu Darya and Syr Darya, the main rivers in Central Asia.



In the new geopolitical and economic situation Central Asian countries find trouble in balancing the resources so that the allocation could meet all their interests. However, water conflict potential pushes them into talks to find mechanisms for cooperation in water resource management, and also in developing a concerted water strategy for energy production.

Irrigation facilities in Central Asia suffer from excessive wear. Syr Darya, and Amu Darya, along with other regional rivers and lakes take a lot of drainage and agricultural discharge water. Their natural runoff regime has been altered significantly because of irrigation and other needs. That is why every time the region faces an increasing tension, water issues alongside with measures to save the resource are discussed.

Water resources in Central Asian countries are a key factor for most industries, mostly agriculture. Water shortage and lower quality runoff limit social, economic, and environmental advances. That is why sustainable access to water resources is a priority for regional countries.

## **WATER SECURITY**

Hopes for water-saving technologies and efficient water consumption, are facing not only economic challenges, but also long-standing social issues. It will take time to change the way of thinking for a regular user, mostly from a rural area, who doesn't prioritize efficient water consumption. Key global players cannot penetrate into the region until *the water issue* has been legally addressed, which is even more true should there be a regional conflict for water access.

Large-scale transborder contamination comes with surface discharge from settlement, industrial, and agricultural sites. Existing water treatment facilities have insufficient capacity.

No efficient distribution mechanism to manage water use and settle disputes, as well as insufficient exchange of data on water quality and its consumption: all of these prevent regional cooperation in this area. Moreover, riparian counties are trying to share benefits of water access, not the water resources as such, thus further hindering shared use of transborder waters. The most probable explanation would be that countries of the region are facing water shortages in such river basins, and have to address their own needs first, overlooking problems of other states. Since there is no legislation in this sphere, unilateral activities become possible. All the more so, since water legislation in most of these states does not have any provisions for efficient water use.

Water is different from hydrocarbons: water is always part of a global cycle across any borders that could limit it, and it has seasonal runoff fluctuations. Thus, upstream countries have significant leverage over downstream ones.

Water resources in most countries are already in use, at least those easy to reach. There seems to be no alternative way of getting water in the nearest future that could be economically feasible, but demand for water is growing every year.

Technological progress has not reduced, but rather facilitates conflict potential for water. Water, like hydrocarbons, is a key element of national security strategy of any state, since thermal, atomic, and hydro power plants depend on water for electricity generation.

Active industrial, agricultural, and communal use is gradually exhausting global resources making countries dependent on water, which is especially true for developed and developing countries. According to UN data, in 2025 global consumption would be 22 percent higher than today. Production growth may slow down in industries that cannot do without water.

Pollution, inconsiderate use of water, inefficient melioration, and population growth in countries with water shortages: all of these lead to disappearing water resources.

Outdated technologies for water use, applied on a wide scale, contribute to higher contamination levels and lower the quality of water resources for drinking, household, agricultural, and industrial use. The problem is further aggravated with quick population growth, especially in a region with concurrent shortages of renewable fresh water resources to ensure sustainable social and economic growth.

It is obvious that water supply should be secured ahead of growing demand or at least together with it. Given the lead time for design and construction, it should be planned for decades ahead, which requires faster development of science and research in water management.

Uzbekistan is looking into a southern project for water transfer through a pump lift canal between the Arabian and the Aral Seas to share flood runoff from the Arabian Sea in large torrid areas of Iran, Pakistan, and Afghanistan, to be later discharged into the Amu Darya and the Murgab Rivers.

Turkmenistan, another country in Central Asia, is trying to arrange a *Golden Age Lake*, or the Turkmen Lake, in the north of the Karakum Desert. Its area will be 3,000 square km to hold 140–150 cubic km of water. This amount is comparable to what remains now in the Aral Sea. The point of this project is to accumulate mineralized drainage waters of Turkmenistan, and part of Uzbekistan irrigation water to improve water quality in downstream and middle reach of the Amu Darya since it would now be without the drainage water mentioned above.

## LEVERAGE

Many countries in the world plan to improve living standards, which means an increased water consumption. At the same time, subsurface water reserves are also getting smaller, still remaining the main source of drinking water. Natural recharge is becoming slower, while demand expands quicker and quicker. Asian Development Bank issued a report in 2007 showing that developing countries in Asia are going to face an unprecedented water crisis peaking in the coming decade. Further reduction of water resources could be affected by global warming, industrial development, and growing population leading to social and humanitarian disasters costing tens of billions of dollars every year.

According to international organizations and experts, a major problem Central Asian states are going to face in settling their water and energy relations would be about a permissive nature of regional decisions and arrangements, as well as lack of responsibility for their implementation. Disunity is seen on regional and national levels between water and energy regulatory authorities, interests of upstream and downstream countries are different, there are no international bodies in place to have the authority for joint resource management, or an impartial arbitrator to settle disputes and have leverage over decisions made by conflicting parties.

There is an opinion that concern over water shortages is groundless, mentioning huge reserves in glaciers of the Arctic and the Antarctic, as well as those of subsurface water. This opinion usually overlooks the cost of such solutions and their long-term impact: global warming with irreversible consequences. It is a known fact that the world has quite enough oil so far, but its production cost could make this resource even more expensive for consumers.

Countries with water resources available have to share consumption with neighboring states, which is becoming a political maze. Many of such countries would declare water a commodity and demand payment.


Unbalanced distribution of water resources over different countries leads to the need of integration in the water sector, ensured by diversification of water utilization systems for sustainable economic growth. When demographic, social, and economic developments are becoming a constraint for natural resources, shared use and protection of water has turned increasingly difficult. Countries are looking for mutually acceptable ways to manage the resource, to little success so far. Today there are no efficient mechanisms to regulate relations between states in water consumption.

Unsuccessful attempts to regulate global oil prices lead to a conclusion that conflicts between producers and consumers of hydrocarbons are sensitive to reserves data and are going to build up. The issue of water resources is further aggravated by short-term climate-related changes.

It is obvious that unbalanced water distribution between different countries often prevents political stability, as well as sustainable social and economic development.



Today water conflicts are becoming an integral part of the global geopolitical system since they are about control over an essential resource for modern technological society. Politicians and experts might soon be talking about *water pipeline infrastructure*, similar to gas and oil pipes. Water conflicts are similar to those over oil and gas splitting producing and importing countries. The only difference is that oil and gas can have an alternative route or supply source, while it is much more complicated and expensive to implement for water. So, water is becoming a *global commodity*, which in the new century could exceed oil in terms of price.

Ali-Shir Nava'i, a great Central-Asian poet used to say: "as irrigation housed water, excitement filled the hearts of people". It would be good to have the excitement for joy, not for water shortage... 

## Note

<sup>1</sup> Michael T. Klare, *Resource Wars: The New Landscape of Global Conflict* (New York, 2001).

<sup>2</sup> B. Pilnikov, "Outcome of the UN World Summit on Sustainable Development in Johannesburg," *KOMPAS*, September 18, 2002.

<sup>3</sup> Sandra Postel, "Hydro dynamics." *Natural History*, May 2003, [http://findarticles.com/p/articles/mi\\_m1134/is\\_4\\_112/ai\\_100736436/pg\\_1?tag=artBody;col1](http://findarticles.com/p/articles/mi_m1134/is_4_112/ai_100736436/pg_1?tag=artBody;col1) (last updated: October 7, 2008).

<sup>4</sup> Igor Zonn, "Middle East: War for Water," *Za Rubezhom*, No. 3-4, 1992, pp. 43-44.

<sup>5</sup> Sandra Postel, "Hydro dynamics..."

<sup>6</sup> "Should there be a nuclear disaster in the Gulf, we will have nothing to drink": Interview with H. E. Sheikh Muhammad al-Sabah, Kuwait Minister of Foreign Affairs, *Vremya Novostei*, May 2, 2006, <http://www.vremya.ru/2006/88/5/152696.html> (last updated: October 7, 2008).

<sup>7</sup> *Irrigation Engineering and Water Facilities*, No. 3-4, 1992, p. 43.

<sup>8</sup> Construction of the Atatürk Dam was launched in 1983, it's 169 m high and 15 m wide. It is the largest dam on the upstream Euphrates and its tributaries capable of irrigating 874,000 ha of land and generate 8.9 GWh annually.

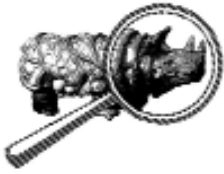
<sup>9</sup> *Irrigation Engineering and Water Facilities...*, p. 44.

<sup>10</sup> Igor Zonn, and Michael H. Glantz, *The Aral Sea Encyclopedia* (Moscow: International Relations Publishing House, 2008).

<sup>11</sup> Elena Kuzmina, *Geopolitics in Central Asia* (Moscow: Nauka Publishers, 2007), p. 68.

<sup>12</sup> Aigul Sultanova, "Kazakhstan is Short of Water," *Nezavisimaya Gazeta-Dipkurier*, March 31, 2008, p. 19, [http://www.ng.ru/courier/2008-03-31/19\\_kazahstan.html](http://www.ng.ru/courier/2008-03-31/19_kazahstan.html) (last updated: October 7, 2008).

<sup>13</sup> "Planet in Peril: China a Key Factor in tomorrow's climate. Atlas of Current Threats to People and the Environment," *Le Monde diplomatique*, 2006, p. 36, [http://mondediplo.com/IMG/jpg/Peril\\_China\\_a\\_key\\_factor\\_large.jpg](http://mondediplo.com/IMG/jpg/Peril_China_a_key_factor_large.jpg) (last updated: October 7, 2008).



Jürgen Scheffran

## THE GATHERING STORM: IS CLIMATE CHANGE A SECURITY THREAT?

In April 2007 the UN Security Council held its first debate on climate change. Initiated by the United Kingdom,<sup>1</sup> then UK Foreign Secretary Beckett compared emerging climate change to the “gathering storm” before World War II:<sup>2</sup> “An unstable climate risks some of the drivers of conflict – such as migratory pressures and competition for resources – getting worse”, increasing the chances of instability. The Chinese representative, Liu Zhenmin, however questioned “that the Security Council has neither the professional competence in handling climate change – nor is it the right decision-making place for extensive participation leading up to widely acceptable proposals.”

The Security Council debate indicates that in recent years global warming has elevated to the top of the international security agenda, rivaling the threat of war. At the end of his term, former UN Secretary-General Kofi Annan referred to climate change as a “threat to peace and security”, and stressed that the international community must devote just as much attention to climate change as it does to preventing war and the proliferation of weapons of mass destruction.<sup>3</sup> Annan’s successor Ban Ki-Moon also warned that climate change may pose as much of a danger to the world as war.<sup>4</sup> With its 2007 peace award to Al Gore and the Intergovernmental Panel on Climate Change (IPCC), the Nobel Prize Committee has emphasized that extensive climate change “may induce large-scale migration and lead to greater competition for the earth’s resources”. These could result in “increased danger of violent conflicts and wars, within and between states.”<sup>5</sup>

### **CLIMATE CHANGE AND SECURITY: THE EMERGING POLICY DEBATE**

The potential threats and conflicts induced by global warming could indeed create new dividing lines in the international system. The differences between the British and Chinese representatives indicate a division on the responsibilities and impacts of global warming. In the view of many developing countries the main responsibility rests with the industrialized countries whose per-capita carbon emissions by far exceed those of developing countries. At the same time, many of the impacts of global warming will be felt most heavily in the Third World. This asymmetry did not prevent the Bush Administration – which has long denied emission reduction obligations for the United States – to request that emerging polluters such as India and China be part of the reduction game. While climate threats could be potential drivers for conflict in the international system they could also strengthen the need for more international collaboration to address the problem. Preventing the climate threat is seen by many as a unique opportunity for the international community to overcome conflicts and move towards cooperative global security against common threats.

A key aspect is how the industrialized countries handle their responsibility and how they respond to the emerging security threat. Europe is paying significant attention to the security



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issues of climate change, in particular the German government. In her November 2006 security policy address, German Chancellor Angela Merkel emphasized “that conflicts over the distribution of increasingly scarce resources can cause ever greater unrest and violence, as can environmental problems. These are matters of oil and gas, of climatic changes, of potable water. All these aspects are the source of conflicts with a very high potential for violence.”<sup>6</sup>

In June 2007 the European Council invited the High Representative and the European Commission to prepare a joint report that was presented in Spring 2008. The report concludes that climate change “is already having profound consequences for international security” which are not just of a “humanitarian nature” but include political and security risks that directly affect European interests: “Climate change is best viewed as a threat multiplier which exacerbates existing trends, tensions and instability. The core challenge is that climate change threatens to overburden states and regions which are already fragile and conflict prone.”<sup>7</sup> Particular attention was given to climate change in the Arctic region, which creates easier access to the polar region and opens up new avenues for potential cooperation, but could also induce possible territorial disputes. Here the study refers to “different countries asserting various claims”. Widely cited has been the raising of a Russian flag on the seabed at the North Pole, despite attempts by the Russian government to compare this with planting the American flag on the moon.

In the United States, *Hurricane Katrina* in 2005 as well as the hurricanes of 2008 have left a trail of destruction, sparking a debate whether the nation is prepared to major disasters. “If we do this badly at mobilizing national resources to deal with catastrophic events that we can actually model, and we actually had four or five days warning; Good Lord, how could we respond to a nuclear attack?” said Ben Wisner, an adviser to the United Nations on disaster risk, and a visiting professor at Oberlin College in Ohio. “What we found out with *Katrina* is that the country is still unable to deal with disaster,” complained former New Hampshire Sen. Warren Rudman, who along with former Colorado Sen. Gary Hart chaired a commission about the dangers of terrorism prior to the September 11 attacks.<sup>8</sup>

These policy statements indicate that global warming may shift the coordinates of the international security debate. Rather than being a direct cause of war, climate change significantly affects the delicate balance between social and environmental systems in a way that undermines human security and societal stability with potentially grave consequences for international security.

## **THE SCIENTIFIC ASSESSMENT OF GLOBAL WARMING**

The potential risks of global warming have been addressed in detail in the 2007 Fourth Assessment Report of the IPCC which draws a comprehensive picture of the physical conditions, the magnitude and likelihood of impacts and the possible strategies for mitigating and adapting to climate change. For the IPCC “confidence has increased that some weather events and extremes will become more frequent, more widespread and/or more intense during the 21st century.” Vulnerable systems include water resources, agriculture, forestry, human health, human settlements, energy systems, and the economy. The impacts are specific for each region and “spread from directly impacted areas and sectors to other areas and sectors through extensive and complex linkages.”<sup>9</sup> The vulnerability of regions will be influenced by their adaptive capacities, including access to resources, information and technology, and by the stability and effectiveness of institutions.

Working Group I explains the physical basis and provides evidence for global warming. Anthropogenic emissions of greenhouse gases (carbon dioxide, methane and nitrous oxide) have increased since the beginning of industrialization and are responsible for the increase in global air and ocean temperatures, mainly due to the use of fossil fuels and other factors. The warming climate contributes to sea-level rise, in addition to the thermal expansion of sea water. Future warming will likely cause increased heat waves and heavy precipitation, and the wide-spread melting of snow and ice. While the report projects a maximum sea level rise of 81 cm during the 21st century, more recent data suggest that the rise could be twice that much, due to faster melting of glaciers and polar ice caps.

There are increasing concerns about “tipping points” beyond which climate change becomes more rapid and abrupt.<sup>10</sup> Examples are the potential loss of the Amazon rainforest, a shift in the Asian monsoon, the disintegration of the West-Antarctic icesheet or the shutdown of the North Atlantic thermohaline circulation that is keeping temperatures in Europe moderate. These effects are a reminder that the climate system is highly non-linear and complex and many of the uncertainties and feedbacks are not fully understood. Earth’s history provides examples for drastic temperature changes within decades and strong changes in sea-level. For instance, the melting of the ice caps since the last ice age resulted in a rise in sea level of more than a hundred meters. Only a fraction of this would be beyond imagination in today’s densely populated coastal regions. Moving into unknown domains of the climate system with several degrees temperature change is a prescription for likely disaster to many future generations.

## IMPACTS AND VULNERABILITIES

The impacts of climate change on natural and social systems have been assessed in Working Group II of the IPCC Report. Species and ecosystems in all parts of the world (e.g. rainforests, coral reefs, fishery, Arctic ecosystems) will be severely affected and some show already stress symptoms. Drought-affected areas will likely increase, and water supplies stored in glaciers and snow cover in major mountain ranges such as the Andes and Himalayas will decline, jeopardizing water supply in large regions. Where natural resources are already in a critical stage, global warming tends to further degrade the environment as a source or sink of these resources.

By degrading the natural resource base, climate change will increase the environmental stress on human beings and social systems, including water resources, agriculture and food, forestry and fishery, human health and life, human settlements and migration, energy systems, industry, and financial services. A combination of the stress factors can lead to cascading effects. Some of the environmental changes could directly jeopardize human health and life, such as floods, storms, droughts and heat waves, others may gradually undermine the well-being over an extended period, such as food and water scarcity, diseases, weakened economic and ecological systems. Declining crop productivity will increase the risk of hunger and poverty. Extreme weather events and sea-level rise threaten large populations in coastal regions. Climate change-related exposures “are likely to affect the health status of millions of people, particularly those with low adaptive capacity.”<sup>11</sup>

Environmental changes caused by global warming not only affect human living conditions, but may also generate larger societal effects, either by threatening the infrastructures of society or by inducing responses and interaction patterns that aggravate the problem. The stronger the impact and the larger the affected region the more challenging it becomes for societies to absorb the consequences. The associated socioeconomic and political stress can undermine the functioning of communities, the effectiveness of institutions and the stability of societal structures. Confining the impacts will be difficult if extreme weather events become more intense and/or more frequent, and the consequences “spread from directly impacted areas and sectors to other areas and sectors through extensive and complex linkages.”<sup>12</sup>

Whether societies are able to cope with the impacts and restrain the risks depends on their vulnerability which, is a function of the “character, magnitude, and rate of climate change and variation to which a system is exposed, its sensitivity, and its adaptive capacity.”<sup>13</sup> Vulnerable systems are more sensitive and susceptible to changing environmental conditions. Adaptation is understood as the “adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities”. Adaptive capacity is a function of the economic, human and social capital of a society which in turn is influenced by poverty, state support, economic opportunities, technology, the effectiveness of decisionmaking, institutions and social cohesion.<sup>14</sup>

Societies which depend more on ecosystems services and agriculture, tend to be more vulnerable to climate stress. The stronger the impact and the larger the affected region the more challenging it becomes for societies to absorb the consequences. Large-scale and abrupt changes in the Earth System could have incalculable consequences on a continental scale.





The societal implications of climate change crucially depend on how human beings, populations, social systems and political institutions respond. Some responses facilitate adaptation and minimize the risks, others may cause more problems. For instance, migration as a possible response to environmental hardships could create more hotspots around the world, each becoming a possible nucleus for social unrest.

Global warming affects each world region differently. In parts of the world (notably in Africa, Asia and Latin America) the erosion of social order, state failure and violence could go hand in hand. In the worst-affected regions, climate change could aggravate violence and conflict, and spread to neighboring states, e.g. through refugee flows, ethnic links, environmental resource flows or arms exports. Such spillover effects can destabilize regions and expand the geographical extent of a crisis, overstretching global and regional governance structures. This can add to and intensify other problems such as state failure, the erosion of social order, and rising violence. In parts of the world, climate-induced risks could be further exacerbated by high population growth and density, inadequate freshwater supplies, strained agricultural resources, poor health services, economic decline and weak political institutions.

Countries and communities which feel currently immune to climate change impacts may become vulnerable later. Due to non-linear effects, an increase in global mean temperature above a certain threshold (such as 2 °C) may result in disproportionate impacts, such as reduction of agricultural output in Africa, South Asia or Central and South America. Some regions such as Bangladesh and the African Sahel are more vulnerable due to their geographic and socio-economic conditions and the lack of adaptation capabilities, as the IPCC notes:<sup>15</sup> “Poor communities can be especially vulnerable, in particular those concentrated in high-risk areas. They tend to have more limited adaptive capacities, and are more dependent on climate-sensitive resources such as local water and food supplies.” Those with ample resources “will be more able to protect themselves against environmental degradation, relative to those living on the edge of subsistence who will be pushed further towards the limit of survival.”<sup>16</sup> By affecting those who are already weak, equity becomes a critical issue of climate policy.

## **SOCIETAL INSTABILITIES AND SECURITY RISKS**

Altogether, climate change could trigger a cycle of environmental degradation, economic decline, social unrest and political instability that could accumulate to become a security threat and aggravate conflicts. Complex couplings between multiple factors could further contribute to instability. For instance, due to water scarcity and soil degradation, agricultural yields could further drop, diminishing food supply. Extreme weather events put the economic infrastructure at risk, including industrial sites and production facilities as well as networks for transportation and supply of goods.

In parts of the world the erosion of social order, state failure and violence go hand in hand. Food insecurity in one country may further increase competition of resources and force population to migrate into neighbor countries. In some cases, climate change could interact with other forces to degenerate into armed conflicts, in other cases the suffering of people may strengthen the readiness to help and cooperate. For instance, the tragedy facing the Inuit culture and society or the expected flooding of small-island states have strengthened international support for emission reductions. Conflicts may spread to neighboring states, e.g. through refugee flows, ethnic links, environmental resource flows or arms exports. Such spillover effects can destabilize regions and expand the geographical extent of a crisis, overstretching global and regional governance structures.

In less wealthy regions climate change adds to already stressing conditions – high population growth, inadequate freshwater supplies, strained agricultural resources, poor health services, economic decline and weak political institutions – and becomes an additional obstacle to economic growth, development and political stability.<sup>17</sup> Weak, poor and fragile states, which are unable to cope with climate impacts, will be most affected, thereby increasing the risk of conflicts. In societies on the edge to instability the marginal impact of climate change can make a big difference. “Failing states” with weak governance structures have inadequate management and problem solving capacities and cannot guarantee the core functions of government,

including law, public order and the monopoly on the use of force, all of which are pillars of security and stability. In weak or failing states climate change could overstretch the already limited capacity of governments to respond effectively to the challenges they face. A government that is unable to meet the needs of its population as a whole or to provide protection against hardships could trigger frustration, lead to tensions between different ethnic and religious groups within countries and to political radicalization. This could destabilize countries and even entire regions.<sup>18</sup>

The most serious climate risks and conflicts are expected in poor countries which are vulnerable to climate change and have less access to capital to invest in adaptation, but more wealthy countries are not immune. While the impacts on some developed countries may be moderate or even positive at small temperature changes (greater agricultural productivity, reduced winter heating bills, fewer winter deaths), they will likely become more damaging at higher temperatures as predicted towards the end of this century.

The security implications of climate change also depend on the meaning of security which has continuously evolved since the Cold War. Security during the bilateral East-West conflict was reduced to military force assessments. In the emerging new world *disorder*, a large number of actors and interconnected factors shape the security discourse, including political, military, economic, technological, health and environmental dimensions. The concept of ecological security<sup>19</sup> transforms environmental problems into security threats, but was criticized as too broad and unspecific, partly because it would allow the military to expand its instruments into environmental policy.<sup>20</sup>

While national and international security has been largely the domain of governments and the military, the concept of “human security” is centered on the security and welfare of human beings. It focuses on “shielding people from critical and pervasive threats and empowering them to take charge of their lives”.<sup>21</sup> If the impacts affect the whole society, they may also become an issue for national, international or global security. Some of the described climate impacts may indeed force governments and the UN Security Council to take actions, some of which could involve the military (e.g. for disaster management, in response to massive refugee flows, or in conflicts induced by environmental stress). That does not imply that global warming is predominantly a threat for national or international security or that it will lead to a military confrontation between major powers.

## CLIMATE CHANGE: A THREAT MULTIPLIER?

As the IPCC and other studies stress, climate change poses an unprecedented threat to humanity and the impacts will be felt in many parts of the world. Will the vicious cycle from environmental stresses to social disruption also become a breeding ground for violence, conflict and security threats? The IPCC gives only minor attention to this issue, pointing to the stresses arising from, for example, “current climate hazards, poverty and unequal access to resources, food insecurity, trends in economic globalization, conflict, and incidence of disease such as HIV/AIDS.”<sup>22</sup> More explicit is the Stern Review:<sup>23</sup> “Climate-related shocks have sparked violent conflict in the past, and conflict is a serious risk in areas such as West Africa, the Nile Basin, and Central Asia.”

There is an extensive literature on the link between environmental change and conflict that goes back to the early 1990s. Thomas Homer-Dixon identified four interrelated effects of environmental degradation – reduced agricultural production, economic decline, population displacement, and disruption of social relations – all of which may contribute to various forms of violence and conflict.<sup>24</sup> Since then several research groups have studied these effects for a number of case studies.<sup>25</sup> The Environmental Change and Security Program at the Woodrow Wilson Center for instance points out that environmental challenges “can contribute to conflict or exacerbate other causes such as poverty, migration, and infectious diseases” but “managing environmental issues and natural resources can also build confidence and contribute to peace by facilitating cooperation across lines of tension.”<sup>26</sup> Jon Barnett argues that the environment – conflict hypothesis is theoretically rather than empirically driven.<sup>27</sup> There is some empirical evidence that environmental degradation and resource competition have indeed



contributed to violence and conflict in the past, when combined with other conflict-amplifying factors. The review of 73 empirically recorded “environmental conflicts” which occurred between 1980 and 2005 showed that these were limited to a regional scope and did not present any serious threat to international security.<sup>28</sup>

The links between climate change, environmental degradation, human responses, societal instability and conflict are even more complicated. The research literature offers different explanations without sufficient evidence to support a clear causal relationship between climate change and the security and conflict impacts.<sup>29</sup> More recent studies argue that the consequences of climate change will be so severe that they would likely have security implications

In a 2003 paper, Peter Schwartz and Doug Randall sketched a dramatic scenario where abrupt climate change would change the geopolitical environment and, as a consequence of the reduced availability of food, water and energy, lead up to major wars and the spread of nuclear weapons: “Nations with the resources to do so may build virtual fortresses around their countries, preserving resources for themselves. Less fortunate nations especially those with ancient enmities with their neighbors, may initiate in struggles for access to food, clean water, or energy.”<sup>30</sup> The study raises concerns that with less energy supply “nuclear energy will become a critical source of power, and this will accelerate nuclear proliferation”. The same authors, together with Nils Gilman, in a later study for the Global Business Network, conclude that climate change “poses unique challenges to U.S. national security and interests.”<sup>31</sup>

The *CNA Corporation*, a U.S.-based think tank, and the Military Advisory Board, a blue-ribbon panel of retired admirals and generals identified climate change as a “threat multiplier of instability”, making already fragile regions more vulnerable to tension, the spread of disease and conflicts over food and water.<sup>32</sup> Such regions could become possible breeding grounds for extremism and terrorism. The threat could affect Americans at home, impact U.S. military operations and heighten global tensions. The report recommends to integrate climate change into U.S. national security strategy and the *National Intelligence Estimate* “to help stabilize climate change at levels that will avoid significant disruption to global security and stability.”

A report of the Washington-based Center for Strategic and International Studies, including former CIA director James Woolsey and Nobel laureate Thomas Schelling, concluded that climate change “has the potential to be one of the greatest national security challenges that this or any other generation of policy makers is likely to confront.”<sup>33</sup> Global warming could “destabilize virtually every aspect of modern life”, and is likely to breed new conflicts and magnify existing problems. Even a moderate global average temperature rise of 1.3 °C by 2040 could induce a multitude of national security implications, such as the spread of disease, large-scale migrations, heightened tensions; and resource conflicts. More severe climate change with a temperature rise of 2.6 °C by 2040 could induce massive nonlinear societal events and armed conflict between nations over resources; even nuclear war. The catastrophic scenario (temperature rise of 5.6 °C by 2100), would pose almost inconceivable challenges for human society on a global scale.<sup>34</sup>

A comprehensive assessment of the security risks of climate change has been prepared in a report by the German Advisory Council on Global Change. The consequences “could well trigger national and international distributional conflicts and intensify problems already hard to manage such as state failure, the erosion of social order, and rising violence.” On the contrary, climate change could also unite the international community to set the course for avoiding dangerous anthropogenic interference with the climate system by adopting a dynamic and globally coordinated climate policy.<sup>35</sup>

The initially mentioned European Commission report also refers to climate change as a “threat multiplier”, identifying political and security risks which would directly affect European interests. These include resource conflicts and tension over energy supply; economic damage and risk to coastal cities and critical infrastructure; loss of territory, border disputes and environmentally-induced migration. Altogether these factors could create situations of fragility and radicalization, and increase the pressure on international governance.<sup>36</sup>

Some of these risks are highlighted in Table 1, with reference to a few regional cases, for four main conflict constellations: degradation of freshwater resources, food insecurity, disasters and migration.

**Table 1. Cases of environmental security<sup>37</sup>**

<b>Water stress and conflict</b>		
<ul style="list-style-type: none"> <li>• Water scarcity undermines human security and heightens competition for water and land resources.</li> <li>• Water has been a factor in many conflicts below level of interstate war</li> <li>• In many cases water scarcity strengthens cooperation.</li> <li>• Transboundary water agreements and institutions were robust against changing political conditions (e.g. Israel-Jordan, Mekong Committee, Indus River Commission).</li> </ul>	<p><b>Middle East</b></p> <ul style="list-style-type: none"> <li>• Water crisis of the rivers Nile, Euphrates and Jordan.</li> <li>• Link between arid climate, water demand/supply imbalance, and confrontation</li> <li>• Water scarcity intertwined with regional conflicts caused by political differences.</li> <li>• Interstate “Water Wars” have been questioned.</li> <li>• Increased droughts from global warming undermine conditions for peace and human security.</li> <li>• Progress in water talks connected to Middle East Peace Process.</li> </ul>	<p><b>Central Asia</b></p> <ul style="list-style-type: none"> <li>• IPCC projects sharp temperature rise</li> <li>• Up to 90 percent of water resources used for irrigated farming.</li> <li>• Agriculture (20–40 percent of GDP) and electricity (relies on hydropower) depend on glacier meltwater from mountain ranges.</li> <li>• Some glaciers already declined, about 20 percent of some glaciers may disappear by 2050.</li> <li>• Closed markets, social disparities and weak state structures are unable to cope with water changes.</li> <li>• Previous struggles over land and water resources were aggravated by ethnic disputes, separatist movements or religious-fundamentalist groups.</li> </ul>
<b>Land use conflicts and food insecurity</b>		
<ul style="list-style-type: none"> <li>• More than 850 million people undernourished worldwide</li> <li>• Agricultural areas overexploited in many regions.</li> <li>• Reduction of arable land, water shortages, diminishing food and fish stocks increase flooding and droughts threaten food security</li> <li>• Reduced agricultural productivity with global warming reinforced by desertification, soil salinization or water scarcity.</li> <li>• Food insecurity fuels existing conflicts over depleting resources</li> </ul>	<p><b>Africa</b></p> <ul style="list-style-type: none"> <li>• Food production per capita declined over 20 years.</li> <li>• By 2020 yields from rain-fed agriculture could decline up to 50 percent in parts of Africa</li> <li>• Food crises impair livelihoods of subsistence farmers, increase unemployment and migration, undermine economic performance of weak states, exacerbate societal destabilization and violent conflicts.</li> <li>• Extreme weather events diminish yields, degrade of soils and decrease per-capita food production</li> <li>• Migration from rural to urban areas creates slums in cities, becoming breeding grounds for crime and violence.</li> <li>• Marginalized people could join riots and armed rebel groups, leading to destabilization, civil war, ethnic conflict.</li> </ul>	<ul style="list-style-type: none"> <li>• One third of African population lives in arid regions, one-third in sub-Saharan Africa is malnourished.</li> <li>• 1994 Genocide in Rwanda: soil degradation, population growth and unequal land distribution contributed to existing ethnic rivalries and power struggle.</li> <li>• Darfur, Sudan: in the dry season Arabic herders from north migrate south in search of water and grazing for cattle into fields of African farmers, contributing to existing tensions.</li> <li>• UNEP Sudan Post-Conflict Environmental Assessment of 2007: Darfur is a “tragic example of the social breakdown that can result from ecological collapse”.</li> </ul>
<b>Natural disasters</b>		
<ul style="list-style-type: none"> <li>• Extreme weather events and natural disasters (e.g. droughts, heat waves, wildfires, flash floods, storms) to occur more frequently and intensely.</li> </ul>	<p><b>Hurricane Katrina</b></p> <ul style="list-style-type: none"> <li>• Villages and cities over large areas flooded, houses, business and industrial facilities damaged.</li> <li>• 90 percent of oil refinery capacity in Gulf of Mexico down.</li> </ul>	<ul style="list-style-type: none"> <li>• 2003 European heatwave: more than 35,000 people died, agricultural losses \$15 billion.</li> </ul>



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<ul style="list-style-type: none"> <li>Disasters generate large fatalities, economic and social costs, temporary collapse of state functions.</li> <li>Regions at high risk from storm and flood disasters often have weak economic and political capacities for adaptation and crisis management.</li> <li>Storm and flood disasters along densely populated east coasts of India and China intensify migration pressure.</li> <li>Abrupt and large-scale climate changes provoke economic and social instability on a global scale.</li> </ul>	<ul style="list-style-type: none"> <li>About 1,800 people lost their lives in New Orleans, hundreds of thousands fled homes.</li> <li>“First documented mass movement of climate refugees” (Earth Policy Institute)</li> <li>Infrastructure devastated: water, food, energy, transportation, communications and sanitation</li> <li>Breakdown of public order, chaos, lawlessness</li> <li>Poor people most affected (few financial resources, no insurance against disasters).</li> </ul>	
<b>Environmental migration</b>		
<ul style="list-style-type: none"> <li>Rising number of environmental migrants induced by climate change.</li> <li>High migrations from high-risk locations, e.g. coastal and riverine areas.</li> <li>Most affected people remain within national borders in the southern hemisphere.</li> <li>Migratory pressure on Europe from sub-Saharan Africa and Arab world, North America from Caribbean, Central and South America.</li> <li>Migration pressure from flooded regions or dry areas in China on neighbor countries, e.g. Russia.</li> <li>Migration provokes conflict in transit and target regions, driving competition with resident population for scarce resources (land, accommodation, water, employment, social services).</li> </ul>	<p><b>South and East Asia</b></p> <ul style="list-style-type: none"> <li>Populated mega-deltas at greatest risk due to increased flooding from ocean and/or rivers.</li> <li>Climate change aggravates human insecurity in Bangladesh: more than 600,000 persons died due to cyclones, storm surges and floods since the 1960s.</li> <li>One meter sea-level rise could inundate one sixth of Bangladesh and displace 40 million people.</li> <li>Migration of impoverished people provoked violent clashes in Bangladesh and neighbor countries.</li> <li>Climate change threatens social and political stability.</li> <li>Improved warning systems and shelters reduce number of deaths.</li> </ul>	

## TOWARDS CLIMATE SECURITY


Whether societies are able to cope with the impacts and restrain the risks of climate change depends on their responses and abilities to solve associated problems. Some responses to climate change may rather aggravate the problem, by inducing additional security issues. For instance, the revival of nuclear power to prevent climate change might raise concerns about nuclear proliferation and other risks for safety and security. The rapid and unsustainable growth of biofuels for carbon emission reduction could aggravate land use conflicts and increase food insecurity. If the military finds a justification in fighting the impacts of global warming, this would hardly be a sustainable solution to the climate problem.

For the time being, preventing dangerous climate change is more an issue of science and engineering as well politics and the economy than of the military. Rather than triggering a vicious cycle between environmental destruction, underdevelopment and war, it is important to foster the positive links between sustainable development and peace. As the WGBU report

points out, climate change could also unite the international community by adopting a dynamic and globally coordinated climate policy.

The 2007 Nobel Peace Prize to Al Gore and the IPCC is a sign that the international community recognizes the relationship between environment and peace. Implementing solutions requires joint efforts by the international community to help stabilize climate change at levels that will avoid disruption of global security and stability. The potential impacts provide strong arguments for the developed world to take the lead in achieving the ultimate goal of the UN Framework Convention on Climate Change (UNFCCC) to “prevent dangerous anthropogenic interference with the climate system”. With the formula of “common but differentiated responsibilities” the UNFCCC assigned different roles for industrialized and developing countries in climate policy. The largest emitters of greenhouse gases have a particular responsibility as well as the power to reach an agreement on actually reducing emissions to a level that keeps the risks within limits. The stakes are high for signing a post-2012 agreement at the Copenhagen climate summit by end of 2009.

To overcome diverging interests in post-Kyoto agreements, it is important to build coalitions for preventing dangerous climate change. A North-South conflict can be avoided if cooperative solutions are in the best interest of both sides. As has been demonstrated by the IPCC, the Stern Review and others a wide range of options is available to move towards cooperative solutions. To address the security risks, integrated approaches are required as part of a preventive security policy.<sup>38</sup> A global climate regime is possible that provides an equitable balance of costs and risks and allows sustainable development for those in greatest need.

Progress in high emitting countries is essential. The European Commission report on climate security concludes that it is in Europe’s self interest to address the security implications of climate change by considering the full range of EU instruments alongside mitigation and adaptation policies on all levels: at the level of the EU, in bilateral relations and at the multilateral level, in mutually supportive ways.<sup>39</sup> While the Bush Administration did not give priority to climate policy, individual states like California pursued more aggressive policies. Several senators requested a *National Intelligence Estimate* to assess whether and how climate change might pose a national security threat. A bill for a Climate Security Act was introduced in 2007 and 2008 that – among others – would create a “cap and trade” program that limits total U.S. emissions of carbon dioxide and gives credits to companies able to cut their emissions through increased energy efficiency or cleaner technology. With the new administration of President Barack Obama there are great hopes that the United States will take a more active role in establishing effective policies towards energy and climate security. 



## Notes

<sup>1</sup> UN Security Council, “Security Council Holds First-Ever Debate on Impact of Climate Change on Peace, Security, Hearing over 50 Speakers,” 5663rd Meeting, New York, April 17, 2007, <http://www.un.org/News/Press/docs/2007/sc9000.doc.htm> (last accessed on December 13, 2008).

<sup>2</sup> Margaret Beckett, “Climate Change - the Gathering Storm,” Speech at The Yale Club, New York City, April 16, 2007, [http://www.fpa.org/calendar\\_url2420/calendar\\_url\\_show.htm?doc\\_id=472794](http://www.fpa.org/calendar_url2420/calendar_url_show.htm?doc_id=472794) (last accessed December 13, 2008).

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# Nuclear Nonproliferation Encyclopedia

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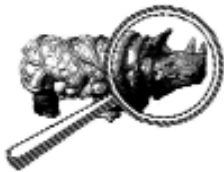
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The publication has been made possible thanks to the generous support from the Ford Foundation and JSC *TENEX*.

If you have further questions on the encyclopedia, do not hesitate to contact Albert Zulkharneev by e-mail [zulkharneev@pircenter.org](mailto:zulkharneev@pircenter.org) or by phone +7-495-987-19-15. To obtain the copies of the encyclopedia, please send your requests to ROSSPEN publishing house at phone/fax +7-495-334-82-42 or by e-mail [market@rosspen.su](mailto:market@rosspen.su)



Eldar Kasayev

## INVESTMENT CLIMATE IN IRAQ AND INTERESTS OF RUSSIA

Despite a lingering crisis that followed U.S. invasion in Iraq in 2003, the country's fuel and energy sector still looks attractive to investors from abroad, Russia included.

Notably, since the very start of the crisis back in 2003 Russia has been insisting on getting the international community involved in its settlement. The Russian side is ready to join in and participate in rebuilding Iraq, through business cooperation, especially in areas formerly covered by the Soviets and then the Russians.<sup>1</sup>

### RUSSIAN INTERESTS IN THE ENERGY SECTOR OF IRAQ

Russia has an exceptional position on international energy markets as a world leader in oil production. In 2007 the country produced 9,870,000 barrels per day (bbl/day) (490.83 million tons per annum).<sup>2</sup> The future of Russian oil industry is related to developing new fields abroad, mostly in the Near and Middle East (including Iraq).

Today estimations of oil production in Iraq vary from 2 to 2.5 million bbl/day.<sup>3</sup> Extrapolation suggests that given the situation in the country gets better, production can go up to 3 million bbl/day.<sup>4</sup>

According to the Iraqi Ministry of Oil, the mid-term perspective could see 4 million bbl/day by 2010 and 6 million bbl/day by 2012.<sup>5</sup> Additionally, Iraq has many *upside* fields with some impressive hydrocarbon reserves.<sup>6</sup>

Clearly, the above production levels, comparable with those of leading oil producers (Saudi Arabia and Russia, which is not an OPEC member) are subject to the oil industry of Iraq getting significant foreign investments. However, today foreign companies have nearly no access to Iraqi oil. For the most part, licenses are in favor of government-controlled *North Oil Company* and *South Oil Company*.

Before the fall of Saddam Hussein over 40 percent of the country's foreign trade was with Russian partners, always active in Iraq. For instance, on March 21, 1997 the Iraqi Ministry of Oil and a group of Russian public and private companies including *Lukoil*, *Zarubezhneft* and *Mashinoimport* signed a production and development contract for Stage 2 of Western Kurna oil field in Iraq (Project "Western Kurna-2").

The product-sharing contract is to last for 23 years with an option for another five. *Lukoil* share is 68.5 percent, *Zarubezhneft* and *Mashinoimport* have 3.25 percent each. Iraq is represented by State Oil Marketing Organization (SOMO) with a 25 percent share. According to *Lukoil Overseas*, proven reserves for Western Kurna amount to 6 billion bbl.

It should be noted that *Lukoil* had already invested about \$4 billion into the project, but in 2002 Saddam Hussein (the then-president of Iraq) declared the contract cancelled, which was



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impossible to do unilaterally: the contract provided for cancellation only in the Court of International Arbitration.

After later events Russian companies sought diplomatic support to negotiate with the new government of Iraq. It started with promises of recommendations to state agencies and the parliament to look into resumption of the “Western Kurna-2” contract with *Lukoil*, which has advanced technical expertise, huge financial resources, and exploration data. Later on the Ministry of Oil of Iraq claimed that Russian companies can participate in a tender to develop the country’s oil and gas fields only *in accordance with the standard procedure*.<sup>7</sup>

Notably, the Draft Hydrocarbon Framework Law,<sup>8</sup> if adopted, may lead to *Lukoil* and its partners losing all their rights in relation to “Western Kurna-2” as the draft law provides that petroleum contracts with foreign companies in Iraq should now be made through a new authority, Federal Oil and Gas Council (FOGC), and not the Ministry of Oil, as was the case before. The new authority is going to receive the right to review and amend exploration and production contracts made by Hussein government, including those with Russian *Lukoil*, *Zarubezhneft*, *Stroytransgaz*, and some others. According to the new piece of legislation, “the Designated Authority in the Kurdistan Region will take responsibility to review all existing exploration and production contracts with any entity before this law enters into force to ensure harmony with the objectives and general provisions of this law” (Article 40).<sup>9</sup>

On the surface, the new law might seem a *liberal* one as in addition to federal authorities, which was the only case before, it empowers regional and producing governorates’ authorities to make direct contracts with foreign companies. However, they will not act completely on their own: a new contract is to be submitted to FOGC within one month, which can approve it (by a two thirds majority) or give legal reasons for objections.

Still, in the mid-term perspective the oil market of Iraq will be a target for Russian *Rosneft*, *Zarubezhneft*, and *Neftegazexport*.<sup>10</sup> Other foreign companies are also becoming more active: Chinese and even Ukrainian ones have declared their “presence” in the country.

For instance, *China National Petroleum Corporation* managed to renew a contract they had signed with Hussein government, but their production at al-Ahdab oil field will not exceed 90,000 bbl/day (about 4.5 million tons per annum). Back in 2006 Ukraine offered Iraq its technical assistance in exploration and production of oil and gas, as well as oil and gas pipeline construction.

The heavy-weighters – *Chevron*, *Exxon Mobil*, *British Petroleum* – are not rushing for oil development in Iraq waiting for better security to be put in place.<sup>11</sup>

Unstable security represents a serious issue for large investments on the part of many Russian oil and gas companies. It could happen so that in the mid- and long-term perspectives Iraq is going to find it difficult balancing its own interests and quality of oil and gas sector: government control over investments could contradict the industry’s technical needs.

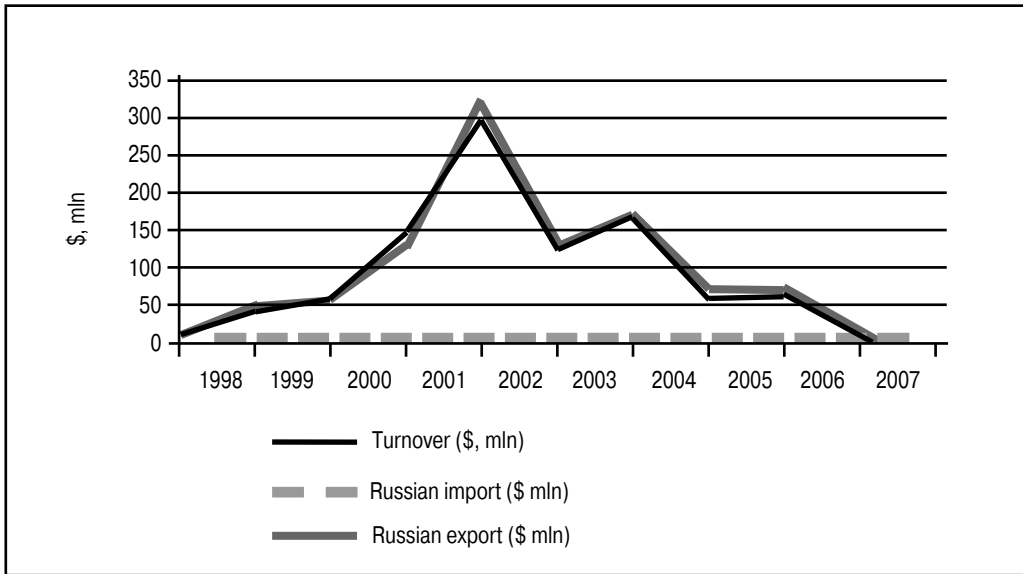
It does not mean, however, that Russian companies would take no interest in large petroleum projects in Iraq, where production cost goes as low as a few dollars per barrel. Since 1998 over 60 companies from Russia supplied Iraq with transportation means, equipment and other commodities vital for this country within the *Oil for Food* framework. 15 Russian companies dealt with oil.

It is noteworthy that the Russian-Iraqi trade in the last ten years is represented mostly with the supplies of Russian goods to Iraq (Chart 1).

The dynamics of Russian export to Iraq is based on supplies of equipment and spare parts for those facilities that involve a limited number of Russian companies in their work. These are mainly energy firms – *Silovye Machinery*, *Techpromexport*, *Interenergoserbis*, *Energo Engineering Enterprise*. However, potential interests of the large Russian businesses are connected with the development of oil fields in Iraq.

What is today the true investment climate in this *Oil El Dorado*? Should Russian energy companies pursue the *black gold* of Iraq?

Chart 1. Dynamics of Russian-Iraqi trade (1998 – 2007)



Source: Federal Customs Service of the Russian Federation

Investment climate in Iraq is influenced today by a series of interrelated factors that are hard to predict. For a complete and objective assessment of the situation in Iraq an institutional investor should look at geostrategic, politico-military, and economic factors (ranked here by importance), with special emphasis on very complex and dramatic events in the country after the fall of Saddam Hussein.

### GEOSTRATEGIC FACTORS

Political and economic activities in Iraq are defined to a certain extent by the regional balance of power in the country. Regional situation is mostly dominated by the United States and its political allies opposed by Iran, Syria, and their followers represented in the form of a variety of movements and groupings active both in Iraq and neighboring states. On top of that, Iraq has some religious extremists, agents from other countries of the region (Turkey, and Arab states of the Gulf), as well as ethnic and religious groups inside the country itself (the Shia, the Sunnis, and the Kurds), which are more often than not antagonistic towards one another, which undermines internal stability.

#### The U.S. Factor

Neoconservatives that took the White House in 2000 prioritized *changing the political layout* in the Middle East as part of Washington’s foreign policy, which also provided for *democratization*, effectively meaning “change”, of current regimes in such large and influential regional states as Egypt, Saudi Arabia, and Syria.<sup>12</sup> In fact, none of that has been achieved, even during the military campaign in Iraq, but the neoconservatives are not changing their plans, even having failed congressional elections.

Alongside with Iraq, the United States is getting more focused on Iran with its nuclear program, and Syria, recently accused of helping radical groups in Iraq and Palestine. More political and military tension inside and outside these states, which now tends more and more to resemble a long-term foreign policy strategy of U.S. political establishment, will directly influence not only Iraq, but the Near and Middle East altogether.



Given the victory of the Democrats at the presidential elections, some changes should be expected in the U.S. foreign policy for the region and approaches to its implementation. Eventually, radical changes are still unlikely. Most probably, opponents to policies of the current U.S. administration would try to prepare a gradual withdrawal or reduction, possibly by focusing foreign policy efforts on Arab-Israeli settlement, which would allow to regain support of the Arab world.

### *Iran and Syria*

The Iranian regime considers at least the Shia-dominated southern part of Iraq, if not the whole country, as its patrimony. At the same time, given the fact that the Shia community is dominant in the whole country of Iraq and widely represented in its leadership, Iran clearly understands that at a future point they could claim control over Iraq at large together with its rich oil reserves.<sup>13</sup> This explains their political pliancy towards U.S. troops in Iraq and no opposition to reestablishing civil peace and concord in the country.

At the same time, Teheran has been sending signs and messages to indicate that if Washington dares to involve in a military strike against Iran, then:

- ❑ the United States and its allies will have the *Shia wrath* at large (hint: Fallujah combats in 2004–2005);
- ❑ Iran will no longer guarantee safety of navigation in the Persian Gulf and through the Strait of Hormuz;
- ❑ global oil price of \$100-\$130 will no longer seem too high.

Syria has to align itself with Iran *cornered* by U.S. policies in the Middle East. The country's political leadership refuses to *surrender* to Washington working against Syria in close cooperation with Israel (towards an international investigation into assassination of Lebanese prime-minister Rafik Hariri and implementation of UN Security Council resolution 1559 on Lebanon). Damascus is trying to build up leverage in Iraq through its relations with Sunni groups, including former members of the Baath Party, and even minions of former president Hussein. All that puts the United States even further against Syria.

### **POLITICO-MILITARY FACTORS**

A major development in Iraq in recent years was about changing the country's Constitution. On October 15, 2005 a referendum took place to approve a new Constitution of the Republic of Iraq. The Constitution opens with a Preamble emphasizing the country's unique geopolitical location and history. Article 1 of the Constitution specifies that the Republic of Iraq is an independent sovereign state. Its system of government is republican, representative (Parliamentary), democratic and federal.<sup>14</sup>

Soon after the constitutional referendum the country held national parliamentary elections, which gave 128 out of 275 seats to *United Iraqi Alliance* (UIA) of Shia Islamists, while the *Kurdistan Alliance* came second with 53 seats, and *Iraqi Accord Front* together with *Iraqi National Dialogue Front* (the Sunnis) got 44 and 11 seats respectively. *Allawi list* (*Iraqi National List*) got P4 with 25 seats.<sup>15</sup>

Experts believe the results are explained by the fact that U.S. and U.K. authorities, among other goals, pursued *de-Baathization* of the country, i.e. a campaign to strip power from Saddam Hussein's ruling Baath Party mostly representing the Sunnis.

Despite active efforts of U.S and U.K. allies to focus on their own interests in Iraq, the country managed to install a legitimate leadership (government) recognized by the international community. However, the United States keeps interfering with Iraq's domestic affairs looking to establish control over its oil reserves (Iraq supplies five percent of international oil exports).<sup>16</sup>

The main problem of Iraqi government is the fact that it doesn't control the situation in provinces.<sup>17</sup> Politically and economically the country is split into several segments. Kurdish-dominated North is independent from the rest of the country with nearly all features of an independent semi-state formation (own governing bodies, law enforcement, economy, etc.) The country's South with Shia population is controlled by local rulers looking at Iran. Central regions are lead by Sunni groups.

Security situation is no better now, as it has always been. At the same time, elements of security put in place are unstable and far from being irreversible, which is proved by the fact that U.S. administration and military command are not rushing to remove American troops from the country.<sup>18</sup>

It is too early to tell yet how long the new period of insurgent military and terrorist activities would last. The U.S. military command claims it to be no stable trend, but a temporary upsurge in their activities. Security in Baghdad and the vicinity is still no easy question. According to Valentin Yurchenko, a Russian oriental studies scholar, terrorists and insurgents are most active in the country's North.<sup>19</sup> Whereas, despite all positive changes, Iraqi army and police force "are not ready yet to protect Iraq and enforce security on their own."<sup>20</sup>

Major efforts of the new country's leadership will be focused on stopping conflicts between religious (Sunni vs. Shia) and ethnic (Arabs vs. Kurds) groups in the form of *shoot-outs* that involve various armed troops. Each community is too eager to gain control over the oil sector to allow a nation-wide compromise to stop the civil strife. Even though the parliament of Iraq has reached a common understanding of a political agreement acceptable for all the sides to offer an equitable arrangement for access to the oil sector, it is sure to be torpedoed by too different positions of religious groups in provinces as well as the practice of local *warlords* to have a bone with one another.

## ECONOMIC FACTORS

The macroeconomic situation in Iraq might seem to have been relatively stable for quite a long while despite the obvious troubles in the politico-military situation. The country's government manages to keep expenditure within the budget, as well as the currency rate, which enables a significant economic growth, agree international organizations. Foreign exchange and gold reserves are building up (exceeding \$25 billion as of 2007 year end).<sup>21</sup> Nevertheless, this stability should not be deceitful. Fiscal surplus is only possible because the government is not determined to launch large-scale public-private investment projects already planned in the budget.

Looking at GDP and developments in the macroeconomic situation at large, it should be noted that the country's economy was in a crisis throughout the 1990s and until 2003. Its growth rate used to be at about the level officially reported now. Such low figures are caused by complexity of the politico-military situation, and a number of other factors related to political, economic, structural, and social problems that are far from being resolved.

The country's oil sector could become a locomotive for its economy, however, petroleum projects also seem *to be stuck* because of technical limitations on exports (i.e. low capacity of existing pipelines to Turkey and oil terminals in Basra province), again related to low capex invested to upgrade the infrastructure.

Further prospects of oil sector development, which now yields over 90 percent of the country's GDP and over 95 percent of its exports, are determined only by the government's efforts not just to save the petrodollars, but to ensure the right business environment to invest it inside the country.<sup>22</sup>

However, it should be noted that security improvement at the end of 2007 was remarkable for Iraqi economy. In particular, inflation dropped from 69.6 percent as of 2006 year end to 32 percent early in 2007 and to 11 percent a year later.<sup>23</sup> Successes are mostly advanced by the country's key industry: the oil sector. Experts say that in December 2007 production exceeded prewar volumes. Today Iraq's daily production amounts to 2.3 million bbl/day.<sup>24</sup>



Experts believe that a key issue for the country's economy is its structural irrelevance to the nation's modern needs, which are usually about capital-intensive hi-tech infrastructure and IT projects, and also irrelevance to the needs of the global economy only linked with Iraq through its oil reserves. Social reform is a separate issue, banking system is just an example. Ruined transportation and communications add to that. Iraqi government has significant capital resources available, but cannot get to fixing structural errors of the national economy since it has only very limited power in provinces.

There is a key issue for the country's economy to develop and for foreign investors to regain confidence in it: foreign debt, which exceeded \$63 billion as of 2005 year end. This issue is being negotiated with Paris Club members and private investors. The outcome is expected in the form of a reduction of the total debt burden to \$33 billion by 2010, which amount to 33 per cent of the future GDP.

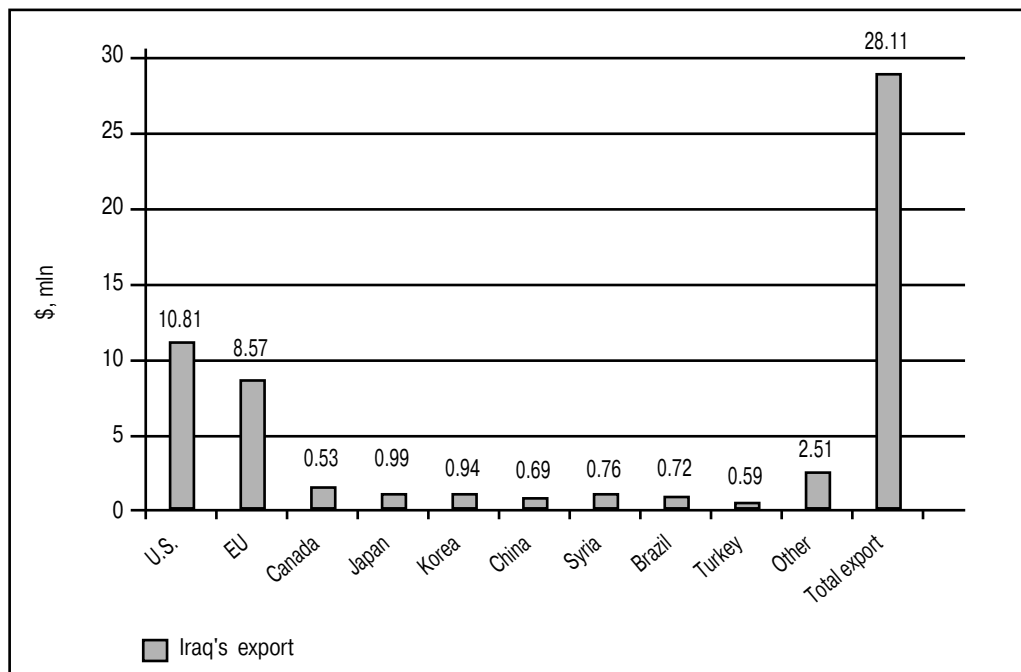
Global oil price will determine Iraq's solvency. The country's government plans to allocate internal resources to that end, hoping for the still high oil prices.

In the meanwhile, leading international credit rating agencies (like *Standard & Poors*) are reluctant to assign a reconciled credit rating to Iraq. The fact demonstrates not only caution that analysts have towards the country's solvency for its foreign debt, but rather lack of reliable and independent indicators for a more or less objective assessment of the Iraqi economy.

Trust to the country's economy is further undermined at grass-root as well as top levels by corruption inherited by the current authorities from the former regime. Despite some publicity investigations (like *the Chalabi case*),<sup>25</sup> the clear-up rate for corruption cases remains extremely low. According to the information available, the most corrupt agency is the Iraqi Ministry of Oil.<sup>26</sup>

Economic problems are further aggravated by the demographic situation. Civil strife, inter-ethnic violence, and punitive actions by coalition forces have lead to an upsurge of emigration. Mostly skilled workers have left and are still leaving the country. According to UN sources,

Chart 2. Iraq's importers



Source: Direction of Trade Statistics Yearbook 2008

about 10 percent of the population have left Iraq by the beginning of 2007.<sup>27</sup> During the war over 2.5 million people left Iraq and now live in Syria, Jordan, Turkey, and Egypt. Besides, in 2008 fiscal year the United States welcomed over 9,000 Iraqi refugees.<sup>28</sup>

At the microeconomic level the picture can be understood best looking at a report by World Bank Group. *Doing Business 2008* report puts Iraq 141st in the Rankings on the ease of doing business.<sup>29</sup> This position was awarded on the basis of the following factors.

Firstly, it is most difficult to start a business in Iraq, also to trade across borders, and to enforce a contract. There is much less trouble with *documents* though. However, new mechanisms are still impeded by executive authorities. It takes 11 procedures to start a business in Iraq, which normally takes 77 days. To trade across borders, you need 10 document to export and 10 to import goods, which take 102 and 101 days to be processed. To enforce a contract, you need to go through 51 procedures over 520 days.

Secondly, a tax reform has made it much easier to register property. It takes about 5 procedures over 8 days and costs 6.3 percent of property value.

Taxation is one of the few *advantages* of doing business in Iraq, and a very significant one. Experts say that the country's taxation system is similar to those in South Korea and Malaysia in terms of general procedures. To sum up, the situation in that area from an investor's perspective: the general trend is towards worse conditions of doing business. The government of Iraq has made a few administrative moves to ease it up, though, like reducing the number of procedures, and *duties* paid, but still it takes more time than in other countries, given the complex politico-military situation.

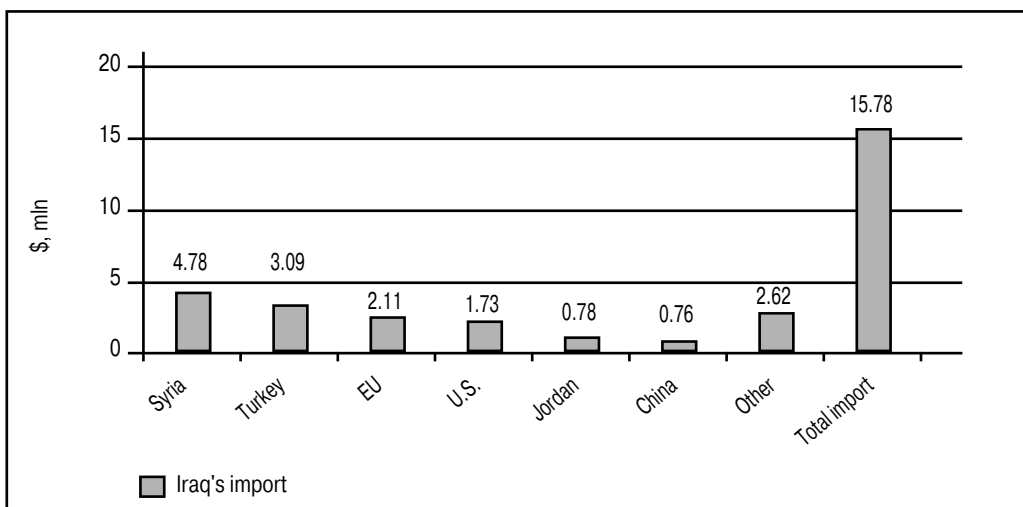
### External links

In 2007 the IMF evaluated the Iraqi export at the level of \$28.11 bn and it mainly contained such traditional goods as crude oil, oils, and fuel.

According to the UN, the geography of external trade of Iraq was mostly formed by suppliers of humanitarian goods and importers of the Iraqi oil. The key consumers of the Iraqi commodities are the United States, the EU, and Canada (see Chart 2).

Iraq's import amounted to \$15.87 bn in 2007 and comprised food, medicine, and consumer goods delivered from Syria, Turkey, the United States, and Jordan (see Chart 3).

**Chart 3. Iraq's exporters**



Source: *Direction of Trade Statistics Yearbook 2008*





It is noteworthy that the consumers of Iraqi goods are mostly world heavy-weighters, while the suppliers to Iraq are primarily small neighboring states.

## LEGAL RISKS

Many petroleum investors set hopes on the New Investment Law of Iraq. However, the law adopted in November 2006 does not cover such projects. A new hydrocarbon law is to address investment activities of foreign investors in the oil and gas industry of Iraq.<sup>30</sup>

Notably, this draft legislation provides for a number of investment formats, primarily, product-sharing agreements (PSA), which means that Iraq will give certain field blocks with exclusive exploration and production rights to investors for a consideration and for a limited time. Investors bear all expenses and share the product with other parties to a PSA.

The hydrocarbon law sets a range of condition to govern future exploration and production contracts in order to retain government control and maximize the revenue.

The document provides that “on the basis of a Field Development Plan prepared and approved in accordance with this law and the relevant contract, *Iraq National Oil Company* (INOC) and other holders of an exploration and production right may retain the exclusive right to develop and produce petroleum within the limits of a development and production area for a period to be determined by the Federal Oil and Gas Council.”

The draft law also defines the objectives and general provisions to be used in revision of existing contracts and development plans to ensure government control over:

- ❑ oil production;
- ❑ maximum economic returns to the people of Iraq;
- ❑ reasonable profit for potential investors.

The Panel of Independent Advisors of the Federal Oil and Gas Council will take responsibility to assess existing contracts signed by the Designated Authority in the Kurdistan Region. The Ministry of Oil and the Federal Oil and Gas Council shall review all the existing Exploration and Production contracts with any entity, taking into consideration the prevailing circumstances at the time at which those contracts were agreed (Article 40).

Thus, the draft legislation provides for centralized oil production through *Iraq National Oil Company* (INOC) on the one hand, while on the other hand it allows provincial authorities and local oil companies to make direct exploration and production contracts with foreign players.

Russian response to the draft hydrocarbon law is equivocal. *Rusenergy* analyst Mikhail Krutikhin believes the law is good for Iraq and the United States, while Russian companies will be neglected: “the law will eliminate open tenders for investment contracts and will thus help American oil companies strike deals with the provinces directly.”<sup>31</sup>

According to the country’s legislation, foreign investors may receive tax privileges depending on their branch of industry and economic activities. Legislation now in place seems to protect foreign investors against expropriation of their property. Article 23 of the country’s Constitution says no property may be taken away except for the purposes of “public benefit” and only in return for “just compensation.”<sup>32</sup> However, this constitutional provision will be organized by law that has not been adopted as yet.

Principles and mechanisms for oil revenue collection and distribution remain controversial. Still, most foreign observers are united that the formula of equitable wealth distribution is decisively important for financial prosperity and political stability in Iraq in the future.

Thus, potential Russian investors in Iraq should be aware that they are to face serious troubles when trying to launch a new project as the legal system is too complicated and in many cases is yet to be codified. The country lacks a uniform legal landscape. Another point of concern is no legal agreement on security of investments between Russia and Iraq.

## INVESTMENT PROSPECTS IN KURDISTAN

It should be noted that Iraqi Kurdistan has extensive oil reserves (an estimated 20 percent of oil reserves are in the north of Iraq, near Kirkuk, Mosul and Khanaqin<sup>33</sup>). Sectarian differences over Kirkuk have been preventing the hydrocarbon law from being adopted. In addition to the Kurds, the Sunnis also claim this richest field as they now have no oil fields in operation in their territory.

Article 113 of the Iraqi Constitution appropiates the region of Kurdistan as part of the federal system along with powers too many even for a federation region: it can have its own legislation (but no law shall be enacted that contradicts the federal constitution); the regional authorities shall have the right to exercise executive, legislative, and judicial authority; organize internal security forces for the region, and establish offices in the embassies and diplomatic missions. The federal government shall have exclusive authorities in the following matters: foreign policy, national security policy, fiscal and customs policy, commercial policy across regional and governorate boundaries in Iraq, and policies relating to water sources from outside Iraq. All other competencies shall be shared between the federal authorities and regional authorities or handled exclusively by the regional authorities. Moreover, the priority goes to the regional law in case of conflict between other powers shared between the federal government and regional governments.

Constitutional provisions pertaining to the country's richest oil resources were purposefully made as vague as possible. Oil and gas are declared the ownership of all the people of Iraq (Article 108 of the Iraqi constitution), while the federal government with the producing governorates and regional governments shall undertake the management of oil and gas extracted from current fields provided that it distributes oil and gas revenues in a fair manner in proportion to the population distribution in all parts of the country (Article 109).

It is particularly important that according to the Constitution of Iraq the federal government with the producing regional and governorate governments shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encourages investment.

In 2006 Iraqi Kurdistan that has a constitutional status of a federal district, adopted Kurdistan Region Investment Law. Its Article 19 says that "an Investor shall not be allowed to own plots of land that contain oil, gas, or any expensive or heavy mineral resources."<sup>34</sup>

It is important that current Iraqi legislation does not define a clear procedure to start development in new fields. However, Kurdistan has already established a Ministry of Natural Resources and is making exploration and production contracts with a bunch of foreign companies. For example, in November 2007 Austrian oil and gas group *OMV AG* received such for the Mala Omar and Shorish blocks and plans to drill test wells in 2009.<sup>35</sup>

The significant authority of Kurdistan region is very negatively perceived by other ethnic and religious groups in Iraq. Many see it as a preparation for independence. The Shias were not in favor of too strong Kurdistan, but now they seem to be going for a self-governing region of their own in the country's South. However, Sunni Arabs in the central and western parts of Iraq are not happy with it, mostly because their territories have nearly no oil.

So, the Constitution of Iraq gives too much power to Kurdistan to manage its oil reserves, and other regions do not support it. Yet another proof to that end came on August 7, 2007, when Kurdistan Regional Government (KRG) adopted its own hydrocarbon law without waiting for the federal one. The new piece of legislation allows foreign investments into petroleum industry of three provinces, Erbil, Sulaymaniyah, and Dakuk, as well as the *disputed territories* around Kirkuk.

According to the Kurdish hydrocarbon law, KRG is allowed to make contracts with foreign investors (Russian ones included) to involve them in regional development, subject to the federal hydrocarbon law to be adopted, pursuant to the Constitution of Iraq and opinion of the Federal Oil and Gas Council.



## PROSPECTS FOR RUSSIAN OIL AND GAS BUSINESS IN IRAQ

Credit should go where it is due, Kurdistan Regional Government seems to be friendly and favorable towards large Russian companies to come to their land.

When making proposals about possible investments in Kurdistan oil industry, which is most attractive for Russia, the regional government is cautious about a negative response of the Iraqi federal authorities. Despite decentralization policies, Baghdad is trying to control only oil, leaving other resources at the discretion of provincial authorities.<sup>36</sup> However, given the bilateral KRG contracts for foreign investments in the energy sector (like the ones with Austrian OMV AG or with *Dana Gas* from the Emirates), apprehension of regional officials is really not that serious.

A Russian Consulate General in Erbil opened in 2008, which would serve as a powerful tool to render Russian policies in Iraq and Kurdistan.

So, conclusion can be made that investment climate in Kurdistan is quite good for Russian investments, unlike that in other regions and provinces of Iraq. Political, economic, and legal risks for Russian investors here are much lower than those in other areas of the country.

Leading Russian experts and analysts underline that Russia should be more active in pursuing its interests in Iraq. Georgiy Mirskiy, a senior researcher with the Institute of World Economy and International Relations of the Russian Academy of Sciences, believes that a comment by Hussein Al-Shahristani, the Minister of Oil of Iraq, that Russian companies are not going to receive any preferences in Iraq should not prevent Russia from penetrating into the country's oil market. On the one hand, it looks like a retreat, on the other hand, it can be understood: the new government does not want to implement contracts made by the former regime.

Sergey Karaganov, a political analyst, is convinced that regardless of how Iraq gets through this lingering crisis, and what form of political arrangement it would finally have, the country will still need investments, technologies, and personnel training.<sup>37</sup> That is why Russian oil companies should start active operations despite the obvious difficulties in the political and legal fields in Iraq. On top of that, it is very important to work with Shia-controlled provincial governments that are sure to administer rich oil reserves in the country's South.

In late March 2008 Russia and Iraq held discussions over the most crucial point in their current bilateral relations: whether or not Russian businesses have a chance to resume *suspended* investment projects in Iraq. Russia failed to achieve any significant results. The only positive outcome was about establishing a working group for "Western Kurna-2" project under the new hydrocarbon law now being drafted.

Besides, the parties agreed to have *Lukoil Overseas* (a *Lukoil* affiliate for projects outside the country) involved in tenders for new fields announced by the Iraqi government as soon as their new law enters into force.

It is especially interesting to know, what kind of legal safeguards for investments of Russian companies into Iraqi energy sector the country's government can provide. Even if Russian enterprises manage to get to "Western Kurna-2", they will still be facing some risks. Firstly, the Iraqi side will probably try to increase its share in the project. Secondly, the field will most probably be allocated to three oil companies: *Lukoil*, *ConocoPhillips*, and one of Iraqi public enterprises. Thirdly, there is another factor impeding Russian investments in Iraq: the country still lacks special legislation to ensure strong legal safeguards for foreign investors.

It should be noted that risks of investments in existing oil fields in Iraq are lower than those in new fields still pending exploration and development. That is why foreign investors try to stipulate covenants to ensure recovery and compensations.

According to the Constitution of Iraq, which has extremely vague formulas related to control of mineral resources, "current" oil fields are to be administered by the central government in Baghdad, whereas "new" projects are handled by provincial administrations, which means Russian companies will have to negotiate both with federal and regional authorities.

Summing up prospects for Russian businesses in the energy sector of Iraq, the following conclusions can be made. It is very hard for Russian companies to start practical operations before stability in the country has been achieved. Even after a constitutional referendum and parliamentary elections bringing an internationally recognized government, it is highly unlikely that old oil development and pipeline construction contracts between Russia and Iraq will be resumed.

## MAJOR CONCLUSION

First, investment climate in Iraq in general remains unfavorable. The overall situation in the country is extremely hard to predict in the short- and mid-term perspectives. Incapacity and stall are imminent to the central government that cannot take independent and decisive measures to install order in provinces as well as arrange for national concord, which will further aggravate the already complicated situation in the country. Besides, legal vacuum in Iraq will not let Russian companies to invest money with a legal foundation in view.


Second, investment climate differs by region. It is favorable, for example, in Iraqi Kurdistan. The Kurds want to administer oil issues independently in their territory. Remarkably, Workers' Party of Kurdistan has signed a few product-sharing agreements since 2003. Regional government will keep the right to license foreign investors (like Russian ones) to develop oil and gas industry of the region under the new hydrocarbon law yet available as a draft only and the Constitution of Iraq.

Third, *Lukoil* has most serious plans to develop oil business in Iraq out of all other Russian companies. By 2015 it plans to have 20 percent of its production outside Russia, Iraq is one of the locations. *Lukoil* expects to retain "Western Kurna-2" project with the help of its large U.S. shareholder *ConocoPhillips*. Other Russian companies would also like to penetrate into the oil market of Iraq.

Fourth, Russian businesses cannot expect to have any exclusive contracts, which is explained by the fact that Iraq has arranged tenders with companies from more than 40 countries.

Russian enterprises will have no privileges, but normal competition. Obviously, U.S. firms will have an advantage, which won't be large enough to squeeze Russian business away from Iraq. Iraqi government is interested in competition between foreign players.

Fifth, Russian companies may seek Sunni support for their investment projects in Iraq, because there is practically no oil in Sunni territories, whereas under the new hydrocarbon law, which is being drafted, all revenues from investment projects of foreign companies will be distributed to all provinces.

Sixth, for Russian oil companies to penetrate into the market of Iraq, they should focus on talks with local governments of producing regions and provinces. Under the country's legislation they have a lot of authority to regulate subsoil use and foreign investments. 

## Notes

<sup>1</sup> The turnover of Russian companies in Iraq exceeded many millions of dollars. Russian businesses were involved in oil exports, equipment shipments, railroad, and power plant construction, as well as other infrastructure projects. Iraq is one of a few countries that used to procure uncompetitive products of Russian machine-building industry. Over the 1990s Russia signed an extra set of contracts with Iraq worth four billion dollars. In particular, they were about Russian companies getting involved in large oil field development, such as Western Kurna, Rumaila, Luhais, and others.—C.f.: Konstantin Frumkin, "War, Peace, and Oil," *Nezavisimaya Gazeta*, February 12, 2003.

<sup>2</sup> Courtesy of *CIA World Factbook* (<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2173rank.html>) and Regnum News Agency (<http://www.regnum.ru/news/955140.html>) (last updated: October 6, 2008).

<sup>3</sup> Eldar Kasayev, "Iraq Oil Market Opens for Russia Again?" Institute of the Middle East Website, <http://www.iimes.ru/rus/stat/2007/17-09-07.htm> (last updated: October 6, 2008).



- <sup>4</sup> In other words, daily production is going back to where it was before the invasion (2003).
- <sup>5</sup> C.f.: Nikolai Gorelov and Anna Gorshkova, "The Field Anew," *Vremya Novostei*, August 10, 2007, <http://www.vremya.ru/2007/142/8/184621.html> (last updated: October 6, 2008).
- <sup>6</sup> Iraq has 500 promising geological features for oil and gas, only 75 of those explored. Besides, statistics says 70 percent of drilled test wells give yield. C.f.: Nadezhda Glebova, "Oil and Security Issues in Countries of the Middle East," Institute of the Middle East Website, <http://www.iimes.ru/rus/stat/2008/20-02-08b.htm> (last updated: October 6, 2008).
- <sup>7</sup> C.f.: Alexander Gudkov, "Russia to Write Off Iraq's Debt Without Bargaining," *Kommersant*, August 10, 2007, [http://www.kommersant.com/p794297/LUKOIL\\_Kurna/](http://www.kommersant.com/p794297/LUKOIL_Kurna/) (last updated: October 6, 2008).
- <sup>8</sup> For its comprehensive analysis see: Eldar Kasayev, "Legal Status of Subsurface Use in Iraq and Interests of other States," *Moscow Journal of International Law*, No. 3, 2007, pp. 114–128.
- <sup>9</sup> This and further quotes from the draft law are taken from Kurdistan Regional Government website, <http://web.krg.org>, (last updated: October 6, 2008).
- <sup>10</sup> C.f.: Ivan Gorshkov, "For Rippled Oil," *Nezavisimaya Gazeta*, August 9, 2007, [http://www.ng.ru/world/2007-08-09/7\\_oil.html](http://www.ng.ru/world/2007-08-09/7_oil.html) (last updated: October 6, 2008).
- <sup>11</sup> For instance, the situation around the Shia-dominated south port of Basra is unfolding quite unpredictably (while Western Kurna oil field is right there in the vicinity).
- <sup>12</sup> See: A Report of The Project for the New American Century "Rebuilding America's Defenses", September 2000. Available at: <http://cryptome.org/rad.htm> (last updated: October 6, 2008).
- <sup>13</sup> It is even possible that some attacks against petroleum facilities in Iraq could be planned and implemented by Shia leaders in Iran. Iranians believe that they should have the ideological lead in the Middle East. In addition to their leadership as a nation, the Iranian factor urges them to have same position in oil industry (first oil in the Middle East was found in Iran). C.f.: Eldar Kasayev, "Shock and awe" of Iraqi Petroleum Policies," *Mezhdunarodny Zhizn*, No. 12, 2006, p. 117, <http://www.ln.mid.ru/mg.nsf/ab07679503c75b73c325747f004d0dc2/8f031679ebc5fb84c32572510050fc97?OpenDocument> (last updated: October 6, 2008).
- <sup>14</sup> Hereinafter quoted as translated from Arabic by the United Nations' Office for Constitutional Support, the translation approved by the Iraqi government, [http://portal.unesco.org/ci/en/files/20704/11332732681iraqi\\_constitution\\_en.pdf/iraqi\\_constitution\\_en.pdf](http://portal.unesco.org/ci/en/files/20704/11332732681iraqi_constitution_en.pdf/iraqi_constitution_en.pdf) (last updated: October 6, 2008).
- <sup>15</sup> Vagif Guseinov, Alexey Denisov, Nikolay Savkin, and Sergey Demidenko, *Greater Middle East: Impetus and Preliminary Results of Democratization* (Moscow: OLMA Media Group, 2007), p. 105.
- <sup>16</sup> Sergei Zhdanov, *Arab States in Global Economy* (Moscow: Panorama Publishers, 2006), p. 105.
- <sup>17</sup> Valentin Yurchenko, "Politico-Military Situation in Iraq (March 2008)," Institute of the Middle East, <http://www.iimes.ru/rus/stat/2008/07-10-08b.htm> (last updated: October 6, 2008).
- <sup>18</sup> Valentin Yurchenko, "Iraq: Five Years After Saddam (Summing Up)," Institute of the Middle East, <http://www.iimes.ru/rus/stat/2008/23-03-08a.htm> (last updated: October 6, 2008).
- <sup>19</sup> Ibid.
- <sup>20</sup> Update on Politico-Military Situation in the Middle East and Northern Africa (April 7-13, 2008), Institute of the Middle East, <http://www.iimes.ru/rus/stat/2008/14-04-08a.htm> (last updated: October 6, 2008).
- <sup>21</sup> See: *CIA World Factbook*. Rank Order—Reserves of foreign exchange and gold, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> (last updated: October 6, 2008).
- <sup>22</sup> Some observers believe that the Iraqi government is trying to compensate for the lack of development in the country's oil exports potential by deregulating retail fuel market. Since 2005 it has been pushing for higher prices of major types of fuel sold domestically. The objective claimed is to have the same price levels as in neighboring states. They probably mean here Syria, Iran, and Arab states of the Gulf, and not Jordan, where the prices are close to those in Europe.
- <sup>23</sup> Associated Press, June 22, 2007.
- <sup>24</sup> Eldar Kasayev, "Certain Aspects of the Current Situation in Iraq," *Vestnik Analitiki*, No. 1, 2008, p. 184.
- <sup>25</sup> In 1992 a Jordan military tribunal sentenced Ahmed Chalabi to 22 years of penal labor, a fine, and a compensation of damages to the state of Jordan. The tribunal plead him guilty for bank fraud to cause bankruptcy of his Petra Bank and taking off-shore over \$200 million.

<sup>26</sup> Another egregious example of corruption in top-management of U.S. oil companies is the Halliburton case. Bribery is the most serious charge against this American company operating in Iraq. The Department of State has documented the following: Halliburton employees are corrupt and openly demand to be bribed. On top of that, experts believe that the company has inflated fuel prices in Iraq by \$167 million, which gives 90 percent in relative figures.

<sup>27</sup> *Washington Profile* (in Russian only), March 22, 2007, <http://www.washprofile.org/ru/node/6070> (last updated: October 6, 2008).

<sup>28</sup> <http://for-ua.com/world/2008/08/03/080843.html> (last visited on November 20, 2008).

<sup>29</sup> *Doing Business* 2008, World Bank Group, [http://www.doingbusiness.org/documents/FullReport/2008/DB08\\_Full\\_Report.pdf](http://www.doingbusiness.org/documents/FullReport/2008/DB08_Full_Report.pdf) (last updated: October 6, 2008).

<sup>30</sup> IMF Staff Report, Iraq, July 18, 2007, p. 19, <http://www.imf.org/external/pubs/ft/scr/2007/cr07301.pdf> (last updated: October 6, 2008).

<sup>31</sup> Quoted as in: Alexander Gudkov, "Iraq Shares Oil Riches," *Kommersant*, February 28, 2007, [http://www.kommersant.com/p746030/Iraq\\_Oil\\_Bill\\_Russia/](http://www.kommersant.com/p746030/Iraq_Oil_Bill_Russia/)

<sup>32</sup> Marina Saponova, *The Past and Present of Iraqi Constitution (History of the Country's Constitutional Developments)* (Moscow, 2006), p. 145.

<sup>33</sup> EIA Iraq Energy Data, Statistics and Analysis—Oil, Gas, Electricity, Coal, <http://www.eia.doe.gov/emeu/cabs/Iraq/Oil.html> (last updated: October 6, 2008).

<sup>34</sup> Available at: <http://www.krg.org/articles/detail.asp?nr=107&lngnr=12&nr=12626&smap=04030000> (last updated: October 6, 2008).

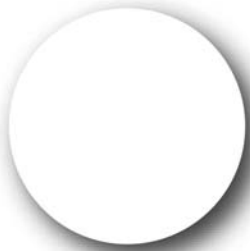
<sup>35</sup> Reuters, May 28, 2008.

<sup>36</sup> *Ibid.*

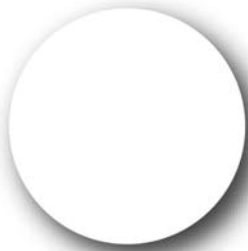
<sup>37</sup> C.f.: Sergey Karaganov, "Strategy for After-Tomorrow," *Rossiyskaya Gazeta*, November 7, 2006, <http://www.rg.ru/2006/11/07/karaganov-irak.html> (last updated: October 6, 2008).



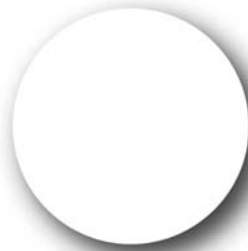
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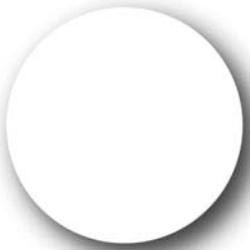
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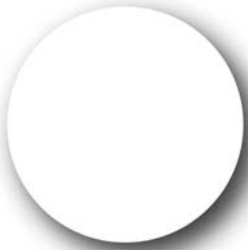
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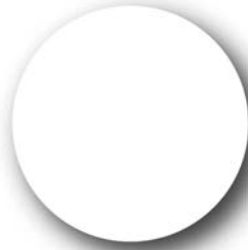
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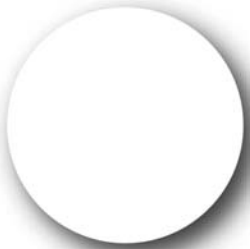
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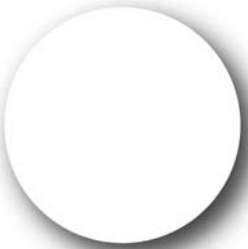
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Galina Pastukhova

## EMINENCE GRISE OF THE IRANIAN CRISIS

In February 2008, shortly before the adoption of yet another UN Security Council resolution on Iran, a Chinese Foreign Ministry representative spoke to journalists about Beijing's position on the upcoming vote. He said that "the issue of Iran's nuclear program should not undermine normal trade and economic relations with that country".

Resolution 1803, adopted in March 2008, was the Security Council's fourth resolution on Iran. It urged all countries to exercise vigilance with regard to offering state financial support for trade with Iran and making transactions with Iranian banks. The tightening of the sanctions regime complicates business with Iran, and therefore impinges on the interests of its trading partners, including China. Over the past three or four months Chinese oil and gas corporations have been busily signing contracts for the exploration of Iranian deposits – hence the February statement by the Chinese Foreign Ministry warning against mixing economics with politics. Also consider the fact that U.S. Congress is already debating whether the recent Sino-Iranian deals violate the UN sanctions regime. So far, China, one of the permanent Security Council members, has not used its power of veto. But there have been suggestions in foreign and Russian media that China might yet change its mind. How plausible is this? And what is Iran's real place in Chinese foreign policy?



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### COMPATIBILITY OF CIVILIZATIONS

China's economic growth and political influence undoubtedly make it a global player on the international arena. It has the largest population (1.3 bn people) and the largest army in the world. It is a nuclear-weapon state and a permanent veto-wielding member of the UN Security Council. And considering how active its foreign policy has become, all that gives China a say in world affairs. However, when it comes to the Iranian nuclear dossier, there is less talk about China's interests and motives than about Russia's or the West's. So from its position behind the curtains, China can become a kind of eminence grise of the Iranian crisis.

In their foreign policy, countries tend to be led by their economic and political interests. China's foreign policy these days is entirely pragmatic. It essentially boils down to creating favorable foreign environment for its own economic development and modernization. Economic growth and rising living standards are viewed as a guarantee of stability of China's political system and of the Chinese Communist Party's grip on power.

China's relations with Iran are also led by pragmatism. Considering the dynamics of Chinese-Iranian relations and the key areas of cooperation, China definitely has interests in the Gulf region.

Over a short period of just over 20 years, China has become Iran's second-biggest trading partner.<sup>1</sup> Diplomatic relations between the two countries were established in August 1971. But



the 1970s did not see any spectacular growth in the political or economic relations between Beijing and Tehran. At that time, China could not compete with the United States or Western Europe, which had already been firmly established in the region.

China stepped up its activity in the Middle East in the 1980s and 1990s. The 1990s were particularly notable in that regard – that is when China’s rapidly growing economy started developing a dependence on energy imports. Energy security was increasingly on the Chinese leaders’ minds.<sup>2</sup> And since the share of Middle Eastern (and particularly Iranian) oil in Chinese energy imports is growing,<sup>3</sup> security of energy supplies from that region is fast becoming one of the key foreign policy priorities for Beijing.

In Sino-Iranian cooperation, economic and political interests are tightly intertwined. It was Samuel Huntington who first predicted that the Chinese and Islamic civilizations were likely to grow ever closer, citing Sino-Iranian cooperation as an example.<sup>4</sup> The reasons for growing ties between the two countries lie in a certain similarity of the two nations, both facing the problems of modernization. The Islamic factor plays a role in drawing the two countries closer thanks to China’s Islamic minority. And the absence of a common border eliminates a traditional source of tension in bilateral relations.

From the Chinese leadership’s prospective, Iran is a regional leader, strategically located in terms of geography and an important trading partner. The key areas of economic cooperation between the two countries include oil and gas, arms trade and assistance in developing the Iranian nuclear energy program, which Tehran had been receiving from China up until 1997. But it cannot be ignored that shared views on the modern international system and its main problems have also played an important role in bringing the two countries closer. Iran and China are both staunch advocates of a multipolar world. Both oppose attempts at world domination by other countries, decry use of force and abide by the principle of non-interference in sovereign affairs. In addition to bilateral dialogue, China and Iran actively cooperate in the framework of international bodies such as OPEC<sup>5</sup> and the Shanghai Cooperation Organization (SCO).

For Iran, fostering closer ties with China is a chance to win an ally among the leading nations of the world and attract badly needed investment. These considerations are becoming especially poignant against the backdrop of the ongoing crisis over Iran’s nuclear program. Tehran counts on China, as well as Russia, to forestall any radical steps by the Security Council. For Iran, the worst of the plausible outcomes would be a UN Security Council resolution containing measures that could directly affect the Iranian oil and gas exports or imposing an outright economic blockade. That would be a direct blow for China’s economic interests and a challenge for Beijing’s foreign policy pragmatism. But how firm is Iran’s and China’s commitment to each other?

## **THE DEVELOPMENT OF PARTNERSHIP**

China’s chance to establish itself in the Gulf region came after the Islamic revolution in Iran. The events of 1979 and America’s trade embargo on Iran created a niche for China following the withdrawal of the West. In 1978, China accounted for just 1 percent of Iran’s imports, compared to America’s 21 percent, Germany’s 19 percent, Japan’s 16 percent and Britain’s 8 percent. But by 1991, Britain’s and America’s share fell to 3 percent and 1 percent, respectively. Meanwhile, China’s share of the Iranian market doubled, but in absolute terms it was still only a measly 2 percent.<sup>6</sup>

Now, however, China is among Iran’s main trading partners, along with Japan (which accounts for 14 percent of Iranian exports), Germany, Italy and France.<sup>7</sup> China now accounts for 12.8 percent of Iranian exports and 10.5 percent of imports, so obviously bilateral trade between the two countries has been growing at a very impressive pace. The *International Herald Tribune* said in September 2007, citing the Iranian Interior Ministry, that trade turnover between China and Iran could reach \$20 bn that year, up 60 percent on the year before.<sup>8</sup> Chinese companies working in Iran are mainly involved in the oil and gas sector, oil refining and

power generation. They are also expanding the subway system in Tehran and building dams, concrete plants, steel mills and shipyards.

The automotive sector is another area of growing cooperation. China is not a great power in the car industry. But it was Iran that the Chinese car manufacturer *Chery* chose as the site for its first plant abroad. Eventually the Iranian plant could help the Chinese company break into the international market.

But the biggest Iranian project for the Chinese companies so far has been the ongoing construction of four new subway lines in the Iranian capital. For Tehran, a city of 10 million people, the launch of the subway system has helped alleviate gridlock and improve air quality. The idea to invite Chinese companies to build the Tehran subway, a project sponsored by the president himself, came back in the early 1990s. China's *CITIC* group, then known as the China International Trust and Investment Company, won the tender. After five years of negotiations, a contract worth \$328 million was signed in 1997.<sup>9</sup> For 10 years now Chinese companies have been heavily involved in building the Tehran subway, backed by billions of dollars in loans and investment. Apart from the construction work itself, China also supplies most of the equipment, including the ventilation systems, cars, power equipment, etc. Apart from *CITIC*, two other Chinese companies are heavily involved in the project – *NORINCO* (China North Industries) and the *China National Technology Import and Export Corporation*. These two supply various equipment and power supply systems.<sup>10</sup>

Engineering experts were initially skeptical that China would be able to pull off this huge project. But now all doubts have been left behind. Four lines of the Tehran subway are already operational, and plans are on the table for further expansion of the system towards the suburbs of the capital city.

In recent years China and Iran have held regular conferences on boosting bilateral trade and economic cooperation. The agenda also included Iran's WTO membership aspirations. China has become a key trading partner for Iran, the main buyer of the Iranian oil and the key investor in various industrial and infrastructure projects.

According to the Chinese customs office statistics for 2006–2007, Iran is among the top five destinations for Iranian steel and paper exports. Iran is the third biggest oil supplier to China, after Saudi Arabia, and Angola.<sup>11</sup> And oil is the biggest item of China's imports from Iran.<sup>12</sup>

## OIL ABOVE ALL

The security of energy supplies is now one of the key preconditions for China's continued economic growth. The World Bank estimates that during 2001–2007, China was growing at an average annual rate of 10 percent, and 11.5 percent in 2007.<sup>13</sup> In 2003, China overtook Japan to become the world's second-biggest energy consumer after the United States.<sup>14</sup> China's oil consumption has been growing at an annual rate of about 7.5 percent, compared to just over 1 percent for the United States.<sup>15</sup> The International Energy Agency estimates that by 2020, about 70 percent of China's annual oil consumption will have to be covered by imports.

China's current energy strategy, set out in the 10th five-year plan (2001), is aimed at diversifying the sources of its energy supplies, reducing dependence on Middle Eastern oil, and gradually substituting coal with natural gas, alternative energy sources and nuclear energy. A recent addition to these strategic energy plans is reducing the energy consumption to GDP ratio (by as much as 20 percent by 2010).<sup>16</sup> But the implementation of the Chinese leadership's energy strategy is proceeding quite slowly.

In order to diversify energy supplies, Chinese companies are signing exploration deals in Central Asia, Africa and Latin America. But the Middle East still accounts for over 50 percent of China's oil imports. Iran is the third biggest supplier, with daily shipments to China of 350,000 barrels (after Angola with 550,000 barrels and Saudi Arabia with 500,000 barrels).<sup>17</sup>



In the Middle East, Chinese state-run corporations such as *CNNC*, *Petrochina*, *CNOOC* and *Sinopec* are facing tough competition from American, European and Japanese rivals. So China is forced to look elsewhere and explore the so-called risky markets, such as Iran.

In 1995, Iran opened up its energy sector to foreign investors. It allowed foreign companies to participate in oil production and exploration, and to export the oil they produce, but without receiving a stake in the oil fields. That way the energy resources remained under the control of the state, but the energy industry, one of the mainstays of the Iranian economy, received much-needed foreign capital to modernize. Iran sits on the world's third-largest known oil reserves (11 percent of the total), and is second only to Russia in terms of natural gas reserves (15 percent of the world total).<sup>18</sup>

Several Chinese companies have now been granted oil exploration rights in Iran. As a big oil exporter, Tehran believes its future lies with the rapidly growing eastern powers, China and India. Which is why the Iranian leadership is actively encouraging Chinese and Indian investment in its oil industry.

The first contract was signed in January 2000 between *Sinopec* and the *National Iranian Oil Company* to explore oil fields in Zavan and Kashan Countries.<sup>19</sup> Another key event in the energy cooperation between Iran and China was the signing in 2004 of a long-term protocol of intentions with the Chinese state company *Zhuhai Zhengrong*. Under the protocol, the Chinese company committed itself to importing 110 million tons of liquefied natural gas (LNG) from Iran over a period of 25 years.<sup>20</sup> The deal was initially estimated at \$20bn. And in October 2004, *Sinopec* concluded negotiations with the *National Iranian Gas Export Company* and the *National Iranian Oil Company* by signing a \$100-bn contract to buy another 250 million tons of LNG over 25 years.

Also in 2004, another memorandum of intentions was signed under which *Sinopec* would help Iran to explore the Yadavaran oil field and launch production there. In return China was granted the right to import the oil produced from the field for 25 years, with the estimated daily production of 150,000 barrels. The Yadavaran deal was closed in December 2007, when a \$2-bn contract was signed. Under the deal, *Sinopec* will take part in oil exploration and production, with the daily output now expected to reach 185,000 barrels.<sup>21</sup>

The deal, signed against the backdrop of the UN sanctions regime, attracted widespread criticism, primarily from the U.S. government. The U.S. administration believes that such deals, which bring much-needed investment to Iran's oil and gas industry, are undermining attempts by the international community to put pressure on Iran and force it to abide by Security Council resolutions.<sup>22</sup> Back in March 2006, when the Yadavaran deal was still being negotiated and the Iranian nuclear program had yet to be discussed by the UN Security Council, there were reports in the media that China was trying to close the deal before the imposition of sanctions on Iran. So it is quite obvious that neither criticism nor resolutions have been allowed to stand in the way of Sino-Iranian energy cooperation.

Thanks to the contracts signed over the eight years to 2007, China has become the largest importer of Iranian oil. As for Iran itself, such deals help it overcome the constraints of America's 1996 Iran and Lybia Sanctions Act, under which American and foreign companies were not allowed to invest more than \$40 million a year into the Iranian oil industry.<sup>23</sup> The act was adopted to curtail foreign investment into the industry, which accounted for 20 percent of Iran's GDP but was in serious need of modernization. The act was adopted under the pretext that, according to the Clinton administration, Iran was aiding and abetting terrorist organizations such as Hezbollah and secretly developing a nuclear energy program. In August 2006, the act was renamed into the Iran Sanctions Act, and the annual investment ceiling was halved to \$20 million.

Interestingly, the Act covered foreign participation not just in oil production but also in building energy transit routes from Iran. According to the U.S. administration, first under Bill Clinton and now under George W. Bush, developing those routes helps the Iranian oil and gas industry.

China's energy security, meanwhile, is crucially dependent on energy transit from the Middle East. All the oil China receives from the region is shipped via the Strait of Malacca, which is quite vulnerable in terms of security. The strait is only 2.5 km wide at the narrowest point, attracting pirates and terrorists. And in case of an economic blockade, this transit route is very likely to be cut off. Which is why Beijing is interested in building land transit routes, investing in the Caspian oil fields and building oil pipelines that would connect China with those territories.

In the long term there are plans to revive the Silk Route, which would include building a new pipeline from Tehran to the Caspian Sea and linking it with the Western Kazakhstan – Western China oil pipeline. In addition to the network of pipelines connecting China, Kazakhstan and Iran (as well as China, Turkmenistan and Iran), also on the table now is an alternative route via Pakistan. The initiative was put forward by Pakistan itself, after doubts appeared about the feasibility of the Iran-Pakistan-India pipeline project. But for China, building a pipeline via Pakistan is quite problematic, mostly because of the mountainous terrain.

In addition to oil and gas, energy cooperation program between China and Iran could soon include the nuclear energy sector. In January 2008, possible Chinese participation in plans to build 20 nuclear power plants in Iran were discussed at a meeting between China's ambassador to Tehran, Xie Xiaoyan, and Majlis Representative and Head of Energy Commission Kamal Daneshyar. The two also discussed further cooperation in the oil and gas sector and infrastructure projects, as well as forging closer cultural links between the two countries. The nuclear proposal was made by the Iranian side, according to the Iranian government news agency IRNA. In reply, the Chinese ambassador voiced the readiness of his country to invest more in various projects in Iran.<sup>24</sup>

## NUCLEAR ENERGY COOPERATION

China started openly helping Iran to develop its nuclear energy program in the 1990s. Later on, under pressure from the United States, it had to put on hold full-scale cooperation with Iran in this area – but by that time Iran had already received some Chinese assistance.

Many experts believe that nuclear cooperation between Iran and China goes back to the mid-1980s. The first deal, under which China trained Iranian specialists at Chinese research centers, was signed in 1985. That deal was followed by another agreement under which China helped Iran build its key nuclear research center in Isfahan. It also supplied Iran with zero-output nuclear reactors, which were later placed under the IAEA safeguards system along with the whole Isfahan research center.<sup>25</sup>

The 1985 deal has been kept secret, and China still officially denies its existence. But the United States is sure that the agreement exists. Up until 1991, China kept rejecting all allegations of nuclear cooperation with Iran as groundless. Only in November 1991 did the Chinese foreign minister recognize that Chinese companies had signed a contract with Iran to supply a small 20MW research reactor. He insisted that the reactor would be used for peaceful purposes (such as medical diagnostics and fundamental physics research) and that it would operate under the IAEA safeguards system.<sup>26</sup> The Chinese also said that because the reactor was so small, it posed no threat to the nonproliferation regime.

IAEA inspectors concurred with the Chinese. After inspecting Isfahan, IAEA officials concluded that the Chinese reactor could not be used to enrich uranium. The capacity of the reactor was not sufficient to create enough fissile material for a nuclear weapon.

But Washington questioned those conclusions. Under a technical pretext the Chinese withdrew from the deal to supply the 20MW reactor. Pressure from Washington could have been the true reason.

In spite of this poor start, in 1992 the two countries signed a nuclear energy cooperation agreement<sup>27</sup> during a visit to Beijing by Iranian President Hashemi Rafsanjani and a delegation of military and energy officials.



In February 1993, a deal was signed to sell to Iran a nuclear synthesis reactor for Azad University in Tehran. Chinese experts visited Tehran twice in 1994 to install the reactor and perform some maintenance. In February 1995, Iran reported to China that the reactor was up and running.<sup>28</sup>

Ignoring Washington's disapproval, in 1995 China signed a deal to build a nuclear power plant in Iran with two 300MW water-cooled reactors. The Chinese promised to have the reactors ready for launch in seven to nine years time. They were supposed to be used for peaceful purposes under the IAI international inspections regime – which means that the deal did not violate the nonproliferation regime. But it ground to a halt by late 1995 due to technical and economic difficulties on the part of the Chinese, as well as differences with the Iranians over the deliverables.

The U.S. government was worried that the reactors would be used for what they called “Iran’s secret nuclear program”. It was especially concerned by the transfer of the reactor and technologies, including the equipment to manufacture uranium rods, which can be used to produce fissile materials for nuclear warheads.<sup>29</sup>

Some American experts believed that the sale of the Chinese reactor to Iran was nothing to worry about. They thought that the Chinese would not be able to meet their contractual obligations on time – that is, to finish the construction of the reactor by the 2002 deadline. Their reasoning was that when building their first reactor *Qinshan 1* in the late 1980s, the Chinese themselves had to buy its key components from German, Japanese and other foreign suppliers. Those suppliers said they would not sell such components to Iran, and without their help China would hardly be able to finish the reactor at all, let alone on time. But China said it would be able to build all the necessary components itself.

However, on 27 September 1995, Chinese Foreign Minister Qian Qichen told US Secretary of State Warren Christopher that China had unilaterally withdrawn from the Iranian nuclear deal. The reasons for this remain unclear.<sup>30</sup>

There was also another area of nuclear cooperation between Iran and China – the transfer of uranium and its enrichment. The CIA reported as far back as July 1994 that Chinese experts were working at Rudan and Shiraz to build a uranium enrichment facility. In September 1995, the Chinese ambassador to Iran admitted that China had been selling uranium enrichment and other nuclear technology to Tehran.<sup>31</sup> And in early 1996 China informed the IAEA about its proposal to sell uranium conversion equipment to Iran, and that the materials sold would be placed under the IAEA safeguards system.<sup>32</sup> But Washington continued its pressure on China to stop its nuclear cooperation with Iran completely. In early 1997 China was close to finishing the construction of the plant in Iran, with the expected launch date some time in 2000. But under an agreement reached with the United States, China undertook to stop its nuclear energy assistance to Iran. That meant that the uranium enrichment plant would have to be finished without the Chinese.<sup>33</sup>

That was the price Beijing paid for unfreezing the Sino-American agreement on cooperation in peaceful use of nuclear energy, which had been signed back in 1985 but kept on hold ever since. The go-ahead for U.S. companies to do business with China in nuclear energy required confidence that Beijing was not helping other countries develop their own nuclear programs.

## **MILITARY AND TECHNICAL COOPERATION**

Chinese military exports to Iran are a huge thorn in the side of Sino-American relations. And in China's relations with Iran, arms trade has become an instrument for China to not just enter the Iranian market but lay the foundation for ever closer bilateral ties.

China captured a large chunk of the Iranian arms market back at the time of the Iraqi-Iranian war of 1980–1988. China sold over \$2-bn-worth of military equipment to Tehran over that period, accounting for 39 percent of all Iranian arms imports.<sup>34</sup> The Chinese arms were however of poor quality, being mostly the obsolete Soviet equipment China bought during the years of Soviet-Chinese friendship. When that friendship ended, for more than 20 years China had no

way of replenishing its arsenals with foreign-made weapons, and had to rely on modernizing old Soviet-designed equipment. Iran, meanwhile, had found itself in an international isolation and needed regular arms shipments to keep its war effort going. European countries such as Italy, Austria and France could not guarantee regular arms supplies, possibly due to pressure from Washington. By turning to Beijing, Iran ensured regular arms deliveries for the entire duration of the war. For its part, China seized the opportunity to earn some foreign currency to reorganize and modernize its defense industry.

Arms exports is a convenient source of income, so over time China has been squeezed out of Iran by Russia, which now controls about 70 percent of the Iranian arms market.<sup>35</sup> Russian arms are more modern and their quality is better, but China still remains the second-biggest supplier to Iran with 18 percent of the market.<sup>36</sup>

One of the areas of Sino-Iranian military cooperation is the sale of technology and licensing of antisubmarine missiles and guidance systems.<sup>37</sup> According to the Stockholm International Peace Research Institute (SIPRI), the last direct arms sales contract was signed in 2000. The latest technical support deal was signed in 2004. Under the deal, China offers technical assistance in the manufacturing of arms, mostly anti-submarine missiles similar to the Chinese C-802 and C-801. China is still fulfilling its side of the contract, which cannot remain unnoticed under the current circumstances.

The U.S. State Department has repeatedly imposed sanctions on Chinese companies working in Iran for exporting arms manufacturing and testing equipment. The sanctions imposed in June and December 2006, as well as April 2007, on a total of eight Chinese companies for violating the Iran and Syria Nonproliferation Act of 2000 are still in force.<sup>38</sup> Beijing's reaction to these sanctions is sharply negative. Announcements of new sanctions by the Department of State are usually followed by a Chinese statement condemning such steps<sup>39</sup> and warning that such persistence on the part of the United States does not help Sino-American cooperation in the area of nonproliferation.<sup>40</sup>

As for the Chinese companies themselves, *NORINCO* is a typical example. It has repeatedly been placed under U.S. sanctions over the four years to 2007. Company officials have insisted that their decisions were in line with Chinese legislation, and that the sanctions would directly affect business in the American market itself. Similar sanctions have also been used at some point against Russian, Ukrainian and Belarusian companies for supplying missile components or sending their experts to Iran.

The situation with the sanctions repeats itself almost every year – and the Chinese reaction is becoming increasingly harsh compared to the 1990s, when Beijing yielded to obvious U.S. pressure to halt its nuclear energy cooperation with Iran.

## IRANIAN NUCLEAR PROGRAM AND CHINA

Amid growing pressure on Iran by the United States and its allies over the Iranian nuclear program, China's diplomatic support for Tehran is now the key element of Sino-Iranian relations. Working in the framework of the UN and the IAEA, and using other platforms, China is trying to formulate and promote its own stance on the Iranian nuclear issue.

As tensions mounted, Chinese diplomats have repeatedly stressed the need for a peaceful solution.<sup>41</sup>

At critical junctures, China and Iran step up their contacts. In early November 2004, Chinese Foreign Minister Li Zhaoxing was on a visit to Tehran to discuss the Iranian nuclear program.<sup>42</sup> Shortly before a meeting of the IAEA Board of Governors in November 2005, an Iranian diplomat was in China for consultations.<sup>43</sup> And in June 2006, shortly before the European *troika* of Germany, France and Britain offered Iran its preliminary proposal on nuclear settlement, Li Zhaoxing met the Iranian deputy foreign minister, Abbas Araghchi, in Beijing.<sup>44</sup>

In January 2006 tensions erupted again after the Iranians broke the IAEA seals at the Natanz facility to begin uranium enrichment. The reaction of the international community was ambiguo-



ous. The European *troika* called for an urgent meeting of the IAEA Board of Governors. The U.S. put forward a similar initiative. The Chinese reaction was much more restrained. While expressing concern over the Iranian nuclear program, Beijing urged the European *troika* and Iran to resume talks within the Paris Agreements framework.<sup>45</sup> Speaking at a news conference on 12 January 2006, Chinese Foreign Ministry spokesman Kong Quan said he hoped Iran would do everything it could to build mutual trust with the European powers to resume the talks<sup>46</sup>. Chinese State Councilor Tang Jiaxuan expressed his concern about the growing tension over the Iranian nuclear program during a meeting with the secretary of the Iranian Supreme Council of National Security, Ali Larijani. He said that “all the parties should take diplomatic steps to create favorable conditions for the resumption of the talks.”<sup>47</sup>

China was categorically opposed to discussing the Iranian nuclear case at the Security Council or imposing sanctions on Iran. Beijing believes the matter should be resolved through talks within the IAEA framework. China also believes that every country that has signed the Nuclear Non-Proliferation Treaty has the right to peaceful use of nuclear energy so long as it does not violate the treaty. Speaking to journalists in January 2006, a Chinese Foreign Ministry official said that sanctions would only complicate the situation. China “opposes habitual use of sanctions or the threat of sanctions as a means to solve international disagreements,” he said.<sup>48</sup> In this Beijing’s views coincide with the position of Moscow. China also supported Moscow’s idea to enrich uranium for Iran as a means of defusing the crisis and avoiding the issue of sanctions being discussed at the Security Council.<sup>49</sup>

In effect, China’s policy is essentially based on three principles: noninterference, nonproliferation and no aggravation of relations with Middle Eastern energy suppliers or other players. Even before the adoption of the first resolutions on Iran, Beijing was trying to strike a balance between Iran’s right to peaceful nuclear energy and compliance with the NPT. In their public statements, Chinese officials have been urging Iran to abide by its international commitments, comply with the treaties it has signed and cooperate with the IAEA. They have also condemned any aspirations to develop nuclear weapons. But at the same time China has actively supported Tehran as an NPT signatory in its right to gain access to nuclear technologies for peaceful use.<sup>50</sup> As a result, now that the UN Security Council resolutions have been passed and the sanctions regime is in place, China’s policy boils down to keeping the conflict within the bounds of diplomacy and preventing the use of force against Iran. According to Chinese diplomats, “the sanctions are being used not to punish Iran but to persuade it to return to negotiations.”<sup>51</sup> That would be a lofty accomplishment, considering Iran’s aspiration to acquire nuclear weapons, its refusal to comply with the Security Council resolutions and President Mahmoud Ahmadinejad’s public pronouncements about his country’s achievements in building new centrifuges.<sup>52</sup>

Resolution 1803, passed in March 2008, tightened the sanctions regime against Iran and raised a number of issues in Sino-Iranian cooperation. Speaking at a news conference shortly after the resolution was passed, Chinese Foreign Ministry spokesman Qin Gang countered journalists’ remarks that doing business with Iran would now be more difficult. “Trade between Iran and China as well as other countries are normal economic exchanges and cooperation between sovereign states. It has nothing to do with Iran’s nuclear program and does not violate relevant resolutions of the UN Security Council,” the official said.<sup>53</sup>


## THE SCALES OF PRAGMATISM

So to what extent is Beijing ready to stand up for Iran? How will China vote if a decision sanctioning the use of force is put to the ballot, and will it vote at all? This is important not just for Iran and for solving the crisis as a whole – it’s important for China itself. In the past, China has tended to abstain during the votes on Middle East resolutions containing radical steps (such as the resolutions on the Iraqi war against Kuwait in 1991 and the U.S. campaign in Iraq of 2003). So if past performance is any guide, similar behavior on the part of the Chinese can be expected this time around as well.

But Iran’s oil wealth and China’s rapidly growing economy mean that China has important strategic interests in Iran. These interests boil down to ensuring energy security, buying ener-

gy resources (so far Chinese imports are not sufficiently diversified), selling arms (to generate income) and participating in multi-million dollar infrastructure contracts in Iran.

China's foreign policy is very pragmatic. Lead by its own economic interests, China is actively developing trade with not just Iran but also Sudan, which is facing international opprobrium over the conflict in Darfur, and Venezuela, whose fairly radical president, Hugo Chavez, has come under American criticism over his close ties with Cuba and other issues. And the scenario of forging ties with those three countries is more or less the same. The situation in Darfur is also on the Security Council agenda. And as resolutions on Sudan were being debated at the Security Council, there were media reports that China was threatening to use its veto to protect its interests.<sup>54</sup> But in the end, China did not resort to its power of veto, despite Chinese companies' oil exploration contracts in Sudan.<sup>55</sup>

In the Middle East, China's policy is even more cautious, because the interests of a powerful player, the United States, are involved. Despite the obvious progress of Sino-Iranian economic ties, Iran's importance for the Chinese economy remains fairly modest. Economically, Iran needs China more than China needs Iran. America is far more important for China as an exports market. China's trade turnover with the United States reached 386 bn dollars in 2007, with Chinese goods sold to America accounting for 381.5 bn dollars.<sup>56</sup> So despite China's energy deficit, Sino-Iranian economic ties are unlikely ever to reach the level of Sino-American economic cooperation. 

## Notes

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<sup>3</sup>US Energy Information Administration. Country Analysis Briefs. China. August 2006. <http://www.eia.doe.gov/emeu/cabs/China/pdf.pdf> (last updated on 24 April 2008).

<sup>4</sup>Samuel Huntington, *The Clash of Civilizations* (Russian edition) (Moscow: ACT publishing house, 2003).

<sup>5</sup>China-OPEC energy dialogue started in 2005. The three main suppliers of oil to China – Saudi Arabia, Angola and Iran – are OPEC members. The main topic of the energy dialogue is coordinating supply and demand and ensuring stability of oil supplies to China.

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<sup>13</sup>China Key Macro-Indicators. The World Bank Group. [http://siteresources.worldbank.org/CHI-NAEXTN/Resources/318949-1121421890573/cqu\\_09\\_07.pdf](http://siteresources.worldbank.org/CHI-NAEXTN/Resources/318949-1121421890573/cqu_09_07.pdf) (last visited on April 24, 2008).





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- <sup>35</sup> Imported weapons to Iran (IRA) in 1995–2005. SIPRI Arms Transfers Database, [http://www.sipri.org/contents/armstrad/TIV\\_imp\\_IRA\\_95-05.pdf](http://www.sipri.org/contents/armstrad/TIV_imp_IRA_95-05.pdf) (last visited on April 28, 2008).
- <sup>36</sup> *Ibid.*
- <sup>37</sup> Trade register, 1980–2007. SIPRI Arms Transfers Database, [http://www.sipri.org/contents/armstrad/output\\_types\\_TIV.html](http://www.sipri.org/contents/armstrad/output_types_TIV.html) (last visited on May 10, 2008).
- <sup>38</sup> Initially called Iran Nonproliferation Act. In November 2005, U.S. Congress passed amendments to the act and changed its name to Iran and Syria Nonproliferation Act. Under the act, the U.S. president can

impose sanctions on governments, companies and individuals responsible for the transfer of missiles, weapons of mass destruction and related technologies to Iran and Syria.

<sup>39</sup> “China opposes US sanctions on Chinese companies,” Embassy of the PRC in the United States, September 1, 2007, <http://www.china-embassy.org/eng/zmgx/zmgx/Political%20Relationship/t287956.htm> (last visited on April 24, 2008).

<sup>40</sup> Press Conference with Kong Quan, Foreign Ministry Spokesman, *Iran Watch*, <http://www.iranwatch.org/government/China/china-mfa-spokesperson-armsembargo-012005.htm> (last visited on April 24, 2008).

<sup>41</sup> Meeting of Political Director Generals from the Foreign Ministries of the six Countries on Iranian Nuclear Issue Held in Shanghai, MFA of PRC, April 2008, <http://www.fmprc.gov.cn/eng/wjb/zzjg/xybfs/gjlb/2818/2820/t426419.htm> (last visited on May 12, 2008).

<sup>42</sup> “Foreign Minister Li Zhaoxing Pays a Formal Visit to Iran,” MFA of PRC, November 7, 2004, <http://www.fmprc.gov.cn/eng/wjb/zzjg/xybfs/gjlb/2818/2820/t169550.htm> (last visited on April 24, 2008).

<sup>43</sup> “Iran Negotiator Calls for Fresh EU Nuclear Talks in New Letter,” *China Post*, November 7, 2005.

<sup>44</sup> “Foreign Minister Li Zhaoxing Meets with Iranian Deputy Foreign Minister Araghchi,” MFA of PRC, June 9, 2006, <http://www.fmprc.gov.cn/eng/wjb/zzjg/xybfs/gjlb/2818/2820/t257617.htm> (last visited on May 12, 2008).

<sup>45</sup> Under the Paris Agreement, signed in November 2004 by the European *troika* and Iran, Tehran promised to suspend nuclear research and uranium enrichment until the completion of the talks. In August 2005, Iran resumed enrichment efforts at the nuclear facility in Isfahan. In response, the European powers called an emergency meeting of the IAEA Board of Governors.

<sup>46</sup> Press Conference with Kong Quan, Foreign Ministry spokesperson, *Iran Watch*, January 12, 2006 <http://www.iranwatch.org/government/China/china-mfa-spokesperson-armsembargo-012005.htm> (last visited on April 28, 2008).

<sup>47</sup> “State Councilor Tang Jiaxuan Meets with Secretary Larjani of Supreme National Security Council of Iran,” MFA of PRC, January 26, 2006, <http://www.fmprc.gov.cn/eng/wjb/zzjg/xybfs/gjlb/2818/2820/t234078.htm> (last visited on May 12, 2008).

<sup>48</sup> “Statement by a Chinese Foreign Ministry official on resolving the Iranian nuclear issue through talks,” *The People’s Daily*, January 26, 2006.

<sup>49</sup> *Ibid.*

<sup>50</sup> Remarks by Ambassador Liu Zhenmin at the Security Council after Taking Vote on Resolution on Iran’s Nuclear Issue. PRC Representative at the UN, July 31, 2006, <http://www.fmprc.gov.cn/ce/ceun/eng/smhwj/2006/t265629.htm> (last visited on April 24, 2008).

<sup>51</sup> Foreign Ministry Spokesperson Qin Gang’s Regular Press Conference on March 4, 2008, MFA of PRC, <http://www.fmprc.gov.cn/eng/xwfw/s2510/t412304.htm> (last visited on April 24, 2008).

<sup>52</sup> “Iran installing new centrifuges,” *BBC*, April 2008, [http://news.bbc.co.uk/2/hi/middle\\_east/7336089.stm](http://news.bbc.co.uk/2/hi/middle_east/7336089.stm) (last visited on April 24, 2008).

<sup>53</sup> Foreign Ministry Spokesperson Qin Gang’s Regular Press Conference...

<sup>54</sup> “Chinese leaders boosts Sudan ties,” *BBC*, February 2, 2008, <http://news.bbc.co.uk/2/hi/africa/6323017.stm> (last visited on April 24, 2008).

<sup>55</sup> Draft resolutions rejected by the vote of the permanent members at the open sessions of the Security Council, <http://www.un.org/russian/documen/scdocs/veto/china.htm> (last visited on April 24, 2008).

<sup>56</sup> As previously stated, Chinese-American trade turnover was \$20 bn at the time. See U.S.-China Trade Statistics and China’s World Trade Statistics, <http://www.uschina.org/statistics/tradetable.html> (last visited on April 24, 2008).





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Georgy Toloraya, Vladimir Khrustalev

THE FUTURE OF NORTH KOREA:  
WAITING FOR THE RESOLUTION?

From: Vladimir Khrustalev  
To: Georgy Toloraya  
Subject: A Comatose Patient?

Good afternoon, dear Georgy Davydovich!

I am happy to discuss with you such exciting topic, the urgency of which is obvious. The dismantlement of the North Korean nuclear program goes slowly, there is a growing uncertainty about the health of Kim Jong-il, the role of the D.P.R.K in the Northeast Asia, global implications of the missile and nuclear programs of this country (used by the United States to implement its military-technical projects) – all this makes the debate quite topical. After all, North Korea is our neighbor and any *force-majeure* would have immediate impact on the Russian Far East and, at worst, on the entire world.

Meanwhile, the D.P.R.K is one of the closest societies in the world – so much of the rumors that emerge are clear disinformation. However, the systemic problems in the country can hardly be denied. Some conclusions can be drawn from the available information.

Despite the dismantlement of the nuclear infrastructure, the D.P.R.K can in parallel continue to modernize and build up its nuclear arsenal in alternative ways. And the uranium enrichment issue is still on the agenda, even though it is regarded through a non-traditional prism – it can be further used by the United States and its allies to pounce Pyongyang further.

Truth about the state of Kim Jong-il is unknown for sure. However, his absence at a number of events, the way of conveying information about him and his activities in the North Korean media, as well as some strange things accompanying his *visits* – all this indicates that, at present, he faces some health problems. Their gravity and his life expectance are a complete enigma and cannot be verified by an external observer. If he steps out and/or dies, the country will be led collectively for one-three years. The ruling class will be able to control the situation, but it will put off the key issues and this cannot last forever. If new floods or other similar disasters (e.g. epidemics) take place, or the attempts to pursue hard line in economy and social sphere meet the resentment, such developments (in combination or individually) may provoke quick catastrophe (in the worst-case scenario in 2009).

The society is seemingly stable, but it is only a superficial view, since the number of negative trends for the regime (such as washing-out of the information isolation, higher role of private trade, the role of foreign currency, etc.) prove the version that in the mid-term perspective (less than five years) there is a probability of sudden (for external parties) collapse. According to the media and specialized sources, this year the authorities in the D.P.R.K plan to launch the struggle against such trends. What are their chances for success? The very tightening may eventually become an impetus for the opposition.

Some social contradictions are caused by the discrepancies in official ideology and reality in the streets, economic differences among the urban and rural areas, etc. North Korea reminds a comatose patient after the road accident who has lung ventilation and a growing tumor. The



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artificial respiration cannot be cut off for the sake of surgery – the patient would die. At the same time, it is dangerous not to cure cancer – the patient would die, but later. Even if surgery is undertaken, it is not clear whether the patient would survive it. The political system of North Korea functions in a more or less sustainable manner so far, but what may happen in the foreseeable future (next five years)? What are the lessons for Russia? What should it be ready for?

Yours,  
Vladimir Khrustalev

From: Georgy Toloraya  
To: Vladimir Khrustalev  
Subject: Re: A Comatose Patient?

Dear Vladimir!

Thank you for your letter. Over two decades the issue of the D.P.R.K's future is a point of heated debate at various conferences, in research papers and media, etc. Since the late 1980s the dominating point of view (at least, in the West) has been the near collapse of the regime. Such forecast, however, does not come true and the number of proponents of apocalyptic scenarios has already decreased. Nonetheless, the majority of politicians and analysts assume that the North Korean political system is historically doomed to failure and there is a desire to push the regime towards the collapse and ensure its *soft landing* (controllable collapse). It will be followed by the unification of Korea, i.e. the takeover of the North by the South.

You also base your conclusions on such assumption, speaking about inevitable and at the same time sudden demise of the ruling regime in the next five years. The arguments in favor of such theory are clear – chaotic anti-Socialist sentiments, money as a social value, penetration of the South Korean and Western culture and so on. The authorities also feel the threat – their response is tough, including restrictions on the market trade and repressions. Poor health of the leader is another critical factor – Kim Jong-il is a state-forming personality similar to Louis XIV with his “I am the state.”

This is all true. But do you really think that North Korea is in coma? Such opinion is shared by those who have only recently got access to the insider information and does not take into account that famine and hardships, economic inefficiency and repressions are typical of the D.P.R.K since the moment of its establishment. Evidently the 1990s were difficult times, but now an average North Korean citizen lives not much worse than 20–30 years ago (albeit there is less equality nowadays). All this is an outcome of resuscitation of economy: markets, semi-homemade production, quasiprivate service sector have changed the life standards. Traditional party and political elite is now complemented with the bourgeoisie (it is noteworthy that as a norm *new Koreans* are not well linked with the criminal community). The country develops, there is a potential for growth, although ideological bondage and security concerns of the regime hamper positive economic activities.

The future of North Korea will be determined by inherent factors that ensure submissiveness of the population for decades, despite the oppression and severe life standards. I believe that Kim Il-sung applied the traditional Confucian model of the state backed with the strong spirit of nationalism in North Korea. *Juche* speaks about the importance of self-reliance, independence, ability to live without envying anyone else. It may seem strange for us, but for the Koreans who for centuries suffered from Great Powers this was a set of understandable and shared ideals. Such feudal theocracy is a modern version of traditional oriental despotism – it is quite sustainable, it can evolve. So market economy relations will not shaken the pillars of the state, even if the Communist ideology dissolves in the national idea of sovereignty. The moment is close. But change of the ideological wind does not necessarily mean rotation of the ruling elite and the changes in the hierarchy of governance. The elite may be upgraded in natural way, while the bureaucratic system will be *repainted* and restored.

G. Toloraya

From: Vladimir Khrustalev  
To: Georgy Toloraya  
Subject: Legitimacy of Power

Dear Georgy Davydovich!

Let me explain why I took five years as a forecast period. The actual horizon for an unequivocal and relatively true prognosis is five years – it enables us to analyze different scenarios for another twenty years beyond this line. And afterwards there comes a period of total unpredictability. Five years is an approximate term after which uncertainty in the system starts to prevail over certainty in various types of human activities.

The major priority for the elite is to ensure the survivability of the current political regime in North Korea. However, sustainability of the regime requires a number of fundamental conditions. In the long-term perspective it is the legitimacy that determines the future of the power system. Legitimacy in North Korea is based on the Confucian culture, specific official depiction of the external world, information self-isolation, certain doctrine in the interpretation of the past and the present, and a few tools to manipulate and control the public opinion (together with the technical and spatial restrictions, such as permissions to move from one district to another, or seals on radios). The maintenance of legitimacy sometimes contradicts other demands of the state and society as complex systems that require resources for development and survival.

Hence, I cannot but agree that the role of Confucian model is fundamental, but it is quite difficult to assess its nuances and to make thorough forecasts for the future, since it is a cultural issue.

I assume that the parallels with the comatose patient are correct. What does the D.P.R.K need from historical point of view? To survive. What is necessary for survival? Modernization, security, exit from the state of self-isolation and external isolation combined with the maintenance of legitimacy (both external and internal). It makes sense to cast at least superficial glance at these mutually excluding demands to understand the inevitability of failure. The tragedy is, however, deeper – if any of them is left unsatisfied at least at the minimal level and within a certain period, this would lead to a guaranteed collapse of the Juche project.

V. Khrustalev

From: Georgy Toloraya  
To: Vladimir Khrustalev  
Subject: Nuclear Card

Vladimir,

Nowadays the North Korean leaders plan to solve the problem of continuity, taking into account 2012 (100 years of Kim Il-sung and 70 years of Kim Jong-il), the year when a successor should be named. I doubt that everything will go smoothly, but I am happy that some preparations for the change of command have already started. Sooner or later Kim Jong-il's political retirement would give the elite in North Korea a chance for change to the benefit of survival. It is a big question whether the new leadership will be able to undertake such efforts, especially if it comes for a short term and comprises patriarchs of ideology. But we can hope that the elite driven by the basic survival instinct will be able to form a pragmatic nucleus. These people will have appropriate respect to Juche and the legacy of the great leaders on the surface, but will slowly move the country towards economic transformation under an authoritarian (not totalitarian) regime. Such policy has already been codenamed – *building a strong and prosperous state*. The national idea a la Juche contains simple and comprehensible targets. And common North Koreans hardly welcome the idea of being hugged (and in fact, absorbed) by their Southern Korean brothers, or become a Chinese protectorate.

An indispensable condition should be external security and suppression of any attempts to undermine the regime, so the society will not become open. It is not clear yet how to combine this with the reforms. Under these circumstances, the *nuclear card* becomes crucial – it is the only guarantee against military scenarios and it helps to maintain the interest of the partners (adversaries and supporters of the regime) in stability and in prevention of chaos in the *de facto* nuclear-weapon state. Therefore, the D.P.R.K will try to preserve its nuclear arsenal to the end, or to the moment when it sees no hostile intentions on the part of its opponents and



can be sure to expect effective development assistance. How will the diplomatic process relating to this core issue go? This could be a good point of deliberations.

Yours,  
G. Toloraya

From: Vladimir Khrustalev  
To: Georgy Toloraya  
Subject: Re: Nuclear Card

Dear Georgy Davydovich,

At first, one has to think about the character and sources of threats to information isolation. Nearly everything can help to ruin it! And it is not evident that the Confucian cultural code will help to reconcile external and domestic realities. This is why the Pyongyang's political project is a bogus.

Will the *nuclear card* be a guarantee? In my opinion, nuclear deterrence will trigger the beginning of the end. The 2006 nuclear tests gave the D.P.R.K a break and justification – “in order to create the security assurances, it is necessary to tighten the belts”. All right, quite logical explanation for a philistine. However, according to some experts, one of the major reasons for immunity of the North Korean authorities to corrosion and collapse is the existence of military threat, which is considered to be real by the officials, the armed forces, and the population. At present, according to some reports, the potential military challenge is not regarded as a direct peril. Hence, one can relax – “there will be no war, it makes little sense to attack us – we possess nuclear weapons.” The legitimacy of total militarization goes down; more claims to the authorities emerge and may emerge in the future. This is a strong destabilizing factor. It is not the only one, but it is important. And there are many of them.

Therefore, the window of opportunities for Pyongyang is limited and will continue to narrow down – in general, the number of variants will be few. Since we do not know the contents of their heads, Russia will have to act cautiously, pragmatically and in cool mind.

First of all, it would be necessary to initiate a broad discussion of nuclear factor in foreign and domestic policy of North Korea, since there exist many myths, misinterpretations, miscalculations and so on in the Russian expert community and in the propagandistic constructions of other parties of negotiations.

Secondly, the concept of the D.P.R.K as a threat to global and regional security is exploited by the United States and Japan as a pretext to build up their military might and change the balance of power in the region and in the world as such. The U.S. missile defense in Northeast Asia is a vivid example of such approach and there are many others.

Thirdly, the U.S. actions are retaliated by China and Russia. Thus, there is a system of complicated links which do not correct the system, but rather exacerbate negative trends in the region and on the planet. These are strategic shifts, the terms of existence in the region change. And under such circumstances, any construction of myths and external interference are quite dangerous.

Besides, in recent years much has been said about the role of nongovernmental actors in international relations. In most cases international terrorist organizations are meant. However, the tensions in late 2008 were partly caused by sending to North Korea the balloons with leaflets, while this was done contrary to the official will of Seoul by nongovernmental religious organizations. From the neutral waters...

Vladimir Khrustalev

From: Georgy Toloraya  
To: Vladimir Khrustalev  
Subject: Between Scylla and Charybdis

Vladimir,

Unlike many North Korean partners (except China) we know, or at least, feel and can tell the minds of our ex-Soviet allies. The older generation keeps the record of War Communism par-

adigm and there is no contradiction between legitimacy and ideology. In North Korea the idea is not to achieve the Communist utopia, but to preserve the national identity and independence (and there is no problem in neglecting external factors – North Korea is a champion in this).

Therefore, the scenario of collapse is probable, but not the most probable. The binary task before the D.P.R.K – modernization and maintenance of legitimacy – can be solved, if the second element has the priority over the first one. This provides for the relative sustainability of the Juche project, unlike the Soviet one, which ruined when the ideological constraints were loosened and the ideology ran bankrupt.

Will the North Korean leaders be able to pass between Scylla of economic and social degrading for the sake of ideological stubbornness and Charybdis of economic and social liberalization that may undermine the regime? Much will depend not only on the flexibility and insight of the ruling elite, but also on external factors.

Will the weakening of potential external military threat, as you suspect, destroy the Juche mentality? The thing is that the psychology of North Koreans does not regard as an invasion against independence only power attacks. Political and economic pressure, subversive activities, including soft penetration (your example with leaflets and tough response to them), are also considered to be serious challenges. The peril does not originate from the West only – there is a growing threat felt in Pyongyang with respect to China.

Until recently Russia was not regarded negatively due to her weakness, but intensification of our foreign policy efforts will also make Pyongyang think twice. So the elite will not allow the authorities and the population to relax, even if the military threat becomes of secondary importance. The recent reshuffles indicate that there is little tolerance to opportunism.

Therefore, the psychology of the besieged fortress, *Bastion North Korea*, will be a determining factor in the foreseeable future – even if North Korea, as it states, eventually decides to repudiate its nuclear weapons after normalization of relations with the United States. However, one has to admit that possible rapprochement with the West would be the most effective way for gradual softening of the regime and its eventual transformation into a *socialist market economy* akin to Northeast Asia.

Thus, the nuclear issue should not be regarded as a nonproliferation and stability challenge only, but also as a chance for survival of North Korea and the creation of a new system of international relations in the Far East (which would provide for greater security and development opportunities for all regional players, including the D.P.R.K).

This is a tough diplomatic challenge for Russia. Firstly, it is necessary to eliminate the nuclear proliferation threat – North Korea may be followed by Iran and a number of other state and non-state actors... Secondly, it is a matter of stability in the border region. Thirdly, the geopolitical game is under way and the stakes are high – division of power in East Asia. It is not in our interests to see the growing influence of the United States or China, or to witness increasing confrontation between them. *Status quo*, including independence of North Korea (regardless of its social organization), would help to avoid significant shifts in the balance of power detrimental to Moscow. It is important to remember that the situation on the Korean peninsula is one of a few international issues, on which we do not have substantial differences with the United States, especially with the new Democratic administration. There are even chances for cooperation here. Finally, the modernization of North Korea is a good chance for the Russian Far East to obtain additional economic bonuses.

What is the mission of Russia in the sluggish peace process – negotiations of the Six? It seems that Moscow has not yet thought about long-term objectives being complacent with the traditional idea that most of the problems will be solved at the bilateral level (between the United States and the D.P.R.K), especially with the appointment of the Obama administration. China is regulating the process, so the Kremlin assumes that very little depends on us. Perhaps, this is true with respect to the nuclear issue – it is not the most important for us and it is not the only one for us, after all. However, to pursue geopolitical goals in Asia, Russia should use the settlement of the North Korean issue as a real chance to influence the world order and the situation in the region. It is the chance that soon may be missed.

Georgy Toloraya





From: Vladimir Khrustalev  
To: Georgy Toloraya  
Subject: Love or Fear - What Is Better?

Dear Georgy Davydovich,

I agree with you entirely that nuclear deterrence in its Juche pattern is one of the key factors helping Pyongyang to keep calm about the U.S. decision to resort to force.

This enables the North Korean leaders to distract some resources for other tasks and to raise the efficiency of (quasi) power maneuvering used by the D.P.R.K in the course of crises (one may remember the interception and the escort of the U.S. reconnaissance aircraft over the neutral waters in 2003). As far as the talks are concerned, one has to point out that Pyongyang is skeptical about the policy of *dry-law propaganda from behind the bar*. China and Russia are nuclear-weapon states, South Korea and Japan are under the U.S. nuclear umbrella, while the D.P.R.K has no serious assurances.

Nuclear weapons are the tool of unsurpassable politico-military effectiveness, even if they cannot be fully used in practice. They have an apocalyptic reputation, so North Korea can deter the rest of the world with it. As Nicolo Machiavelli put it, "Returning to the question of being feared or loved, I come to the conclusion that, men loving according to their own will and fearing according to that of the prince, a wise prince should establish himself on that which is in his own control and not in that of others." Besides the D.P.R.K has a sad experience of breach of the Geneva Agreement by the U.S.A and the failure of the KEDO, public declaration of North Korea as a target for the U.S. nuclear weapons, belligerent speeches by Bush and his administration, etc. Under these circumstances, the concept of nuclear deterrence is beyond competition.

The D.P.R.K decommissioned its reactor – in good faith and under control, so the key source of plutonium no longer exists, just as other major facilities of its nuclear fuel cycle. Therefore, the fuel manufactured in 2005–2007 was not reprocessed, so the supposed amount of weapon-grade fissile materials available to Pyongyang is also lower. I don't think that North Korea did it voluntarily. In spring 2007 the reactor was shut down for two weeks for unknown reasons. It must have been switched off in emergency. In the course of negotiations, a number of officials argued that the D.P.R.K faced the issue of safe operation of the reactor. Thus, it may turn out that the reactor was in poor state, however, even under such dramatic circumstances, Pyongyang managed to get maximum of it. The dismantlement of facilities will also be paid for by foreign parties. So it might have been not the matter of successful negotiations and pressure, but the issue of nuclear technology. If the plutonium production has been suspended, the capacity for increasing the stockpile and the arsenal are limited, or even non-existent.

At the same time one cannot rule out the chances for the manufacture of additional fissile materials in North Korea in principle. There is a potential hidden technological capacity of production of weapon-grade uranium. Contrary to the widespread opinion, this does not require large facilities, huge energy resources and tons of raw materials. But this is true only if enriched uranium is used to reinforce the plutonium bomb and not to develop uranium implosive charges (let alone *cannon balls*).

It is known that the D.P.R.K could get access to sufficient technical information and scientific documents related to centrifugal enrichment from Pakistan. North Korea possesses technologies and facilities for the production of uranium tetrafluoride, while the centrifugal method is based on uranium hexafluoride. There is a record of uranium reprocessing, nuclear fuel fabrication and so on.

Taking into account other technological reservations and the lack of operating reactor, this resource for growth (if such decision is taken at all, which one cannot and will not be able to prove in the near future) may exhaust soon and such project, if existent, will soon reach its ceiling from the point of production. A couple of years of work and the arsenal will be upgraded, but further growth in kilotons would go extremely slowly. Let me remind you that there is no clarity about the approval of such scenario or its implementation. This would be a good pretext for endless fault-finding after all, so if any participant of the negotiation process wants it, he can always ask North Korea to prove the absence of such plans. This should be taken into consideration.

Vladimir Khrustalev

From: Georgy Toloraya  
To: Vladimir Khrustalev  
Subject: Tail Wags the Dog

Vladimir,

The nuclear factor is not only a core of the North Korean security, but is a focal point in the resolution of the Korean issue as such. The nuclear issue is a result of a huge inferiority complex and North Korean feeling of vulnerability. These sentiments (after the loss of the Soviet support) turned into a real paranoia, though Kim Il-sung was thinking about his own nuclear weapons nearly since the 1950s. The primary objective of the nuclear program was deterrence, assurances against surprises. And this is quite understandable.

It turned out soon (perhaps, surprisingly for Pyongyang itself) that the *nuclear card* is a powerful blackmail instrument, a diplomatic lever that makes the rest of the world take North Korea into account, puts it in the center of global politics. At the same time, Pyongyang can afford to ignore the opinion of the world public opinion without expecting any punishment, since the military solution was recognized to be unacceptable already in the early 1990s (due to the damage North Korea could inflict to its enemies) and there are no other efficient means to exert pressure on the totalitarian closed society (sanctions, etc. eventually failed). An extra bonus was the position of China (later supported by Russia), which could not afford to have extreme tensions and aggravation of the situation on the peninsula.

To a large extent, the United States and its allies are to blame for the current deadlock. At first, Washington, contrary to the opinion of experts (including Russian experts), expected prompt collapse of the D.P.R.K – this would be a natural remedy to the nuclear puzzle. So the United States was not rushing to carry out the agreements with North Korea and this was a bad lesson for Pyongyang (“we can also do the same”). Then (again in contradiction to the expert advice) Washington tried to exert pressure and use isolation and sanctions, in order to force North Korea “to behave” (what an amazing goal-setting and unprofessional policymaking!). As a result, the population of North Korea suffered and these hardships were the only outcome. The West simply forgot the lessons of the Soviet Union and China, when millions of deaths during *collectivization* and *great leap forward* did not undermine the regimes, but strengthened their belief in their own omnipotence. The same situation happened in North Korea – its leaders became sure of Western impotence and of their own might, i.e. the ability to impose and pursue the advantageous policy. The dismantlement of the used and needless reactor in Nyongbyong (at the expense of the United States and as a major concession) is a masterpiece of diplomacy indicating how the tail wags the dog.

G. Toloraya

From: Vladimir Khrustalev  
To: Georgy Toloraya  
Subject: Status quo

Dear Georgy Davydovich,

It is great that the reactor and the plutonium plant are not functioning. It is the key achievement. It is even better that in the mid-1990s North Korea froze the construction of 50MW and 200MW reactors and has no capacity to complete it now (and will not be able to build them from the scratch). If it was not for the 1994 agreements, the D.P.R.K could continue to process larger amount of plutonium, try to fabricate tritium, make experiments with fusion and so on. As you realize, this might be a totally different capacity, arsenal, amount of weapons – megatons, not kilotons. And nowadays North Korea would have had the arsenal comparable to Pakistan and India – this would have been a tough test for the world. So we avoided the worst-case scenario.

Besides, nuclear tests froze the situation and the drums were replaced with talks. So it is not so bad for Russia. On the other hand, the nuclear danger for the world today does not origi-



nate from North Korea, it comes from Pakistan. At least, so far. North Korean nuclear status limited the capabilities of key actors, such as China and the United States. And this is also beneficial for us. Hence, military-strategic affairs are not the priority in the near future, the matters of utmost importance are other challenges to the survival of the regime. *Status quo* is advantageous for Russia and one can see no positive alternatives. So we should fight for it. And the nuclear nonproliferation problem is caused by the very system of international relations in its current form.

V. Khrustalev

From: Georgy Toloraya  
To: Vladimir Khrustalev  
Subject: Re: Status quo

Dear Vladimir,

Yes, status quo is not contraindicative to Russia. However, drift towards normalization – recognition of North Korea in the West, progress in inter-Korean dialogue – may help us to earn substantial economic and political dividends. So we can rightfully state that we stand for national reconciliation of the North and the South (this is a source of allergy for China and Japan and the United States agrees to such scenario on its own terms, i.e. the process should be under control of Seoul and Washington) and for reducing tensions on the peninsula. And we cannot only state this, but also set forth our suggestions, promote our initiatives, at least, for propagandistic purposes. Unfortunately, we must have lost this ability.

G. Toloraya

From: Vladimir Khrustalev  
To: Georgy Toloraya  
Subject: Technology Sponsor

Georgy Davydovich,

The problem of survival for the D.P.R.K is much graver, even if we take only next five years. Contacts with the external world are necessary for the local society, but they are dangerous. There are several reasons for that and a few contradictions emerge as well. Here are the examples.

Firstly, the D.P.R.K suffers from the shortage of hard currency and has a limited export potential (it has nothing really valuable or strongly demanded on the international markets, like oil). On the other hand, North Korea is highly dependent on the external world from the point of food supplies and conventional energy sources. In general, there are no export earnings for any large-scale state investments. There is a need for direct foreign aid, but in a more visible manner (not only oil supplies for the power plants).

Secondly, despite the lack of resources, the country continues to expend a lot on defense and the military-industrial complex. And export earnings from the defense production do not pay for such investments in any significant way. This is a hole that consumes finance and the best labor force and gives nothing in exchange – neither money, nor civilian technologies.

Thirdly, North Korea finds itself under propagandistic, political and economic pressure. In other words, the D.P.R.K, like Cuba, often has to pay much more for the access to many commodities, services, technologies, and markets than any other country of the world. At the same time, external cultural and propagandistic influence is much more hazardous for North Korea than to many other anti-Western regimes. For instance, there is a *perilous* success story of South Korea. Pyongyang's own resource base is extremely weak and is not adequate for the accomplishment of many urgent tasks.

Fourthly, one has to remember that if Pyongyang does not want to become a Nepal (with missiles), it has to develop competitive export industries, train a large number of specialists in accordance with global practices and with appropriate level of skills and knowledge. It has to think about immediate future, when current low birth rates, disqualification of the industrial labor, poor school education in provinces would become detrimental for the progress of the state. To avoid this, North Korea needs money, programs, human resources... Where can all this be found, if not at the *false bottom*?

Russia has a chance here. There are no guarantees for success, but this is a serious chance (if something at all can be saved in North Korea). Russia cannot be a large-scale financial donor, it is not a direct political sponsor, but it can help North Korea to its own benefit. And there are effective solutions.

Our potential niche No. 1 is to be a technological sponsor in the energy sector. In the conditions of protracted economic crisis in North Korea the priority problem is its fuel and energy complex.

Thermal power stations in North Korea use coal. But the problems with its extraction are caused by irregular electricity supplies to mines and shortage of transport to deliver the coal to the power plants. Besides, the equipment is outdated, exhausted and prone to frequent breakage; the level of accidents is also high due to the lack of protective support systems. The quality of the coal is also going down (e.g. its calorific value).

North Korea has many large and small hydropower plants situated mainly in the north and northeast of the country. However, due to the climate, they have peak load operations (in order to preserve river water) and function with full load only during the rainy seasons (from mid-July to mid-August). Hence, their average capacity throughout the year does not exceed 30–40 percent. The majority of energy infrastructure is obsolete.

Energy production in North Korea is 1.5–2.5 times lower by volume than the amount of energy deficit (in the mid-2000s it was estimated at 30 bn kWh per annum). There are losses in the network (16–50 percent). How can such shortage be reduced? The KEDO version – a turn-key nuclear power plant – has failed. Totally. So the concept of NPP should be postponed, at least, in the foreseeable future. However, the country needs energy, and as quickly as possible, and as cheaply as possible, and in the appropriate form and with necessary amount of production. And here Russia has a trump card! We can offer a solution for their energy sector and take it out from this specific technological deadlock.

Let me give you one example.

Russia has a technology of helioaerobaric thermal power plants, has small but profitable production facilities for wind power plants, etc. These are the technologies which we already possess and such assistance would not be costly (a few pilot and extremely cheap 50kW helioaerobaric thermal power plants or wind power plants for rural areas can be built). This would expand the field for decisionmaking in economy, facilitate the supplies for agriculture, and provide electricity to small enterprises in the provinces.

Another solution (may be, in parallel) is possible participation in the modernization of existing local thermal plants, restoration of the jet production.

We also have some necessary resources and a number of competitive advantages in area of genetic engineering in agriculture. This biotechnology will help to ease the dependence on mineral fertilizers and raise the crops. This production will also be suitable for the Russian Far East, taking into account the common climate zone. Thanks to the guaranteed federal funding of this program, the amount of production of modified seed bank may be increased to the profitable level.

Marine culture in the Far East is also impressive. North Korea is famous for its experiments with the artificial ponds for breeding fish. However, there is also marine culture – a hectare of sea plantations may provide up to 300 tons of mussels, 120 tons of laminaria, or three tons of shrimps. Taking into account the shortage of arable land, this is an important factor.



Russia also has the technology of producing spirulina in greenhouses. Its growth rate and crops are five-ten times higher than those of traditional agriculture, it is rich with protein (dozens times more than soya) and requires less space for production per kilo (10–30 times less). Besides, non-arable or exhausted land can be used in the process of spirulina production as well.

There is a need for solutions, detailed plans, persistent implement, appropriate centralized funding. Will these efforts be worth the result? Or maybe these are short-sighted illusions and we have slim chances to carry on? And how can we avoid in the process of the implementation the emergence of some strategic bonuses for China in detriment to our interests?

Yours,  
V. Khrustalev


From: Georgy Toloraya  
To: Vladimir Khrustalev  
Subject: Conventionalization of North Korea

Vladimir,

I would like to point out that foreign policy strategy aimed at transforming Russia into an energy superpower (which is called into question due to the recent Russian-Ukrainian gas crisis) has good prospects in East Asia. And the Korean peninsula is an important actor in this process. Hence, our assistance to the D.P.R.K in energy development has a broader dimension. Something has been started, but there is little progress in the construction of power grid from the North to the South or modernization of power plants constructed by the Soviet Union. Let alone the utopia of a gas pipeline across the territory of North Korea (I can't help remembering Ukraine).

One should not forget about various transportation projects, above all, the railway transit from the South to the North and to Trans-Siberian railway. This project may bring billions of profits to all the participants and will be carried out sooner or later, even though the current tensions in inter-Korean relations delay the implementation of the plans agreed in the trilateral format (*sic!*).

Cooperation in agriculture sounds promising as well. Investments here will pay back soon – even simple supplies of fertilizers (which North Korea does not receive from the South anymore) may ensure significant increase in crops. It is important, however, to ensure that foreign economic assistance (including Russian) does not preserve the obsolete structure of the *self-relying* economy, but rather contribute to the development of exports and normal economic system (i.e. market economy, which is the only model left, even if it is a regulated one). At the same time, this should not jeopardize stability – and we have to convince our North Korean partners in that.

Being realists, we have to proceed from the assumption that the collapse of the D.P.R.K is not inevitable and it is not in our national interests (let alone the interests of Koreans as a nation). We can really facilitate a favorable scenario – transformation of North Korea into a normal, *ordinary* state and provision of its external security and internal stability. This should be the conceptual basis for the Russian policy with respect to our *difficult* neighbor, which, in fact, still treats us not so badly... 

Yours,  
G. Toloraya



*Aggravation of relationship between Russia and the West puts forward again the long-standing issue. Is it necessary and possible to find a compromise and promote new forms of interaction between Russia and the major military structure of the West, i.e. NATO? To what extent does the modern role of NATO in maintaining international security meet or contradict Russia's interests? Will bilateral relations between Russia and the United States be extrapolated on Russia-NATO relations? The key issue is also how much NATO is able to respond to the current international security challenges. And finally, one cannot forget about the prospects of NATO expansion.*

*All these matters became a core of a debate that involved PIR Senior Advisor Lt-Gen (ret.) Gennady Evstafiev and MGIMO Professor, PIR Center Board Member Andrey Zagorsky.<sup>1</sup>*

**SECURITY INDEX:** On the one hand, we see NATO on the maps of the Defense Ministry as a still existing serious threat to Russia's interests. On the other hand, we hear the complaints about NATO's irrelevance and statements that it is doomed to collapse, that it is no longer needed for the European and Transatlantic security. The only thing that supports the Alliance is the fact that bureaucracy dies hard (and perhaps, to a small extent, a military campaign in Afghanistan). Maybe Russia should stop paying so much attention to NATO then? Isn't it the best decision to neglect the Alliance?

**GENNADY EVSTAFIEV (PIR CENTER):** NATO is a very complex organization. It was initially established not to serve as a military bloc, but as a structure helping the Euro-Atlantic community to coordinate its views, to elaborate common opinion on the developments in the world and in Europe. So if anyone takes up NATO structure, he may see fantastic (but actually real) units, starting from the pipeline security units (which are topical for us in Europe) and up to the services that deal with partnership and cooperation.

NATO remains the military organization. It is a real military bloc with tough internal discipline. And when someone speaks about reform of the military and political components of NATO, people mostly mean military restructuring. Those who do not invest enough in the budget for military purposes are often criticized.

NATO in Europe is in fact the only organization that affects the security of the continent. The hopes of our political analysts and MFA leaders that the OSCE may play its role in this area have failed. Why? Simply because there was no reasonable concept set forth, many objective factors were ignored. Therefore, the attempts to develop this idea were not successful, did not lead to any practical results. During the era of confrontation between two blocs most of the European nations realized that NATO should be their target to seek, their umbrella. And they began to join the Alliance.

Russia will not become a member of NATO. Already in 1954 after Stalin's death, the Soviet Union probed the opinion on this matter. At that time the Council of Ministers was chaired by



Georgy Malenkov – he was the first to say that nuclear warfare was a catastrophe, which should be avoided by all means. So the Soviet government stated that for the sake of the European security, the U.S.S.R could and would like to join NATO under certain conditions. One of them was equal participation in decisionmaking. Of course, this was a propagandistic step, but the U.S.S.R made it.

The Soviet Union and NATO were ideological adversaries; they were in confrontation with each other in military, economic and political sphere. Nowadays the situation is different. We have no principle strategic differences with NATO. We have tactical differences concerning security building in Europe. President Dmitry Medvedev stated in Brussels that there was a need for new approaches to the European security architecture. In fact, it reminds of Helsinki-2. Such initiative proves once again that Russia requires complex security maintenance in Europe. If we agree to the fact that NATO is one of the pillars of such system, since the European security depends on it more than on anything else, what should we do then? We can keep arguing, but this will be a zero-sum game and it is not to the benefit of our growing nation or to the benefit of our neighbors in the CIS. We should seek the forms of cooperation. The 1997 Founding Act originated from this idea. There was a big fight about this document, we had polar viewpoints on many issues, but somehow we managed to put them up in the document that became the basis for cooperation.

Unfortunately, the strategy of gradual transformation of NATO into a political organization proclaimed by Secretary General Jaap de Hoop Scheffer in 2005 goes extremely slowly and there is an impression that NATO is likely to abandon this concept. All this puts additional constraints on Russia-NATO interaction in the foreseeable future.

**SECURITY INDEX:** So it happens that NATO is not a *paper tiger* and it should be taken into account, shouldn't it?

**ANDREY ZAGORSKY (MGIMO):** NATO should be treated seriously, since it is far from its own funerals. For Russia it is important to see modern NATO and not the Alliance of the past. As a matter of fact, there are no significant problems in Europe, as far as its security is concerned. A difficult region is the Western Balkans, there are some conflict-prone areas in the post-Soviet space. But NATO today is more important as a global actor. The development of NATO is determined by the fact that it leaves Europe, it transfers its functions to the EU. NATO shifts its focus to Afghanistan, to Iraq to a certain extent, etc. So if we speak about global security today, not European security, we see both a gap in positions of Russia and NATO and the convergence of interests at the same time, convergence of positions and objectives. Afghanistan is the best example.

NATO does not only help us to solve our serious problems. We have very good interaction with the Alliance on a number of issues.

Meanwhile, the Alliance is the only organization that provides for interoperability of troops from various nations – NATO members and non-NATO members, partners, and not only in Europe. It is important, since we notice potential globalization of NATO that may engage Indonesia and Australia. And I do not only mean peacekeeping operations of classical type, when light weapons are used to separate the conflicting parties and observe impartially how the cease-fire agreements are being complied with. I mean much more complicated operations when it is crucial to ensure interoperability. NATO today is the only mechanism that enables the parties to solve these issues. And whether we plan to act together with NATO or not, we will be able to ensure interoperability only through interaction.

We slowly but rightly drift into this direction, into the area of closer cooperation with NATO not only in European security matters, but on global security issues. And this progress is visible, despite all the constraints of resource, military or political character.

If we see ourselves as partners in this global organization, we should act jointly with NATO today.

**SECURITY INDEX:** Does NATO exist as a mighty military *fist* capable of accomplishing effectively certain military missions?

**ZAGORSKY:** It does, but then we have lots of “*buts*”. First of all, it is necessary to formulate the specific task and then to see whether the Alliance has the ability to carry it out. NATO faces many problems, it is at the edge of its capabilities now, but one should realize that this is the only organization capable of conducting military missions of any kind all over the world. And no other structure can do it better than NATO.

**SECURITY INDEX:** Does the level of discipline within the bloc meet the requirements of the modern military organization? How would you evaluate the position of Germany on Afghanistan? How difficult is it for the mightiest military bloc in the world to commission troops for conducting military operations?

**EVSTAFIEV:** We saw NATO’s discipline in Serbia. This was a real discipline; everything was under the unified command. The military staff in the NATO headquarters occupies three quarters of space. Germany was the first country that wanted to be present in Afghanistan. Without NATO’s collective decision its contingent entered the country. Germany maintains the supply point in Termez. Uzbekistan closed the U.S. base – K-2, but Termez is still functioning. And this transit goes through Russia from Germany under the appropriate agreement.

**ZAGORSKY:** NATO has no plans to leave Afghanistan. The Bucharest summit approved a classified document that contains no specific dates. NATO is at the crossroads, it would like to resort to the civil-military approach. However, the result is no better than that of the Soviet Union or Russia. At the same time, the Alliance has a goal – it was formulated upon the pressure of the Germans. The document sets no deadlines, but provides for the objectives, the implementation of which would enable NATO to cut down or even withdraw its forces from Afghanistan. These goals include the enhancement of the Afghani government’s capacity to maintain security in the country. Everything that happens there now precludes us from thinking about prompt achievements, but the document was an essential element of political compromise inside NATO.

Recruitment of soldiers for a military operation is a complex procedure. There are two aspects here. First of all, they manage to find contingents at any time, even despite the differences that exist. On the eve of the Bucharest summit the French agreed to move eastwards in Afghanistan and to cover the zones abandoned by the Americans, who redeploy further south. Germany discusses the possibility of increasing its contingent by 1,000 servicemen. Poland has already reinforced its units with 400 people. And this is a matter of resources – there is none to be sent there.

Secondly, it is important to assess all the risks. Each country has its own position and this is a great problem for NATO. They tried to find the solution at the Riga summit, when the issue of national reservations was raised. Germany maintained that it would send its soldiers only to Kabul and northern provinces, since the parliament limited the role of German forces in Afghanistan to stabilization, not engagement in hostilities. And then a complicated mechanism is switched on – the NATO forces commander does not have a flexible degree of command and control over the German units which are allegedly at his disposal. This fuels the debate about uneven burden-sharing, difference in casualties, etc. The most difficult sectors in Afghanistan are covered by the British, Americans and Dutch; they have the largest amount of casualties.

**SECURITY INDEX:** Is there a system of sharing tactical nuclear weapons with non-nuclear weapon states in NATO in case of war? Doesn’t it contradict the nonproliferation regime?

**EVSTAFIEV:** NATO has a nuclear planning group, which involves all NATO members. There is a concept of the major key, which is no longer active, but there is an infrastructure for that. There is a place in Belgium – Kleine Brogel – where U.S. nuclear weapons are stationed. In fact, a notorious *Al Qaeda* militant has managed to penetrate two security fences on this site. It was caught within the base. After that the Americans reduced nearly twice their tactical nuclear weapons in Europe. Meanwhile, aircraft in some NATO states, including the Netherlands, are capable of carrying nuclear weapons.

**SECURITY INDEX:** Would it be right to assume that the attempt to elaborate common European security and defense policy has failed? Or does the EU act slowly, but smoothly, picking up the elements of security policy from NATO one after another? Will it become self-





sufficient in defense one day? This is connected with our assessment of the U.S. role – are all NATO decisions taken in Washington after all?

**ZAGORSKY:** Yes and no. The EU is on its way, so some objectives have already been achieved. However, this is a complicated process of shaping such policy. It is important to understand that the EU is not creating the second NATO. The ends and means of the ESDP are totally different from NATO action. Firstly, the EU is not developing common defense. It creates the capabilities for potential engagement in crisis management beyond the EU zone and it focuses mainly not on military, but rather on civilian and civil-military methods. The EU capabilities are different from what was once envisaged in NATO and what is now being done by the Alliance in the course of transformation.

Hence, there is no contradiction here. There is NATO Response Force (NRF), the Europeans set up their own forces. In fact, the problem does not exacerbate because by training certain units for certain operations, the European nations do not provide them for permanent use to NATO, the EU, or the UN. These units are at the disposal of the EU states, have perfect interoperability and can be employed within the NATO or the EU framework, if the situation so provides.

Thus, today we do not witness increasing competition between the EU and NATO, but rather an improving division of labor between them. And it is not the Bob Kagan principle – the Americans make the mess, while the Europeans clean it. It is the principle of geographical concentration of forces. The EU is undertaking (and will soon accept) all operations in Europe, including Kosovo. The EU is proactive in Africa and is less visible in other regions (Palestine, Georgia, etc.). So NATO and the EU complement each other – from the point of geography, materiel, different types of operations. Therefore, I believe that the EU does not remind of NATO from the point of capabilities. It is only the matter of time, but also the matter of direction – the EU's way is shorter and it goes to some other destination.

To understand the EU and its policies, one has to bear in mind that it comprises some countries that are not neutral and have never been in NATO. So it is quite difficult to agree even to integrate all functions of the Western European Union (WEU) into the EU (i.e. everything, except the article on mutual assistance). This helps the WEU to continue to exist on paper.

**EVSTAFIEV:** The United States is the major organizer of everything that goes on in NATO. Washington provides for 60 percent of NATO's budget. The one who pays orders the music. It may sound non-democratic, but after all the Europeans are happy and they like to save money and to have the United States solve the majority of their global problems. At the same time, the EU keeps the right to criticize the U.S. actions, to set forth the initiatives.

Nowadays, the Europeans try to play their own game by promoting ESDP. However, they fail due to the only simple fact – who will pay and for what?

Europe promised to contribute to NATO. It should have developed its own rapid deployment force (up to 150,000 servicemen), but it is difficult to recruit such units. It turned out that the same units were attached to NATO, the EU, and so on and so forth at the same time. The United States was thrilled and argued against such rapid response forces.

The toughest of the problems is 9/11. Article V of the Washington Treaty implies that any attack against a NATO member is the attack against all of them. When George Bush launched his war on terror, he did not ask the advice of other NATO states. If it was not for clever people in the Alliance, who realized the danger of violating this article, the ending of this story could be unpredictable. It took the Europeans three days to decide to support the United States and, hence, they caught the anti-*Al Qaeda train*.

The U.S. offensive against Iraq caused deep crisis inside NATO. Briefings on the situation in Iraq for the Americans working in the organization were carried out without inviting other member states. And other nations were receiving nearly the same information as Russia. It was clear that there was no trust inside the organization. NATO's leadership undertook serious efforts to overcome this crisis and they mostly succeeded.

The United States is a driving force behind NATO. After all, the Americans normally manage to promote their line within the Alliance. A good example is missile defense. The initial euphoria of our military and politicians about the divide among the NATO members, which we can penetrate and offer cooperation attractive to all, was no good – the general concept was approved by the Americans and not Europeans.

In this connection Russia has two schools of thoughts. One of them implies that Moscow should always deal with the United States. The other campaigns for parallel development of relations with Washington and with Europe, as it may bring dividends.

The second line of behavior was not resorted to frequently, we used only at some stages when our relations with the Americans were in complete deadlock. Then in order to exert pressure on the Americans, we turned to such course and sometimes it helped to balance and improve the situation. However, afterwards all returned to the traditional line. So we should have relations with NATO and should develop them, but should remember that the United States is the only global power and it is good to have cooperation with America, so that one may directly tackle global issues. At the same time, it is important to remember that the United States likes to lead and not to be led.

**SECURITY INDEX:** What is the role of *Berlin+* arrangements in maintaining interaction between NATO and the EU?

**ZAGORSKY:** This is a mechanism that helps the EU to engage NATO resources in military operations. And the linkage implied that NATO's Deputy Supreme Allied Commander Europe would become responsible for the EU operations and would assist in their planning. Besides, *Berlin+* was needed to attract partners, i.e. the countries that are not members of the EU, but belong to the NATO family (Canada, Turkey). So the EU, as well as NATO, plans to conduct operations not only by itself but with the involvement of its partners.

In the last two years the EU has been conducting independent exercises beyond the NATO framework, even though it has no military planning staff (but there are structures that serve as a platform for discussions). The autonomy of the EU is growing, albeit there is a link. The formula is simple – the EU should not duplicate NATO actions. At the same time, some bargaining is going on now. France claims the right to get back to the military organization of NATO, if the EU gets more autonomy. The United States accepts the idea of such autonomy, since it helps to ease the burden that is carried by America in Europe, Africa, etc. The EU is not swallowed and will not merge with NATO – it creates a structure different in all aspects.

**SECURITY INDEX:** How difficult is the process of decisionmaking in NATO today, bearing in mind the emergence of *young* European members?

**EVSTAFIEV:** There were some paradoxical cases in the course of negotiating the documents, even when it came to the NATO-Russia Council. After the first expansion of NATO, it turned out that on the one hand there were 13 NATO members and Russia and on the other hand – *young* members. This is a serious problem of NATO.

The particularity of the small nations in NATO is their unwillingness to sign up for specific activities. They are ready to approve general provisions, but when it comes to real action and specific work, they step aside. And even if other NATO members are ready for such measures, the decision may be rejected only because there is no consensus. And this is a real problem in dealing with NATO. Meanwhile, one cannot deny – if small nations disagree, other members do their best to convince them.

One has to point out that NATO did not comply with its own requirements to new members in the course of its rapid expansion. The conclusions about their readiness were made hastily and very formally. But in fact, nearly none of the new members had no such level of preparedness. And this resulted in the gap in training, in organization, in equipment, in willingness to participate in decisionmaking. So NATO has to provide more funding to help them to reach the appropriate level, to ensure their fully-fledged participation in various exercises.

After the collapse of the Warsaw Treaty Pact and the end of the Cold War, NATO became an organization in search of its mission. They tried to find the areas of work. On July 5, 2003 after



numerous attempts to take collective decision on participation in Afghanistan, NATO eventually agreed that there would be no joint decision, since even now there are countries that object such involvement. Germany and the Netherlands were two countries that were most ready for providing the troops, so they concluded individual agreements with the Afghani government. After that the operation started as a NATO campaign, although it was the action of individual member states. At the same time, 16,000-strong U.S. corps conducted operations in Afghanistan (it now operates independently) and it did not represent NATO, did not cooperate with the NATO forces.

**SECURITY INDEX:** There is an issue of approving the budget. Who is paying today for the NATO operations?

**ZAGORSKY:** Everyone in NATO pays for himself. If the country agreed to participate in the operation, it covers all the costs related to the activities of its military. This is one of the burden-sharing mechanisms. In fact, we often see that the Americans pay more, since they are represented in larger numbers. Nowadays, the NRF project has not yet been implemented. One of the issues here is funding. The NRF is based on the rotation principle – the nations provide their forces, which can be deployed within five days in any part of the world. And this requires a decision of the NATO Council. Hence, those on duty pay for the current costs. So the member states prefer to vote against during the discussions in the Council, so that the responsibility may be transferred on the shoulders of other countries. Thus, on the one hand, burden-sharing is a good tool, on the other hand, it has a negative impact on political decisionmaking. However, budget is only one of the restrictions.

**SECURITY INDEX:** And what are the other restrictions within NATO?

**ZAGORSKY:** There are three major limitations for NATO. First of all, these are quantitative parameters of available forces. The United States reduced the rotation period in Iraq from 18 months to 15. This made the reduction of the contingent inevitable, even though it was presented as a political gesture. Washington cannot afford to have more soldiers than it already possesses in Afghanistan and Iraq. As far as the command and control staff is concerned, here also the limits are reached. This is why the United States needs NATO, needs partners to expand the resources. European NATO members, just as the EU, are also near the edge of their capabilities. They cannot grow any longer. And even Russia has reached its ceiling. So combined resources of the United States, NATO, the EU and Russia will hardly help – there are limits from the point of finance, from the point of personnel. The Europeans mainly cut the costs and have heated debate on this with the Americans.

Another constraint is the budget, I have already said about it.

The third constraint is political decisionmaking. The weight of the United States does not depend only on 60-percent budget contribution. They can work, they can lobby certain decisions, they know how to defend their interests. But even they do not succeed all the time. Look at the example of the Bucharest summit. The accession of Georgia and Ukraine was not the primary issue for Washington. All key issues were resolved beforehand. George Bush and Angela Merkel made all the agreements on the first evening. The only reason for a one-hour meeting behind the closed doors of all heads of states and governments – Poland was against the decision. So President Bush made a gesture of good will to Ukraine and Georgia, but everyone understood that this was not a thing to be realized for many reasons, not only because of Russia's position.

**EVSTAFIEV:** In NATO everyone pays for himself only in case of participation in specific operations. NATO has a common program for infrastructure development. Its budget is large and is approved every three-five years (in accordance with the updates in NATO's strategy) and then reconfirmed every year. In 2002 when the structure of the NATO budget was discussed, Turkey set forth its ideas about the NATO strategy. Ankara requested extra money to reinforce its second major strike capabilities (against Armenia). The negotiations took long and Turkey had to change its position, but for NATO it was a surprise that Turkey could have its own view on the strategy of the Alliance (it was the same year that Turkey did not let the U.S. troops go to Iraq). It was always presumed that Turkey merely followed the line of NATO – and here it was

the first time they voiced their concerns, since it was a matter of serious funding, of constructing new facilities on the Turkish territory.

**SECURITY INDEX:** How probable is the transformation of the Collective Security Treaty Organization (CSTO) or the Shanghai Cooperation Organization (SCO) into something similar to NATO? What are the prospects for cooperation between these structures?

**ZAGORSKY:** CSTO now follows a non-traditional scheme – combating terrorism and drug trafficking. If one considers its rapid response force, there is no significant potential so far. Some military-technical cooperation goes on, Russian arms are being purchased at discounted prices, assistance is provided in personnel training, so the overall spectrum is quite limited. The issue of cooperation with NATO is complicated, since NATO has no consensus about how reasonable such interaction may be.

Europe does not face tough classical security challenges, which would place NATO or any other structure in the centre of the European security policy. NATO claimed for this role in new spheres, but of course, it is not the major tool against terrorism or WMD proliferation.

**EVSTAFIEV:** So far the CSTO does not look impressive. It has different tasks, different objectives. As far as the SCO is concerned, its mission is also different from cooperation with NATO. It can interact with NATO in other regions, not in Europe. It could be a good balance to prevent unilateral action of some states in Central and East Asia.

**ZAGORSKY:** Neither CSTO, nor SCO has any anti-NATO concept. There is no potential for confrontation. These are just two different worlds. For instance, once there was a feasibility study about the possibility of multilateral cooperation between the OSCE and SCO and it turned out that there were no practical ways to implement it. The SCO has the secretariat, but the only real structure with the clear mandate and independent functioning is the Tashkent Center for Combating Separatism, Extremism and Terrorism. Meanwhile, the SCO has a very tight budget. So it is difficult to imagine the cooperation between the SCO and the OSCE, or NATO, since the SCO has neither structure nor budget for such interaction. The only way out would be the joint implementation of such programs of the OSCE by inviting China (since Beijing is the only SCO member, which is not the state party to the OSCE). Then you simply type the SCO logo on such projects and you get the *cooperation*.

**SECURITY INDEX:** What about further expansion of NATO? Today's agenda contains the issues of accession of Ukraine and Georgia. How probable is such scenario? What would the Russian response be?

**ZAGORSKY:** The expansion of the Council of Europe, then the EU eastwards is a real process of shaping united Europe. If Russia does not plan to fight with united Europe, it has to find its place in this process. In the 1990s Russia tried to promote cooperation with the West. If we continue to drift in the same direction, this would be the right thing to do. One should not exaggerate the importance of NATO's expansion. Moreover, one can hardly expect NATO to strengthen through expansion. 26 NATO nations have fewer weapons (under the CFE Treaty) than 16 NATO countries could have had in 1990. The adapted CFE Treaty is complied with by all European countries, despite all the difficulties related to this document. There is no threat, the problem is political. Only cooperation can mitigate the concerns and tensions.

Ukraine and Georgia will become the parts of a larger intrigue. As far as Ukraine is concerned, many issues that are now under discussion are highly politicized and exaggerated. They can be solved in much easier ways; it is more a psychological problem. But after all the accession of Ukraine to NATO is not the matter of foreseeable future. The goal of full integration was set forth during the Kuchma era. In 2005, when the first *orange coalition* was formed after the parliamentary elections, the Socialists demanded for a referendum as a condition for joining the Alliance. Such referendum will not take place soon. The number of opponents of the Alliance is going down, but it takes time. Ukraine should mitigate the problem, so any decision will be put off. As for Georgia, there is a clear understanding – if it joins NATO, it joins the Alliance without Abkhazia and South Ossetia.

**EVSTAFIEV:** Georgia, in fact, presents no interest to Russia as a state. The key matter of concern is Abkhazia and South Ossetia. The Ossetian issue could be resolved during the



Shevardnadze regime – he was ready to discuss the possibility of merger of two Ossetias, but the Russian government was not ready.

One of the positive aspects of Ukraine's accession to NATO, if such event occurs one day, would be the substantial reduction in the Ukrainian armed forces. Nowadays they represent a huge and uncontrolled mass of people, who cannot be maintained by the state, despite the financial support of NATO and substantial amount of external training (dozens of thousands of Ukrainian officers were trained at various NATO courses).

Let us not forget that Ukraine and Russia have different historical, economic and spiritual links than any NATO member state with another NATO member state. This is an extremely important fact! Ukraine after separation from Russia became a second-hand state from the point of NATO interests. The Alliance merely uses it in its strategic constructions.

If the people of Ukraine vote for NATO, nothing could be done... Just like if the Russian people vote for annihilation of the Soviet Supreme Council's decision on transfer of Crimea to Ukraine. The Russian government will then have to follow this position of the public opinion, it will be imposed to act so.

In general, the experience indicates that the broader NATO is, the lower its effectiveness is.



## **Note**

<sup>1</sup> The discussion took place within the framework of the International Summer School on Global Security held by the PIR Center on July 4, 2008.



Alexander Kovalev

## INTERNATIONAL LEGAL STATUS OF THE ARCTIC AND RUSSIA'S INTERESTS

As oceans become increasingly important for the world economy in the 21st century, the need for rational and efficient use of their resources is coming to the fore. That requires international cooperation in areas such as protecting the environment, sharing research on the world oceans, including the resource-rich Arctic Ocean, and stringent observation of international treaties regulating fishing and exploration of mineral resources.

The total area of the Arctic, which includes all the land and sea north of the Polar Circle, is 21 million square kilometers. All the discovered land in the Arctic is under the sovereignty of either Russia, Denmark, Canada or the United States, all of which border the Arctic Ocean. Historically, several other national have interests in the region, including Finland, Sweden and Iceland. Finland, however, lost access to the Arctic Ocean after the transfer of the region of Pechenga (Petsamo) to the Soviet Union. Iceland's whole territory is in the Arctic zone, but the country lays no claim to its own sector in the Arctic.

### **RUSSIA'S ECONOMIC INTERESTS IN THE ARCTIC**

Russia's economic interests in the Arctic are linked to the region's mineral riches, on which the economy is crucially dependent now and which will become even more important in the near future. The Arctic holds 80 percent of Russia's known industrial-scale gas reserves. Total hydrocarbon deposits in the deep-ocean part of the Arctic are estimated at 15–20 billion tons. The estimated worth of all known mineral deposits in the Arctic reaches 2 trillion dollars. The Arctic is the main source of Russia's nickel, copper, cobalt, platinum and apatite concentrate. As its mainland deposits dwindle and following the loss of access to resources in the former Soviet republics, Russia needs to ramp up production in the Arctic. The north holds 90 percent of Russia's nickel, 67 percent of timber, 87 percent of fish, 80 percent of apatite, over 95 percent of diamonds and most of its gold, silver and rare-earth metals. The Arctic has become one of the key priorities under the new state strategy of off-shore oil and gas exploration announced by the Russian Ministry of Natural Resources.

The Arctic is also important for Russia's defense. Priorities here include control of space over the Arctic and containment of the military-political presence of Western powers in the northern geopolitical region of the Arctic. A large part of Russia's armed forces, including the Pacific Fleet, is based in the Arctic. Some of the islands in the region host Russian military facilities, border posts, polar hydrographic stations, research facilities and expeditions, making them important for Russia's national security. In addition, only the Arctic seas give the Russian fleet unhindered access to the world ocean.

Russia's interests and national security are now facing a threat as a number of foreign countries are trying to expand their political and economic presence in the Arctic, impede Russian projects there and prevent Russia from participating in exploring the world ocean and har-



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vesting its riches. For instance, Norway, the United States and Germany are busily working on continental shelf exploration off the Russian Arctic coast, in the sphere of Russian interests. Norway makes territorial claim to the part of the continental shelf called Fedinsky High by Russian geologists. This area is estimated to hold as much gas as the Shtokman field and as much oil as the entire Timano-Pechorskaya province.

Research ships flying foreign flags could often be seen in the Russian sector of the Arctic in recent years, collecting geological and geophysical data and secretly drilling for oil and gas. Foreign research centers have divided up the Arctic, with each country exploring its own patch. Norway is responsible for the Barents Sea and the Sea of Kara. Britain's institute of marine geology and institute of the Arctic Ocean and America's Polar Science Centre at the University of Washington got the Laptev Sea and areas off the shores of Yakutiya-Sakha autonomy. The purpose of this research is to weaken Russia's positions in the north, for instance by proposing to declare some areas as natural reserves and therefore ban all industrial and economic activity there. In 1998 alone, the United States, Norway and Germany sent at least 10 research expeditions to the Russian Arctic sector. In particular, the German research vessel *Polarstern* was on a major research expedition in the Laptev Sea in July and August of 1998, just outside Russia's 200-mile economic zone.<sup>1</sup>

One of the key areas of discussion with the West, including the United States, is the issue of America's participation in the exploration of the Arctic continental shelf. This debate has revealed America's increasingly negative attitude towards Russia's current and future exploration efforts in the Arctic.

America's military-political leadership is beginning to insist on the need for Washington to lay its own claim on continental shelf territories. The Americans are gradually revealing the extent of their possible territorial claims, which, if supported by the international community, will make the United States the leading player in the Arctic. The greatest interest in the Arctic is naturally coming from the political establishment in America's northernmost state, Alaska, which has grandiose plans for the Arctic shelf. At recent Senate hearings, Alaska Senator Lisa Murkowski, Republican, said that "America will be able to lay claim on a territory of 450,000 square kilometers in the Arctic, roughly the size of California."<sup>2</sup>

To justify its creeping incursion into the Russian Arctic, the United States is severely criticizing the Russian government's policy on its Arctic provinces. The allegation is that Moscow's support for these provinces is absolutely ineffectual, and that people there live in conditions that are unfit for civilized human habitation. The criticism focuses on disease, chronic poverty, widespread alcoholism and lack of basic infrastructure and supplies needed to survive in the Russian north.

Apart from the obvious effects from highlighting the difficult social situation in some of the Arctic regions in Russia, the U.S. media are in fact promoting the idea that Russia cannot put the Arctic territories under its jurisdiction to a good use. They are suggesting that the Russian government is doing nothing to improve the situation or to stimulate private investment in the region. Therefore, the idea goes, only greater foreign presence in the Russian Arctic – economic, humanitarian and, in future, political – can save the region from social and economic degradation. The Americans have in fact made a case for a humanitarian intervention. It would be logical to expect that American and U.S.-controlled humanitarian organizations will soon step up their activity in Russia's Arctic provinces under the pretext of helping the indigenous people preserve their way of life or implementing environmental and educational programs.

Environmental issues are now one of the key priorities of America's attention to Russia's activities in the Arctic. They are also being linked to nuclear safety issues. Speaking at a Congress hearing on banks and finances in 1999, U.S. government spokesman Mr. Truman directly accused Russia of radioactive pollution of the Arctic waters. "There is a problem of nuclear waste being dumped into the Arctic waters, which is a threat not just to the United States, but to other nations as well," Truman said.<sup>3</sup>

Environmental concerns have traditionally been used to put pressure on Russia over its plans to develop infrastructure in the Arctic and build oil and gas facilities. For example, plans to build a gas pipeline in the Russian Arctic have been portrayed as a threat for the local environment.

Smaller Russian “transgressions” against the Arctic environment are also receiving generous coverage. The clearly negative tone of reporting about the Russian Arctic and the numerous complaints against Russia in this regard suggest that sooner or later, the Arctic will become a focus of tough economic and political confrontation between the United States and Russia.

But for now, the United States is unable to scupper Russia’s plans or prove the validity of its own claim to the Arctic continental shelf because the U.S. Senate has not yet ratified the 1982 UN Law of the Sea Convention. Therefore America is not a member of the Commission on the Limits of the Continental Shelf, and it has not had a chance to study the technical data on the Arctic shelf. That is why President George W. Bush urged the Senate in May 2007 to ratify the convention, arguing that it would “secure U.S. sovereign rights over extensive marine areas, including the valuable natural resources they contain.” But despite the president’s support, the convention, which contains a commonly agreed mechanism of delineating the outer limits of the continental shelf, has not been ratified in the Senate.

## INTERNATIONAL LEGAL STATUS OF THE ARCTIC

The international legal status of the Arctic territories is a product of centuries of history and is tightly intertwined with the international doctrine and practice of claiming sovereignty over unclaimed lands, or *terra nullius*. That doctrine and practice stipulate that discovering *terra nullius* and leaving some token of claim by the country that made the discovery is sufficient to obtain the legal title to this newly discovered land.<sup>4</sup> And the 1982 UN LOS Convention has played a fundamental role in establishing universal maritime law and facilitating coordination between the world nations.

Following the change of the Soviet Union’s foreign policy in the 1990s and the general reduction in the level of confrontation in the world, the Soviet Union’s 1987 Murmansk Initiative set out a framework for further negotiations with countries interested in solving the problems of the Arctic region. These initiatives included: creating a nuclear-free zone in the north of Europe; limiting military activity in the seas of northern Europe; peaceful cooperation in the exploration of resources of the North and the Arctic; international cooperation on Arctic research; cooperation between northern nations on the environment of the Arctic; the search for the northern route for international shipping.

Successful legal defense of Russia’s various interests in the Arctic largely depends on a clear understanding of the international regime of the Arctic and on its proper application by the Russian authorities and companies operating in the region. First of all, the sub-Arctic nations need to take into account that Russia’s claim to its Arctic sector dates back to September 20, 1918, when the Russian government sent a diplomatic dispatch informing other nations that the islands of Henrietta, Jeannette, Bennett, Herald, Uyediniya, New Siberian Islands, Wrangel, Novaya Zemlya, Kolguyev, Vaygach and others are part of Russia “because Imperial sovereignty of them has been recognized for centuries.”

On April 15, 1926 the Soviet Union confirmed its sovereignty over lands and islands in the Arctic Ocean in a resolution of the presidium of the Central Executive Committee of the USSR entitled “On proclaiming Soviet sovereignty of lands and islands in the Arctic Ocean.”<sup>5</sup> Under the resolution, the entire geographic area containing previously discovered and as yet undiscovered lands and islands was proclaimed Soviet territory. However, the resolution did not mention the legal status and regime of the polar Arctic sector north of Soviet coast between 32 deg 04 min 35 sec East, which lies astride the eastern part of the Vayda Bay, and 168 deg 49 min 30 sec West, which divides in half the strait between Ratmanov and Krusenstern islands on the one side and the Diomed Islands in the Bering Strait.<sup>6</sup>

The total area of the Soviet Union’s polar territories is 5.6 million square kilometers. But the borders of the polar sectors are not actually equivalent to national borders, and a nation’s declaration of its own polar sector does not resolve the issue of the legal regime of the maritime territories in this sector. That is important to understand, because some experts believe that all the maritime territories in the Russian sector of the Arctic are Russia’s territorial waters.





In actual fact, the Soviet Union's rights to the Arctic parts of its territory were also stipulated in a number of other acts of legislation, including the Soviet Union's "Law on the State Border" of 1982 and the 1968 decree of the presidium of the Supreme Council of the USSR "On the continental shelf of the Soviet Union". These acts of legislation are now part of Russia's laws on the state border and continental shelf.

There is also the international experience to consider. The Arctic area of the United States now includes U.S. territories north of the Polar Circle and territories to the north and west of the border formed by the Porcupine, Yukon and Kuskokvim rivers, the Aleutian Islands chain and all the adjacent seas, including the Arctic Ocean and the seas of Beaufort, Bering and Chukchi. The total area of U.S. polar territories is 12.6 million square kilometers.

Norway's legislation does not have a definition of its Arctic territories. But when environment ministers of the Arctic nations signed the Arctic Offshore Oil and Gas Guidelines on June 13, 1997, for the purposes of these guidelines Norway defined its Arctic territories as the part of the Norwegian Sea north of the 65N latitude, with a total area of 0.746 million square kilometers.

Denmark's Arctic territories include Greenland and the Faroe Islands. Denmark's sovereignty over Greenland was confirmed by the permanent chamber of the International Court of Justice in 1933. The area of Danish Arctic territories is 0.372 million square kilometers. Greenland, however, has been quite successful in its campaign to secure rights to its off-shore natural deposits, which contain millions of euros worth of energy resources.<sup>7</sup> Unlike Canada or Russia, countries such as the United States, Norway and Denmark have not passed any acts of legislation on the Arctic regions adjacent to their territories. But their laws on continental shelf, economic and fishing zones cover the Arctic regions as well.<sup>8</sup>

Canada was the first to lay legal claim to its Arctic sector. Back in 1909, the government of the then British dominion of North America officially laid claim to all the lands and island, both discovered and undiscovered, lying west of Greenland, between Canada and the North Pole. In 1921 Canada proclaimed sovereignty of all the lands and islands north of continental Canada. In 1925 it adopted an amendment to the Law on North-West Territories forbidding any foreign activity on the Canadian Arctic lands and islands without the permission of the Canadian government. In 1926, these claims were conformed by a special royal decree. At present, Canada defines its Arctic area as territory including the Yukon basin, all the lands north of the 60N latitude and coastal areas of the Hudson Bay and James Bay. The total area of Canada's Polar territories is 1.430 million square kilometers.

The principle of taking into account special interests of the sub-Arctic nations in the Arctic areas adjacent to their coasts, which is used in Canadian and Soviet legislation, was reflected in the so-called "sector theory". This theory is being used by some of the sub-Arctic nations, including Canada, which has at one time or another used the sector theory as an international legal justification of its Arctic claims.

The sector partition of the Arctic met no opposition from the non-Arctic nations at the time, and was accepted as a *de facto* situation. That *de facto* recognition remained until scientific and technological progress made possible the exploration of natural resources in the Arctic. In recent years, several nations including Germany, Norway, the United States and others, have stepped up their research efforts in the Arctic, including the Russian polar sector. The United States is continuing the unprecedented program launched in 1994 to study the Arctic using nuclear-powered submarines carrying the latest equipment for mapping the seabed and sea-floor sediments.

The United States is the main opponent of the sectoral partition of the Arctic. Led by its military, strategic and other interests, the United States believes that the implementation of the sector principle by the sub-Arctic nations could significantly restrict the freedom of the American fleet in the Arctic. Washington believes that only the open-sea regime applies to all the waters of the Arctic, apart from the 12-mile territorial waters. Furthermore, the U.S. is putting constant pressure on Canada to change its approach to the *sector theory*, so as to avoid the risk of legal dependence on Canada in the Canadian Arctic sector. Unfortunately, some Canadian legal experts and politicians are yielding to American pressure and abrogating the sector principle, saying that the sub-Arctic nations cannot claim dominion over maritime territories in the Arctic sector. In resolving its problems with the delimitation of maritime borders

with other sub-Arctic nations, such as Denmark and the United States, Canada is being flexible about the sector principle.

The complexity of defining the legal status of the Arctic Ocean and the Arctic seas stems from the different ways of looking at this part of the globe. On the one hand, it can be viewed as an area of open sea, to which all the normal open-sea regulations apply. But on the other, most of the Arctic Ocean is an ice-covered surface, and can therefore be viewed as a special kind of national territory of the five nations around the ocean. These nations have partitioned the ocean into polar sectors, and all the lands and islands, as well as ice-covered surfaces within the nation's polar sector, are part of the respective nation's territory. That is the root of the differences between the sub-Arctic nations in interpreting international and domestic legislation during growing international disputes over the use of the territory and resources of the Arctic.

The position of Russia, which advocates the sector principle, is based on the assertion that the usual international practice since the 1920s has been to partition the Arctic territories into sectors based on their gravitation towards the coast of the sub-Arctic nations. Under this common practice, each sector is under the jurisdiction of the respective sub-Arctic nation, and the lands and islands in this sector are under the sovereignty of the respective nation. The Arctic was partitioned into sectors due to the entirely justified desire of some sub-Arctic nations, including Russia, to exclude from the general international maritime regime the regions that are particularly important to these nations due to their geography and climate. But this common practice was not confirmed in the 1982 UN Convention on the Law of the Sea.

Under the convention, the waters out to 12 nautical miles from the baseline are declared territorial waters. These waters, as well as the airspace above them and the seabed and mineral resources below, are under the full sovereignty of the coastal nation. The area within 200 nautical miles from the baseline is the exclusive economic zone. The seabed and mineral resources outside these zones are declared common heritage, meaning that all the nations of the world have equal rights to the natural resources there, and any country may apply to the UN or other special international agencies to harvest the deep-sea resources of the seabed. This principle could also be applied to the Arctic zone within the 1926 borders.<sup>9</sup> The permission to harvest the resources is issued by the International Seabed Authority. If Russia yields to Western pressure to abandon sectoral partition of the Arctic, it will lose sovereign rights to 1.7 million square kilometers of its Arctic sector. That is the area of the Arctic shelf which under the 1982 UN Convention on the Law of the Sea will no longer be under Russian jurisdiction. However, a careful study of the convention reveals that the document allows the Arctic regions to be granted special status. In particular, Article 234 of the convention not only fails to reject the sectoral partition of the Arctic, but clearly says that coastal states have the right to adopt and enforce non-discriminatory laws and regulations for the prevention, reduction and control of marine pollution from vessels in ice-covered areas.

Plus, unlike other oceans, the Arctic Ocean is relatively shallow and for most of the year (up to nine months) it is covered with ice too thick for ordinary ships to navigate – which makes it impossible to determine where the dry land ends and the ice-covered surface of the ocean begins.

## **RUSSIA'S ACTIONS TO DEFEND ITS INTERESTS IN THE ARCTIC**

Experts predict that by 2015, all the economically viable oil and gas fields on dry land will be all but depleted. This makes the Arctic shelf extremely important to Russia and the entire world. The Shtokman gas field alone, which is situated in the north-eastern part of the Arctic shelf, holds as much gas as all the gas fields of Norway. Another five oil fields have been found in the Barents Sea.<sup>10</sup>

In December 2001, Russia submitted to the UN Commission on the Limits of the Continental Shelf an application that reflects many years of extensive research by Russian scientists to determine and prove the location of the outer limits of the continental shelf in the Arctic and the Pacific. The research involved expeditions to conduct all the necessary geological and geophysical field studies of the submerged part of the Arctic mainland. It compiled tens of thousands of measurements made over a period of 30 years. These studies have to all intents and



purposes proved that the submerged Lomonosov and Mendeleev ridges are a natural prolongation of the Arctic land, because the nature of the crust of the ridges is continental, not oceanic. That is a crucial difference, because under Article 76 of the 1982 convention, the seabed and subsoil in areas that are a natural prolongation of the land are considered to be part of the continental shelf. That means that the territory of the Lomonosov and Mendeleev ridges, the Provodnikov Basin, and parts of the Makarov Basin and Amundsen Basin, with a total area of 1.2 million square kilometers, are part of Russia's continental shelf, with all the implications that follow.

But the commission said that the materials submitted by Russian experts did not fully meet all the requirements, and suggested that more geophysical data is needed, including more detailed information on depth measurements.

Russia responded by pointing out that such exaggerated demands are unacceptable, and that marine expeditions to some of the most inaccessible parts of the Arctic Ocean would be too costly. It also said that revealing detailed ocean depth measurements would jeopardize Russia's national security, and that in any case such measurements are not required to confirm the continental shelf nature of the seabed. Russia was also asked to provide additional geological evidence that the continental shelf of the Arctic Ocean is a natural prolongation of Russia's mainland. In particular, experts have requested proof that the Mendeleev and Lomonosov ridges are linked to the continental shelf. Russian scientists carried the necessary research at the Mendeleev ridge in 2005 during the *Arctica-5* expedition.

The commission's tough stance and unfounded demands regarding the outer limits of the continental shelf can partly be explained by the lack of clear understanding of the nature of the Mendeleev and Lomonosov ridges. The United States, Canada, Norway and Denmark have all laid claim to the natural resources there. After the Russian application was submitted to the UN, the U.S. State Department immediately sent a verbal note to the Russian Foreign Ministry saying that the Russian claims to the shelf do not have sufficient scientific basis, and that the criteria for defining the new outer limits of the shelf used by Russia are unacceptable. In early 2009 President Bush signed the presidential directive naming the Arctic region the zone of U.S. national interests.

Russia is expected to submit a new application for the Arctic continental shelf to the UN Commission on the Limits of the Continental Shelf in 2009.<sup>11</sup> The fight for the rich resources of the Arctic will continue.

## Notes

<sup>1</sup> For more details see: A.A. Kovalev, *Modern maritime law and practice* (Moscow, 2003), p. 214.

<sup>2</sup> [www.pravda.ru/world/northamerica/usa-canada](http://www.pravda.ru/world/northamerica/usa-canada)

<sup>3</sup> For details see: *Pravda*, December 1, 2006.

<sup>4</sup> See: "Key Features of Legal Regime of the Arctic at Modern Time" in A. Kolodkin (ed.), *Law of the Sea and International Cooperation* (Moscow, 1990), p. 23.

<sup>5</sup> "U.S. Senate Committee Has Begun Legal Preparation for Partitioning the Arctic," *Lenta.ru*, October 31, 2007.

<sup>6</sup> See: A.A. Kovalev, *Modern maritime law...*, p. 212.

<sup>7</sup> K.Monk, "Danish Separatists Could Help Russia in Its Fight for the Arctic," Forum of S. Kara-Murza, April 18, 2008, <http://news/politic/1715701>

<sup>8</sup> I.O. Bartsits, "On Legal Status of Russian Arctic Sector," *Pravo i Politika*, No. 12, 2000.

<sup>9</sup> In accordance with the resolution of the Presidium of the Central Executive Committee of the U.S.S.R "On proclaiming Soviet sovereignty of lands and islands in the Arctic Ocean" of April 15, 1926, the geographical area with all the lands and islands to be discovered was declared Soviet territory.

<sup>10</sup> Nikolay Dzis-Voynarovskiy, "Not Enough For All. Russia to Deplete Key Resources by 2015," *Novye Izvestiya*, November 12, 2004.

<sup>11</sup> See: Valeriya Sycheva, "Arctic Pie to Be Divided by Law of Force," *Itogi.ru*, No. 42, July 2, 2008.



Yevgeny Yevdokimov

## OLYMPIC DIPLOMACY AS AN INSTRUMENT OF CHINESE FOREIGN POLICY PROPAGANDA

Ever since the first modern Olympics held in Athens in 1896, hosting the Games has always been an honorable and important task – a chance for the host nation to demonstrate its achievements and ability to organize the games properly. It is also a chance for the host nation to promote its own vision of world affairs, take an active role in the global debate and bolster its standing on the international arena.

During the entire 20th century, the Olympics have been a serious factor of world politics. The 1936 Berlin games, the 1972 Munich games, the 1980 games in Moscow and the 1984 Olympics in Los Angeles were all highly politicized. The international impact of the 2008 games in Beijing suggests that in the 21st century, the Olympics are as politically significant as ever. The games drew the world attention to Chinese sports and culture, but also to a whole range of issues other countries' governments, media outlets and ordinary citizens are facing in connection with China's rapid growth. One way or another, the Olympics have had an effect on Chinese policy on Tibet, Taiwan, Darfur and other issues. In addition to international pressure, the Chinese government was also facing a torrent of problems from an entirely different direction – heavy snowfalls, earthquakes and epidemics hit China hard in 2008. And all that time the country was in the spotlight of the world media.

But the Chinese government managed to demonstrate to the world its reliability and readiness to face the challenges the rapidly growing country is facing. Despite all the problems, on the whole Beijing has successfully used the opportunities offered by Olympic diplomacy to bolster its international reputation and promote its own vision on global issues. It is however worth noting that the focus of foreign policy efforts on the Olympics and on the international reputation was sometimes distracting the Chinese leadership from other domestic and foreign problems. China's experience indicates that in this day and age, the Olympics can be a catalyst of change in the host nation's foreign policy and international standing. They can be a force for strengthening – and sometimes weakening – the host's power and influence on world affairs.

In the run-up to the 2014 Winter Olympics in Sochi, Russia is holding the power of Olympic diplomacy in its hands. The task our country is facing now is to rise to the occasion and maximize the Games' potential to strengthen Russia's international reputation. This requires a careful study of China's Olympic experience.

This article will discuss the role of Olympic diplomacy in China's foreign policy as a powerful propaganda instrument to promote the views of the Chinese leadership on world affairs and to bolster China's international standing. It will focus on the way Olympic diplomacy was reflected in Chinese foreign policy priorities, propaganda of the Chinese leadership's views on key international issues and some changes in China's policy of openness.



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## OLYMPICS AND HUMANITARIAN ISSUES IN CHINA'S FOREIGN POLICY PRIORITIES

The use of Olympic diplomacy to bolster foreign policy influence can be viewed as part of the popular Chinese concept of *holistic power*, the Chinese answer to the “soft power” concept proposed at the end of the last century by US analyst Joseph Nye.<sup>1</sup>

It must be said that many Chinese pundits are skeptical about the “soft power” term, using it mainly in reference to America itself. The Chinese believe that the very definition of “soft” power as opposed to hard power comes from the American strategists’ wish to emphasize America’s huge superiority in terms of cultural and humanitarian influence. It is believed that in this regard, China has fallen much farther behind the United States than it has in military power, economic development and other indicators.<sup>2</sup> That is why Chinese pundits insist on a holistic approach to measuring the power of any nation, especially China.

The concept of holistic power includes humanitarian and cultural influence, the success of the nation’s economic model, the state of its science and technology, the environment and the demographic situation, the state of the economy, military capability and energy security. China’s success in hosting such a large international event as the Olympics, providing adequate security and pulling off a successful PR campaign is viewed by the Chinese leadership as clear evidence of China’s success in all the key areas that define a nation’s holistic power.

Speaking about China’s humanitarian potential, it is worth pointing out the Chinese leadership’s growing interest in cultural diplomacy. Beijing is working hard to promote the Chinese culture abroad – witness for example the recent launch of Confucius Institute offices in various countries, including Russia, France, Germany, Italy, Spain, Britain, India, Egypt, Mexico, the United States, South Korea, Japan and others. The Chinese government is working to promote the Chinese language and foster the development of the Chinese segment of the World Wide Web and traditional media. The policy of spreading China’s cultural influence is increasingly being backed by humanitarian and educational programs in China itself, as well as efforts to support the Chinese movie industry and sports, and revive traditional Chinese culture and values.<sup>3</sup> The Olympics have certainly been used by the Chinese to spread Chinese values and view of the world. Efforts to attract international attention to China included a large-scale Olympic torch relay, participation of senior foreign guests in the opening ceremony, numerous exhibitions and culture events for foreign tourists during the Games, etc.

Efforts were also made to cultivate the image of the Beijing Olympics as the “Green Games”,<sup>4</sup> as part of China’s general strategy to use environmental issues for strengthening China’s prestige and holistic power. China’s environmental measures, widely discussed in the media ahead of the games, included large-scale campaigns to improve air quality, plant trees in the cities, shut down polluting industries, raise fines for pollution, etc. An improvement of the environmental situation in Beijing was supposed to showcase China’s success in developing modern technology and science, improving economic efficiency and adopting an intensive model of growth in line with Chinese President Hu Jintao’s and the Communist Party’s proclaimed strategy of “science-based growth” and “harmonious society”.<sup>5</sup>

In recent years the Chinese leadership has been trying to strike a balance in the development of the country and its provinces. The overall economic growth rate is intentionally being held back for the sake of improving the nature of the growth and maintaining stability. Attempts to change the nature of the growth, and reduce the reliance on the economy of coastal regions and export-oriented industries are a sign of China’s continuing search for a more efficient economic model. A successful implementation of the “harmonious society” model in China, coupled with a successful international PR campaign highlighting achievements in this area, clearly help to make the Chinese model more attractive and strengthen China’s international influence.

## PROPAGANDA OF THE “HARMONIOUS WORLD” IDEA AS PART OF OLYMPIC PR CAMPAIGN

The “harmonious world” concept is the obvious next step for China’s domestic “harmonious society” strategy. A number of Chinese writers are proposing it as an international model for the 21st century to replace the Western theories of the “clash of civilizations” or “the end of history”.<sup>6</sup> Hence the choice of the official slogan for the Olympic torch relay – “Journey of Harmony”.<sup>7</sup>

As part of propaganda of the “harmonious world” concept, the Chinese media are discussing the idea of a “responsible nation” – a reflection of the role China aspires to play in this “harmonious world”. Almost all Chinese pundits agree that the past and present great nations’ standards of behavior are unacceptable to China, both now and in the future. Some of them are hailing the coming of a new era, where the leading nation’s foreign policy can no longer be based on suppression, domination, threats and rejection of the international community’s opinion. They decry as “irresponsible” America’s efforts at world domination, arguing that in this day and age, such domination is no longer possible in any case. A number of experts believe that China’s task now is to foster a harmonious system of international relations, where every nation would enjoy stability and steady growth.<sup>8</sup>

Essentially, *growth* is China’s officially proclaimed top priority, both domestically and on the global scale. Conceptually, every nation’s right to growth and independence is spelt out in the “Beijing Consensus”. The term was first used by British political scientist J. Ramo<sup>9</sup> in his eponymous article, which quickly drew the attention of the Chinese government and media. At first Ramo’s ideas met only a cautious welcome in China, but soon they were widely adopted by Chinese pundits, and are now viewed as the West’s recognition of the Chinese model of international relations. Ramo defined the essence of the Beijing Consensus as a “willingness to innovate and experiment, a lively defense of national borders and interests, and the increasingly thoughtful accumulation of tools of asymmetric power projection.” That clearly positions the Beijing Consensus as an alternative to the “Washington Consensus”, with more emphasis on fairness and equality, social development and sovereignty.

The Beijing Olympics have undoubtedly been used as a platform to promote the “harmonious world” idea internationally.<sup>10</sup> That is why it was especially important for the Chinese leadership to secure the attendance of the opening ceremony by as many world leaders and big names as possible. In the run-up to the Olympics, the Chinese were extremely sensitive to all high-profile acceptances or rejections of the Olympic invitation, as well as rumors of a possible boycott of Olympic events. The attendance of more than 80 heads of state at the opening ceremony was viewed in Beijing as a great success comparable to the triumph of the Chinese athletes.

## BEIJING’S COUNTERACTION OF ANTI-CHINESE PROPAGANDA IN WESTERN MEDIA IN THE RUN-UP TO THE OLYMPICS

The political success that China has made of the Olympics is especially significant given the obvious difficulties the Chinese leadership was facing on the international arena in early 2008. Beijing had managed to rebuff waves of massive and well-coordinated attacks in the Western media: 1) criticism of China’s policy on Sudan and Darfur in January and February of 2008; 2) information war waged on China following the 14 March disturbances in Tibet, which were provoked from abroad; 3) attempts by Western NGOs (such as Reporters Without Borders) to disrupt the Olympic torch relay in London, Paris, San Francisco and other cities in April 2008; 4) regular publications of statements by prominent politicians and public figures in the West calling for a boycott of the Beijing Games. During these campaigns, not just electronic media but also reputable newspapers and TV companies in Europe and the United States often resorted to blatant disinformation. One of the most crying examples of this is the incident when the CNN, the BBC and Euronews illustrated the “brutal crackdown of the uprising in Lhasa” by broadcasting footage that was actually shot during disturbances in Nepal.



Early 2008 was probably the first time that the whole might of Western propaganda (which Russia itself has recently had to face once again) was unleashed against China since the 1989 Tiananmen Square events. Beijing was clearly taken aback by such attitude on the part of its Western partners, even though it was expressed indirectly, using the so-called “independent media”.

Up until 2008, the Chinese leadership could reasonably expect that economic interdependence of China and the West, and substantial Western investments in China, including money spent on the games themselves, would be sufficient guarantee of Western support for China's Olympic efforts. But the actions of Europe and the United States turned out to be unpredictable and inconsistent. From the point of view of China's ideas about the role of the state in a country's foreign policy, the rise of anti-Chinese propaganda in the West was seen as evidence of the European and American governing elite's inability to ensure the fulfillment of partnership commitments.

The events of early 2008 forced Beijing to adjust its course of action. On the one hand, China stepped up its counterpropaganda efforts in order to persuade the world that China is a “responsible” player. A large-scale campaign was launched to protect the Olympics and their ideals from undue politicization. Having secured the support of the International Olympic Committee (IOC), China's top leadership, the Foreign Ministry and the Chinese media launched a campaign urging the international community to rid the Olympics of politics.<sup>11</sup> At the same time, the Chinese leadership adopted measures to limit Western influence on the situation in China itself, leading to a number of substantial changes in the policy of openness to the outside world.

Chinese communities abroad also played a major role in successfully counteracting anti-Chinese propaganda. In the face of protests by “supporters of Tibet independence” in Europe, the United States, Australia, Japan and other developed countries, ethnic Chinese who have long settled abroad stood united in defending China's right to host the Olympics. During the torch relay stages in countries of the Asia-Pacific region, where the ethnic Chinese communities are especially strong, even potential anti-Chinese demonstrators were often outnumbered by a tight ring of the Beijing Olympics supporters guarding the torch, so in some cases any protest attempts were physically suppressed.

But the main thing that helped the Beijing Olympics overcome all the problems and become such a success was their excellent organization, starting from the early stages of preparation and planning. The Beijing Olympics were destined to become in many ways the best Games ever even before they kicked off, thanks to unprecedented levels of spending, massive construction projects, tight state control, proper work with the population, investment in training Chinese athletes, a massive propaganda campaign and other steps by the Chinese leadership.

As a result, by the time the games officially began, those politicians who refused to attend the opening ceremony found themselves in an isolation. The Chinese leadership stood firm in the face of international pressure and successfully demonstrated to the world its ability forcefully to defend China's national interests.

Against the backdrop of a massive propaganda effort against the politicization of the Games, China's restrained reaction to Georgia's aggression against South Ossetia stood in stark relief. The issue did not directly impinge upon China's national interests, so given the high risk of an untimely confrontation with the West, Beijing essentially distanced itself from actively solving this problem. But it is clear at this stage that China is concerned by the problem of maintaining peace and the existing balance of forces in international relations to solve priority tasks of balanced growth and stability inside the country, which form the foundation of China's growing international influence and reputation.

The lesson of the Beijing Games is that the real prospects of the Chinese model of a harmonious world depend not only on China itself, but also on the changing international situation and the positions of other centers of power. A lot will depend on Beijing's ability to win the trust of the developed world and the developing nations alike, and to persuade them of the virtues of the Chinese model.

That requires a potent propaganda and counterpropaganda capability to make the Chinese model more attractive and allow Beijing to fulfill the role of the ideological leader in the system it proposes. That is why the Chinese leadership made use of the games to promote its foreign policy agenda and China's view on global issues among the world leaders and ordinary people in other countries.

One of the goals of China's diplomacy was to demonstrate to the world China's "openness" and readiness for dialogue. The foreign policy objectives of many sports and culture events held in Beijing during the Games went well beyond intergovernmental relations, targeting ordinary members of the public in other countries and the international community as a whole. That is why it would be appropriate to discuss the key changes in China's "openness" policy during the Games.

## **"OPENNESS" POLICY DURING THE OLYMPIC GAMES**

Aware of the need for a serious propaganda effort on key international issues, the Chinese government made some steps in the run-up to the Olympics to promote and enhance the idea of an "open China". In the 1990s, China's policy of openness to the outside world was designed to foster economic growth and attract foreign investment, technology and know-how. But the turn of the century marked a shift in this policy's meaning and objectives. In purely economic terms, the need for openness to foreign investment has already become undisputed. But as China's economy grows, its government is increasingly expecting the same kind of openness from its foreign partners. That was the reasoning behind the country's WTO accession and the numerous trade agreements it has signed with other countries.

At the same time, the image of "open China" is increasingly being used in the area of international humanitarian cooperation and mutual influence.<sup>12</sup> Considering how far China has fallen behind the Western world in this area, it is quite reasonable to use the "openness" model, which has already proved itself in trade relations. The practical task here is to create a favorable climate for spreading China's humanitarian influence abroad, as well as to limit in some ways the negative influence of the outside world's values on China itself.

At this stage, China's "openness" increasingly means a balanced approach towards borrowing other countries' experience and values, based mainly on the considerations of national interest and national security.

China's "openness" policy in its current shape can be illustrated by changes to the entry and stay regulations for foreigners for the duration of the Games. The Chinese government faced a complex task of creating a favorable climate for foreign tourists, providing security and fostering the image of "open China". Such a combination of tasks was reflected in the choice of methods for tightening control of migration and stepping up security at sports venues, airports and other facilities. The Chinese press provided generous coverage of efforts to improve the level of service for foreign tourists, upgrade the public transport infrastructure, provide security, clean up the environment, etc. But new restrictions imposed in the run-up to the Games were not advertised in official documents, and the Chinese media (or at least the sources available to foreigners) preferred not to dwell on them, either.

According to official statements by the Foreign Ministry, Ministry of Public Security and other government agencies, there were no serious changes to the entry and exit procedures for foreign travelers during the Olympics. But in practice, visa procedures were tightened both inside China and in its embassies abroad. There have been numerous complaints from foreign travelers and travel firms about difficulties in obtaining multiple-entry visas or extending visas for the duration of the Olympics, more stringent requirements to visa documents, longer waiting times and the growing number of rejections of visa applications.<sup>13</sup> The Chinese media wrote that down to the immigration authorities' more stringent checks of the purpose of the visa applicants' visits and the legality of every foreigner's stay in China.<sup>14</sup>

Foreigners in China are facing more document checks, and the authorities have stepped up the enforcement of the requirement for every foreigner to register with the police. Security agencies regularly raid the streets, transport hubs, hotels and public venues, with such raids





often resulting in foreigners being detained and deported. The Chinese Ministry of Public Security reported over 5,000 cases of foreigners violating the passport and visa regime in 2007.

## **PROPAGANDA OF THE CHINESE GOVERNMENT'S SECURITY MEASURES DURING THE GAMES**

The Chinese media have tended to explain the tighter restrictions that foreign visitors faced in the run-up to the Olympics by security considerations, including the need to prevent acts of terrorism and incidents such as the anti-Chinese demonstrations during the Olympic torch relay. Following the disturbances in Tibet, which were largely fomented from abroad, and problems at home caused by natural disasters, the Chinese leaders saw providing proper security of the Games as a chance to demonstrate to the outside world that the government is in control and that the country's standing on the international arena is firm. That is why the Chinese media have been quite openly discussing the Uighur extremists' threats and terrorist acts, the situation in Tibet and the full scale of the tragedies caused by heavy snowfalls in China's southern provinces in January-March 2008 and the Sichuan earthquake in May. The Chinese government chose to accept foreign aid, granted access to foreign rescue experts, and expressed its gratitude for the aid, citing it as proof of the high level of trust and cooperation with other countries. During Russian President Dmitry Medvedev's visit to China on May 23–24, 2008, the Chinese government emphasized the political significance of the Russian Emergency Ministry's relief efforts in Sichuan province. It also thanked Russia for its offer to host Chinese children affected by the quake at Russian resorts in July 2008.

Such campaigns help to keep the attention of the Chinese and foreign media focused on the Chinese leadership's ability to solve the tasks facing not just China but many other countries and the entire international community. They are the government's way of telling the world that China no longer hides its problems, like it did in the past, and is prepared to cope with the difficult tasks at hand in an increasingly open manner.

As part of the propaganda of security at the Olympics, the Chinese media gave ample coverage to the government's measures to ensure the safety of foreign athletes and tourists. The media reported a successful campaign involving Chinese citizens and foreign visitors to build up the stocks of donor blood for transfusions, including blood of the Rhesus-negative type, which is rare among the Chinese. The government also worked to ensure food safety, and built up sufficient stocks of high-quality drinking water. It bought high-spec equipment and trained staff at 24 specially selected medical centers where foreign citizens could receive medical assistance during the Games. It also set up multilingual 24-hour emergency help lines.

In order to step up security and produce a good impression on foreign tourists with the quality of air transport in China, the civil aviation authority tightened control of the airports and air companies in July – September 2008. The authorities in Beijing also improved the public transport network and improved the quality of the service. By the time the Games opened, 7 subway lines with 198km of track were in operation in the city. Beijing also bought an extra 1,800 buses and launched 173 new bus routes. There were special tour buses for foreign tourists, and the city spent 10 million dollars to ease access to transport, sports and tourist facilities for people with special needs.<sup>15</sup>

Many of these measures were so successful that they were left in place after the closure of the Olympics.

At present, the Chinese leadership is paying great attention to keeping in check the external influences on the country. At the same time, China is aspiring to play an important role in the world economy and politics, and it is increasingly using the "openness" slogans to expand its ideological influence internationally. The traditional policy of "openness to the outside world" is rapidly transforming into a policy of "open world" – a model of international relations that opens great opportunities for using China's growing strength to boost its international influence. Meanwhile, China itself is increasingly raising the barriers to political, economic and, of course, ideological influence from other centers of power. This trend suggests that China is

less dependent on the interests of other countries, and is laying the foundations for positioning itself as one of the ideological leaders of the world.

## LESSONS FOR RUSSIA

All these elements of Olympic diplomacy have been a chance to see China's foreign policy propaganda machine in action, and to understand the opportunities for Russia in the run-up to the 2014 Winter Olympics in Sochi.

China's experience suggests that the main tasks facing Russia ahead of the Games include good planning and preparation of infrastructure projects, educational work with the population, training of athletes and a proper information campaign. The Beijing Games not only raised the bar in terms of standards – they also demonstrated that in the current conditions of globalization and deep interdependence of the nations, there is no real threat that properly organized games will face boycott. It will be the party that boycotts the games, not the host, who will face international isolation. Therefore, Russia must fulfill the following tasks:

First, following China's example, Russia must use the Olympics to strengthen its *humanitarian influence* and to demonstrate to the world its achievements, stability, growth and competitiveness on the international market. Another important task is to attract investment in the economy of the country and the Sochi region. As part of the work to attract investment, Russia must *improve its image* on the international arena.

It is also noteworthy that unlike the 2004 Athens Games, whose success was judged only in economic terms, the Beijing Olympics were mainly judged on how much they advanced China's ideological goals, boosted the country's international reputation and helped to promote the Chinese model. At the same time, estimates suggest that financially, Beijing's success far surpassed the incomes generated by the Athens Olympics.

Another important step China made was adjusting its "openness" ahead of the Games. These steps boiled down to spreading China's economic, humanitarian and other types of influence abroad, while at the same time limiting foreign influence on the country and ensuring generous coverage of the excellent organization of the Games to spread China's ideological influence.

Given the high likelihood of anti-Russian campaigns in the Western media ahead of the Sochi games, Russia should waste no time in developing its counterpropaganda capacity. It should focus on moving away from the confrontational thinking and Cold War logic that are often forced upon Russia by the West. In this regard, it is worth studying China's experience of formulating its measures to counter Western propaganda and defend its national interests using relatively mild wording, such as international "responsibility" and "harmonious world".

Beijing used the slogan of defending the Olympics from undue politicization as a potent instrument of limiting international pressure on China by the West. The Chinese propaganda was quite successful in projecting the sports ideals of equal opportunities to international relations, neutralizing confrontational attacks by a number of Western countries.

Russia should also learn from the success of China's Olympic diplomacy in the propaganda of its foreign policy concepts. As part of its preparations for the Sochi games, Russia could foster fruitful dialogue and find new partners in the developed and developing nations on issues of security, sovereignty, equal opportunities for growth, environmental protection and other topical issues.

Fulfilling all these foreign policy tasks ahead of 2014 would allow Russia to make the full use of the Olympics to strengthen its international reputation and defend its interests on the international arena. Olympic diplomacy can help Russia maintain fruitful relations with other centers of power, and position it for active participation in building a new system of international relations.



## Notes

<sup>1</sup> Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (Perseus Books Group, 2006), 208 pp.

<sup>2</sup> Din Suelyan, "Defining Again a Nation's 'Soft Power'," *Danday Shitze*, No. 2, 2006, pp. 43–52.

<sup>3</sup> Van Yutzi, "China's International Influence: Definition, State and Demands," *Danday Shitze*, No. 1, 2006, p. 54.

<sup>4</sup> See: Jia Feng, "2008 – The Green China Year," *World Environment*, No. 1, January 2008, p. 3.

<sup>5</sup> Statute of the Communist Party of China with amendments adopted on 21 October 2007 at the 17th Congress, [http://www.russian.xinhuanet.com/russian/2007-10/25/content\\_512150.htm](http://www.russian.xinhuanet.com/russian/2007-10/25/content_512150.htm)

<sup>6</sup> Van Yvey, "Concept of Harmonious World Is Changing View of World Politics," *Huantzu Shibao*, November 26, 2005, p. 8.

<sup>7</sup> See: "Journey of Harmony," *China Daily*, April 1, 2008, p. 8.

<sup>8</sup> Van Hayun, "China's Development Requires a Change in the Country's Status," *Huantzu Shibao*, February 24, 2006, p. 12.

<sup>9</sup> J.C. Ramo, *The Beijing Consensus* (London: The Foreign Policy Center, Spring 2004) <http://fpc.org.uk/publications/123>.

<sup>10</sup> "Olympics a 'great time for diplomacy'," *China daily*, February 11, 2008, p. 2.

<sup>11</sup> See: "China opposed to politicizing Games," *China Daily*, January 25, 2008, p. 11.

<sup>12</sup> See: "Statement by China Foreign Minister Yang Jiechi on March 12, 2008 – FM Discusses China's External Relations," *Beijing Review*, March 20, 2008, p. 18–19.

<sup>13</sup> "Visa nightmare for foreigners on mainland," *South China Morning Post*, May 4, 2008, p. 3.

<sup>14</sup> "Visa policy 'is based on global practices'," *China Daily*, May 7, 2008, p. 1.

<sup>15</sup> "Officials detail plans for better Games, city," *Beijing Review*, January 24, 2008, p. 32.



William C. Potter

PROSPECTS FOR U.S.-RUSSIAN COOPERATION IN NUCLEAR  
NONPROLIFERATION IN A TIME OF *COLD PEACE*<sup>1</sup>

I first began to write about similarities and differences in Washington and Moscow’s approach to nuclear nonproliferation over 25 years ago. At that time, very much at the height of the Cold War, I was struck by the degree of parallelism and cooperation on this issue that took place between the two ideological adversaries and military rivals. By examining the nature of this cooperation, I was hopeful that one might derive lessons that could be applicable in other areas of superpower relations.

As I reviewed what I had written long ago in preparation for this essay, I was particularly struck by two chapters I found in a book I co-edited in 1985. In one chapter, a young Soviet second secretary at the United Nations – Sergey Kislyak – wrote about the importance the Soviet Union attached to further strengthening the effectiveness of the IAEA safeguards system (including full-scope safeguards), the significant nonproliferation role played by strict regulation of nuclear exports through both domestic legislation and multilateral nuclear supplier guidelines, the great importance the Soviet Union attached to the Convention on the Physical Protection of Nuclear Materials, the contribution of the Soviet Union’s «no first use» pledge to the prevention of nuclear war, and the fact that «there is no alternative to the NPT in the contemporary world.»<sup>2</sup> Recognizing the inherent tension between the pursuit of nuclear energy for peaceful purposes and its potential misuse for weapons purposes, Kislyak presciently promoted the concept of international fuel cycle services and expressed the Soviet Union’s support for the creation of regional nuclear fuel centers under IAEA supervision.<sup>3</sup>

Jumping forward over two decades in time, one may ponder how relevant many of these perspectives are today, and which ones would be supported by the recently appointed Russian ambassador to the United States – Mr. Sergey Kislyak.

In the same book from 1985, I wrote a chapter entitled «U.S.-Soviet Cooperative Measures for Nonproliferation.» In it, I observed the rather extraordinary degree to which Soviet and U.S. nuclear export and nonproliferation policy had evolved in similar directions, the persistence of U.S.-Soviet cooperation during periods of extreme stress (e.g., following the Soviet invasion of Afghanistan) and across both Democratic and Republican administrations. This cooperation found expression in a variety of multilateral fora such as the NPT Review Process, meetings of the IAEA Board of Governors and General Conference, the Zangger Committee and the London Suppliers Group, and the International Nuclear Fuel Evaluation (INFCE). Between the mid- 1970s and late 1980s there also were regular, bilateral consultations on nonproliferation every six months at an ambassadorial level.

In my chapter I also noted that the possibilities for cooperative action were not without political costs and that conditions conducive to nonproliferation cooperation would not necessarily persist indefinitely. More specifically, with respect to the Soviet Union, I pointed to the potential for less prudent export behavior to emerge if economic factors should begin to trump nonproliferation considerations or if the Soviet leadership should conclude that proliferation was



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inevitable and could at best be managed. The crucial factor determining Soviet behavior in the aforementioned scenarios, I argued, would be the posture toward nonproliferation taken by the United States and other Western nuclear supplier countries. «Particularly under conditions in which superpower relations are strained,» I wrote, «U.S. actions that appear to weaken the nonproliferation regime might prompt Soviet decision makers to reassess the foreign policy assets and liabilities of insisting on stringent export controls and international safeguards.... [and lead them] to pursue nuclear trade more actively for political and economic purposes.» It was therefore important, I argued, «for the United States and its Western allies to reinforce Soviet nonproliferation restraint by the example of their own behavior.»<sup>4</sup>

## **POLICY CONTINUITY AND CHANGE**

I cite these two perspectives from the 1980s both to highlight the fact that cooperation between Washington and Moscow was well established long before the collapse of the Soviet Union and was based on very sober calculations about shared interests, and to call attention to factors other than the state of bilateral relations that have a bearing on the potential for continued cooperation.

Perhaps most striking in comparing the U.S.-Soviet/Russian relationship in the mid-1980s with that of 2008 is the very uneven record of cooperation between Washington and Moscow since the demise of the Soviet Union. To be sure, there has been considerable continuity in the rhetoric of nonproliferation cooperation during the past 25 years. One also can point to a number of substantive accomplishments in the post-Soviet period, the most notable of which relate to the Cooperative Threat Reduction Program, which has played a major role in enhancing the security of Russian nuclear weapons and materials. Other positive instances of joint action include the indefinite extension of the NPT, denuclearization of the DPRK, and repatriation of Soviet-origin highly-enriched uranium under the Global Threat Reduction Initiative. In some important respects, however, cooperation actually has regressed since the end of the Cold War – and began long before the recent events in Georgia or plans to deploy missile defenses in Eastern Europe. These policy differences reflect divergent U.S. and Russian nuclear threat perceptions and preferred nonproliferation strategies, including the relative emphasis given to economic, military, and international legal political instruments in countering perceived proliferation threats, as well as the diminished influence of organizational advocates for nonproliferation in Washington and Moscow. In both countries, the prevailing philosophy appears to be one of seeking maximum flexibility for one's own nuclear posture, even if that means sacrificing significant nonproliferation initiatives.

Also contributing to the lack of incentive structure for cooperation on the U.S. side – most pronounced during the George W. Bush era – is the growth of a set of assumptions about proliferation that include the belief that nuclear proliferation is inevitable; the perception that there are «good proliferators» and «bad proliferators» and that one should apply different standards for nonproliferation compliance to selected states; a view that multilateral mechanisms are ineffectual in preventing the spread of nuclear weapons; and the conviction that regional security considerations trump those of global proliferation.

Although these tendencies or prevailing views are most pronounced in the United States, one also can observe their growing influence among Russian officials. As such, one may soon find a convergence of U.S. and Russian assumptions about and principles governing nuclear weapons spread, but ones that discourage rather than encourage greater U.S.-Russian cooperation for nonproliferation. The most recent and powerful example of this phenomenon was U.S.-Russian complicity in bullying reluctant NSG members to exempt India from well established export restraints.

Having tried to make the case that US-Russian cooperation for nonproliferation in the post-Cold War often was less than presidential summits would lead one to believe, it also is the case that a series of events – culminating in the Georgian conflict – have raised serious questions about the underlying compatibility between U.S. and Russian security interests and the extent to which nonproliferation cooperation continues to serve mutual interests.

A number of Russian scholars, for example, have suggested that the Kremlin regards the United States as not only increasingly untrustworthy but as a source of global instability.<sup>5</sup> At the same time, it has elevated the role of nuclear weapons in its own security policy and devalued the centrality of the relationship with the United States in providing for Russian security and strategic stability. According to this perspective, not only are nuclear arms reductions such as those called for by George Shultz, Sam Nunn, Henry Kissinger, and William Perry unlikely, they may be undesirable. Moreover, given Russia's current foreign policy agenda, greater effort will need to be invested in the development of relations with other countries, some of whom may covet nuclear weapons.

A mirror image view is held by some senior U.S. officials, who today are even more disinclined than previously to cooperate with Russia in extending legally-binding arms control agreements, supporting Cooperative Threat Reduction measures, providing no-first use guarantees, or otherwise diminishing the role of nuclear weapons in U.S. national security policy.

## PROSPECTS FOR COOPERATION

Given the uneven record of cooperation between Washington and Moscow on nuclear nonproliferation in the past two decades and the further downturn in relations following the conflict in Georgia, what realistic prospects are their in the short term for preserving existing areas of collaboration and expanding them to other sectors? Much will depend on the extent to which cool heads prevail – something that is by no means assured. Nevertheless, I believe there are at least nine areas in which it may be possible for the United States and Russia to work together on nonproliferation issues in a mutually beneficial fashion. They are, in telegraphic form:

*1. Resume routine and regular consultations on nonproliferation problems.* Unlike the high-level semi-annual consultations during the period between the mid-1970s and the 1980s, there currently is no regularly scheduled forum at which senior U.S. and Russian officials meet to review a broad range of nuclear proliferation issues. Although such consultations would not ensure cooperation in dealing with difficult proliferation problems, the absence of a regular forum hinders the exchange of information and the coordination of policy.

*2. Collaborate in the safeguarding of sensitive fuel cycle technology through the promotion of regional nuclear fuel centers.* The United States and Russia both recognize the proliferation risks posed by the spread of sensitive nuclear fuel technologies. What remains to be seen is the relative degree to which nonproliferation or economic considerations will drive each country's approach to regional nuclear fuel centers and the potential for centers such as the Angarsk facility in Russia to offer meaningful assurances to countries of nonproliferation concern. Although there currently is little interest in the multinational fuel centers on the part of those states for whom fuel assurances are designed, the approach has merit and is deserving of joint support.

*3. Undertake joint efforts to enhance IAEA safeguards.* Both countries routinely have endorsed the Additional Protocol as the international safeguards standard, but were slow to put the AP in place for themselves. The U.S.-India nuclear deal has not been helpful in this regard as it demonstrates the readiness of both the United States and Russia to put aside nonproliferation considerations in favor of economic interests. Nevertheless, it should prove possible for the United States and Russia to expand cooperation in the area of strengthening IAEA safeguards, especially if Russia expands its paltry contribution to the IAEA safeguards regular budget of \$125 million (Russia currently contributes only 1.1 percent of the budget in contrast to the U.S. contribution of 25 percent and the Japanese contribution of 19 percent).

*4. Facilitate entry into force of the CTBT.* There is no chance that the Bush administration will alter course and support U.S. ratification of the Comprehensive Test Ban Treaty. The prospects for U.S. ratification, however, are much better in the forthcoming Obama administration, especially given the significant gains made by the Democrats in the Senate. Joint U.S.-Russian support for the CTBT would have a very powerful symbolic effect and would almost certainly lead to Chinese ratification. Hopefully, Russian revisionism on nuclear arms control



treaties will not lead to reconsideration by Moscow of the value of the CTBT just as Washington returns to the fold.

5. *Combat nuclear terrorism.* Although U.S. and Russian views differ regarding the likelihood and degree of danger posed by different forms of nuclear terrorism – most Russian government officials take a more skeptical view than their U.S. counterparts about the possibility that terrorists could obtain and make even a crude nuclear explosive device – there remains a convergence of interests in denying non-state actors access to both fissile and other radioactive material. Both the United States and Russia are especially wary of the nuclear terrorism risks posed by Islamic terrorists. As such, it should be possible to fashion greater cooperation in areas such as implementing UN Security Council Resolution 1540, minimization of HEU in the civilian nuclear sector, and acceleration of the Global Threat Reduction Initiative. Regrettably, and notwithstanding repeated presidential summit statements to the contrary, there appears to be little prospect that headway will be made in the critical area of sharing intelligence information regarding illicit nuclear trafficking.


6. *Extend existing treaties and voluntary measures.* Russian officials have escalated their criticism of a number of existing bilateral nuclear arms control agreements and U.S. officials in the Bush administration have made clear their own reservations about some of these accords. Prior to the Georgian conflict Moscow stressed the importance of renewing key provisions of the START I and SORT treaties, while Washington dallied. Once the new U.S. administration assumes office the roles are likely to be reversed. The situation is even worse in those nuclear sectors for which there are not formal international agreements, such as the 1991–1992 Presidential Nuclear Initiatives. Although it will be difficult to close the gap between U.S. and Russian views about the costs and benefits of these measures – as well as the INF Treaty – there is a reasonable prospect that the new Obama administration will be able to make a persuasive case for extending for at least a short period of time the START and SORT treaties, while negotiators consider longer-term solutions that address the issues of verification.

7. *Cooperate under the umbrella of the P-5.* At a time when bilateral collaboration is difficult, it may be possible to pursue parallel and coordinated action on nonproliferation through the mechanism of the P-5, i.e., the five permanent members of the Security Council. This mechanism has been used to good effect in the context of the NPT review process, and a P-5 statement at the outset of the 2000 Review Conference made it possible to remove one of the most contentious issues from the Conference debate – namely ballistic missile defense. Interestingly, although the P-5 were unable to agree on a joint statement at the disappointing 2005 Review Conference, a common position was hammered out at the 2008 Prep Com and provides a good starting point for development of forward looking approach as we approach the 2010 Review Conference.

8. *Pursue joint ballistic missile defense.* Proposed BMD deployments in Poland and the Czech Republic are arguably the most acute but unnecessary source of contention in the current U.S.-Russian nonproliferation relationship. They are acute because Russia rightly or wrongly perceives the deployments to be part of a much larger long-term effort to deny Russia a significant nuclear retaliatory capability; they are unnecessary because even if the defenses functioned as planned – a big «if» – there is no urgency to begin the deployment process now against a threat that is at best inchoate. Although the Georgian conflict has made it less likely for Democrats in Congress to delay funding for BMD deployment, former President Putin's proposal for a joint missile defense system still provides a useful framework for discussion about cooperation in missile defense, and should be pursued.

9. *Come to grips with NATO enlargement.* Although not technically a nonproliferation issue, the prospect of further NATO enlargement, especially as it pertains to Georgia and Ukraine, is probably the greatest irritant in U.S.-Russian relations and the issue most likely to lead to a dangerous confrontation. To the extent that this irritant can be reduced, both the nonproliferation and broader U.S.-Russian political agenda can be greatly improved. Although one must be cautious not to assume that the Democratic victory in November 2008 will necessarily translate into a creative resolution of the NATO enlargement controversy, prospects for resolving the issue certainly have improved with the defeat of the Republican presidential ticket.

## CONCLUSION

U.S. and Soviet leaders during the Cold War learned the value of nuclear cooperation the hard way after both sides contributed to the global spread of nuclear weapons and came frighteningly close to their use. It would be tragic for contemporary leaders of the United States and Russia to forget this lesson or their common stake in preventing a nuclear Armageddon. I believe it is a point with which Ambassador Kislyak and I continue to agree. 

## Notes

<sup>1</sup> An earlier version of this article was prepared for the 2008 Gstaad Process, Gstaad, Switzerland, September 25-26, 2008.

<sup>2</sup> Sergey I. Kislyak, "A Soviet Perspective on the Future of Nonproliferation," in Rodney W. Jones, Cesare Merlini, Joseph F. Pilat, and William C. Potter (eds.), *The Nuclear Suppliers and Nonproliferation: International Policy Choices* (Lexington, MA: Lexington Books, 1985), pp. 211-218.

<sup>3</sup> *Ibid.*, p. 216.

<sup>4</sup> William C. Potter, "U.S.-Soviet Cooperative Measures for Nonproliferation," in Jones et al., p. 14.

<sup>5</sup> See, for example, Vladimir Orlov, "US-Russian Relations on Nonproliferation After the Georgia Crisis: A Skeptical Re(engagement) or an Un(happy) Divorce?" Paper prepared for the Monterey Nonproliferation Strategy Group, Monterey, CA, August 20-21, 2008.



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Roland Timerbaev

## NUCLEAR-WEAPON-FREE WORLD: WAYS OF MOVING AHEAD

There has recently been growing interest in the issue of nuclear disarmament, nuclear-free world, but world open towards peaceful nuclear energy uses for the benefit of mankind. Such interest is to a large extent caused by the immediate task of strengthening the nuclear non-proliferation regime, especially on the eve of the 2010 NPT Review Conference.

Nuclear disarmament, elimination of nuclear weapons has been a long dream of human beings, at least, of the vast majority of mankind. Since the invention of the A-bomb and even before its development, the best minds have been thinking about elimination of such terrible weapon of mass destruction under international control. The fathers of the bomb – Niels Bohr, Leo Szilard, Robert Oppenheimer and others – set forth the idea of international control of nuclear energy back in 1943–1945. They defined it as a system of multilateral measures designated to rule out the use of nuclear energy as a tool of war and to the detriment of humanity. By its first resolution in January 1946 the UN General Assembly established the UN Atomic Energy Commission which was charged with the elaboration of proposals on «the elimination from national armaments of atomic weapons and of all other major weapons adaptable to mass destruction.»<sup>1</sup>

Since then many specific plans on elimination of nuclear weapons with international verification mechanisms have been developed, but none of them has been implemented for this or that reason. The major factor, however, was the lack of sincere desire of nuclear-weapon states to get rid of such arms and the willingness of some non-nuclear weapon states to join the nuclear club. The theory has emerged that nuclear weapons are the means of deterrence necessary to maintain international and regional stability. We will get back to this point below.

Let me remind the reader of the most famous nuclear disarmament initiatives: the Acheson-Lilienthal Plan of March 1946;<sup>2</sup> the Baruch Plan of June 1946; Soviet proposals on banning the nuclear weapons of June 1946 and on international verification of June 1947; the Khrushchev initiative on total and complete disarmament of September 1960; the statement by the U.S.S.R and the United States on agreed principles for the negotiations on disarmament (the Zorin-McCloy Accords) of September 1961; Final Document of the UN GA special session on disarmament of June 1978; the disarmament program by the Olof Palme Commission of April 1982; the Gorbachev statement on the program of complete elimination of nuclear weapons of January 1986; the decision on the principles and objectives of nuclear nonproliferation and disarmament approved at the NPT Review and Extension Conference in May 1995; the Canberra Commission report on nuclear weapons elimination of August 1996; the decision of the 2000 NPT Review Conference on 13 practical steps for disarmament; the Hans Blix commission on WMD report of June 2006, etc.

Among the most recent proposals, one can name the appeals for nuclear-weapon-free world mentioned in the articles by U.S. politicians – George Shultz, Henry Kissinger, William Perry and Sam Nunn – published in the *Wall Street Journal* in January 2007 and in January 2008. In



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September 2008 the governments of Australia and Japan initiated the establishment of the international commission on nuclear nonproliferation and disarmament chaired by ex-Foreign Ministers Gareth Evans and Yoriko Kawaguchi, which is formulating its proposals in the context of preparation for the 2010 NPT Review Conference. In December 2008 the *Nuclear Zero* campaign was launched worldwide and was supported by political and public figures in many countries.

Despite the lack of significant real progress in achieving the aforementioned declared goals and many other disarmament plans, launch of such initiatives and debate on them at various intergovernmental and nongovernmental forums have generally positive impact. First of all, such plans mark to the governments and general public the need to undertake measures leading to the elimination of nuclear weapons; and they also facilitate the mobilization of public opinion in favor of such steps. The mankind should know that there are opportunities and intentions to deprive it of nuclear threat forever. Secondly, such initiatives create favorable environment and stimuli for achieving provisional agreements on nuclear arms control and, hence, bring the humanity closer to the nuclear-weapon-free world.

In the recent decades, a few initial steps in this direction – arms reduction and limitation – have been taken, even though they required some effort. Among them is the 1963 Limited Test-Ban Treaty; the 1968 Nuclear Non-Proliferation Treaty (NPT); the 1972 U.S.-Soviet ABM Treaty (ceased to exist after Washington's withdrawal from it); the 1974 and 1976 Threshold Treaties between the Soviet Union and the United States restricting the underground tests and peaceful nuclear explosions; the 1987 INF Treaty; the 1991 START Treaty; the 1996 CTBT (not in force, but the moratorium on nuclear tests is being complied with); and the 2002 SORT Treaty. France and the United Kingdom have lately undertaken unilateral nuclear arms reductions beyond their international commitments (under Article VI of the NPT).

In general, what is the outcome of these long-term and laborious efforts guided by the two major nuclear powers – the U.S.S.R/Russia and the United States? An entire class of delivery systems, i.e. the medium- and shorter-range missiles (500–5,500 km), has been eliminated under reciprocal verification. So far this progress relates only to Moscow and Washington, while some other states possess such missiles and develop new types of them. However, nuclear arsenals have substantially been reduced – at the peak of the Cold War in the mid-1980s, experts assessed their number at 70,000; by now this figure has gone down to 25,500 nuclear explosive devices<sup>3</sup>. By 2012 when the SORT Treaty expires, the number of nuclear warheads belonging to Russia and the United States may further decrease. Since the mid-1990s there exists a moratorium on nuclear tests and, therefore, natural tests of new types of nuclear weapons are not conducted. Nonetheless, there are no restrictions on the modification of delivery systems (at least, for Russia and the United States in conformity with the existing agreements).

On the other hand, a serious blow against the further disarmament prospects was made by the Bush administration and its decisions to withdraw from the ABM Treaty and to deploy the missile defense system elements in Eastern Europe. There emerged some difficulties with maintaining the international nuclear nonproliferation regime. The NPT is based on the clear assumption that there is a strong and unbreakable link between nonproliferation and disarmament and this norm is fixed in the treaty itself. The lack of real measures in the area of nuclear reductions impedes the process of further strengthening of the regime, provokes new challenges to its existence. If there is no significant progress, the 2010 NPT Review Conference may fail just as its predecessor in 2005.

A legitimate and inevitable question poses how to move towards the nuclear-weapon-free world, what the prospects of the progress are, what the key problems are and how to resolve them. This paper contains a number of ideas and should not be regarded as a comprehensive set of proposals aimed at achieving such a far-reaching goal.

## PRIORITY MEASURES

*Further strategic offensive arms reduction by Russia and the United States.* In accordance with the existing arrangements, December 2009 will mark the end of START I signed in 1991 and containing the agreed system of transparency measures and reciprocal inspections. These mechanisms have ensured appropriate predictability of the parties' actions with respect to strategic nuclear weapons. Thus, after 2009 the Moscow Treaty of 2002 will no longer be under verification and this will call into question the possibility of comprehensive, irreversible and transparent functioning of this agreement until its expiration in 2012. Moreover, the very prospect of nuclear disarmament may become doubtful.

In the last few years the parties have been conducting quite sluggish consultations on the further steps in this area and have even made a number of promising statements, exchanged specific projects, but have not reached any specific results. Taking into account that the expiry date of START I is a few months away, what should and can be done in the foreseeable future?

Presumably the best solution would be to prepare a new treaty on further strategic offensive arms reductions, if possible, by December 2009. Much will depend on the readiness of the Obama administration to such decision. At least, the parties could elaborate and agree upon the key parameters (or the framework) of the new agreement and announce them before the 2010 NPT Review Conference.

The new treaty should not only contain the transparency measures (perhaps, in a lighter version, since both parties have been overburdened with them and with the excessive intrusiveness of some of the existing rules. From the point of persistent progress in further reductions, it would be important to provide for new ceilings in the draft new treaty even before the expiry of the Moscow Treaty. While the latter provides for 1,700–2,200 operationally deployed strategic warheads, the new agreement could reduce this number, perhaps, to 1,300–1,500.

Such arrangements would not introduce principle changes to the current geostrategic stability and balance, but would demonstrate to the rest of the world the intention of the both nuclear powers to follow the course of reductions. The very fact of resumption of serious talks on some basic parameters of the future treaty would be a good message before the 2010 NPT Review Conference.

Obviously, the parties should come to a mutually beneficial solution concerning the U.S. plans on the deployment of missile defense in Eastern Europe. Perhaps, one of the ways out would be to form a global missile defense system involving not only Russia and the United States, but also some other countries. This would create favorable conditions for more successful global nuclear disarmament.

*Entry into force of the CTBT.* Another significant step which cannot be further delayed is the entry into force of the CTBT signed back in 1996. The current moratorium on nuclear tests, despite its positive effect, is not a reliable and sustainable barrier for the emergence of new types of nuclear explosive devices. The treaty does not rule out the option of maintaining safety and reliability of existing warheads and this is only logical, since nuclear weapons would continue to exist. But the United States from time to time faces the pressure of military-industrial lobby and national nuclear laboratories that suggest that new types of weapons, such as RNEP (robust nuclear earth penetrator) and RRW (reliable replacement warhead), be developed.

The entry into force of the treaty, the number of states parties to which is amounting 150 (including Russia, the U.K., and France), depends on the accession of only nine countries – the United States, China, India, Pakistan, Israel, the D.P.R.K., Iran, Indonesia, and Egypt. The first nation to undertake such a step should be the United States, which was one of the sponsors of CTBT's elaboration; the other positive example for non-signatories would be China. Those two powers signed the treaty long time ago, but have so far failed to ratify it.

In the course of debate in the U.S. Senate in the late 1990s, the major argument against the treaty was the lack of adequate verification measures. However, competent and independent expert panels (headed by Gen. John Shalikashvili and the other one appointed by the



National Academy of Sciences) have proved the reliability of the CTBT verification system (in fact, it already functions successfully on a significant scale). The practice of maintenance of the existing moratorium on nuclear explosions is yet another argument in favor of the fact that verification can hardly hamper the effectiveness of the functioning of the treaty.<sup>4</sup>

CTBT's entry into force will mainly depend on the position of the Obama administration (during his campaign the new president demonstrated positive attitude towards the treaty) and Democratic majority in the Senate. China presumably is waiting for the decision of Washington and as soon as it ratifies the CTBT, Beijing will hardly be able to delay further the process of accession. It would be helpful for China to go for it even earlier, so that it may encourage the Americans to speed up the ratification process.

There are some other states named in the CTBT, which are crucial for its entry into force. Hopefully the Indian government may sign and ratify the CTBT – the country concluded the agreement with the United States on peaceful nuclear uses and got favorable terms from the Nuclear Suppliers Group on cooperation in this area (including potential cooperation with Russia, France, etc.). If so, Pakistan may also join the treaty. Hence, a few aforementioned countries will remain beyond the CTBT framework and it will be difficult for them to justify their non-accession facing the challenge of complete isolation from the international community.

## **MEASURES TO STRENGTHEN THE NONPROLIFERATION REGIME**

In order to strengthen the international nuclear nonproliferation regime it would be reasonable to draw the line beneath all the concerns related to Iran's and North Korea's nuclear programs.

As far as North Korea is concerned, the dialogue between Washington and Pyongyang goes on and, according to IAEA Director General Mohamed ElBaradei, the parties have reached an agreement on a verification protocol enabling the IAEA inspectors to check the nuclear plants in Nyongbyong. Dr. ElBaradei in his recent speech at the UN General Assembly also raised a hope that the conditions for D.P.R.K's prompt return to the NPT would be set and the Agency would be able to apply comprehensive safeguards with respect to North Korea.<sup>5</sup>

As far as Iran is concerned, this country is a state party to the NPT, so the IAEA has all capabilities to inspect its declared nuclear material. However, the Agency is not able to get a full picture of undeclared nuclear materials and undeclared nuclear activities of Iran. According to ElBaradei, the Agency has not achieved substantial progress concerning the issues pertaining to possible military aspects of Iran's nuclear program. He urged Tehran to implement all transparency measures to ensure the international community of the peaceful character of its nuclear program.<sup>6</sup>

Iran signed the Additional Protocol to the Safeguards Agreement with the IAEA enabling the Agency to verify its undeclared nuclear activities. For some time the country complied with the provisions of the document, even though it was not ratified. Some time ago Iran refused to implement it further.

It would be important to have Iran ratified and joined the Additional Protocol. Nonetheless, the essence of the problem is different – Iran is setting up the uranium enrichment production facilities in Natanz and this step causes legitimate concerns of many nations. The NPT (in its Article IV) recognizes the right of all states to peaceful nuclear energy uses. But many of them call into question the peaceful character of Iran's enrichment efforts and the UN Security Council has taken numerous decisions urging Tehran to suspend such activities. However, the Iranian authorities reject such resolutions and apply to their right to peaceful nuclear energy uses. The Agency has a number of other unresolved issues related to Iran – Dr. ElBaradei pointed them out at the IAEA Board of Governors meeting on November 27, 2008. How could some progress be achieved in those areas?

Would Iran agree to abandon or to impose verified restrictions on its enrichment program? It is doubtful, but one cannot rule out such option. Much will depend on the position of con-

cerned parties, notably the United States, to strike a deal with Tehran on the entire set of issues urgent for Iran and other countries of the region, including regional security matters. Due to the low efficiency of the current negotiations, one may assume that it would be useful to form a new multilateral forum for negotiations and consultations. Within such framework, Washington and Tehran would have a chance to get into direct dialogue. Such forum could bring together P-5 of the UN Security Council, Germany, the EU, Iran, and a host country that would facilitate such negotiation process. It would be preferable if one of the regional states accept this role, e.g. Azerbaijan, if its leadership would be ready to assume the mission.

## FISSILE MATERIAL CUT-OFF ARRANGEMENTS

The ban on production of fissile material for nuclear weapons would be a stride forward towards strengthening nuclear nonproliferation regime and a tangible step towards nuclear-weapon-free world. Taking into account the complexity of this problem, the negotiation process can and should be commenced without delay and without waiting for the implementation of the aforementioned priorities.

According to the International Panel on Fissile Materials (IPFM), in mid-2008 the world stock of highly enriched uranium reached 1,670 tons (plus-minus 300 tons); the amount of plutonium was about 500 tons. Half of it is designated for civilian use and this figure will only grow in the future as it does now.<sup>7</sup>

Back in the 1990s four out of five nuclear weapon states (except China) stopped in the act of good will the fissile material production for nuclear weapons and made an appropriate declaration.

In 1993 the UN General Assembly approved unanimously the resolution in favor of non-discriminatory, multilateral and internationally and effectively verifiable Fissile Material Cut-Off Treaty,<sup>8</sup> and the Conference on Disarmament adopted the mandate for negotiations and established the corresponding special committee for such negotiations. However, until now the committee cannot start its work, since some countries, China among them, stipulate the commencement of talks with the demand for simultaneous start of negotiations on other disarmament issues. The situation is aggravated with the fact that in 2006 George Bush's administration refused to support the need for a verifiable ban, while other nations (Egypt, Pakistan) call for considering the elimination of existing fissile material stock in parallel with the debate on production issues.

As far as verification is concerned, the aforementioned 1993 UN General Assembly resolution (sponsored, in fact, by the Clinton administration) did not only specify the need for verification, but also appealed to the IAEA for assistance on this matter.

IPFM studied the problem and published a report in October 2008. The document concludes that the verification should not become the responsibility of a new body, but would rather be the prerogative of the IAEA. «The IAEA's Safeguards Division would have to grow substantially, and funding for such an expansion would have to be arranged. The costs would be negligible, however, in comparison, for example, with the production costs of nuclear energy.» As far as, technical FMCT verification issues, they can be resolved as well.<sup>9</sup>

An issue that will inevitably emerge in the course of negotiations is the level of enrichment appropriate to introduce the ban. Obviously, the production of weapon-grade fissile material should be totally prohibited. But what should be done with the lower enriched fissile materials used not only in military vessels (submarines, cruisers, aircraft carriers), but also for civilian purposes (for instance, ice breakers)? Besides, different states use fissile materials with different grade of enrichment.

Despite the aforementioned difficulties, such ban deserves immediate and profound negotiation – it is important to launch the talks as soon as possible, preferably before the 2010 NPT Review Conference.



## INTERNATIONALIZING NUCLEAR REDUCTIONS

Moving towards nuclear-weapon-free world one should take into account the pace of all parties to the process. Article VI of the NPT obliges all (not just some) states parties to the treaty to pursue negotiations that would prevent nuclear arms race and lead to nuclear disarmament.

In comparison to thousands of warheads available to Russia or the United States, other nuclear weapon states have modest arsenals. According to some expert estimates, France possesses 300 nuclear explosive devices, China – 240, the United Kingdom – 185, Israel – 80, Pakistan – 60, and India – 50. North Korea might have about a dozen of charges, but it is not clear to what extent they are ready for use.<sup>10</sup> However, all these nations will have to take part in shaping the nuclear-weapon-free world.

*Small*, if such term applies, nuclear weapon states, above all, China, normally refer to the fact that the two major powers should be the first to cut down their arsenals. But to which ceilings? France and Great Britain have undertaken some reductions, but conducted them without common and multilateral arrangements and without verification.

Public opinion in the U.K. shows grave concern over the government plans to shift to the new generation of Trident SLBMs and to upgrade nearly the entire existing arsenal of warheads for these missiles without adequate transparency.<sup>11</sup>

France does not demonstrate great transparency in nuclear matters either. President Sarkozy announced in March 2008 the decision to commission a new M51 ICBM and pledged that France «could and should be more transparent with respect to its nuclear arsenal than anyone ever has been.»<sup>12</sup>

The question is when these states will eventually be ready for negotiations, as the NPT requires them to do.

Even though India, Pakistan, and Israel are not parties to the NPT and have no formal commitments to negotiate nuclear disarmament issues, they bear moral responsibility and any nuclear-weapon-free world would be impossible without their involvement.

As we have mentioned above, it would be important to have India and Pakistan join the CTBT and demonstrate proactive approach in fissile material cut-off talks. After all, according to the IPFM, only India, Pakistan, and perhaps Israel continue to manufacture weapon-grade nuclear materials.<sup>13</sup> Even though Israel officially denies the possession of nuclear weapons, it is a known fact that she is a NWS. It is significant that beside the aforesaid measures, Israel should be more proactive about the establishment of the WMD-free zone in the Middle East.

The United States and Russia do not have a magic bullet solution concerning the intermediate ceilings leading to a nuclear weapon – free world – be it the first stages of reductions or any further steps. Two mighty nuclear weapon states should carry the major burden of reductions, especially at the initial phase. But other nations should also join later as well.

The reductions will not only affect strategic, but also substrategic nuclear weapons. Russia and the United States have already carried out serious measures within the framework of the 1991–1992 unilateral initiatives.<sup>14</sup> Russia's entire nuclear arsenal is based within its national territory, while the United States still keeps several hundred nuclear gravity bombs in Western Europe.

Naturally the reductions should cover the delivery means of all states. One of the pillars for such agreement could be the 1987 INF Treaty between Russia and the United States – it was an adequate mechanism to eliminate the entire class of missiles under appropriate verification. The treaty was successfully implemented in full, but it is still effective indefinitely, in order to prevent the resumption of production of banned missiles. The rules of missile disposition, verification, inspections could be applied to other states and other nuclear disarmament processes in the future.

The international community should encourage further efforts to establish nuclear-weapon-free zones in different regions of the world. Such zones do not only provide a legal nuclear-weapon-free status to appropriate regions, but also ensure that such status will not be

breached – the territories will be free from a nuclear attack or threat of such attack. The zones already exist in Latin America, South Pacific, Africa, Southeast Asia, and Central Asia. Unfortunately, not all those treaties have entered into force in full. Besides, Mongolia declared its territory free from nuclear weapons. There is also the Antarctic Treaty, which prohibits any military activities on this uninhabited continent.

## ABOUT NUCLEAR DETERRENCE

At the certain stage of our movement towards nuclear-weapon-free world one will have to think about the issue of nuclear deterrence. Many individuals, mostly dealing with nuclear weapons and military strategy, assume that such arms make an essential element of deterrence and help to maintain global and regional stability, hence playing generally positive role in the world. Even though the deterrence, as everyone agrees, is based on mutually assured destruction (MAD), it has become an important part of modern politics and politico-military strategy of some states, so many look at it as an appropriate form of existence of the civilization.

Would one agree submissively with such an approach? No, especially when we speak about potential progress towards nuclear-weapon-free world.

These doubts are based on the assumption that firstly, weapons seem to be recognized as the pillar for global stability; and not simple weapons, but weapons with the huge destructive power capable of ruining the planet. Does the mankind deserve such deplorable plight? Secondly, one can hardly guarantee 100 percent that nuclear weapons will never be used. Thirdly, the history knows and will know numerous conflicts (and armed conflicts) between the states inflicting thousands and even millions of casualties. How can such conflicts be deterred? Finally, there is a threat of use of nuclear weapons by terrorists, even in the form of the so called dirty bomb.

One may argue that nuclear weapons have existed for over 60 years, they have not ever been used and there were no large-scale *hot* wars. Yes, that's true, but despite the existence of a so called nuclear deterrent there occurred many, too many *small* wars, they are going now and they have led to multimillion civilian casualties.

There is another factor pushing us towards nuclear-weapon-free world – it is the so called human factor. Potentially dangerous incidents happen from time to time, – and quite often by the way, – and they are related to safety and security of nuclear weapons. Numerous media reports on this matter are common place.

After all it's a human being who eventually decides on the employment of nuclear weapons. Will someone take the responsibility to use these lethal weapons even in the most dramatic moment? Perhaps the role of the weapons is a myth and its influence on conflict resolution is not as important as it is believed to be.<sup>15</sup>

The mankind should exist and develop, it should not rest on the barrel of gunpowder but should rather have a better, more reliable basis for its further evolution. This historic mission is not a mission impossible.

## NUCLEAR VS CONVENTIONAL

The issue of total and complete disarmament was raised many times in the past. And it was connected with both nuclear and conventional weapons. Nonetheless, one cannot really expect the solution to the problem of conventional weapons to be found in parallel with the elimination of nukes.

At the same time, one will have to take into account the development of some conventional arms, notably high-precision strategic delivery systems, designated to carry non-nuclear warheads so far.

The United States is quite serious about developing and testing conventional warheads for Trident SLBMs that would provide the president with the alternative to nuclear weapons and





the ability to make a quick strike against any facility in the world. According to the U.S. press, the Congress delays the funding for this program, albeit it has allocated \$200 million to study the concept. Some Congressmen maintain that other nations, such as Russia or China, will not be able to distinguish nuclear and non-nuclear Trident missiles and may take such launches for the beginning of nuclear warfare. A group of renowned experts, including former Commander in Chief, United States Strategic Command (USCINCPAC) Eugene Habiger, former Director of the Lawrence Livermore Laboratory John Foster, Prof. Richard Garwin et al. conducted research on the matter and argued that the benefits outweighed the risks.<sup>16</sup>

Former U.S. Secretary of Defense Harold Brown believes that the ability of the United States to project conventional force and the concerns of other nations on this matter (fear of attack, threat or forced replacement of the regime) only raise the interest in nuclear weapons as the means to balance the positions and to deter the U.S. supremacy in non-nuclear arms.<sup>17</sup>

To solve the potential problems, George Perkovic from the Carnegie Endowment for International Peace and a British physicist James Acton maintain that «an eventual nuclear-abolition project could only succeed if it were accompanied by changes in broader military relations that convinced states that now rely on nuclear deterrence that nuclear weapons would not be necessary to deter large-scale military interventions».<sup>18</sup>

As far as Russia is concerned, it will have to increase sharply the readiness of its conventional forces, above all, to introduce qualitative changes. The same issue is true for a number of other states. At the same time, there is an issue of encouraging the United States to undertake certain self-restrictions on its military development programs, especially with respect to re-arming its intercontinental ballistic missiles with conventional warheads.

These matters are not easy to resolve. They have not been faced in the recent past – but after all, the very problem of progressing towards nuclear-weapon-free world is a new task itself and it requires a generally appropriate response and a good will of all the parties.

## **TOWARDS THE NUCLEAR-WEAPON-FREE WORLD**

This must be the most complicated issue. The nations, including nuclear weapon states and large states as such, will have to start thinking anew. They will have to get rid of some obsolete but convenient stereotypes, to find new ways of meeting their demand for raw materials, markets, etc., without resorting to force, especially nuclear force. Now it is not clear how it will happen, but the process may be long and painful, for the most powerful states in particular.

However, it is necessary to make a try right now and to identify some general ways of progressing towards nuclear-weapon-free world.

One of the problems is that the number of nuclear weapons differs from state to state. While Russia and the United States possess about 95–97 percent of the global nuclear arsenal, other nations have only hundreds or even dozens of nuclear explosives. How, by what principles and in what stages should planned, deliberate and step-by-step reductions be conducted, so that they may satisfy all the concerned parties and do not violate international and regional stability during the implementation process and beyond?

The states enjoy a legitimate right to have assurances of full compliance from other parties to the process. Evidently even the minimal amount of nuclear weapons hidden from elimination may radically change the global power balance and have negative and unpredictable implications. Hence, there is a need to hedge such risks.

It is even more difficult to elaborate a system of international control of nuclear arms and delivery systems reduction. The mankind has such experience – START I and the INF Treaty with their system of bilateral monitoring; multilateral verification mechanisms of the CTBT; comprehensive safeguards of the IAEA, including the 1997 Additional Protocol.

A number of states are able to use the so called national technical means, mainly by using satellites, the efficiency of which is high and will only continue to increase. One may think about

the ways of using the available satellite data for the sake of the international verification system. The IAEA already uses space surveillance data (supplied by individual states) in its safeguards implementation.

Nonetheless, this will not be enough. It will be necessary to develop the entire system of disarmament verification and it is advisable to use the existing IAEA safeguards. The latter have proved their effectiveness, have a legitimate basis in the form the IAEA Statute and decisions of its main bodies. The system could be supported with additional measures, including the expansion of the inspection staff and provision of international observers with the access to all appropriate sites.

The safeguards are also advantageous, as they help to prevent the diversion of nuclear materials from peaceful to unauthorized uses. The creation of nuclear-weapon-free world does not impede further progress of nuclear energy – to keep the energy balance, to use it for health-care and other civilian purposes, to maintain the environmental balance on the planet. In fact, in the early 1990s the IAEA ensured nuclear disarmament of South Africa and monitored the entire process – so it has all the capabilities for control.

Another additional measure would be to set up special UN forces (with proper geographical balance) under the aegis of the Security Council, in order to verify the implementation of the agreement, especially in key regions where nuclear weapons are produced, stored and dismantled.

These are only a few problems that can be predicted today. Naturally, as the mankind moves to the nuclear-weapon-free world, more issues will emerge and they may even be more complicated. However, there is a need to move towards such world, world without nuclear weapons. Today many criticize the NPT for the difficulties with its implementation. But believe us, such matters will continue to pop up, unless the mankind undertakes serious efforts to progress towards the nuclear-weapon-free world.

## Notes

<sup>1</sup> UN General Assembly Resolution 1 (I), January 24, 1946.

<sup>2</sup> There is an evidence that the major author of the plan was Robert Oppenheimer, the father of the U.S. A-bomb.

<sup>3</sup> <http://www.fas.org/programs/ssp/nukes/nukestatus.html>.

<sup>4</sup> Arguments in favor of the CTBT are mentioned in the article by a leading U.S. expert on nuclear weapons, Richard Garwin (Richard L. Garwin, "A Different Kind of Complex: The Future of U.S. Nuclear Weapons and the Nuclear Weapons Enterprise," *Arms Control Today*, December 2008).

<sup>5</sup> <http://www.iaea.org>. Statement to the Sixty-Third Regular Session of the United Nations General Assembly by IAEA Director General Dr. Mohamed ElBaradei on October 28, 2008.

<sup>6</sup> Ibid.

<sup>7</sup> *Global Fissile Material Report 2008*, <http://www.fissilematerials.org> (last updated January 19, 2009).

<sup>8</sup> UN General Assembly Resolution, A/RES/48/75L, December 16, 1993.

<sup>9</sup> *Global Fissile Material Report 2008...*

<sup>10</sup> <http://www.fas.org/programs/ssp/nukes/nukestatus.html>.

<sup>11</sup> *Disarmament Diplomacy*, No. 88, Summer 2008, pp. 27–39.

<sup>12</sup> *Disarmament Diplomacy*, No. 87, Spring 2008, pp. 12–13.

<sup>13</sup> *Global Fissile Material Report 2008...*

<sup>14</sup> According to the Federation of American Scientists, Russia reduced the number of substrategic nuclear weapons to 2,000, while the United States to 500 warheads (<http://www.fas.org/programs/ssp/nukes/nukestatus.html>).



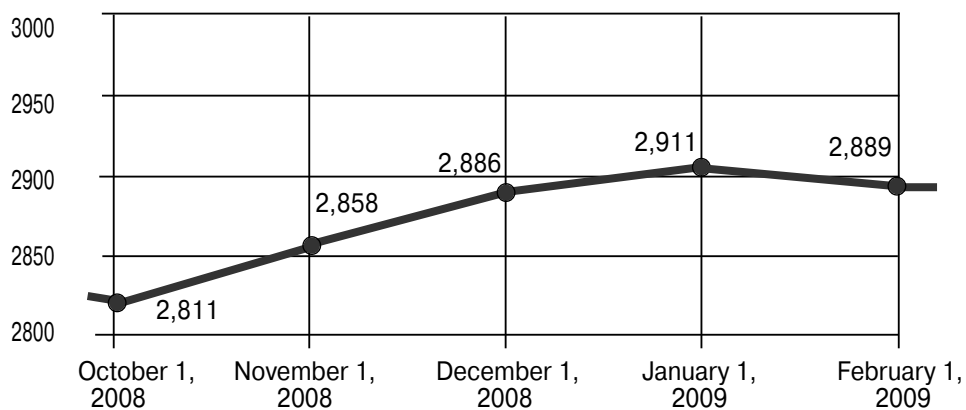
<sup>15</sup> In this connection, it would make sense to look at the report issued by U.S. experts in 1996 – it reviews the cases when Washington was considering the possibility of nuclear weapons use, but refrained from such step (Korean War 1950-1953, conflict between China and Taiwan in 1958, the Cuban crisis of 1962, the 1973 Middle East war, the Soviet invasion in Afghanistan in 1979-1987, etc.). (William Yengst, Stephen Lukasik, and Mark Jensen, Nuclear Weapons that Went to War (NWTWTW), DNA-TR-96-25, draft final report sponsored by the U.S. Defense Special Weapons Agency and Science Applications International Corp., October 1996, unclassified – <http://www.npec-web.org/NWTWTW>). See also “The Myth of Nuclear Deterrence,” *The Nonproliferation Review*, Vol. 15, No. 3, November 2008, pp. 421–439.

<sup>16</sup> *Washington Post*, August 16, 2008.

<sup>17</sup> Harold Brown, “New Nuclear Realities,” *Washington Quarterly*, Winter 2008, pp. 7–22.

<sup>18</sup> George Perkovich and James M. Acton, “Abolishing Nuclear Weapons,” *Adelphi Paper* 396, 2008, pp. 24–26.

Figure 1. The *iSi* International Security Index (October 2008 – February 2009)



- ➔ **Albert Zulkharneev. INTERNATIONAL SECURITY INDEX – THE FLUCTUATIONS IN THE TIME OF EXPECTATIONS.**
- ➔ **Yury Fedorov. A VIEW BY A RUSSIAN LIBERAL: “IT ALMOST STARTS... WORLD POLITICS ENTERS A NEW PERIOD.”**
- ➔ **Dmitry Evstafiev. A VIEW BY A RUSSIAN CONSERVATIVE: “WORLD POLITICS IN TIME OF UNCERTAINTY.”**
- ➔ **Marian Abisheva, Konstantin Eggert, Dayan Jayatilleka, Abdulaziz Sager, and Yevgeny Satanovsky. COMMENTS BY MEMBERS OF THE INTERNATIONAL EXPERT GROUP**





**THE *iSi* INDEX IN DECEMBER 2008 – FEBRUARY 2009:  
INTERNATIONAL SECURITY INDEX (ISI) –  
THE FLUCTUATIONS IN THE TIME OF EXPECTATIONS**

The reality of the global economic crisis, another war in the Middle East, growing tensions in South Asia and worrisome expectations of uncertain changes with the minimum of symbolic meetings and promising but fruitless declarations determined the dynamics of the *iSi* in November 2008 – January 2009. During this period there was no progress on the Korean or Iranian nuclear issues.

The fluctuations of the index indicate some traditional growth at the end of the year, which was replaced with the downturn trend – on February 1, 2009 it decreased to 2,889.

□ **Global economic crisis**, as well as negative development forecasts for 2009, was one of the factors affecting public wealth in the world. Investment activities went down, production stalled or is being cut off, unemployment is increasing and the revenues rapidly decrease. The most affected industries are construction, car-building and machine-building in general, metallurgy followed by nearly all other sectors of global economy. The governments do their best to undertake national efforts and improve the situation. Central Banks reduce discount rates, billions of dollars and euro are spent to support the industries and to promote household expenditure. The participants of the G-20 summit in Washington pledged on November 15 their commitment to market economy and agreed on the need to reform the global financial system – the new meeting is scheduled for April 2009.

A serious blow for energy exporters was the sharp decline in the oil prices. By late December a barrel of *Brent* cost \$45.59 and *Urals* – \$32.42. The OPEC decided in December to cut down the production quotas and this step was backed by Russia and Azerbaijan. The consolidation on the gas market is also under way – on December 23, 2008 Moscow hosted the summit of gas exporters and established the appropriate international structure.

As a result of economic hardships, some countries had to face political instability and massive rallies and social unrest. The culminating point of the anti-government demonstrations in Thailand was the seizure of the international airport in Bangkok on November 25, 2008 which led to the disbandment of the ruling party and the ban on political activities for Prime Minister Somchai Wongsawat. On December 15 the country elected a new leader – Abhisit Vejjajiva.

All December unrest in Greece was terrorizing the country – it started with the killing of a teenager by police. People demanded for the changes in economic policy of the government during the crisis.

□ **Middle East**. The year after the launch of the peace process in Annapolis a new war broke out between Israel and *Hamas* (which is not involved in the process of settlement). The outcome of confrontation is a humanitarian catastrophe in Gaza. On November 5, 2008 after the resumption of missile strikes of the Israeli territory all borders were closed. On December 19 *Hamas* left the truce; on December 27 Israel began air strikes of the enclave and on January 3 launched an offensive *Cast Lead* on the ground. According to the Palestinians, by January 11 over 700 people have died, most of them are children. The Security Council adopted a resolution urging the parties to come to ceasefire. However, Israel is willing to complete the operation and put an end to missile attacks. The crisis was preceded with timid attempts to resume the peace dialogue – ex-U.S. President Jimmy Carter met in Damask *Hamas* leader Khaled Mashal and on December 16 the UN Security Council approved the resolution reiterating the advisability of continued peace efforts.

□ **South Asia**. Terrorist activities in India, instability in Pakistan and the remaining probability of new conflict between these *de facto* nuclear weapon states have negative

impact on global security. On November 26 the attack by 20 terrorists against hotels and other facilities of Mumbai – one of the largest cities in India – led to over 200 in casualties. According to the Indian investigation authorities, terrorists arrived by sea from Karachi. Islamabad pledged its readiness to cooperate in investigation, but refused to extradite the suspects. Bilateral relations deteriorated and in late December both parties reinforced their groupings along the *Line of Control* in Kashmir. However, in early 2009 tensions eased and New Delhi and Islamabad conducted regular exchange of information on nuclear facilities on January 1, 2009.

A positive factor for regional security is the end of state of emergency in Bangladesh, which lasted for two years. The country eventually had its democratic parliamentary elections.

- **Europe and the post-Soviet space.** Georgia and Ukraine found themselves in the focus of the European security agenda. On November 18 and December 18 Geneva hosted the second and the third round of security discussion on the situation in the South Caucasus. The parties have managed to overcome procedural issues and start the work in groups on security and on refugees. However, so far there is no visible progress achieved. The next round should take place on February 17–18, 2009.

NATO Foreign Ministers at the summit approved the annual cooperation plans for Georgia and Ukraine instead of expected Membership Action Plans (MAPs).

Despite some positive reports, the OSCE ministerial meeting indicated that most of the member states were quite skeptical about Russia's initiative on negotiating a new European security agreement.

The influence of Russian-Ukrainian relations on actual security of Europeans was clearly demonstrated by the New Year gas crisis, which already becomes a good tradition. After the failure of the December talks on gas prices Russia suspended supplies to Ukraine on January 1, 2009. As a result, on January 6 the Russian gas was no longer transferred to Bulgaria, Hungary, Turkey, Greece, Serbia, Slovenia, Slovakia, and Romania, the supplies to France, Austria and Germany decreased. On the next day Ukraine halted the transit of gas to Europe and *Gazprom* stopped to send gas to Ukrainian pipelines. The cuts coincided with the freezing outside temperatures. The Russian government emphasizes economic reasons underlying the conflict and high degree of criminalization of power in Ukraine and "inability of its leadership to solve economic problems". Europe had to intervene and the agreement was eventually reached. Meanwhile, Ukraine itself faces a new spin of economic and political instability.

One of the positive factors is a gradual settlement of situation in Kosovo. On December 9 the EU rule of law mission (*EULEX*) began to work in the region with the consent of Serbia. On November 2 the leaders of Azerbaijan, Armenia and Russia signed in Moscow the declaration on peaceful resolution of the conflict in Nagorno-Karabakh. On December 24 President of Moldova Vladimir Voronin met Transnistrian leader Igor Smirnov.

- **Africa.** Eastern provinces of the Democratic Republic of Congo continue to suffer from ongoing fighting between the government forces and the rebels led by Laurent Nkunda. According to the UN data, over 250,000 people fled from large-scale violence in late August – early December 2008. The hostilities impede the humanitarian action by the United Nations and other organizations. The UN Security Council decided to increase the 17,000-strong peacekeeping force by another 3,000 soldiers. The EU has not yet decided on sending the troops to the region.

In late November ethnic bloodshed occurred in Jos in Nigeria. The situation is unstable in Guinea, where the military captured the power after the death of President Lansan Conte. The situation in Zimbabwe is no better.



Failed state in Somalia cannot effectively fight the piracy in its territorial waters. On November 15 the pirates seized MV *Sirius Star*, a supertanker from Saudi Arabia (released on ransom on January 9).

On November 20, December 2 and 16 the UN Security Council passed three resolutions on this matter enabling the cooperating parties to destroy the infrastructure of the pirates in the sea, on the ground and in the air of Somalia. The area is patrolled by the Navies of the United States, China, Russia, and other countries. The EU naval mission operates in the region, the League of Arab States is setting up a similar unit.

- **The Obama victory** in the United States had positive response from the international community, which expects some changes in the foreign policy of the only superpower. Leaders of Iran, Cuba and Syria declared their readiness for the dialogue with the new U.S. leader. Obama's statements concerning potential negotiations with Iran without preliminary conditions are also welcomed. Russian President Dmitry Medvedev hoped for improving cooperation with the U.S. administration, but also announced probable Russia's response to the U.S. missile defense deployment in Eastern Europe, including the stationing of Iskander missile systems in the Kaliningrad Region.

**Albert Zulkharneev**



## IT ALMOST STARTS ... WORLD POLITICS ENTERS A NEW PERIOD

The global financial crisis and the recession it has triggered took the center stage in world affairs in the last few months of 2008. The situation is unlikely to change in 2009. All the key political and strategic problems that only recently occupied the headlines have now been sidelined. That includes future U.S. troop withdrawal from Iraq, Iran's nuclear ambitions, instability in Pakistan, Russia's incursion into Georgia, growing tension in Europe over Moscow's plans to deploy missiles in Kaliningrad region, and the persisting threat of international terrorism. Meanwhile, the monstrous act of terrorism in Mumbai could well have triggered a new war between India and Pakistan, this time a nuclear one perhaps.

The amount of attention paid to the ongoing economic crisis is understandable and well deserved. A collapse of the world financial system would be much more ruinous than even the Great Depression, with all inevitable economic and political fallout. That is why stabilizing and restoring the health of the world financial markets and key banking institutions is a matter of utmost importance and urgency. Against this backdrop, even the change of the U.S. administration is viewed primarily in the context of Barak Obama's and his team's ability to cope with the economic downturn. But when the global financial crisis starts to abate, the old strategic and geopolitical problems will come to the fore once again, undiminished and possibly even more severe than ever. That is why the current situation is being made use of by the Iranian leaders with their nuclear arms aspirations, by the numerous Marxist radicals and leaders of Islamic terrorist groups, by pompous Latin American caudillos and other political buffoons as well as their sympathizers among Russian politicians, sloganeering about Russia *rising from its knees*. There are all trying to seize the opportunity and boost their standing both domestically and internationally, while the attention of the world leaders is fixed on the financial crisis.

## HARBINGERS OF A NEW TECHNOLOGICAL REVOLUTION

Reams have already been written about the causes of the global financial crisis and ways of overcoming it. Most experts agree that the world financial system will recover within the next two or three years, although the road to recovery will be painful and the consequences of the crisis hard to predict. But it can be safely assumed that the trade in derivatives<sup>1</sup> will be curtailed and that there will be a serious revision of credit policy, with more stringent requirements to borrowers and a general reduction in consumer lending (including mortgage lending). That will

lead to a major shift in the pattern of consumption. The consumerist society that has taken shape in the West over the past 30 or 40 years may well be replaced with a more rational and balanced model of economic behavior. The consumerism and hedonism of the last third of the 20th century will be pushed aside by the traditional, even conservative, bourgeois values: frugality, moderation, common sense and personal responsibility.

But that is only one aspect of the ongoing crisis – the most obvious one but not the most important. According to Sergey Glazyev, a well-known Russian economist, “the leading economies have entered the phase of restructuring: a new technological foundation of the economy is being laid. <...> Every time a technological foundation is replaced and one long wave makes way for the next one, the capital invested in the industries that are becoming obsolete loses its value. Some of it flees to be poured into financial speculations, some of it is simply destroyed, and some is invested in new technologies.”<sup>2</sup> The core of the new technological foundation is nanotechnologies, bionanotechnologies, genetic engineering and healthcare. According to Glazyev, the global financial crisis will end when the capital released from the obsolete industries (and partly destroyed in the speculative bubbles) finds its way to the industries based on the latest technologies. “In three to five years’ time, the leading economies will be at the beginning of a new long wave, and we will enter another decade of economic growth.”<sup>3</sup>

In other words, Glazyev rightly believes that in a healthy market system, a crisis *burns out* those segments of the economy that are unable or unwilling to make use of new technologies and therefore stifle economic renewal. That is accompanied with the liquidation or shrinking of the part of the financial market that works with overvalued or unsecured assets. So just like the previous crises, the current one is a harbinger and an impulse for a new technological revolution, which will usher in a new industrial foundation and a reformed financial system that serves it, primarily the banking system. That revolution will happen at the beginning of the next decade in the developed world, and on a scale comparable to the last revolution of the late 1980s-early 1990s, which was based on the mass application of information and computer technologies.

The revolution will also usher in a new international hierarchy based on the nations’ creative, scientific and technological potential. The countries that offer the best opportunities and climate for the development and practical application of new technologies will be on top in the international pecking order. These include the United States – the world leader in research and development – as well as some European nations and Japan. One level below them will be the countries that successfully apply new technologies in mass production. These will include among others such countries as South Korea, China and India. On the third rung of the ladder will be the countries that excel in the area of recreation, transport and intermediary services, including financial services. The fourth will belong to the suppliers of natural resources and low-added-value products. And at the very bottom will be the *failed states*, unable to exist as independent entities and sinking into chaos, violence and civil wars.

The countries on top of the international pecking order will also see another revolution in military technology. It is next to impossible to predict the shape of that revolution. The effectiveness of new weapons systems in fourth-generation wars and conflicts, or their ability to neutralize the traditional nuclear-missile arsenals created in the last quarter of the 20th century is open to debate. But there is no doubt that the next technological revolution will have a profound effect on military technology and on strategic doctrines.

## OIL PRICES AND GEOPOLITICS

The unprecedented collapse of the oil price in the second half of 2008 is one of the key consequences of the global crisis. The Light Sweet futures in New York fell to \$36.7 a barrel on December 18, 2008. That is just a quarter of the price oil had been trading at only five months earlier. All the price forecasts made last summer have turned out to be wide of the mark, confirming once again that predicting the oil price is more properly the domain of astrologists and Tarot card readers than geologists, engineers or economists.

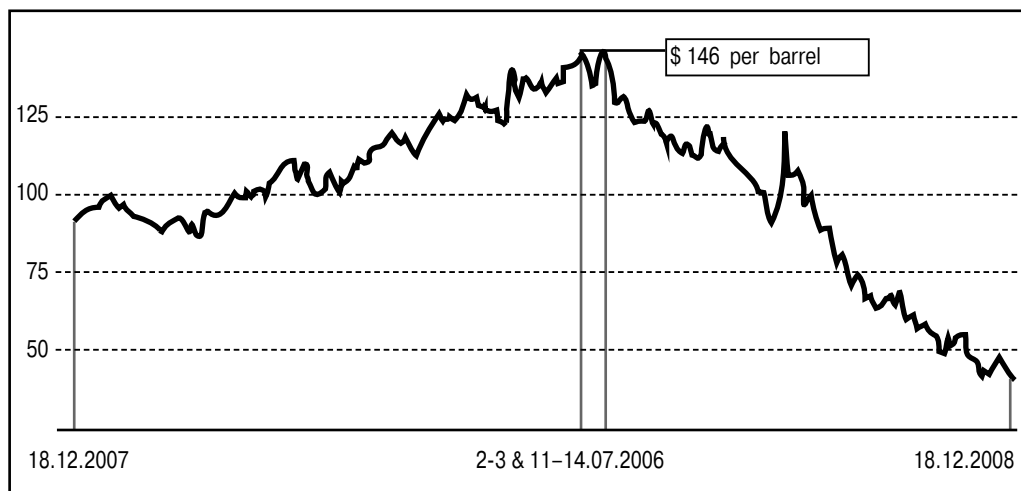
There are, however, several observations that can be made. Over 14 years from 1986 to 1999, inflation-adjusted oil prices were fairly steady as against the previous 14 years. They mostly





stayed in the range of \$19–20 a barrel (in current prices), bottoming at \$13 in 1998 and peaking at \$24 in 1990. In 2006-adjusted dollar prices, the price of oil was slowly declining over that period. That relative price stability had held for so long because the key factors that determine the oil price were more or less steady and within the range that ensures the normal functioning of the global oil industry. Those factors include production and transportation costs, investment in exploration and development of new oil fields, profits of the oil companies and the balance of supply and demand.

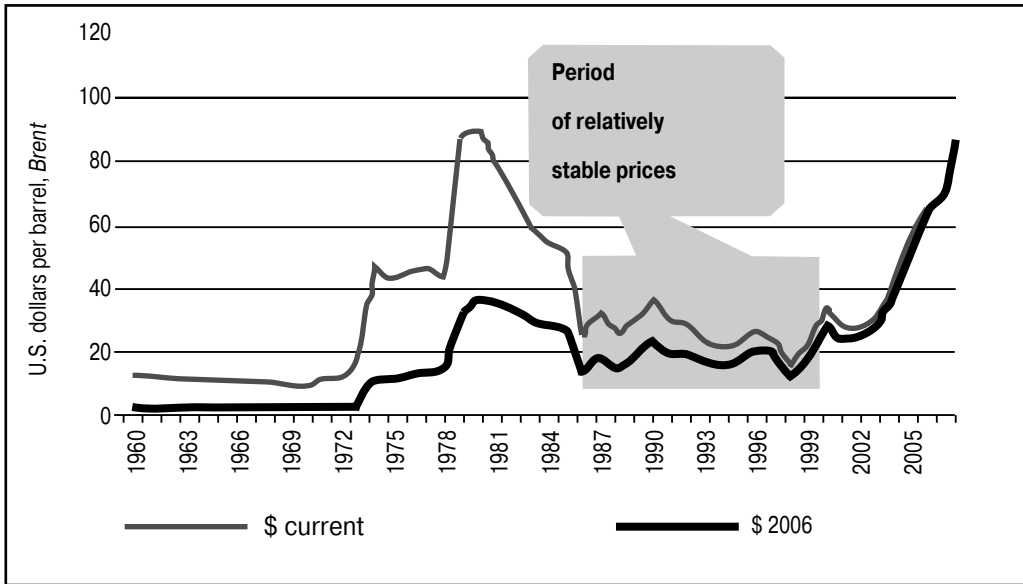
**Chart 1. Oil prices**



The steady rise in the price of oil that began in 2000–2001 had three explanations: speculations in so called futures, rising production and transportation costs, and the decline of the dollar's purchasing power. Some of these factors, however, were more important than others. The bulk of the oil produced at the end of this decade is coming from the fields that were already in operation in the 1990s. Therefore, the actual rise in the average production and transportation costs was only moderate, owing mainly to the launch of several new fields where oil is expensive to produce. Meanwhile, the dollar's purchasing power fell by 20–25 percent over the past 10 years. So if it weren't for the speculators, oil prices at the end of this decade would have been at about \$30 a barrel, with occasional fluctuations due to factors such as political developments in oil-producing countries, natural disasters, etc. The global recession, which started in 2007–2008 and which is expected to continue for another two or even three years, will put a downward pressure on energy demand. Coupled with a correction of credit policy in the leading economies, this will make oil futures far less attractive for speculators. As a result, if the speculation component in the oil price is reduced to a minimum (which is quite likely), oil can be expected to stay at around \$30 a barrel until the beginning of the next decade.

The geopolitical consequences of low oil prices are quite obvious. Oil and gas exporting countries will face a significant fall in their cash flow. They will have to fight hard for every dollar of export revenue. This will significantly diminish their capacity to manipulate prices or restrict energy supplies to achieve their political ends. Attempts by OPEC countries to cut oil production in order to boost flagging prices will most likely fail, because cutting output while prices are falling will immediately squeeze their already falling export revenues. Competition between oil and gas exporting countries will increase, as will their differences over possible ways of boosting energy prices. In some cases these differences could spill over into a political confrontation, and even military action cannot be ruled out. In particular, Moscow will step up its efforts to minimize oil and gas flows from Central Asia and the Caspian region bypassing Russia, using political pressure and possibly even resorting to the use of force. Any *struggle over resources*, if it happens at all, will be between the energy exporters themselves, not between exporters and importers.

Chart 2. Oil prices



## HOW THE CRISIS AFFECTS RUSSIA

The deepening crisis in Russia is one of the main consequences of the falling oil and gas prices in the second half of 2008. The nature of Russia's problems is quite different from the problems affecting the developed economies. Those are now suffering the consequences of a glut of cheap credit that fuelled speculation with derivatives and the property bubble. Russia's crisis, meanwhile, is rooted in the lack of internal sources of growth, the weakness of the banking sector, the economy's dependence on foreign credit and high energy prices, and the government's failure to modernize and diversify Russia's industries.

By the summer of 2008, the foreign corporate debt of Russian companies had reached half a trillion dollars – about the same amount as Russia held in foreign currency reserves at the time. In the foreseeable future, the Russian companies' chances of raising new capital in the West are slim, especially given the sharply negative reaction of the Western political and business elite to Russia's aggression against Georgia. The remaining currency reserves may be enough to service the sovereign and corporate foreign debt in 2009, and to avoid a default. But barring an economic miracle that would propel the average oil price to \$60–70 a barrel in 2009, Russia is unlikely to avoid a sharp economic downturn, tough budget austerity measures, a decline in the living standards and growing social tension. According to the Russian office of *Merrill Lynch*, a one-dollar fall in the price of a barrel of oil translates into the loss of \$2.2 billion for the Russian budget. According to Russia's *The New Times* weekly, "if oil remains at around \$30 a barrel in 2009, Russia's budget will face a shortfall of about 3.5 trillion rubles (the total federal budget revenue in 2008 being 9 trillion rubles). This means that if the negative oil price forecasts for the next year materialize, almost the entire Reserve Fund (of about 3.7 trillion rubles) Russia has managed to accumulate over the recent years will be used up to plug the gaping hole in the budget."<sup>4</sup>

The severity of Russia's current crisis is largely the result of the government's economic policy over the past several years. The stratospheric energy prices over the last decade offered Russia a unique chance to reduce its dependence on exports of mineral resources and to diversify and modernize its economy. But that chance has been wasted. The main flow of investment was channeled into the export-oriented raw-materials sectors that bring the ruling



elite a quick profit. Russia was declared an *energy superpower*, which was used as an ideological justification for making its economy increasingly *primitive*. Instead of breaking up the monopolies and fostering competition, the key role was given to huge state-owned corporations that control entire industries, a farcical version of South Korea's chaebols.<sup>5</sup>

*Gazprom* is one poster child for Russia's misshapen economic model; *Rosneft* another. As part of the drive to bring the key export industries under state control, which as some believe is "the most important lever" to form the future of nation, the government has given all the key oil and gas fields to these two companies. The result was easy to anticipate. "Two state-owned giants – *Gazprom* and *Rosneft* – have been appointed the main engines of growth," says leading Russian expert Vladimir Milov.

"But their huge debt burden, coupled with limited access to foreign credit to refinance this debt and with their rising costs mean that they cannot be an effective engine of growth. They are now lining up for state support and scaling down investment plans to pay off their debts. <...> The government has succeeded in bringing the natural resources under *Gazprom*'s and *Rosneft*'s control, but it has not succeeded in turning these two into truly efficient companies (which in any case might be impossible, given their heritage of Soviet management culture and the pervasive effects of monopoly and corruption)"<sup>6</sup>.

Another key problem is that Russia has been falling ever further behind the world leaders in terms of technology over the past 10 years. The country has failed to embrace the previous wave of technological progress – the information and computer technologies. This means that it will be on the sidelines during the next wave, which will be based on nanotechnology and biotechnology. Speaking in November 2008, Russia's minister for economic development, Elvira Nabiullina, was forced to admit that "the economic model Russia has followed in recent years has exhausted itself."<sup>7</sup> That is nothing if not an admission that the economic policy of the past decade has failed. It has proved unable to ensure the country's development or satisfy the needs of the population. What is worse, the crisis is becoming systemic, and spreading from the economy into politics.

## **POLITICAL CONSEQUENCES OF ECONOMIC CRISIS IN RUSSIA**

The bankruptcy of the current economic model requires a radical correction and ultimately a complete change of course. But the money required to effect this change has either been already spent or will be spent in the next year or two on paying off foreign debt, supporting the ruble and propping up the Russian banking system. Even more importantly, replacing the economic model is impossible without replacing the people at the helm. In democratic countries, a failed political course or economic strategy are replaced along with the ruling elites that pursued that course – by means of elections. In an emergency, an early election can be called.

But in an authoritarian regime, this mechanism of replacing the government which, rightly or wrongly, is held responsible for various failures is absent. As a rule, the people in charge hold on to power as hard as they can, especially if their office also gives them control of entire industries or individual companies. That means that correcting the political or economic course through the normal channels becomes either very difficult or completely impossible. That in turn raises the specter of deep rifts within the ruling elite and of popular discontent triggered by falling living standards, leading on to a political crisis and an *Orange revolution* (or a revolution of any other color).

The situation in Russia is compounded by the fact that as export revenues shrink, so does the central government's ability to ensure the loyalty of the regional elites, keep the masses quiescent with sufficient levels of consumption, and resist the pressure by those social circles and elites which for various reasons are pushing for a change of the economic model. As a result, the economic crisis inevitably leads to political consequences. And the threat of the use of force in a bid to resolve it is growing. In the last few weeks of 2008, the government revised the penal code to broaden the definition of state treason, and introduced changes under which the so-called crimes against the state can no longer be tried in the court of jury. It also abandoned

plans to reform the internal troops and cut their numbers. Many believe all that to be part of the government's preparations for a *crackdown*.

There are several other problems that aggravate Russia's social, economic and political situation. There are two centers of power and decisionmaking in the country. There are no discernable differences between the president and prime minister in terms of their political doctrine or economic strategy. It is quite possible that both of them genuinely strive to work as a single team. But unless the social and economic crisis in Russia abates in the next few months, there will be the inevitable question of responsibility for the failed economic strategy of recent years. The situation is also compounded by the so-called *conflict of the teams* centered around the president's and the prime minister's office. They are competing for control of financial flows, for the most attractive industries and for political and economic decisionmaking power. As economic problems grow, so will the rivalry between the bureaucratic clans vying for control of the shrinking pie that needs to be divided up between them. Faced with these pressures, the so-called *tandemocracy* can degenerate into a crisis of diarchy, leading to a rift in the bureaucratic apparatus and a paralysis of the government as a whole.

In foreign policy, Russia's relations with the West and the newly independent republics have been badly damaged by the incursion into Georgia, the incomprehensible recognition of South Ossetia and Abkhazia, threats to deploy new missiles in the Kaliningrad region and belligerent rhetoric by senior Russian politicians and diplomats. There are of course people who take heart from the idea that by brandishing a big stick in front of its neighbors, Russia has proved (or so they believe for some reason) that it can rival the United States, and that one crosses Moscow at his own peril. In other words, as ill-famous Roman Emperor, Caligula, used to say, "oderint dum metuant."<sup>8</sup> There is one small thing though – Caligula's contemporaries thought him mad, and he met with a very bad end eventually, knifed by his own guards in fact. And unlike Caligula, the majority of the Russian establishment cannot help asking the question of what is it exactly Russia has gained by spoiling its relations with the West? The answer is obvious: absolutely nothing. Even Russia's closest allies such as Belarus, Kazakhstan and Kyrgyzstan, let alone Armenia, have refused to recognize Abkhazia and South Ossetia, rightly believing that such a step would tarnish their international reputation. Which is why it is sooner rather than later that the Russian elite will have to tackle the question of who is responsible for the war in the Caucasus. That will further complicate the situation in the country already struggling with an economic and social crisis.

And finally, despite the ongoing crisis, the Russian leadership has announced a large-scale reform of the armed forces. The military action against Georgia must have revealed such glaring problems in the Russian army that turning a blind eye to them was no longer an option. The urgent need for reform of the armed forces, and of Russia's entire military apparatus, is obvious. But as of late December 2008, two months after the reform was announced, there is still no clarity among the experts, the public and, most importantly, among the military as to what the Russian army is supposed to look like once the reform has been implemented. The only thing everyone is quite clear about is that an unprecedented restructuring of the army is on the table, and up to 200,000 officer positions will be cut. The imminent appearance on the Russian streets of tens of thousands of military officers, many of whom will have lost not just their jobs but the roof over their heads as well, will hardly be conducive to political stability. This, along with the aggression against Georgia, is yet another proof that the Russian government doesn't quite realize even the immediate consequences of its actions, let along the longer-term effects.

## GEORGE BUSH'S HERITAGE, OR WHY AMERICA IS SO MISLIKED

The presidential election in the United States has ended the eight-year tenure of the Republican administration. This period is widely believed to be the one of the most unsuccessful in the history of the United States. In the eyes of the world, George W. Bush has become the epitome of a *failed leader*, who has proved unequal to the monumental task of leading the world's most powerful country. Meanwhile, his successor, Barak Obama, is seen



as a *reformist leader* who can bring about radical change in America's domestic and foreign policy, and restore its tarnished reputation abroad.

The war in Iraq is considered to be George W Bush's biggest mistake (some even call it a crime). At first glance, the operation in Iraq really was a blunder, which, as history buffs are wont to say, is worse than crime. But there is nothing more deceptive than such superficial judgments. First, as the saying goes, the man who never made a mistake never made anything. And second, ridding the world of one of the most ruthless and despicable dictatorships in recent history can hardly be called a mistake – even though it has turned out that the regime hadn't managed to equip itself with nuclear weapons by the time the war began. On the contrary – Saddam Hussein's downfall was a good lesson to other tyrants, who have realized that national sovereignty is not guaranteed to protect them from well-deserved retribution. The argument that such operations can only be carried out with UN Security Council approval doesn't hold water. It is not clear why a decision approved by five permanent members of the council is legitimate while a decision taken by less than five members, or even by one, is not.

Essentially, the outgoing U.S. administration has made only one mistake – not even a mistake really, but rather a failed experiment. It was not the occupation of Iraq or Afghanistan as such, but an attempt to set up a semblance of democratic regimes there. Instead of moving towards democracy, the two countries have descended into chaos and low-intensity civil wars, which no foreign military force can stop. The international coalition in Iraq and Afghanistan is therefore faced with two key questions. The first is about how much longer its troops will stay there, and on what conditions. The second, and the more important one is, how can the international community intervene and make a difference in fourth-generation conflicts or *failed states*, where the real power is in the hands of criminal gangs, rebel groups and militants who are fighting for various tribal, religious or clan leaders. For example, how can the international community root out the pirates wreaking havoc in the Gulf of Aden, and how can it restore order in the part of Somalia those pirates control? For now, there is no answer to these questions. And it must be said that the Bush administration's strategy in Iraq and Afghanistan after the rout of the *Taliban* and Saddam Hussein really was unsuccessful. However, the Europeans' strategy there has turned out to be no less of a failure. Europe is trying to stabilize the situation by building bridges, roads and schools in an effort to show the benefits of peace to the locals. The locals are happy to use the bridges and roads, but they are showing little taste for peace.

But the main reason George W. Bush has been declared a complete and total failure is his so-called "unilateralist" policy, i.e. his unwillingness always to seek the approval of America's allies or even the permanent members of the UN Security Council, and act in accordance with the collective decision. The alternative to *unilateralism* is believed to be *multilateralism*, which, according to its proponents, would be the solution for all international problems. The way multilateralism works in practice, however, is this: Washington listens carefully to all the advice and recommendations of its allies and partners, including Russia and China, who are permanent members of the Security Council – and then American troops do the work that needs to be done, with hardly any help whatsoever from the allies and partners. That situation is of course in everyone's interests, except the United States.

There are three key questions the advocates of *multilateralism* cannot answer. First, is there any guarantee that America's allies and partners can agree on a joint decision that would be any better than the decision made in Washington? Second, can America's allies and partners agree on any clear decision at all? The record of the UN Security Council, the group of eight, the group of six, which is leading the talks on the Iranian nuclear program, the Middle East quartet and other multilateral bodies suggests that the answer is no, they cannot. And third, exactly which countries are supposed to get the membership of the group that would collectively take strategically important international decisions?

And finally, George W. Bush, his administration and America as a whole are hated by the numerous groups in the West who see America as the linchpin of the capitalist system they abhor. In 1945, George Orwell, the author of brilliant if extremely gloomy dystopias, wrote about British

“intellectual pacifists whose real though unadmitted motive appears to be hatred of western democracy and admiration of totalitarianism. ... Moreover they do not as a rule condemn violence as such, but only violence used in defence of western countries. The Russians, unlike the British, are not blamed for defending themselves by warlike means, and indeed all pacifist propaganda of this type avoids mention of Russia or China. ... Pacifist literature abounds with equivocal remarks which, if they mean anything, appear to mean that statesmen of the type of Hitler are preferable to those of the type of Churchill, and that violence is perhaps excusable if it is violent enough.”

Almost seventy years on, these words can well be used to describe anti-globalists, Trotskyites, admirers of Che Guevara, and other radical, leftist and anti-establishment groups, who secretly or openly hate Western society, failing to comprehend that the alternative to that society is either authoritarianism and dictatorship, or tribal wars and chaos of the failed states. Mass protests against the war in Iraq held in Western capitals in 2003 were an ominous sign of the situation that we have. The protesters, who were all citizens of democratic states and the vast majority of whom advocate democracy, were in fact defending a regime notorious for its cruelty and oppression.

## THE REFORMIST PRESIDENT: HOPES AND REALITY

Barak Obama's victory set off an unprecedented wave of enthusiasm in almost the whole world, with the exception perhaps of Russia and China. Most commentators agree that the credit of trust Obama has received will help him to restore America's standing on the international arena. But unrealistic expectations can quickly turn into disappointment and frustration.

The decisions Obama has made so far give reason for cautious optimism. He has chosen a well-balanced and competent team to lead America's foreign and security policy. According to Jessica Mathews, the president of the Carnegie Foundation, Obama has assembled a bipartisan, centrist team of foreign policy heavyweights indicating an emphasis on pragmatism and competence rather than ideology.<sup>9</sup> But it is too early to draw any conclusions about the new



**Abdulaziz Sager**, Chairman of the Gulf Research Center (**Saudi Arabia**) – by e-mail from **Dubai**: There is no positive change with respect to Iran, Iraq, or Afghanistan. Potential conflicts emerge without particular opposition of the international community and this may have a negative impact on global security in the near future. Financial crisis aggravates the problems of regional security and economy. This is particularly true with respect to Iran, which is living through its hard times. Decrease in oil prices will only exacerbate the situation. The election of Barak Obama gives some hopes for change in the U.S. policy in the region. The signature of the status of forces agreement in Iraq, which contains the provisions on their withdrawal, facilitates the normalization of the situation. At the same time, only cautious forecasts can be made so far, since there is no real change.

U.S. administration's foreign policy. The problems America is facing will be very difficult to tackle. Many of them, including the Iranian nuclear issue and the situation in Afghanistan, are completely intractable without a radical change of approach. So on the one hand Washington will have to avoid any rash decisions than can destabilize the international situation, but on the other, it will need to overcome the inertia of the existing strategies.

The decision to pull out American troops from Iraq by the middle of 2010 is entirely justified. It will free up significant military and financial resources that are now committed to Iraq, and allow Washington to focus on issues that are really critical for America's security. Iraq, meanwhile, will be facing three possible scenarios. Under the first scenario, the Iraqi authorities, faced with the prospect of foreign troops pullout, will manage to stabilize the situation using their own resources, as well as some financial and technical help from abroad. Under the second, Iraq will split into three states along the sectarian and ethnic lines, with each new state trying to maintain oil exports and build nor-



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mal relations with the West. Under the third, relative order in Iraq will be restored by the neighboring Arab states plus Turkey. Whatever the outcome, the main task facing American and Western troops will be not so much to maintain order in Iraq as to prevent Islamic radicals from interfering.

There are, however, a lot of questions about the new U.S. administration's intention to step up the war effort in Afghanistan. Plans were announced in December 2008 to double the number of U.S. troops in Afghanistan to 60,000. Units of the 10th Mountain Division will be deployed in two provinces near Kabul in the very near future. But committing U.S. and NATO troops to the operation in Afghanistan will severely limit their strategic capability in other regions. And there is absolutely no reason to believe that a military buildup in Afghanistan will be able to stabilize the military and political situation there.

Of course, ending the U.S. and NATO operation in Afghanistan could hand the victory to the *Taliban*. But that would be a danger not for the West but for Afghanistan's closest neighbors in Central Asia, Iran, Pakistan, and China. So the onus will be on them to step up their efforts to prevent the extremists from entering their territory and to contain other threats posed by the *Taliban* in Afghanistan. The United States and Europe, meanwhile, could offer their help and assistance to the Central Asian states and Pakistan, which would be far simpler and cheaper than waging and expensive and hopeless military operation in Afghanistan itself. A withdrawal from Afghanistan would also release the military and political resources for solving the truly important problem of Iran's nuclear program and preventing Pakistani nuclear weapons from getting into the hands of Islamic radicals.

## **ARMS CONTROL TALKS: DÉJÀ VU**

On December 5, 2009, less than a year after this review is published, the Russian-American Strategic Arms Reduction Treaty, START I, will expire. In the fall of 2008, the U.S. and Russia agreed not to prolong it. But both Moscow and Washington are interested in maintaining in some shape or form the strategic arms control regime and in negotiating a new treaty. There is also an opinion in Russia that negotiating and signing the new treaty would be, as Russian Deputy Foreign Minister Sergey Ryabkov put it, "the first successful project of the new U.S. president, Barak Obama, and his Russian counterpart Dmitry Medvedev."<sup>10</sup> The Russian Foreign Ministry seems to hope that a new arms control treaty would help improve the Kremlin's international reputation, tarnished by the invasion of Georgia. But the new treaty is unlikely to be signed any time soon. Previous arms control talks have already shown that the two sides' positions and interests are difficult to reconcile.

Russian-American consultations on a new treaty held in December 2008 only highlighted the existing differences. Moscow was not happy with the American proposals. One of the main obstacles is once again the so-called *breakout potential* problem. The difference is essentially about the nuclear warheads counting rules. The United States wants the treaty to cover only the actively deployed warheads, i.e. the warheads deployed on carriers and ready for launch. Russia, however, wants the new treaty to also cover the warheads that are in storage. Negotiators refer to these warheads as the *breakout potential*.

The breakout potential problem is nothing new. Negotiators spent a long time discussing it during the talks on the Russian-American Strategic Offensive Reductions Treaty (SORT) in 2002. In the end, Russia withdrew its demand to include the breakout warheads in the treaty, for one simple reason. In order to verify compliance, inspectors would have to be allowed to every nuclear site where warheads can be stored after they are removed from the carriers and before they are dismantled. That means inspectors would have the right to visit every nuclear arms storage and production facility, because a warhead can only be dismantled at the same facility where it was manufactured. Furthermore, proof would then be required that a new warhead has not been built to replace the old one, to be deployed in case of necessity. So the entire process of nuclear arms manufacturing would have to be open to foreign inspectors. At the time of the talks in 2002, neither the United States nor indeed Russia itself was ready to allow American experts to visit Russian nuclear arms production facilities. So the question aris-

es, why are the Russian military and diplomats raising this old issue again, and are they now ready to allow U.S. inspectors to visit Russian nuclear facilities?

Also, according to Russian press reports, Moscow demands that all the nuclear weapons, both Russian and American, must stay on Russian and American soil. In other words, Russia wants the United States to remove several hundred tactical warheads (aviation bombs) deployed in Europe. This means that strategic arms reduction has again been linked to tactical weapons. That in turn raises the issue of Russia's own tactical arms, which Moscow is refusing to discuss outright – especially as it is preparing to deploy the new Iskander missiles in Kaliningrad region, and no-one can guarantee that they will not be armed with nuclear warheads.

All in all, the beginning of consultations on strategic arms control has given little cause for optimism. Only future will show whether the Russian position, which Moscow knows is unacceptable to the United States, is just part of its negotiating strategy, or whether the Russian military are simply unwilling to accept any nuclear arms reduction at all. There is also however a third possibility. Russian top brass are not yet sure (and neither is the top Russian leadership) whether they want strategic arms control or not. On the one hand, Russia's strategic potential is deteriorating. Under these circumstances, Moscow is obviously interested in a treaty that would limit American strategic arms, so as to reduce the nuclear gap between Russia and America. But Washington is hardly so naïve as to accept this without serious concessions from Russia in return. Meanwhile, as the Russian conventional forces are no match for NATO in the West and China in the East, nuclear arms is the only thing that allows Russia to stand up militarily to its potential adversaries. Consequently, Moscow may not be interested in any agreements restricting the structure and size of its nuclear arsenal.

## EUROPEAN SECURITY AND ISKANDERS IN KALININGRAD

In his address to the Federal Assembly on November 5, 2008, President Dmitry Medvedev said that “naturally, Russia will not allow itself to be dragged into an arms race.”<sup>11</sup> It was probably with this purpose in mind – and also to counteract U.S. plans to deploy elements of its European ABM system in Poland and the Czech Republic – that the Russian president announced the following:


- Plans to disband three regiments of the missile division in Kozelsk have been abandoned;
- Iskander missiles will be deployed in Kaliningrad region;
- Russia will begin radioelectronic jamming of the new American ABM elements from the territory of Kaliningrad region.

It is hard to imagine how keeping 46 obsolete SS-19 IBMs on active duty can neutralize the American ABM system in Europe. (Some of the 46 missiles may be replaced by the 30 SS-19 missiles Russia received from Ukraine. These 30 missiles are *dry*, i.e. there is no fuel in them.) It is also hard to predict how it will affect the military and political situation in Europe. But the deployment of the Iskanders in Kaliningrad is another matter.

Commenting on the presidential announcement, Russian military commanders and journalists close to them have revealed some of the details of the upcoming deployment. By 2015, five missile brigades will be equipped with the Iskanders. Units stationed near the Western borders and in the Kaliningrad region will be the first to receive the missiles.<sup>12</sup> According to the RIA-Novosti news agency, the range of the Iskanders can easily be increased up to 500 km and more in case Russia decides to withdraw from the 1987 Intermediate-Range Nuclear Forces Treaty (INF). What is more, Iskander launchers can be used to launch long-range cruise missiles (Russia has successfully test-launched R-500 cruise missiles from Iskander launchers). The potential range of the cruise missiles launched from Iskander launchers could exceed 2,000 km, putting almost the entire Western Europe in their range.<sup>13</sup> That means that deploying the Iskanders would be a violation of the INF treaty. A fresh missile crisis may now be in the making.





 Konstantin **Eggert**, Editor-in-chief of the Moscow Bureau, BBC Russian Service (**Russia**) – by e-mail from **Moscow**: Economic crisis is a number one problem, since it is the first crisis of post-industrial era (this only adds to the overall uncertainty). The behavior of economic actors becomes less and less predictable, economic nationalism may easily lead to the spin of political nationalism.

The ongoing Russian-Georgian conflict and deepening crisis in Ukraine tempt the Russian leadership with the hard line options with respect to both countries. However, due to the decline in production and inflation in Russia, such action astonishes its Western partners, while Moscow would need some understanding from them under the current circumstances. The jubilee NATO Summit in spring 2009 will be one of the first challenges to the Obama-Clinton team in the area, which directly affects the interests of Moscow.

Some time after Medvedev's November 5 announcement, Moscow clarified that the Iskanders will be deployed in the west of the country only if the United States goes ahead with its plans for an ABM system in Europe. That was a smart move. Fearing a new missile crisis, many European countries (but not all) will demand that the United States abandon their plans to station their radar in the Czech Republic and 10 interceptor missiles in Poland. If Washington yields to these demands, the American security guarantees to Europe will be put into question. That would be a severe blow for NATO, and stoke up the differences between the United States and Europe, as well as between the countries of *new* and *old* Europe. Russia will have achieved its strategic purpose, and the Russian military will have obtained serious proof that military pressure on Europe is a powerful instrument of achieving foreign policy goals. And if the United States, Poland and the Czech Republic proceed with their ABM plans, Russia will deploy the Iskanders in Kaliningrad. A new missile crisis will be unleashed, and Europe will become increasingly divided about what its answer to the Russian missiles should

be. Some European nations will accuse America, Poland and the Czech Republic or being irresponsible and undermining European security. There is no guarantee that NATO will reach a unanimous decision on how to react. As a result, Russia will have new missiles in Kaliningrad, and the possibility of the deployment of intermediate-range U.S. missiles will remain relatively low. And even though such deployment cannot be ruled out, Moscow will still think that it has won.

But on other foreign policy directions, Russian diplomacy has lost out as a result of the invasion of Georgia. President Mikhail Saakashvili remains in power – and even if he is eventually forced out by the opposition, his successor will hardly be friendly to Russia, which has occupied a large chunk of Georgian territory. NATO has not given Ukraine and Georgia the membership plan they had been asking for, but it has essentially given the green light to the same program a membership plan would include, within the framework of the NATO-Ukraine and NATO-Georgia commissions. In December 2008, the United States signed a strategic partnership charter with Ukraine and in January 2009 a charter with Georgia on cooperation in the areas of security, economy, culture and democracy. That is essentially a step towards the United States giving security guarantees to the two countries. And finally, the OSCE has rejected Russia's proposal to discuss new European security architecture, by an overwhelming majority of the votes.

## CONCLUSION

It seems that the changes I predicted in my recent reviews are now beginning to materialize. The global financial crisis and the shifts it is causing in international relations; the upcoming new wave of technological revolution; Russia's confrontation with the West; the possibility of serious upheavals in the strategic Eurasian landscape as a result of the looming trouble in Russia; the inefficiency of the existing strategic approaches to local and regional conflicts, and the need for new approaches – these are just a few of the changes that are coming. Pessimists view those changes as an unmitigated catastrophe. Their fears may turn out to be well found-

ed if the world intellectual, political and business leaders fail to grasp the nature of the new challenges and come up with new ways of solving them. For then, in the words of the Gospel, those leaders “will be blind leaders of the blind. And if the blind lead the blind, both shall fall into the ditch.”

**Yury Fedorov**

## Notes:

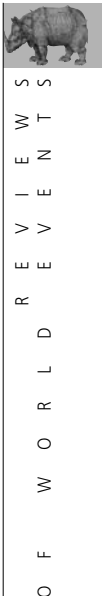
- <sup>1</sup> Derivative – an asset whose value is derived from the value of other assets, known as the underlying assets.
- <sup>2</sup> Sergey Glazyev, “Creating our own financial system. Reorienting to internal sources of economic growth,” Materials of a debate at the Mercury Club on October 20, 2008, TPP-Inform, 2008, p.10.
- <sup>3</sup> Ibid., p.11.
- <sup>4</sup> Dmitry Dokuchayev, Irina Fedotova, “God, How Low I Have Fallen,” *The New Times*, No. 50, 2008, <http://newtimes.ru/magazine/2008/issue096/doc-60252.html> (last visited on December 23, 2008).
- <sup>5</sup> Chaebol – a South Korean business conglomerate built as a group of formally separate companies, family-owned and working under a single administrative and financial control.
- <sup>6</sup> Vladimir Milov, “Russia’s Oil and Gas Collapse,” *Gazeta.ru*, November 11, 2008, <http://www.gazeta.ru/column/milov/2870713.shtml> (last visited on December 23, 2008).
- <sup>7</sup> “Elvira Nabiullina believes Russia’s current economic model has exhausted itself,” *Lenta.Ru*, November 19, 2008 <http://www.lenta.ru/news/2008/11/19/model/> (last visited on December 23, 2008).
- <sup>8</sup> Latin: Let them hate so long as they fear.
- <sup>9</sup> Jessica T. Mathews, “Security challenges for the next administration,” December 2, 2008, <http://carnegieendowment.org/publications/index.cfm?fa=view&id=22484&prog=zgp&proj=zusr> (last visited on December 23, 2008).
- <sup>10</sup> “Russia Talks Disarmament with Barak Obama,” *Kommersant*, December 15, 2008 (last visited on December 23, 2008).
- <sup>11</sup> [http://www.president.kremlin.ru/appears/2008/11/05/1349\\_type63372type63374type63381type82634\\_208749.shtml](http://www.president.kremlin.ru/appears/2008/11/05/1349_type63372type63374type63381type82634_208749.shtml) (last visited on December 23, 2008).
- <sup>12</sup> “Five brigades in the west to be armed with the Iskanders – source,” RIA-Novosti, November 7, 2008, [http://www.rian.ru/defense\\_safety/20081107/154604752.html](http://www.rian.ru/defense_safety/20081107/154604752.html) (last visited on December 23, 2008).
- <sup>13</sup> “Iskander: the chronicle of a new confrontation,” RIA-Novosti, November 6, 2008, <http://www.rian.ru/analytics/20081106/154533253.html> (last visited on December 23, 2008).



## WORLD POLITICS IN TIME OF UNCERTAINTY

If one were to try and sum up what the distinguishing feature of late 2008-early 2009 is, that would most probably be the oppressive feeling that we, the world as a whole, do not know where we are heading. That is, there is absolute confidence that the world and our country are moving somewhere but that this movement looks more like fumbling in the dark. The same thing happens when a ship is suddenly caught in a thick fog and is moving out of inertia even after the captain has ordered the engines to be stopped. In a situation like this the crew and all the passengers on board should keep their eyes wide open in order not to collide with logs or an approaching dry cargo ship.

Indeed, it has now been more than three months since the world financial crisis began and yet nobody can say how long it will last, what the oil price will be, what the dollar-euro exchange rate will be and many other things. Nobody can answer the question whether the global econ-





**Marian Abisheva (Kazakhstan)**, Deputy Director of the Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan, – by e-mail from **Almaty**: Most of the nations already feel the implications of the global financial crisis. However, the world economic turmoil cannot let us forget about unresolved issues in political and military sphere. North Korea, Iran, permanent conflict in the Middle East, extremism, and terrorism – the list is endless. International and, above all, regional security structures should revise their concepts in confronting these challenges. As far as environmental problems are concerned, one may note the December 2008 UN summit on climate change held in Poland. This is one of a few positive events in the last three months, since the rest of the environmental component of the ISI contributes only to its decline. The forecasts for the future are deplorable.

omy has capacity for economic growth outside the U.S. market and without the U.S. market. For example, nobody can say how deep the European economy's slump will be, whereas this is in fact a key question for the Russian economy, which – as a result of a tragic lack of strategic vision among Russian liberal macroeconomists and the greed of the oil and gas, and metals and mining oligarchs – has found itself almost totally dependent on exports to the European market. The impending meltdown on the European market, which is likely to be surprisingly big and to have far greater consequences than the collapse of a couple of banks (the events in Greece are just the first sign of this impending meltdown), will deliver a far greater blow to the economic situation in Russia than problems in the U.S. financial sector. In a nutshell, the situation is as follows: everybody already feels that things are turning out badly and everybody can see that things will become even worse, however nobody can say what and how will happen exactly.

Analysts who only yesterday forecast oil prices at \$200 per barrel are now with the same confidence talking of \$30. Economists who predicted a rapid growth of the Internet economy are now convincingly trying to prove that this economy no longer exists. International relations experts who were saying that in a couple of years China will become a direct challenge to the United States are now speaking of China's approaching decline. Politicians who just a couple of years ago were predicting the start of "a European era" are now shaking their heads, admitting that for EU countries the consequences of the crisis may turn out to be the hardest. Financial experts who used to promote investment in the euro are now busy analyzing the exchange rate of the Mongolian tugrug and are doing it with their usual, and apparently completely indestructible, confidence and aplomb. We do not know what the configuration of political forces that will define the system of international relations in a year's time will be.

We do not even know whether Kim Jong Il is alive or not.

All this leads us to a simple and extremely sad conclusion: in the coming years we shall be acting, as the police term it, "in conditions of uncertainty". In other words, we are moving ahead absolutely at our own risk. Therefore, the logic of the international situation makes this review of world events a conversation about the questions that we face rather than an answer to those. That is why we are likely to be talking not about processes but rather about perceptions of processes.

Now is the right time to make a very important, in my view, conclusion: the drastic increase in uncertainty in the system of international relations that we have been witnessing over the past six months is a consequence of the emergence of real multipolarity, including in military and political sphere and resources. This in itself results in that the actions of the significant players in international relations no longer fall under conventional models and templates. This is why we no longer understand what is going on, whereas in reality we simply do not know the models and principles along which the new world is developing.

In times like these it is necessary to clearly understand what it is that prevents a complete understanding of what is happening: a morning mist clouding a not quite ripe event, twilight fol-

lowing the sunset of an era and the collapse of a great empire, a fog resulting from our lack of knowledge, or smoke from a fire.

There is a considerable difference between these.

## RUSSIA AND NATO: DANCES WITH WOLVES

Much has been written and said about the world entering an era of confrontation between the West and Russia, where NATO, relations with which Moscow so hastily ruined by its actions in South Ossetia, will be the main instrument in the fight against Russia.

In terms of strategic aspects, the fact that NATO made the first step towards reconciliation is not as important as how that was done. In that respect, one cannot but notice several telling moments, which – it would seem – define the nature of the current relations between Russia and NATO.

First, the decision by the majority of NATO not to complicate relations with Russia was a strategic one. It was taken at a time when a clearly deep crisis of not only European institutions (in this case it would appear that the patient is probably already dead) but of specifically Western European ones became obvious. That makes the recent debate between Nicolas Sarkozy and Czech President Vaclav Klaus and the topic of that debate – Sarkozy accused *EU neophyte* Klaus of not being European enough – all the more interesting. Who a mere two years ago could have imagined something like this happening? And nobody could imagine that once great and mighty Germany, who used to clamor for the status of “the first among equals”, will in effect find itself in the backyard of European politics. Truly, the role of an individual in history is great.

Second, it is surprising and somewhat unexpected that our European friends dared to enter into direct confrontation with our U.S. friends, that for the first time in 10, if not 20, years the Europeans dared to tell the Americans that they too have a voice in NATO and something should depend on them too. I suspect that so far this is just an attempt to put the utterly impudent Americans down a peg or two rather than a strategic shift in the minds of modern Europeans. Still, this is a significant symptom, which in certain conditions can develop into a trend that may not necessarily be favorable for Russia (there is no guarantee that independent Europeans will be more convenient for Russia than today’s Europeans, who are in effect under U.S. protectorate) but creates new opportunities for the geopolitical and the geoeconomic game.

Third, as it has turned out, despite constantly declaring their readiness to “firmly oppose Russia”, our NATO partners are not particularly keen to do that. That is, they are of course ready to nod their heads in sympathy and assent with Baltic, Ukrainian and East European politicians when they are teasing the Russian *bear*. They are even ready to speak at various forums with accusations against imperialistic Russia. They are even ready to maintain various opposition figures on their territory. However, once it comes to practical confrontation with imperialistic Russia, our NATO partners begin to lose their zeal. Which is understandable: it is far more pleasant to consider the bear dead than check for real if it has indeed died.

Fourth, probably not everybody has noticed that the decision not to enter into a row with Russia was taken at a time when oil and gas prices were very low and when, it would seem, the time was right to start confrontation with Russian imperialism. Thus, the heart of the matter is not oil and gas and not the fact that their high prices determine Russia’s significance. I would risk voicing a rebellious suggestion: in times when world politics are regionalized, when the world is divided into regional “spheres of influence” and zones of economic interest, Russia (especially when it is in a crisis) can be bypassed, that is excluded from the most important processes, left on the periphery, where its geographic location is. However, when a truly global political or economic process is about to happen in the world, when interregional communication and interregional economic processes become increasingly more important, Russia becomes indispensable even to those who are, putting it mildly, not its greatest fans.



Fifth, much was said at the time when the possibility of Ukraine and Georgia joining NATO was discussed, many arguments were voiced and spears broken. Only one thing was left out of discussion: nobody raised the question of whether Georgia and Ukraine were up to the so-called “Western standards” of democracy. In other words, NATO has practically openly admitted that *de facto* it is not an alliance of democracies in as much as the existence of real democracy is no longer (if it ever was) a criterion for admission into the alliance. Generally speaking, that was clear to everybody a long time ago but it was hypocritically left unnoticed. Now it is being openly admitted, which is good news since healthy cynicism is always better than hypocrisy.

Please note that a considerable part of the above factors are not directly related to either military-political issues in general or NATO in particular. That is, our European (and I suspect, American too) partners have already included the situation on the European military theater into the broader picture of geopolitical processes in the world. In that respect, our European friends turned out to be surprisingly wiser than some Russian pundits who predicted Russia's decline as a force to be reckoned with.

It has been said that after the war in South Ossetia relations between Russia and NATO will never be the same. Which is only welcome since “the same” means our Western partners' deeply held conviction that Russia's opinion can and should be ignored and Moscow politicians' equally sincere belief that it is possible to agree with NATO. If that “the same” has become a thing of the past, then Russian-NATO relations have a future.

## **FUTILE EFFORT, OR YET ANOTHER RUSSIAN MILITARY REFORM**

All is well in the new Russian military reform: the right words are being said, at least from time to time; the concept of switching to flexible forms of organizing the armed forces' personnel and weapons seems to be in tune with modern requirements; a reduction in the excessive administrative bodies, the notorious “Arbat military district” (i.e. the Defense Ministry) is overall a welcome thing. Yet, despite all this theoretical correctness, both society and the expert community have very strong doubts if this move is in the right direction. There are only two reasons for that but the reasons are such that they get one thinking and thinking hard.

First, the experience of the war – no, not war, of victory – in South Ossetia was hidden from the public, probably so as not to spoil the overall jubilant view with any problems. But hidden experience does not add anything to the capability of an army, rather it detracts from it and, most importantly, it breeds distrust towards those who are painting a particularly triumphant picture. Even in the history of the Great Patriotic War written in Stalin's times everything began not with the Germans' defeat in Stalingrad but from the Soviet army's retreat from Minsk and Dubno. Much has been said after the war in South Ossetia: from enthusiastic panegyrics to assertions that Russia lost that war (although if it had, then why it was Mikhail Saakashvili and not someone from the Russian leadership who was chewing his tie?). The only thing that is still missing is a sensible and balanced assessment of what and how happened in August 2008 and why the military action was conducted the way it was.

Second, the reform is being conducted by people who clearly do not have a credit of trust either in society or, I am afraid, in the armed forces. No matter how many correct concepts they develop, these will still remain alien. If during a relatively prosperous period that could be ignored, now when the specter of a crisis has left macroeconomists' offices and is entering ordinary people's kitchens, things like that are viewed in an absolutely different light, i.e. from the point of view of to what extent this or that action corresponds to the mood in society and to what extent it will either rock the boat or strengthen stability.

One can of course feel sympathy for the modern stock of military reformers: they have not been particularly lucky in terms of timing. This is a normal phenomenon for Russia but it does not explain a whole host of strange and incomprehensible things that “the Serdyukov reform” is being accompanied with.

Strange thing № 1: why the template for the military reform is based on the way military personnel and weapons are organized in the United States is clear. The U.S. armed forces manual must have been the secret book that the authors of the notorious “Serdyukov reform” must have

studied and been inspired by. Well, this is most commendable. However, it seems a bit strange that the U.S. system of organizing troops is being introduced to Russia at the very moment when in the United States itself the voices of those who are proving, and not unsuccessfully, that the way the U.S. ground troops are organized has turned out to be inadequate and has proven its inefficiency during the military conflicts in Afghanistan and Iraq are increasingly better heard. Perhaps in addition to the manual they should have read two or three more books?

Strange thing № 2: the starting point for any large-scale reform – and everybody understands that “the Serdyukov reform” is a radical transformation of the way the country’s armed forces have been organized since 1935 – should be an assessment of threats that the armed forces will have to respond to. However, “the Serdyukov reform” was not preceded by either a discussion of potential threats or by any sensible document on the subject. Which is a shame since the point of “the Serdyukov reform” is defined by an answer to a very simple question: is a large-scale military conflict involving Russia possible in the foreseeable future? If not, then—despite all its shortcomings – “the Serdyukov reform” has the right to exist. If however such a conflict is possible, then “the reform” is not simply a mistake and self-important folly but a harbinger of an impending catastrophe because the army that will result from “the Serdyukov reform” will not be able to conduct any lengthy or significant campaign with the use of conventional weapons. Already at the early stages of a conflict, when the available reserve of personnel and weapons runs out, which – as practice shows – will happen very quickly, and there is no base for deploying the mobilization reserve because divisions, which are the basis of the second strategic echelon, are disbanded, Russia will have to resort to nuclear weapons. This is a fact. Whether it will dare do it is another matter. And this, in turn, can breed some not quite adequate ideas in the heads of some immature politicians on both sides of the Atlantic.

Strange thing № 3: “the Serdyukov reform” is all about military hardware. It is the need for a technical upgrade of the army that has been made a priority and this is what Chief of General Staff Nikolay Makarov stressed in his keynote statement for the media. Nobody disputes the need for the Russian army to be provided with the most modern weapons. Leaving aside the question of whether the domestic defense industry is capable of supplying the armed forces with weapons that meet modern standards, the most important component of any reform of such a scale and ambition should be people. The idea to cut the number of higher military schools seems somewhat at odds with the task of creating a modern officer corps, which will lead into battle numerous military hardware that our defense industry will some day produce, that is if it does not steal all the funding first.

If one is to sum up some results, interim of course since the final results will be summed up by history, which – as practice shows – is a strict and merciless lady, the main problem of “the Serdyukov reform” consists in that in effect it is yet another attempt at a *simple solution*, which is made at a time when the whole society has at last figured out that complex problems cannot have simple solutions. Hence the whisper which has grown into a grumble. And who knows what will happen next. The military are not importers of used right-hand-drive vehicles, and just using special-force policemen against them will not be enough.

## **UNITED STATES ON THE EVE OF PERESTROIKA: EXPERIENCE OF HISTORICAL ANALOGIES**

They say that Barack Obama has given people hope. This is an absolute fact that does not need any special proof. It is another matter that he gave hope not so much to the Americans (it is indicative that the gap between him and John McCain, who had openly given up any fighting in the election campaign, turned out to be much less than expected, so Obama’s victory has only been declared an overwhelming one) as to the rest of the world. He gave hope to everybody. But there are hopes and hopes.

The hopes of the Russian patriotic community were encapsulated in a rhyme by an anonymous Russian blogger:

Hello, I’m writing this  
From BAM [Soviet-era railway construction project in Siberia – Ed.].



It's freezing here,  
Yours, Barack Obama.

But it is not Russian patriots that we are interested in. Their feelings towards the United States are deep and mutual and, most importantly, independent of the current political situation. Let's talk about the others.

As to them, their attitude to Barack Obama's victory had something in common: a hope for a different America, the hope that America, which in recent years has become a nightmare for all world liberals, will disappear; that America will once again become a country from which freedom will shine, supported by a flow of cash. That is because the Western world and – speaking even wider – the liberal ideological conglomeration cannot exist without America for its leader, without America as an ideological and behavioral imperative.

Here a question arises, which is quite pertinent both from the political and military-political points of view. It is a simple one: Obama is a president of expectations, but he is a president of different expectations. Different groups expect from Obama an answer to their dreams, but these dreams are all different. Most importantly, there is an obvious difference between what is expected from Obama inside the United States and outside it. Inside the country the expectation is for a revival of the past might of Clinton's presidency, when – as the favorite formula of U.S. political scientists of that time went – “the United States has never been so lonely at the height of its might”. The appointment of Hillary Clinton as the secretary of state (it would seem that after her phantasmagoric defeat she was ready to accept any post) is not an ordinary appointment but a symbol of what U.S. foreign policy should be. The outside world expects from the United States more geopolitical sanity, meaning a lesser degree of interference in the affairs of others. How the president-elect intends to combine these two categorical imperatives, what he is going to sacrifice is a very big question.

Incidentally, those who are all too eager to see a revival of Russian-American partnership would do better to guess that the future U.S. administration sees partnership exactly in the terms and definitions of the Clinton administration, that is of an almost direct submission of Russia's actions to U.S. interests.

However, a closer look would reveal that the situation in today's United States is ridiculously similar to that in the Soviet Union in 1985: mounting economic problems against the backdrop of a struggle between two groups for an abandoned throne: one group promoting a hardliner (in the case of the Soviet Union it was – if anybody still remembers him – Grigoriy Vasilyevich Romanov), the other – led by Andrey Andreyevich Gromyko – promoting Mikhail Gorbachev, who was not yet a champion of democracy since he was moving up the party line under the patronage of Mikhail Andreyevich Suslov, but was considered to be modern and charismatic. That struggle was unfolding against the background of a situation in the country that was becoming increasingly more alarming: the economy was having problems which no longer could be attributed to the consequences of the war (fight against terrorists); there was a universal drive to withdraw troops from Afghanistan (Iraq?); it was necessary to get rid of the ballast of inefficiently managed state (private?) enterprises; it was also necessary to fight corrupt partocrats, unmasking *the cotton mafia* (Richard Cheney's energy mafia); after several years of a clamp-down (after all the system of total surveillance and telephone tapping caused much strain in American society) it was necessary to ease up on the dissenting crowd; and the media had to be given some freedom (after the anti-Russian campaign over South Ossetia even the most faithful supporters began to have doubts, moreover, it was now embarrassing to look allies in the eyes).

But this is not the most important thing. The most important thing is that the first innovation proposed by Gorbachev was not perestroika but acceleration and it was only after the failure of the latter that the infamous former came into being. What Barack Obama's acceleration will be about is already clear: it will be an attempt to reinvigorate domestic demand and to revive the remains of U.S. industry, which have been buried under the bubble of the financial sector (and, let us add, under the debris of an inefficient – in a purely Soviet way – social welfare system). Incidentally, there is nothing better for solving this seemingly unmanageable task than an arms race and a couple of short but victorious wars. All the more so since contrary to all election promises, it is unlikely that “the hope of the progressive humanity” will be able to quickly

and without universal shame end the war in Iraq and ensure a more or less decent state of affairs in Afghanistan. Barack Obama will for a long time have to continue to put up a bold front and explain why “the boys” are still in Iraq. Incidentally, to remind to those who may have forgotten it, the Soviet troops’ withdrawal from Afghanistan was preceded by an unprecedented upsurge in operations by “the limited contingent”, with practically all major operations against the mujahideen conducted after Gorbachev came to power. Thus, we may all be in for an upsurge in U.S. military activism, and not necessarily in Iraq or Afghanistan. There are still a couple of places left on earth that are yet untouched by the boots of American soldiers.

And now the main question: what about Obama’s perestroika? Will the U.S. establishment allow him to start it? Looking into the honest eyes of Vice President-elect Joe Biden, flesh of the American establishment’s flesh, an inveterate lobbyist, a person with long-standing links to U.S. largest oligarchic groups, it becomes clear how hard things will be for the “star upstart” who has turned Washington upside-down.

If one were to continue with historical analogies, it would be appropriate to recall that the U.S. elite came out of the deep political crisis of the 1960s, which America had found itself in after the murky murder of President John F. Kennedy, through unleashing an unlimited war in Vietnam. It cost America tens of thousands of lives of soldiers (let alone of Vietnamese – but who ever bothered to count those?) and the disgrace of Watergate was not for nothing but still the U.S. system of power withstood all that and even managed to win in the Cold War.

Hence the question: what will become modern America’s Vietnam? Who its modern John F. Kennedy is is clear.

## SOMALI PIRATES AS A MIRROR OF GLOBAL POLITICS

It is an indication of how far the atomization of the system of international relations has gone

 Yevgeny **Satanovsky**, President of the Institute of the Middle East (**Russia**) – by e-mail from **Moscow**: Negative security factors of the recent months are the intensification of pirates in Somalia and the progress in the Iranian nuclear program which reaches the level sufficient to manufacture the first bomb. As for the positive developments, these are the fixing of results of the Five Day war in the Caucasus and the coming parliamentary elections in Israel scheduled for winter 2009. There is a probability of tensions in coastal waters of East Africa and South Arabia, as well as on the territory of Somalia, due to the conduct of the counter-piracy operation. There may be changes in the Israeli-Iranian confrontation connected with the possibility of strike against Iranian nuclear facilities. Lebanon is another probable area of tensions due to the possibility of new war of Israel against Hezbollah. Also hotbeds are Afghanistan (the Talibs will continue their offensive) and Pakistan (secessionists and terrorists may intensify their activities).

that practically the only issue in international relations on which there is at least outward consensus between the key players is the issue of fighting Somali pirates. Interestingly, Somali pirates have existed for some 60 years, the last 20 of which – after Somali broke up as a state – they have been openly doing whatever they want. And nobody complained: businessmen were paying ransoms, seamen were defending themselves as best as they could against attacks, but this issue never had any claims to the status of a political one.

Now the issue of piracy off the Somali coast is considered by the UN Security Council, as if that body did not have any more pressing matters to turn its attention to. Although it does. Take, for example, the fact that states that once were civilized are now introducing torture to their arsenal of standard and legitimate means of inquiry. Or the fact that a conference to review the implementation of the NPT has been set for 2010, however so far not even the basic necessary steps have been taken, let alone any real research and thinking have been made. Of course, all that could be attributed to the overall degradation of the United



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Nations Organization under the leadership of the U.S. protégé Ban Ki-moon, however does the problem solely lie with the United Nations Organization and its Security Council?

The leaders of the world's key countries consider it their duty to speak on the matter and call on everybody to fight the horrendous evil of Somali piracy. Indeed, it appears that Somali pirates may soon replace Osama bin Laden as the next reincarnation of *universal evil*. Armadas of warships are on patrol off the coast of Somalia. Which however does not prevent pirates from seizing one ship after another with all their spoils.

Interestingly, apart from Somali pirates there is a far better organized and crueller corporation of South China Sea pirates, which seizes hundreds of vessels every year and is engaged in a drugs trade, which is worth billions. Yet, there is no reaction from the international community to that problem, while timid attempts by some states to raise this issue at the level of international institutions have come up against an impenetrable wall of silence. The option of sending a couple of gunboats to the Strait of Malacca to deal with pirates there is not even discussed.

In other words, Somali pirates are special, different from the other currently existing criminal groups that are in the same business. Indeed, taking a closer look at Somali pirates' actions one cannot but be surprised by the fact that they hardly ever seize *accidental* ships. No, their targets are a yacht with rich Frenchmen on board or a Ukrainian ship carrying tanks none knows for whom and none knows from where, or a Saudi tanker will oil of rather dubious origin, allegedly linked to a fund financing Islamist organizations. In other words, they seize ships which carry really valuable cargoes and, more importantly, whose owners are likely to be willing to negotiate.

What an amazing awareness of the nature of navigation in that part of the world and knowledge of the current state of international relations.

Most importantly, one gets the feeling that the fight against Somali pirates is a process whose goal is not to put an end to piracy but to show that there is still some considerable political consensus among the leading countries of the world. Indeed, from the military point of view, had the United States and its allies (like France or the United Kingdom) wanted to put an end to the lawlessness of piracy, they could have solved this problem if not in a month, then in a matter of three-four months, at the same time restoring the image of *the world policeman*, which had been undermined by recent military failures. Of course, for a couple of years the Horn of Africa would be filled with legends about blood-thirty U.S. marines, but that inconvenience would have been fully compensated for by the achieved result.

In other words, if Somali pirates did not exist, they would have to be invented. Or perhaps they have indeed been invented?

## **FOG ABOVE PYONGYANG**

It should be said that the North Korean leaders have always been good at creating an atmosphere of strategic uncertainty as regards their condition and plans. This has nearly always brought results since in the case of North Korea the world community has always paid – not only figuratively but sometimes literally – not for any real actions by Pyongyang but for imagining oneself able to understand the foundations of North Korean politics. The choice of the word *imagining* stems from the fact that nobody knows the real motives of the North Korean leadership or the actual combination of forces in the Political Bureau of the Korean Workers' Party.

Sometimes it seems that the international community is making a mistake to be paying Pyongyang. However, that depends. On the one hand, the real dividends, even in the form of promises, turn out to be small compared with the resources that DPRK has regularly secured for itself. On the other hand, it has turned out that much depends on this small and rather poor country. For example, North Korea's actions and domestic situation are key for the stability of Northeast Asia and therefore for the prospects of economic growth in this extremely important and fast-growing region. Relations between China and the West also depend on the mood in Pyongyang. It is a unique situation: Pyongyang can influence Beijing,

while Beijing can influence Pyongyang with great effort and far from always. It is the situation in North Korea (and not Russian-Chinese relations, as some think) that determines the situation in the Russian Far East. Pyongyang's actions also influence the speed of one of the region's key military and political processes, that of the demilitarization of Japan. Pyongyang's actions affect the U.S. missile defense policy too since it is one thing to display efforts to counter mythical Iranian missiles and it is quite another matter to counter real North Korean missiles.

One has to admit that Kim Jong-II is a truly great leader since it is only a great leader whose state of health is constantly discussed by the world media. And, most importantly, the North Korean leader's health does have an enormous influence on regional and world stability. The very first suspicion that the North Korean leader is unwell plunged regional as well as world politicians into prostration since – on top of all the other problems – nobody had any intention of dealing with issues of North Korean politics too. Whereas they should have since the world community has on the whole got used to dealing with “the Kim dynasty”, which is in effect a classical monarchic regime of the 20th century that has for the past 50 years not expressed its ideological preferences in any way. However, if power in North Korea goes to a member of the military aristocracy or “a solid administrator” of the North Korean brand, this model of interaction can undergo considerable changes.

Nevertheless, one cannot but notice that concern over the situation in North Korea is more of academic interest. On the one hand, “the civilized world” as well as neighboring China, whose ideological differences with the North Korean regime seem to be somewhat overstated, are constantly discussing what is happening in Pyongyang and whether something bad will happen soon. On the other hand, over the past 10 years very little has been done to integrate, at least a little bit, North Korea into the system of regional economic relations. Moreover, Russia's modest attempts to raise this issue (for example, by restoring railway traffic and building a gas pipeline) have come up against a wall of silence. Hence the conclusion: the isolation of North Korea – economic and consequently political – seems to suit everybody. In other words, North Korea is needed as “a great and scary” Communist regime, which is being painted by the Western media and political analysts, who themselves have very little understanding of what is happening inside the “North Korean dictatorship”.

Incidentally, it has been a while since there was a discussion of the prospects of North Korea being taken over by South Korea, which in itself is significant.

## **SMOKE ABOVE INDIA, WHERE IS THE FIRE?**

When discussing the current situation in India, there are two extremes: to either slide into dim conspiracy theories or view what happened as an accident and a result of the operation of a single Islamist group. Most probably neither of those theories are right. However, in any event the conclusion from what happened is simple and yet ambiguous: if that was “smoke”, then where is the “fire”? And how big is it?

Let's once again ask ourselves what was strange in the India terrorist attacks? That the Indian police and secret services were caught unawareness? That is not strange. Police and secret services are always caught unawareness by terrorist attacks that they have failed to prevent. Had they been prepared, the attacks would not have happened. Was it strange that the terrorists targeted foreigners, mainly U.S., U.K., and Israeli nationals? No, it was not, since they are always the primary target of Islamist terrorists. Was it strange that nobody claimed responsibility for the attacks? This is also the usual practice when there is a real force behind at act of terrorism that is seeking practical goals rather than publicity.

However, there are several other points that are worth paying attention to:

First, the scale of the attacks. Even in India, even in one of the most densely populated and chaotic cities staging such a large-scale and well-coordinated series of attacks is extremely difficult. This is not a single suicide bombing. An attack like that must have involved dozens, if not hundreds of, participants. And it is unlikely that they had got to India in a boat, as was reported. Even given the fact that India is one of the world's largest democracies, it is hard to



imagine that there was not a single informer among all those people.

Second, the timing of the attacks; right on the eve of Russian President Dmitry Medvedev's visit to India, when – one would think – security must have been heightened. For the Pakistani side, the timing also turned out extremely uncomfortable, as the new Pakistani government is trying (albeit unsuccessfully) to prove its ability to itself and the rest of the world. Who absolutely did not need a terrorist attack in India and the predictable tension in relations that followed is Islamabad.

Third, the terrorist attacks, India's 9/11 as it were, take place at a time when Indian-American rapprochement, which has in recent years developed the speed of an express train, is beginning to experience difficulties. A clear indication of that came in the complicated fate of the seemingly advantageous for both sides agreement on cooperation in the peaceful use of nuclear energy. And when there was a great need for a new impetus, one that would show that India has no other strategic choice rather than speedy rapprochement with the United States.


And now let's ask ourselves whether all these questions are random, whether the coincidences arising from these questions are random? Unlikely. All these questions indicate that there are very serious forces in the world which have chosen India as a field for yet another "big game" and which are ready to sacrifice not only the lives of hundreds of Indians but also the lives of dozens of foreigners.

The moral of the story is that we shall never find out the truth about the Mumbai terrorist attacks but we still must draw conclusions from them. The main conclusion is simple and frightening: an era is approaching, an era of truly big geopolitics in which human life, any human life, even that of a member of "the civilized community" costs practically nothing. Which is a shame.

## CONTOURS OF WORLD TO COME

One era replaces another. The glittering era of oil and gas glamor has gone. One can gloat at it, one can lament it but it seems that nobody would contest it. Of course, one can welcome the fact that no pronouncements or decrees will do more to free Russia of its dependence on oil revenues than oil prices of \$35 per barrel. However, a far more frightening question is what lies ahead for us.

This is not so much about the scale of the economic downturn in Russia: contrary to the tragic tone of many reports, in fact nothing catastrophic is happening in our country. Moreover, given the well-known imbalances in our economy and the number of inefficient businesses, it becomes clear that we got off lightly and will one day tell this crisis a big thank you. Apart from other things, we shall thank it for making us count money again, for reducing theft and setting us thinking that, in principle, it is possible to live well and to develop without high oil prices. Incidentally, this is exactly what Russia was doing in 2003, 2004 and even in the first half of

 Dayan **Jayatilleka**, Permanent Representative of Sri Lanka to the United Nations Office at Geneva – by e-mail from **Geneva**: There is a discrepancy between the levels of global and regional security. After the victory of Obama and new appointments the global situation has improved. However, due to the intensified Islamic terrorist activities in Pakistan, Afghanistan, and India, the expansion of the Taliban area of operations, U.S. action in border regions of Pakistan and related growth in anti-American sentiments, the tensions in South Asia increase. Among the positive factors are the consolidation of the new authorities in Pakistan, a more realistic course declared by the U.K. with respect to Afghanistan, negotiations between the Pakistani leadership and U.S. Gen. David Petraeus, U.S. containment of tensions in Indo-Pakistani relations after the attacks in Mumbai and positive expectations concerning the Obama administration.

2005, when oil prices were closer to their current level, yet economic growth rate in Russia was quite high.

The thing is that our political elite – with very few exceptions – have turned out to be a sub-species of *office plankton*: they do not know where to go, are afraid of change, cannot and do not want to take on responsibility and prefer to exist in a world where breakfast is followed by lunch and lunch by dinner. The tragedy here is that the end of the oil and gas glamor has shown the Russian political class's utter geopolitical bankruptcy, immaturity and inability to compete. The glamorous elite is afraid of living in accordance with its means.

Generally speaking, the end of glamor is always painful because it brings those in power and ordinary people to a simple but a very unpleasant truth: business before pleasure. Suddenly it turns out that apart from Courchevel and Mauritius the world map also has on it Magnitka, Nizhniy Tagil, the non-black-earth belt, and a gradually emerging from the oil and gas fog "Gulag archipelago". We already understand the contours of what we are seeing but we refuse to believe it, preferring to view what is happening as a minor twist on the road to the endless pleasures of consumer society.

Strange as it may seem, an era of glamor is always an era of degradation: the New Economic Policy period hailed by pop economists of the perestroika era, the great-grandfather of today's era of glamor, was a time of horrendous technological degradation and social destruction. The glamor of the New Economic Policy, which led to the total collapse of industry and science in Russia, had to be paid for by the political reprisals of 1937. The stagnation of the Brezhnev era, the father of today's glamor, ended first in the death of any innovation, followed by the break-up of the country and unthinkable cataclysms for those who did not manage to get access to foreign grants. What shall we pay for the brief, though not too brief, era of oil glamor? Clearly, not only with unemployment and the painful structural change of the country's industry: they have been inevitable for a long time and oil prices have nothing to do with it. Or shall we pay with readiness for a new division of the world? Or, perhaps, with the tragic lack of understanding that it is not the economy (all the more so, one that is based on the production of raw materials alone) that shapes the political as well as geographical map of the world?

The point is not solely and not so much about whether Russia was excessively or insufficiently open in terms of its integration into the world financial system, although it is obvious that the attempt to turn the Russian stock market into a safe heaven for foreign investment has only turned it into a communal backyard, through which all that it was easy to pick up was picked up and taken away from Russia; and mind you, there was a lot to pick up. The point is that now time has come – which the very first issue of the *Security Index* magazine already wrote about – when the economy will determine far less than it used to.

Indeed, the abundance of oil and gas money did not lead to any true breakthrough in terms of Russia's greater influence in the world. All those actions that have indicated our country's new status in the world, that – as the phrase goes – "brought Russia up from its knees" were largely taken against the logic of the oil glamor. It is no secret that many of those who were associated with the oil lobby and who truly belonged to the high society of the era of oil glamor, when the war with Georgia started, did everything to prevent Russian troops from coming to the rescue of Tskhinvali, which was being destroyed. It was not just a betrayal on the part of some oligarchs. It was a systemic position of the whole oligarchic community, which – if one were to give things their proper names – has for a long time been a superfluous, unwanted element of the Russian political system and which it is time to remove as a surgeon would remove an inflamed appendix.

Of course, one may hope that the current era will not be an era of "iron and blood". One can attempt to prove that the past hundred years have had at least minimal influence on the mentality of public politicians and hidden players, but can we really believe in that?

Incidentally, "the Serdyukov reform" of the Russian armed forces in the form that it is being implemented is also a brainchild of the era of glamor, when one does not have to worry about the consequences of one's actions, when one does not have to think about the future and when responsibility for mistakes is infinitesimal. In these circumstances one can of course



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experiment without any reservations, without having to strain one's ear to try and hear the sound of vehicles pulling up near an elite block of flats in an upmarket part of Moscow.

In the autumn of 1940 the great poet Nikolay Tikhonov wrote a strange for its time and a prophetic poem about Nazi bomber raids on London, which back then was not our ally. The poem ended with the following lines:

A Londoner is walking to his bomb shelter,  
Dragging a damp rug along the road,  
In his pocket, there is a cold key  
To the rooms that have become a pile of spiky rubble.  
We learn our lessons at the map,  
But we dream of the exam at night...

This is not about whether Stalin trusted Hitler or not. This is about whether it is time we started preparing for the exam? Perhaps, for a start, we could find out where and how one can take it?

***Dmitry Evstafiev***



Oksana Skopych

## MANBAR NAHUM AND IRANIAN-ISRAELI ARMS TRADE

It is no secret that countries are seldom led by moral principles when political or economic gain is at stake. Recent developments over the Georgian-Ossetian conflict have proved this once again. It has turned out that Israel (or at least private Israeli companies, with the approval of the Ministry of Defense) supplied weapons to Georgia. The supplies never ceased even during the conflict,<sup>1</sup> despite Israeli assurances to the contrary. Various countries have been known to maintain arms trade with *hostile regimes*. And Israel itself has even sold weapons to none other than Iran, a long-time strategic adversary. The Manbar Nahum affair is a case in point.

Manbar was born in 1948 in Israel, in Kibbutz Givat Haim. In 1984 he left the country after facing accusations of fraud. He lived in France and Switzerland. He set up companies in Poland, the UK and France, and became involved in arms trade.<sup>2</sup> In 1992, Israeli intelligence received information about a possible deal between Manbar and Iran. It demanded that Manbar end contacts with Iran, but they continued until 1994.<sup>3</sup> He agreed to sell Iran more than 120 tons of chemicals that could be used to manufacture chemical weapons.<sup>4</sup> In 1994 Washington accused Manbar of selling ingredients for mustard gas and nerve agents to Iran, in violation of U.S. embargo. There were also media reports in the United States that Manbar had acted as an intermediary in deals between Iran and China.<sup>5</sup> Two companies belonging to Manbar and registered in Europe, *Mana Investments International* and *Europol Holding Limited*, were charged with involvement in «proliferation of chemical weapons.»<sup>6</sup> He was banned from entering the United States.

On March 27, 1997, he was arrested on arrival to Israel by the General Security Service (Shabak).<sup>7</sup> A district court in Tel Aviv convicted Manbar of aiding and abetting enemies of Israel. He was also found guilty of transfer of technology and equipment with the purpose of damaging Israel's national security. Although such charges usually attract a life sentence, Manbar was given 16 years,<sup>8</sup> which he is now serving in Nitzan Prison in Ramla.

The court found that in 1990, Manbar used an Iranian intermediary, Hashemi Baari, to contact Madjid Abbaspur, the then head of Iran's chemical weapons program and advisor to the Iranian president. *Mana Int.* company (based in Warsaw) signed a deal with Division 105 of the Iranian Special Industrial Groups of the Ministry of Defense (MIDSPCIG). Under the deal, Manbar undertook to provide the information required to launch production of weapon-grade 96-per-cent pure thionyl chloride (project codename of the substance 44T or SC-14). He also undertook to provide the necessary equipment.

Over a period from February 1992 to September 1993, 24 truckloads of equipment were brought from Europe to Iran. The section of the contract on the provision of the equipment was codenamed *FILE-4*, and on the provision of information *FILE-5*.



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Second, Manbar was to provide the technology (information and a list of equipment) to launch production of mustard gas (SC-13 and SC-44) and three types of nerve agent: Tabun (A-48 or SC-12), Sarin (SC-10) and Soman (SC-11). According to the prosecution, Manbar received \$16 million for the deal.

He set up several companies in Europe which worked on fulfilling the contract and its additional clauses.

The indictment says that in 1990–1994, Manbar also supplied Iran with precursors of mustard gas and a nerve agent (most likely thionyl chloride<sup>9</sup>). In April 1993, Manbar again contacted Abbaspur in connection with a deal to launch production of binary shells carrying VX-type (nerve agent) payload. The deal, codenamed *Filter*, also involved the transfer of technology and know-how. Manbar was due to receive \$2.4 million for it. Details were settled in May 1993, and the deal was signed in July. According to the indictment, Manbar received \$600,000 from Abbaspur under the deal in the spring of 1994, but it is not clear whether the deal was actually completed.<sup>10</sup>

Manbar is known to have been in contact with the Israeli intelligence all that time – but he had not informed the secret services about the deals with Iran until August 1992. He then had several meetings with intelligence officials over the course of more than a year – but he did not stop working with Iran even after a warning from the Israeli. He also met Iranian officials working on the missile and chemical programs (the meetings were held mostly in Vienna). In order to conduct deals between Iranian and Israeli partners, Manbar worked with Amos Kotzer, a retired general who had contacts in the Israeli defense industry.

Details are still unclear as to the volume of the chemicals Manbar had sold under the thionyl chloride deal, or what stage the project had reached in Iran. In 1990–1994, thionyl chloride was supplied to Iran from China in special tanks. It is known that Iran had complaints about the quality of the chemical and the leakage of some of the substance into the sea. The equipment was brought from Europe in trucks (the first delivery was made in February 1992, the last in September 1993). All the terms of the *FILE-4* and *FILE-5* deal had been fulfilled.

In an interview with *Haaretz* in December 1995, Manbar confirmed that he had been selling components for chemical weapons to Iran – but he denied selling any weapons that could «pose a threat to Israel». He also told the newspaper that he had tried to obtain information about the Israeli pilot Ron Arad, who was shot down over Lebanon and, according to Israeli secret service reports, was being held in Iran.

According to *The Guardian*, Manbar's lawyers received documents from a Chinese official, apparently an intelligence agent, saying that «the government of Israel used Manbar ... in a failed operation to collect intelligence about Iran's military capability». The operation ended in 1997 after several agents were caught and executed.<sup>11</sup>

More than a hundred companies had conducted, or tried to conduct, business deals with Iran via Manbar. In a failed deal in 1990, Manbar tried to sell Iran some equipment manufactured by the Israeli company *Elbit*<sup>12</sup> (a deal to supply equipment for field testing for poisonous gases). He had also supplied gas washers made by *Salon*.<sup>13</sup> The same company was due to build a gas mask factory in Iran (the deal apparently fell through). *Rabintex* sold special fire-resistant suits to Iran in 1991–1992.<sup>14</sup> And back in the mid-1980s, *Mana Int.* company registered in Poland sold Iran radioactive, biological and chemical hazard suits.<sup>15</sup>

While some sources in the ministry of defense have confirmed the information about the deals with Iran, the Israeli suppliers reject this outright. A representative of *Ei-Op* said for example that the deals with Iran were a fabrication.<sup>16</sup>

According to former Mossad officer Victor Ostrovsky, these companies got away because the Office of the Prime Minister classified all the information regarding the Manbar case.

According to *Haaretz*, during Israeli Premier Benjamin Netanyahu's U.S. visit in 1997 the CIA gave Israel information about Manbar's links with Iran.<sup>17</sup>

The Manbar case is quite interesting in that he claims the Israeli government knew about his dealings all along. The Israeli authorities were quite sensitive about the incident, and banned the reporting of the court case in the first few days after Manbar was arrested. Only several days later did the Israeli press publish some censored excerpts from the indictment. The court found that more than a hundred Israeli companies<sup>18</sup> had contacted Manbar in order to sell their produce to Iran despite the ban.

Manbar built his defense on arguing that the Israeli secret services, as well as the MI6, were involved in the deals. According to Israeli media reports, the Israeli and British secret services recruited Manbar in order to plant their agents in the Iranian government.<sup>19</sup> British agent Richard Tomlinson was involved in Manbar's dealings. He and Manbar's assistant, Joy Butler-Markham, nicknamed Kiddie,<sup>20</sup> were involved in supplying thionyl chloride from China to Iran. The chemical was apparently supposed to be used to produce mustard gas and nerve agents.<sup>21</sup>

Manbar said he knew about the military uses of thionyl chloride – but he claimed that the contract to supply components for mustard gas and nerve agents was fabricated, and the deal on building a plant to produce binary chemical weapons existed only on paper. He said he only wanted to get the money from the Iranians.<sup>22</sup>

In addition to British secret services, Argentinean and Polish intelligence also turned out to be involved.

Writing about the secrets of the MI6 in his book *The Big Breach*, Tomlinson said the French intelligence had found that Manbar obtained documentation on building a mustard gas plant in 1988. He then sold it to one Dr. Tehrani Fahd, an Iranian diplomat living in Vienna. «Fahd turned out to be a senior Iranian intelligence officer and the supervisor of the Iranian chemical weapons program,» Tomlinson says in the book.<sup>23</sup>

However, these were not the only chemical weapons contacts between Iran and Israel.

*Carmel Chemicals*, registered in Haifa, used its Kenya branch to supply the following chemicals to Iran: glycerin monostearate, melamin, titanium dioxide, cyclohexanol citrate, and polyurea. The deal was discussed in the December 31, 2000 issue of *Yediot Ahronot*. The company agreed to supply the equipment for a formaldehyde plant. The sides also discussed the sale of 99-percent pure glycerin, which can be used to manufacture explosives. Such deals are illegal in Israel. *Carmel Chemicals* is owned by the Dankner family, which also owned a chemical plant in Shiraz before the Islamic revolution. In 1996, the Dankners bought *Kenya Industrial Plastics* – which, according to *Yediot Ahronot*, they were going to use as an intermediary in their deals with Iran. *Carmel Chemicals* was soon trading busily with its Iranian partners, supplying thousands of kilograms of chemicals every year. In 1996–2000, it was making up to two or three deliveries every week.<sup>24</sup> But in a 2001 interview with *Yediot Ahronot*, Danker claimed he was not trading with Iran.<sup>25</sup>

Moshe Regev, an Israeli businessman living abroad, confirmed in 1999 that in 1992–1994 he held talks with the Iranians about supplying equipment and materials for the Iranian chemical weapons program. A *Haaretz* investigation revealed that Moshe Regev's company was involved in selling equipment and materials for the manufacture of nerve agents and mustard gas. America's State Department put the company on its black list because of that in late 1994.<sup>26</sup> So clearly it is not just Manbar who was involved in the Iranian chemical weapons program.

In 2004, two Israeli citizens, Eli Cohen and Avihai Weinstein, were charged with arms smuggling. They were accused of illegally selling parts for the Hawk missiles and the radar systems used in fighter jets. The parts were allegedly bought in the United States and then sold to Iran via an intermediary. In 2002 the same two people were suspected of trying to sell spare parts for armored personnel carriers to Iran. Customs officers in the German port of Hamburg seized the Israeli vessel *Zim Antwerp* carrying containers with spare parts (parts for APC tracks) after the German defense ministry learnt that the containers were heading for Iran. The company involved was *P.A.D.*, based in Netanya and belonging to Avihai Weinstein. An Israeli defense ministry official said the government thought the ship was heading for





Thailand, so the shipment was cleared by the Israeli customs office.<sup>27</sup> *P.A.D.* made a similar statement. But according to *Yediot Ahronot*, the containers were heading for the Iranian port of Bandar Abbas.

The defense ministry then suspended the company's arms export license, but after a long court battle the license was restored.<sup>28</sup> Three years earlier, Eli Cohen was arrested on suspicion of selling tank spare parts to Iran, but he managed to escape punishment. In 1993 he was charged with selling APC engines to Iran.

In 2000, both Cohen and Weinstein were suspected of trying to sell APCs to Iran using a third company in Belgium as an intermediary. However, both managed to escape punishment due to lack of evidence, and both got back their trade licenses.<sup>29</sup>

It is obvious that the secret trade relations between Israel and Iran involved not only the sale of chemical weapons components, but also some types of military equipment. One of the first deals Manbar signed with his Iranian partners was to supply 30 Soviet surface-to-air missiles (SA-7) from the Polish army's stockpiles. According to Ostrovskiy, the Israeli military commanders gave their go-ahead to the deal, which was estimated to be worth \$100,000. It is worth noting that *Hezbollah* too has such missiles. Also, *Europol* sold Iran 50 Soviet tanks (T-55 and T-72) from Poland.<sup>30</sup> The tanks were equipped with the latest electronics made by the Israeli *El-Op*. What is more, Polish experts came to Israel to be trained for the installation of the equipment. Then they left for Cyprus, and then on to Iran.


Manbar also received an offer to sell Iran the Soviet tanks seized during the *Six-Day War* from the Syrians and the Egyptians, but the deal never materialized.

Manbar also sold Iran 22 trucks specially equipped for use during a chemical weapons war. The deal was estimated at \$200,000.<sup>31</sup>

It is therefore clear that Israel's military and technical cooperation with Iran continued after the Islamic revolution.<sup>32</sup>

According to *The Jerusalem Post*, Israeli companies, with the approval of the Israeli ministry of defense, were selling military equipment to Iran during the 1980s and early 1990s, up until the United States imposed an embargo in 1993. Then came the court cases and warnings from the secret services. According to the newspaper's investigation, the sales began soon after the start of the Iraqi-Iranian war in 1980, and continued until the early 1990s, when the Clinton administration adopted a policy of *double containment* of Iran and Iraq. According to the former director of *Soltam*, Avraam Bar-David, Israel was quite relaxed about arms trade with Iran until 1988. Sources in the ministry of defense spoke about numerous deals between the Israelis and their Iranian partners, but Manbar was the most active among the Israeli businessmen trading with Iran. It came out during the court hearing that the Israeli defense ministry gave the go-ahead for only one deal with Iran in the 1990s, when Tehran expressed interest in buying a hi-tech system for early detection of chemical agents in the field worth \$50 million.<sup>33</sup> The equipment (a laser radar system) was designed by *Elbit Computers Ltd.* The list of equipment the Iranians ordered included chemical detectors (such as *CHASE*, manufactured by *Elbit*). But the deal fell through because *Elbit* refused to sell laser equipment (the deal did not figure at the court hearing).<sup>34</sup>

Israel's secret dealings with Iran, which continued despite the conflict between the two countries, are quite damaging for the reputation of the Israeli government. But there are also those who claim that such contacts are merely a continuation of the tradition established in the 1980s by the United States, which had been selling arms to Iran via Israel since 1985. The Reagan administration argued that this was done to establish long-term working relations with the key Iranian leaders. The primary purpose was to secure the release of the Americans held as hostages in Lebanon by a group close to Iranian supreme leader Ayatollah Khomeini (the affair was dubbed *Iran-Contra*). Manbar also claimed that he wanted to obtain information about Ron Arad. It is possible that such dealings between Israel and its adversary were in the Israeli economic and political interests, and that they were an important channel of intelligence information for the secret services. But whether selling components for weapons of

mass destruction is in the interests of national security will only become clear once these weapons are used.  .

## Notes

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Elena Geleskul

## THE HISTORY OF THE LIBYAN NUCLEAR PROGRAM: THE REASONS FOR FAILURE

In December 2003 a remarkable event occurred – Libya, a former *rogue state*, turned into a loyal partner, supporter, and favorite of the West. On December 19, 2003 it declared its commitment to stop the implementation of WMD and agreed to the inspections of its nuclear facilities, as well as to limit its missile capabilities in accordance with the restrictions imposed by the Missile Technology Control Regime (MTCR). The UN Security Council was informed in due manner.<sup>1</sup>

Already on December 20, 2003 IAEA Director General Mohamed ElBaradei met the Libyan delegation in Vienna. During the meeting the parties discussed the issue of inspections at the Libyan nuclear facilities.<sup>2</sup> And on December 27–29 he came to Libya to talk to Muammar Gaddafi and visit a few nuclear sites, in particular the research center in Tajura. In January 2004 the on-site inspections started – they involved U.S. and British experts.

What was the reason for Libya to develop WMD? Did it help to achieve significant results? Why did Libya abandon its plans?

### NUCLEAR WEAPONS – HOW IT ALL STARTED

For the next 30 years after the 1969 coup and the installation of the Gaddafi regime Libya was actively seeking access to nuclear weapons, or at least, nuclear industry.

After proclaiming independence in 1951 the country had no territorial disputes with the neighbors, nor any other substantial differences that could motivate Libya to develop nuclear weapons for the sake of security. On the other hand, this Arab state is located in North Africa, in the Mediterranean and belongs to the Middle East, which has never been stable. In fact, security issue is one of the most acute for all states of the region, especially in the light of the Arab-Israeli confrontation that started at that time.

Muammar Gaddafi repeatedly condemned Israel and its nuclear monopoly in the Middle East. According to the leader of the Libyan revolution, «That means that all foreigners must leave Palestine and return to their countries of origin. Only Palestinian Jews should stay in Palestine, as citizens of a secular state where they would live with Palestinian Arabs and Palestinian Christians. Israel is a colonialist-imperialist phenomenon.»<sup>3</sup> During his visit to Moscow in 1981 Libyan Prime Minister Abdel Salam Jalloud asked Chairman of the Council of Ministers Anatoly Kosygin to provide assistance in targeting, radar support from the ships in the Mediterranean Sea and jamming<sup>4</sup> in case of Libya's military operation against the nuclear center in Dimona.

Another threat for Libya was the United States, since Gaddafi could not establish a constructive dialogue with Washington and accused the U.S.A. of being a symbol of Western imperialism.<sup>5</sup> After all, the United States supported Israel and Egypt.



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Thus, there was no direct security threat to Libya. On the other hand, the specifics of relations in the Middle East and the attitude of Arab states to Israel, the United States and Western countries could not but force the Libyan leader to initiate some steps aimed at protecting the country.

However, to a large extent, nuclear weapons were a status factor, which would allow Tripoli to take a lead in the Arab world and in other Third World countries.<sup>6</sup> Such No. 1 position (the first Arab state with nuclear arsenal) could strengthen the authority of Libya and its positions in the region.

Nuclear weapons are a complicated and quite expensive project, which requires a lot of time and money. At first, Libya tried to focus on the development of chemical weapons. The chances for that were rather high, since it was a less costly process (required smaller investments and more modest research) and it could easily be hidden (unlike nuclear facilities). Such cheap type of WMD was more attractive for Gaddafi as well, since it could ensure the balance of power with potential adversaries, taking into account the existing weakness of the Libyan Armed Forces.

In the mid-1980s Libya began the construction of three chemical weapons plants – Rabta, Sebha, Rabta-II near Tarhunah. In the late 1980s it turned out that German *Imhausen-Chemie* was a major subcontractor in building the Rabta plant, while several other German companies were also involved in the program to a lesser extent. One has to note that the development of Libyan CW potential got assistance from other nations – Belgium, the U.K., Hungary, GDR, Denmark, Iraq, Iran, Italy, China, the United States, Thailand, Yugoslavia, and Japan. Many of them curbed the cooperation with Libya under the U.S. pressure, however.

Washington was extremely discontent with the availability of CW facilities to Tripoli. There is evidence that Libya used mustard gas acquired in Iran against the rebels in Chad in 1987. It was one of a few countries which conducted military operations with the use of CW.

According to some sources, in the mid-1980s Libya manufactured over 100 tons of nerve and blister gases. By 1992 the U.S.-led campaign against the country forced its leadership to curtail the production capacity, to start the dismantlement of the equipment and to change a number of plants into pharmaceutical enterprises. This happened with the CW agent plant in Rabta, which before that had produced mustard gas.

Libya also attempted to carry out research in the area of biological weapons production. Intense studies dealt with pathogens and toxins to be used for military purposes. Hence, Libya was violating the terms of the Biological Weapons Convention. It is assumed that CW plants in Rabta and Tarhuna could also be engaged in research on BW development.

As far as nuclear weapons are concerned, the history of their development in Libya can be divided into three stages:

- ❑ 1969–1971 – the first attempts to acquire ready-made nuclear weapons or their components;
- ❑ 1971–1992 – development of Libya’s civilian programs designated to create the closed nuclear fuel cycle with the potential for further diversion into military uses and production of a plutonium-based nuclear explosive device;
- ❑ 1995–2003 – drift towards centrifugal uranium enrichment.

At first, Muammar Gaddafi tried to purchase nuclear weapons. It is noteworthy that Libya turned to Egypt with such offers. The latter was demonstrating interest in nuclear technologies since the early 1950s and tried to acquire nuclear weapons from China and the United States,<sup>7</sup> but these attempts failed. In 1961 the U.S.S.R supplied Egypt with a 2MW reactor,<sup>8</sup> but it was not helpful in nuclear weapons production. However, Gaddafi must have assumed that Egypt was more successful in this area than we think now.

In the early 1970s Libya also addressed China, hoping that Beijing would be an easier negotiation partner than Western countries. For that purpose Prime Minister of Libya Abdel Salam Jalloud went to Beijing in 1971. However, China refused to sell the nukes<sup>9</sup> and was only willing

to provide the assistance of Chinese experts.<sup>10</sup> After all, how could China supply Libya with nuclear weapons, if it had quite a limited arsenal itself?!

When the attempts to buy nuclear weapons failed, Libya decided to develop its own program. This required the construction of a sophisticated nuclear infrastructure, including closed nuclear fuel cycle. This task implied the existence of scientific and technical capabilities, which Libya lacked. The country was ready to pay any price for nuclear technologies – the money was plenty after the oil crisis in the 1970s.

Under the cover of civilian nuclear industry, Libya launched various projects with other countries, in order to obtain nuclear technologies and personnel training. Gaddafi was trying at all azimuths – in 1971–1981 Libya signed a number of agreements with Argentina, Belgium, India, Pakistan, the Soviet Union, and France. Not all of these documents were fully implemented.

One of the first cooperation partners in the area of nuclear energy development was Argentina. In 1974 Buenos Aires agreed to supply equipment and staff for geological surveys and uranium production. Libyan chemists went to Argentina for training.<sup>11</sup>

Despite the anti-Soviet sentiments in the early years of his rule, by the mid-1970s Muammar Gaddafi changed his orientation and turned to the U.S.S.R for help. In 1977 the Libyan delegation visited Moscow and asked the Kremlin to assist in the construction of natural uranium heavy-water-moderated reactor, heavy water production facility, reprocessing plant for irradiated nuclear fuel and plutonium separation and other related facilities. It was a matter of developing the closed nuclear fuel cycle and Libya was ready to pay \$10 billion for the services.<sup>12</sup>

This proposal led to serious discussions in the Soviet leadership. The Ministry of Medium Machine-Building was supporting the idea – the price was attractive and there was a desire to support Arabs in their conflict with Israel.<sup>13</sup> The MFA was strongly against such cooperation fearing nuclear proliferation and the emergence of new nuclear weapon states. As a result, it was decided to reject the Libyan offer and to assist the country in a different way. The Soviet Union helped in the establishment of the research center in Tajura and supplied Libya with a light water 10MW reactor that was using highly enriched uranium.<sup>14</sup> It became operational in 1981,<sup>15</sup> and the U.S.S.R insisted on the permanent presence of the Soviet specialists in Tajura, in order to have assurances of peaceful nuclear uses and control the HEU. This was a mutually beneficial enterprise, since Libya anyway needed the assistance of the Soviet experts.<sup>16</sup>

The Soviet Union insisted that Libya ratified the NPT in 1975 (it was signed by King Idris I already in 1969) and signed the safeguards agreements with the IAEA in 1980. So the research center in Tajura and the reactor were now under the IAEA safeguards.

Since 1977 Moscow and Tripoli were discussing the possibility of construction of the Soviet nuclear power plant with two 440MW reactors on the Cirta coast.<sup>17</sup> In February 1982 the parties agreed that *Atomenergoexport*<sup>18</sup> would participate in the construction of an NPP in Libya.<sup>19</sup> The same year the Finnish *Imatran-Voima*, which should have taken part in the construction of the cooling system for the reactor core, refused to be involved in the project.<sup>20</sup> Design and architecture were the responsibility of *Belgonucleaire*, but the Belgian government cancelled the deal and banned its participation in the project.

The agreement that was so attractive to Libya remained on paper. Perestroika in the U.S.S.R and respective changes in the Soviet policy resulted in the decline of nuclear cooperation with Tripoli, while Libyan activities on the world arena did not facilitate further development and strengthening of Soviet-Libyan ties either.

In fact, Western countries (for example, France and Belgium) also rendered assistance to Libya in the development of its nuclear programs. In 1975 during his visit to Tripoli French Prime Minister Jacques Chirac<sup>21</sup> agreed to provide the country with a desalination plant powered by a 600MW nuclear reactor. However, the cooperation plans were not carried out.<sup>22</sup> Besides, Libya intended to purchase 20 calutrons from *Thomson-CSF* in France – the equipment was designated for electromagnetic separation of isotopes and, hence, uranium enrichment. This contract was also sabotaged by the French government.<sup>23</sup>



As far as cooperation with Belgium is concerned, it started in the early 1970s and reached its peak in 1981–1982. Within the framework of their contract with the Libyan Atomic Energy Commission, two companies – *Belgatom* and *Belgonucleaire* – provided technical assistance to the research center in Tajura (the reactor was supplied by the U.S.S.R, as we all remember).

In 1984 the parties signed a \$1bn-worth contract on the NPP construction with the Soviet nuclear reactor. *Belgonucleaire* was in charge of design and architecture,<sup>24</sup> as we have mentioned above, but the deal was cancelled under the U.S. pressure.<sup>25</sup>

Due to the deterioration of relations with the West, Libya eventually faced tough confrontation and access to Western nuclear technologies was cut off. So the leadership of this Arab country had to expand its contacts with the developing nations and seek other ways to get necessary materials and technologies.

In 1978 Libya tried to establish relations with India – the latter had a sophisticated nuclear infrastructure and conducted its first tests in 1974. In July 1978 two prime ministers signed the agreement on peaceful nuclear energy uses. India committed itself to assist Libya in achieving independent nuclear power in exchange for low-cost oil supplies to India.<sup>26</sup> According to the agreement, Libyan students and scientists could go to Indian research centers for training and studying.

Meanwhile, Muammar Gaddafi initiated cooperation with Pakistan – and this after all resulted in the deterioration of Libyan-Indian ties. Gaddafi presumed that Pakistani achievements in nuclear weapons development would be divided 50/50. The cooperation between Libya and Pakistan in the late 1970s was an inter-governmental interaction, which ended up when the Zulfikar Ali Bhutto regime was overthrown.

The major difference from any other Libyan nuclear cooperation projects was drastic. Unlike previous attempts, Libya was not acquiring its own weapons – on the contrary, it helped Pakistan to develop nuclear weapons and provided the country with \$100–500 million for that purpose.<sup>27</sup>

Beside financial aid, Libya exported over 2,000 tons of uranium concentrate to Pakistan. According to the 2004 IAEA report,<sup>28</sup> in 1978–1981 Libya imported from Niger 2,263 tons of uranium concentrate. But since the safeguards agreement with the IAEA was signed in 1980, the Libyan leadership declared only the amount purchased after 1980. Previous purchases of uranium were not reported to the Agency, so Libya could freely provide assistance to Pakistan in its nuclear weapon program.

Gaddafi's unscrupulous cooperation with both India and Pakistan, despite their confrontation, indicates that he did not care about the source of aid in nuclear weapons development – ends were much more important than means. Therefore, Libya was signing one contract after another with the countries from different political and ideological blocs.

Thus, the second stage in the development of nuclear industry and closed nuclear fuel cycle was not successful for Libya either. Expected results were not achieved, numerous agreements were not implemented. The Soviet-made research center could not be used for the production of nuclear weapons – the capacity of the plant (10MW) was not enough, though the reactor used highly enriched uranium. After all, the reactor was under the IAEA safeguards, so it was difficult to divert it anyway. Western countries turned their backs to Libya, since it was accused of sponsoring international terrorism.

But technology was not sufficient – Libya required human resources capable of working in the nuclear industry. Libyan students could be found all over the place – they were studying nuclear physics in Argentina, India, the United States, the U.S.S.R, and Western Europe. For instance, in 1980, 25 Libyan students had nuclear technology course at the Technical Research Center in Finland.<sup>29</sup>

Moreover, before the U.S. State Department decision of 1983 banning the citizens of Libya and other Third World countries closely connected with Libya to study at the nuclear faculties in the U.S. universities, this country was a popular destination for Libyan students and researchers.<sup>30</sup>

The situation changed after a series of terrorist attacks (including the European territory), of which the Libyan government was accused. After the explosion of U.S. *PAN AM* airplane in Lockerby in 1988 and French *UTA* planed in Niger, the UN Security Council introduced sanctions against Libya in 1992.

Resolution 748 spoke about embargo on air transportation, supplies of arms and weapons, restrictions on the activities of diplomatic and consular missions, constraints for the movement of those Libyan citizens who were suspected of being terrorists or sponsors of terrorism.<sup>31</sup> These measures were further expanded in Resolution 883 (1993), which froze some Libyan assets abroad, tightened air embargo and prohibited supplies of some equipment used at the oil pipeline terminals and refineries.<sup>32</sup> This was a serious blow for the Libyan key source of earnings – oil industry.

The sanctions resulted in the interruption of nuclear cooperation and hampered even normal economic links with Libya. However, this was not an obstacle for the ambitious Libyan leader, who decided to intensify nuclear activities in 1995.<sup>33</sup> Due to the UN sanctions, such activities could occur only at the black markets of nuclear technologies, i.e. Gaddafi turned to the notorious A.Q. Khan network.

## NUCLEAR WEAPONS AND THE KHAN NETWORK

According to the IAEA report, Muammar Gaddafi and the Libyan officials first met A.Q. Kan in January 1984. The Pakistani dealer told his interlocutors about the nuclear-material production technology. Libya got an offer to buy the centrifugal uranium enrichment technology, but technical knowledge of the Libyans was insufficient to realize this plan.<sup>34</sup> Relations deepened in 1989–1991 and Tripoli obtained information about *L-1* centrifuges developed by the Pakistani physicist and some of its components were scheduled for transfer.<sup>35</sup> However, Libya was dissatisfied with the deal – it condemned A.Q. Khan for supplying old components of the centrifuges which could not be used to implement the nuclear program.<sup>36</sup> Moreover, Libya did not receive any assembled centrifuge, partly due to the UN Security Council sanctions (much of the purchased equipment was left in storage in Dubai in the United Arab Emirates).

A new contract on centrifuge supplies with A.Q. Khan was signed in 1995 and two years later Libya finally received 20 ready-made centrifuges and the components to assemble another 200.<sup>37</sup> In 2000 it got two test centrifuges which supposedly had been used to develop the Pakistani A-bomb.

The first successful test of *L-1* was finished by October 2000. In late 2000 Libya launched the stage-by-stage installation of cascades with 9, 19 and 64 centrifuges. By April 2002, when Libya had to move this equipment for security reasons to some other locations, the cascades were at different phases of completion, but none of them was finished mainly for technical reasons.<sup>38</sup>

In September 2000 Libya was also supplied with two *L-2* centrifuges and placed an order for another 5,000 of them and appropriate supplementary equipment. The order was then increased to 10,000 centrifuges. Starting from December 2002 the massive delivery of *L-2* components to Libya began.

The A.Q. Khan network was only an intermediary in the production and delivery of components and equipment in different countries. The process of supplies of nuclear technologies and equipment to Libya involved the individuals and corporations from 13 states – Germany, Spain, Italy, Lichtenstein, Malaysia, the United Arab Emirates, Pakistan, South Korea, Singapore, Turkey, Switzerland, South Africa, and Japan.<sup>39</sup> Libya paid to the network over \$100 million.<sup>40</sup>

After the U.S. and U.K. inspections and the IAEA inspections in late 2003 – early 2004, it turned out that many components were not even unpacked and were stored at hidden warehouses. Scientific and technical difficulties were the major reason for Libya's failure to develop nuclear weapons and nuclear industry as such, even though the country possessed all necessary financial and technical capabilities.





## CONCLUSION

In the 1970–1980s Libya passed a long way in establishing contacts with other nations in order to obtain nuclear technologies. Muammar Gaddafi managed to achieve a lot – numerous agreements were signed, but only some of them were carried out. Regardless of Libyan desire to develop nuclear weapons, the country had serious chances to develop a mighty nuclear industry. But it failed and there were several reasons for that.

First of all, the WMD programs required the assistance of foreign experts and technologies from abroad.<sup>41</sup> Thanks to substantial investments, the Libyan leader succeeded in attracting them and in providing education and training for Libyan researchers. However, this was not enough.

Secondly, a complicated power system in Libya, the lack of clear division of powers among the major bodies and unlimited ruling authority of Muammar Gaddafi impeded the process of interaction with other countries. According a famous European nonproliferation expert Harald Mueller, the key reason for failure was not the lack of financial or scientific components, but the ineptitude of the Libyan authorities.<sup>42</sup>

Thirdly, the aggressive statements by Gaddafi with respect to Israel, the United States and the West also aggravated the situation. As a result, many agreements on cooperation in peaceful nuclear energy uses were not carried out.

Libya's refusal to continue the WMD programs is a sample of nonproliferation solutions achieved through diplomatic efforts of the international community. Libya and its leader Muammar Gaddafi could become a good example for today's Iran and North Korea, but only the time will show if it happens one day. 🤖

## Notes

<sup>1</sup> Letter by the Permanent Representative of Libya to the United Nations to the President of the UN Security Council, December 19, 2003.

<sup>2</sup> «IAEA Director General to visit Libya,» IAEA Press Releases 2003/14, <http://www.iaea.org/NewsCenter/pPressReleases/2003/prn200314.html> (last updated on September 29, 2008).

<sup>3</sup> «An interview with Gaddafi. Libya's leader predicts the treaty will hurt U.S.,» *Time*, April 9, 1979, <http://www.time.com/time/magazine/article/0,9171,920211,00.html> (last updated on January 20, 2008).

<sup>4</sup> Oleg Grinevsky, *Scenario for the Third World War. How Israel nearly became its originator* (Moscow: OLMA-PRESS Obrazovanie, 2002), p. 103.

<sup>5</sup> Harald Müller, *A European Non-Proliferation Policy. Prospects and Problems* (Oxford: Clarendon press, 1987), p. 274.

<sup>6</sup> Joseph Cirincione, Jon B. Wolfsthal, Miriam Rajkumar, *Deadly Arsenals. Tracking weapons of mass destruction* (Washington: Carnegie Endowment for International Peace, 2002), p. 305.

<sup>7</sup> *Nuclear black markets: Pakistan, A.Q. Kahn and the rise of proliferation networks. A net assessment* (London: The International Institute for Strategic Studies, 2007), p. 59.

<sup>8</sup> Shai Feldman, *Nuclear Weapons and Arms Control in the Middle East* (London: CSIA studies in international security, 1997), pp. 58–59; Nuclear weapons program of Egypt, <http://www.globalsecurity.org/wmd/world/egypt/nuke.htm> (last updated on October 27, 2008).

<sup>9</sup> Leonard S. Spector, Jacqueline R. Smith, *Nuclear ambitions: the spread of nuclear weapons 1989–1990* (Oxford: Westview Press, 1990), p. 175.

<sup>10</sup> Ibid.

<sup>11</sup> Harald Müller, *A European Non-Proliferation Policy...*, p. 260; Libyan Nuclear Weapons, <http://www.globalsecurity.org/wmd/world/libya/nuclear.htm> (last visited on September 8, 2008).

<sup>12</sup> Roland Timerbaev, *Stories of the Past: Memories of the Negotiations on Nonproliferation and Disarmament and Many Other Issues* (Moscow: ROSSPEN, 2007), p. 28.

<sup>13</sup> Ibid., p. 29.

<sup>14</sup> Ibid., p. 28.

<sup>15</sup> The nuclear research center in Tajura was renamed into the Center for Research of Renewable Energy Sources and Water Desalination.

<sup>16</sup> Roland Timerbaev, *Stories of the Past...*, p. 28.

<sup>17</sup> Cirta is a gulf in the Mediterranean near the Libyan coast in North Africa, where Benghazi, Marsa Brega and Es Sider ports are located.

<sup>18</sup> *Atomenergoexport* is one of the oldest Soviet nuclear enterprises which mostly focuses on managing large-scale hi-tech projects, such as construction of NPPs and nuclear centers all over the world. See: <http://www.atomenergoexport.ru>

<sup>19</sup> Harald Müller, *A European Non-Proliferation Policy...*, p. 263.

<sup>20</sup> Ibid.

<sup>21</sup> Jacques Chirac was the French Prime Minister in 1974–1976.

<sup>22</sup> Libyan Nuclear Weapons...

<sup>23</sup> Nuclear chronology, 1968–1979, Libya, NTI Nuclear database, [http://www.nti.org/e\\_research/projects/Libya/4132.html](http://www.nti.org/e_research/projects/Libya/4132.html) (last visited on October 20, 2008).

<sup>24</sup> Leonard S. Spector, Jacqueline R. Smith, *Nuclear ambitions...*, p 177; Libyan Nuclear Weapons....

<sup>25</sup> Harald Müller, *A European Non-Proliferation Policy...*, p. 261.

<sup>26</sup> Wyn Q. Bowen, «Libya and nuclear proliferation,» *Adelphi Paper* 380 (L.: The International Institute for Strategic Studies, 2006), p. 28.

<sup>27</sup> Ibid, pp. 30–31; *Nuclear black markets...*, p. 59. According to other sources, Libya paid Pakistan over \$1.5 billion. See Harald Müller, *A European Non-Proliferation Policy...*, p. 261.

<sup>28</sup> Implementation of the NPT safeguards agreement of the Socialist People's Libyan Arab Jamahiriya. Report by the Director General, GOV/2004/33, May 28, 2004, <http://www.globalsecurity.org/wmd/library/news/libya/2004/040528-iaea.pdf> (last visited on October 31, 2008).

<sup>29</sup> Harald Müller, *A European Non-Proliferation Policy...*, p. 264.

<sup>30</sup> Ibid.

<sup>31</sup> Resolution 748 (1992) of March 31, 1992 adopted at the UN Security Council, 3063rd meeting, <http://www.un.org/russian/documen/scresol/res1992/res748.htm> (last visited on October 20, 2008).

<sup>32</sup> Resolution 883 (1993) of November 1, 1993 adopted by the UN Security Council, 3312nd meeting, <http://www.un.org/russian/documen/scresol/res1993/res883.htm> (last visited on October 20, 2008).

<sup>33</sup> *Nuclear black markets...*, p. 76.

<sup>34</sup> Implementation of the NPT safeguards agreement of the Socialist People's Libyan Arab Jamahiriya. Report by the Director General, GOV/2008/39, September 12, 2008, <http://www.iaea.org/Publications/Documents/Board/2008/gov2008-39.pdf> (last visited on October 29, 2008).

<sup>35</sup> *L-1* and *L-2* centrifuges are based on the early European models and have such modifications as *G-1*, *G-2*, *P-1*, and *P-2*.

<sup>36</sup> Adrian Levy, Catherine Scott-Clark, *Deception: Pakistan, the United States and the global nuclear weapons conspiracy* (London: Atlantic Books, 2007), p. 363.

<sup>37</sup> Implementation of the NPT safeguards agreement of the Socialist People's Libyan Arab Jamahiriya. Report by the Director General, GOV/2004/12, February 20, 2004, <http://www.iaea.org/Publications/Documents/Board/2004/gov2004-11.pdf> (last visited on October 20, 2008).

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> «Libya paid \$100 million to the Khan network», <http://www.iranatom.ru/news/aeoi/year04/march/sto.htm> (last visited on November 29, 2008).

<sup>41</sup> Joseph Cirincione, Jon B. Wolfsthal, Miriam Rajkumar, *Deadly Arsenals...*, pp. 305–306.

<sup>42</sup> Harald Müller, *A European Non-Proliferation Policy...*, p. 269.



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## ENERGY AT THE EDGE OF WAR AND PEACE

**Gabriel Collins, Andrew Erickson, Lyle Goldstein, William Murray. *China's Energy Strategy. The Impact on Beijing's Maritime Policies.* The China Maritime Studies Institute, the Naval Institute Press, 2008, 485 pp.**

*Reviewed by Yevgeny Petelin*

The importance of the energy factor in politics today can hardly be called into question. In the search of new sources of energy import the states use mechanisms of political dialogue and strategic partnership; energy issues are on the agenda of international organizations that have nothing to do with the energy policy at all. How much does the energy affect the military doctrine? How does the energy vulnerability of the state influence the modernization of the army?

As far as China is concerned, these questions are answered at the beginning of the complex research by Gabriel Collins, Andrew Erickson, Lyle Goldstein, and William Murray *China's Energy Strategy. The Impact on Beijing's Maritime Policies*. This approach makes the book an exciting reading and gives a lot of food for thought and discussion.

The authors are fellows of the U.S. Naval College and are famous for their studies on various aspects of China's energy strategy, including its impact on maritime strategy of the country.

In this book the authors try to provide for a qualitatively new level of analysis of the Chinese energy strategy, above all, by expanding the range of components that make the strategy. Most of the sources speak about the optimization of fuel and energy balance, development of energy saving and energy efficiency, creation of strategic oil reserves, and diversification of import of energy resources. At the same time, the set of external challenges and threats to China's energy security comprises territorial disputes (that impede the development of oil and gas fields), the lack of China's own fleet for transportation, and inadequate security of sea routes.

### **BY ALL MEANS**

The most vulnerable section of the transportation routes to and from China, including oil transfers, is the Strait of Malacca connecting the South China Sea with the Andaman Sea. It is a passage for over 80 percent of China's oil import (p. 307). The strait is only 40 km wide in its narrowest part and can easily get under control of the U.S. Navy, pirates, or even terrorists. China assumes that in the next five-ten years this may become a potentially serious danger for China's import and economy as such.

Therefore, much attention is drawn to the projects, which would help to avoid the strait. One of them is the construction of the Kra canal in Thailand, in order to connect directly the Andaman Sea and the Gulf of Siam. This would help to cut down the route by 700 miles and save two-five days. However, such project would require substantial investments – up to \$25 billion in the next 10–15 years. This is beyond the financial capacity of the Thai government. Besides, the very idea of building a canal is opposed in Thailand and abroad. The canal could become a water frontier between the central and southern parts of the country, which are under the pressure of Islamic secessionists. The project would also undermine the businesses of



Malaysia and Singapore that earn huge profits on the current transportation schemes. For China the participation in such project is difficult because of political problems with Thailand (which is traditionally a U.S.-oriented country) and other ASEAN nations.

Under these circumstances, the Thai government now prefers a different solution – to build an oil pipeline with the same mission as the canal, but less expensive and operational in short-term.<sup>1</sup> The construction of such pipeline capable of transferring no less than 1.5 million barrels per day may involve the investments of China, Japan, and Korea.

Another project of interest to China is the transportation of the Middle East oil to the sea port in Myanmar with further transfer by pipeline to Kunming in the Yunnan province. This route is much safer and shorter. The construction of such 900-km pipeline would require about \$2 billion. Then the oil can be sent by railroad to Guangzhou, or another pipeline can be built.

It is also important to study the possible blockade scenarios, as the book does. Based on historical experience, the authors conclude that there are ways to oppose the blockade by potential adversaries, including the United States.

Another reason for serious concern would be the fact that the major amount of imported oil is transported by sea and only small part of it by the Chinese vessels. In 2002, 64.5 million tons of oil imported to China (out of 69.4 million tons) were shipped by sea, and only 7 million – on Chinese tankers. The situation did not change much in 2003, when the import amounted to 100 million tons and 90 percent of it was by sea, while the share of Chinese fleet did not exceed 10 percent (and even less on the routes from the Middle East and West Africa).<sup>2</sup>

At present, the Chinese tankers can carry only 5.2 million tons (or 2.6 percent of cargo of the global tanker fleet) and most of them are old and small vessels. China has the task to increase the share of its fleet in sea transportation of oil to 50 percent. This mission seems to be impossible, taking into account the long term of building large ocean tankers, the lack of free capacity at China's shipbuilding yards, and high amount of investments. And it is not clear how reasonable such costs would be, since there is an excessive amount of large tankers in the world and it is quite cheap to rent or buy them.


The protection of sea communication lines cannot be imagined without strong Navy, so the general lagging behind of the Chinese naval forces is also a topical issue. The book analyzes three aspects of the problem – the objectives of modernization of the Chinese Navy, the comparison of the modernization attempts with the capabilities of the U.S. Navy; and finally, potential tensions due to this fact in the relations of China and the United States.

## **PIECE BY PIECE**

The second chapter of the book is an independent study of the regional aspects of China's energy policy and its unique. The authors focus on several sea basins – the Indian Ocean, the East China Sea, and the South China Sea. For instance, in the East China Sea there is a territorial dispute with Japan over the island of Diaoyutai, which has some oil fields nearby.<sup>3</sup> Beijing claims for 550,000 square km of the sea (out of 770,000), and Tokyo would like to possess 160,000 square km, which China is regarded as its own. In the South China Sea the Spratley Islands have substantial reserves of oil and gas – explored and partly under production. This area is a lucrative piece for Vietnam, the Philippines, Malaysia, Taiwan, and China. Here Beijing would like to claim for 1.2 million square km.<sup>4</sup> Due to the territorial disputes, the issue of naval development becomes even more urgent.

The book also provides analysis of China's relations with the Middle East (Saudi Arabia, Iran), Central Asia, Russia and Africa, as far as energy supplies are concerned. Here there is some flaw in research – the chapter on regional aspects of the energy policy is the strongest, meanwhile, the title of the book as such focuses on maritime strategy and security of China. Many areas here have no direct connection with the maritime strategy (e.g. interaction with Central Asia or Russia). But the complex approach of the research enables the authors to study even such indirect links – it is obvious that China's desire to forge energy partnerships with Russia and Central Asia is based on the desire of elimination of its dependence on the sea routes.

The authors neglect China's energy policy in Latin America (Venezuela, Argentina, Brazil, etc.). Meanwhile, Beijing's presence in this region is increasing. And it would also be significant to assess a number of difficulties that China faces in its supplies from Latin America. According to some Russian experts, to make the oil transportation from Venezuela to China profitable, it is necessary to use supertankers (with the displacement of 300,000 tons or 2.2 million barrels), which characteristics do not allow them to pass through the Panama Canal.<sup>5</sup>

The publication of this book indicates that the U.S. expert community is ready and willing to analyze China's energy strategy in general and its individual aspects in particular, as well as its impact on other spheres (e.g. maritime strategy and military planning). The book paves the way for more profound research of energy security issues not only in China, but in other countries that face the same problem of safety and security of energy supplies shipped by sea. 

## Notes

<sup>1</sup> Kim Beng Phar, "China mulls oil pipelines in Myanmar, Thailand," *Asia Times*, September 23, 2004, <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=46778> (last visited on December 10, 2008).

<sup>2</sup> China: full report. Energy Information Administration, <http://www.eia.doe.gov/emeu/cabs/China/Full.html> (last visited on December 10, 2008).

<sup>3</sup> E. Stepanov, "China's Border Policy," in A. Voskresensky (ed.), *China in Global Affairs* (Moscow: ROSSPEN, 2001, pp. 144–171).

<sup>4</sup> Ya. Berger, "On China's Energy Strategy", *Problemy Dalnego Vostoka*, No. 3, 2004, p. 34.

<sup>5</sup> A. Koksharov, "Revolution and Oil", *Expert*, No. 31, 2006, [http://www.expert.ru/printissues/expert/2006/31/revoluciya\\_i\\_neft/](http://www.expert.ru/printissues/expert/2006/31/revoluciya_i_neft/) (last visited on December 10, 2008).





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## FREE MARKET IN THE TIMES OF ECONOMIC CHALLENGE

**Benjamin Powell (ed.), *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development*. Stanford University Press, 2007, 440 pp.**

*Reviewed by Seth Kinkade*

Among the chattering masses declaring the death of capitalism and free-market economic theory as a response to the current global financial crisis, the Independent Institute's recent publication, *Making Poor Nations Rich*, brazenly asserts that free-market principals are as essential to economic growth today as they were in 1776 when Adam Smith penned *The Wealth of Nations*.

Aimed at policy makers responsible for economic growth in the developing world, Benjamin Powell has craftily assembled a provocative collection of essays and case studies that compose a modern day *Inquiry into the Nature and Causes of the Wealth of Nations*. The authors depict a comprehensive panorama of successful economic development in nations that built institutions that support entrepreneurship. Furthermore, they posit that any nation can experience rapid and boundless economic growth, if only there is a coordinated system that allows its people to achieve their entrepreneurial potential.

The narrative begins with a thoughtful, yet devastating, critique of the economic concepts that shaped economic development policy throughout the 20th century with articles by Mancur Olson Jr. and Randall Holcombe. They suggest that by focusing our understanding of economic development on the factors of production alone, and expecting mechanisms such as the free movement of capital and labor to evenly distribute per capita income, we are missing the big picture. Olson provides ample evidence to illustrate that by simply opening the borders to free trade, both capital and labor will often flow in the same direction, which usually means out of a poor nation and into a wealthy one. He concludes contending that only through adopting strong institutions, such as property rights, can a society take advantage of capital intensive production, push the boundaries of its production possibility curve, and generate wealth.

Holcombe expands on Olson's thesis by suggesting that the Ricardian framework of factors of production is incomplete, and fails to explain the phenomenon of technological change. His support for free market principals moves beyond Adam Smith's profession that specialization of labor would be a key generator of economic growth by proclaiming that growth depends more so on the ability to transform information and knowledge into new economic activities. In this paradigm, a free market, which is fueled by marginal profit, is essential to direct knowledge into entrepreneurial activity. Holcombe illustrates this point by noting that the failure of command economies throughout the 20th century, even as they invested heavily in research and development, was due to the lack institutions that encouraged that knowledge to be applied to entrepreneurial activities.

William Baumol and Robert Lawson explain the practical importance of these findings to stimulating economic development. Through a fascinating review of history, Baumol shows in his essay the dangers of institutions that encourage rent seeking behavior and cultures that vilified wealth obtained by entrepreneurial means. On the other hand, Lawson demonstrates the abil-



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ity of institutions that provide for economic freedom to raise average incomes, economic growth, and life expectancy.

The remainder of the book consists of a broad spectrum of case studies that illustrate the universal importance of these institutions to modern development. Traveling through Africa, Latin America, and Sweden the authors reveal the folly of adopting institutions that undermine entrepreneurial activity. The book then disassembles the engines of growth in India, China, Ireland, New Zealand, and Botswana to unveil how free market principals and strong institutions that protect and encourage entrepreneurial growth are vital to economic development.

This book presents a powerful and persuasive argument for the application of free-market principals in development policy. This book should be a must-read for economic policy makers everywhere. As the global financial crisis strengthens and moves into the real economy, policy makers would be wise not to forget the basic rules, which guide economic activity, in their remaking of the global economic system. 🐼



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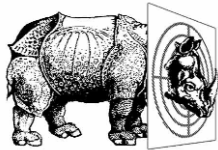


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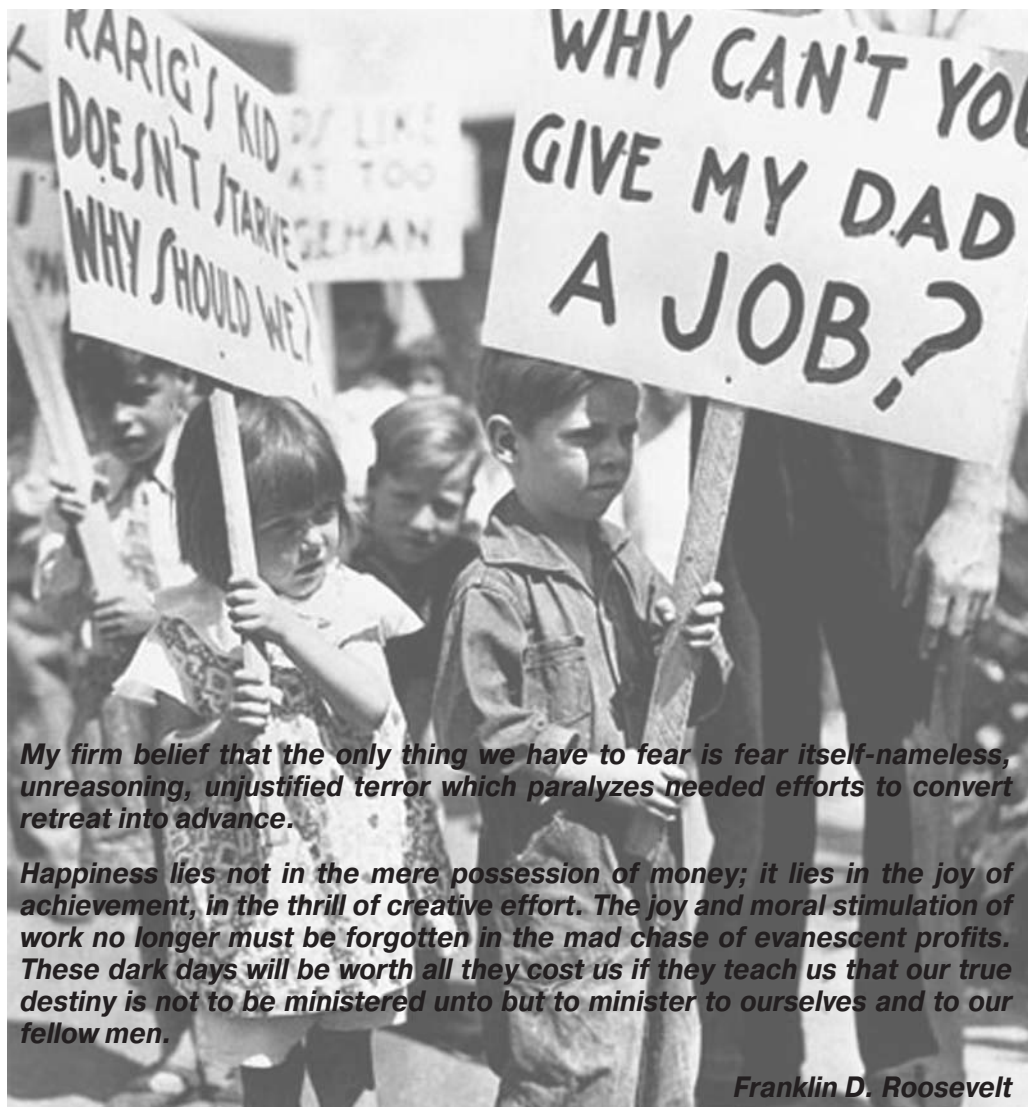


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## ON FEAR AND HAPPINESS



F I N A L Q U O T E S



*My firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.*

*Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits. These dark days will be worth all they cost us if they teach us that our true destiny is not to be ministered unto but to minister to ourselves and to our fellow men.*

**Franklin D. Roosevelt**

The nations, including nuclear weapon states and large states as such, will have to start thinking anew. They will have to get rid of some obsolete but convenient stereotypes, to find new ways of meeting their demand for raw materials, markets, etc., without resorting to force, especially nuclear force. Now it is not clear how it will happen, but the process may be long and painful, for the most powerful states in particular. However, it is necessary to make a try right now and to identify some general ways of progressing towards nuclear-weapon-free world.

Summing up prospects for Russian businesses in the energy sector of Iraq, the following conclusions can be made. It is very hard for Russian companies to start practical operations before stability in the country has been achieved. Even after a constitutional referendum and parliamentary elections bringing an internationally recognized government, it is highly unlikely that old oil development and pipeline construction contracts between Russia and Iraq will be resumed.

So to what extent is Beijing ready to stand up for Iran? How will China vote if a decision sanctioning the use of force is put to the ballot, and will it vote at all? In the past, China has tended to abstain during the votes on Middle East resolutions containing radical steps. So if past performance is any guide, similar behavior on the part of the Chinese can be expected this time around as well. But Iran's oil wealth and China's rapidly growing economy mean that China has important strategic interests in Iran.

These interests boil down to ensuring energy security, buying energy resources (so far Chinese imports are not sufficiently diversified), selling arms (to generate income) and participating in multi-million dollar infrastructure contracts in Iran.

The expansion of the Council of Europe, then the EU eastwards is a real process of shaping united Europe. If Russia does not plan to fight with united Europe, it has to find its place in this process... One should not exaggerate the importance of NATO's expansion. Moreover, one can hardly expect NATO to strengthen through expansion... There is no threat, the problem is political. Only cooperation can mitigate the concerns and tensions.

Russia's interests and national security are now facing a threat as a number of foreign countries are trying to expand their political and economic presence in the Arctic, impede Russian projects there and prevent Russia from participating in exploring the world ocean and harvesting its riches. For instance, Norway, the United States and Germany are busily working on continental shelf exploration off the Russian Arctic coast, in the sphere of Russian interests.

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