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UNIVERSITY OF CALIFORNIA, SAN DIEGO

Surrendering Sovereignty: Hierarchy in the International
System and the Former Soviet Union

A dissertation submitted in partial satisfaction of the
Requirements for the degree Doctor of Philosophy

in

Political Science

by

Kathleen J. Hancock

Committee in charge:

Prof. David A. Lake, Chair

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2001

DEDICATION

To John DeRose for his unwavering faith in me and this project, for the welcome distraction when I needed it, and for his constant love.

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ACKNOWLEDGEMENTS

Hillary Rodham Clinton said that it takes a village to raise a child. The same can be said of a dissertation. Without the guidance, knowledge, and support of family, friends, colleagues, and experts in the field, I could not have completed this work. My greatest intellectual debt is to David A. Lake. He laid the intellectual foundation for my theory; provided countless insightful comments; pressed me to adhere to his high standards; accepted all my phone calls, visits, and e-mail messages; played the role of editor and occasional cheerleader; and exhibited unending patience throughout this long process. Miles Kahler and Paul A. Papayoanou contributed extensive constructive feedback on drafts. Peter A. Gourevitch, Philip G. Roeder, Tim McDaniel, Matthew Baum, Jeffrey T. Checkel, Stephan Haggard, Etel Solingen, and David Shirk provided useful comments and guidance on draft chapters and related conference papers. Among the many people in the former Soviet region who generously gave their time and expertise, special acknowledgement goes to Pavel Kutuev (Ukraine), Zbig Iwanowski (Russia), Michael Biddison (Kazakhstan), and Mark Berenson (Ukraine). Two UCSD classes of undergraduates aided me in thinking through how to present my theory and findings. In my last year of dissertation writing, Point Loma Nazarene University provided a much-needed haven. The Point Loma faculty—particularly Dwayne Little, Ron Kirkemo, and Kevin Archer—demonstrated the benefits of an academic community that values the whole person, not only the intellect. Maureen Feeley was particularly adept at commiserating with me and urging me forward when I desperately needed it. In addition to those already mentioned, the following colleagues/friends have at various times aided my understanding of and appreciation for political science: Michele Chang, Jennifer Collins, Peter Gwynn, Antonio Ortiz Mena, Dave Samuels, and David Shirk. Without Christine Vaz and numerous Political Science office staff, I would not have been able to navigate my way through the sea of paperwork required to complete my degree. The Institute on Global Conflict and Cooperation/MacArthur Fellowship and an Institute on International Education grant provided funding for field research in the former Soviet Union and in the U.S.

My family was a critical support network. My parents—Jo Martin and Jim Hancock—and my siblings—Scott Hancock and Julie Dunkle—expressed unending faith in me throughout the years, as well as providing a computer, dinners, and vacations during my poorest graduate school days. My mother-in-law, Dianne DeRose, made every effort to support me from afar. Jonathan, Riley Mae, Arnold, Alex, Anastasya, and Tecate, all of whom were oblivious to the fact that I was working on my dissertation, reminded me that there is more to life than scholarly work.

Finally, without my husband, John DeRose, the Ph.D. path would have been a lonely one. He bravely committed to spend his life with me when I was a stressed-out graduate student with no firm graduation date. He grandly celebrated the most minor of my victories. He never lost faith in me. For this, and more, I am forever indebted to him.

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ABSTRACT OF THE DISSERTATION

Surrendering Sovereignty: Hierarchy in the International
System and the Former Soviet Union

by

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Doctor of Philosophy in Political Science

University of California, San Diego, 2001

Professor David A. Lake, Chair

The “Days of Empire,” when political entities extolled their control over other territories, have long since expired. Yet hierarchies between states remain. While international relations theorists often assume that states are fully sovereign, weak states sometimes delegate decision-making authority to strong states. This delegation, or surrendering of sovereignty, occurs in both the economic and security arenas. When a state accepts the dollar as its only currency, it surrenders to the United States some control over its monetary policy. When foreign troops based on a state’s territory outnumber its own military forces, the state no longer has full decision-making authority over its security policy. In the former Soviet region, Belarus and Kazakhstan gave Russia the right to set their external tariff rates. Tajikistan retained the Russian ruble, allowing Russia to set monetary policy. Armenia encouraged Russian troops to remain on its territory. Ukraine reluctantly consented to Russia basing its Black Sea Fleet on Ukraine’s Crimean peninsula. Not all states have forsaken full autonomy and those that have surrendered some sovereignty have retained autonomy in other arenas, despite Russian pressures for a deeper hierarchy. Nationalism, ethnic identity, and a history of independence do not fully account for this variation. Drawing on transaction cost economics, I use the dyad of a strong state and a weak state as the unit of analysis, and formulate several testable hypotheses about the role of relation specific assets (RSAs) and the *white knights* that ameliorate or eliminate vulnerability caused by RSAs. RSAs are assets, such as fuel pipelines, electricity grids, even geographic positions, that are costly to change

and have low value outside of the dyadic relationship. When RSAs are present, one or both states lack optional partners. White knights—such as the International Monetary Fund, foreign direct investors, and NATO—can reduce vulnerability, allowing the weak states to avoid hierarchic relationships with the regional dominant power. In rich qualitative studies, I test the theory on five states—Ukraine and Belarus in the west, Kazakhstan in Central Asia, and Azerbaijan and Armenia in Transcaucasia—and find that RSAs played a significant role in determining whether states would enter into a hierarchy.

Chapter 1: Introduction

On January 4, 1992, only a few weeks after the Soviet Union's official demise, Ukraine made an audacious move that presaged its future relations with Russia: Ukrainian President Leonid M. Kravchuk declared that all former Soviet military personnel in his territory must swear allegiance to Ukraine, including soldiers of the Black Sea fleet.¹ Ukraine has repeatedly and consistently declined Russia's overtures for friendship that involve any suggestion that Ukraine is less than Russia's equal. This may have surprised the Russian leadership, which was used to subordinate republics. Yet in case after case, Ukraine has stood firm. Russia has pressed Ukraine to join in the Russian-dominated customs union, to accept Russian troops on its land, to surrender all of the Black Sea fleet and its naval base, to lower oil and gas pipeline transit fees—all to be rebuffed by Ukraine.² This is not to say that Ukraine has severed relations with Russia. For example, it continues to actively trade with Russia, and even agreed to a security hierarchy.³ However, in the economic arena it continues to assert its complete autonomy

In summer 1992, a reporter for the RFE/RL Research Report stated, "Belarus is aiming for full integration with the developed countries of Europe, a process that it hopes will be sufficiently advanced in ten to fifteen years to obviate the need for its membership in the Commonwealth of Independent States...There is a new emphasis on breaking the country's economic dependency on Russia, and it is possible that Germany will become Belarus' main economic partner in the West."⁴ The reporter seemed to have it right. In May 1992, Belarusian leaders along with several other new states met with Council of Europe representatives and made clear that they saw the CIS as a temporary organization.

¹ Patricia Lee Dorff, *Foreign Affairs*, "Chronology," Dec. 1992/Jan. 1993, 230.

²The customs union I refer to here should not be confused with the proposed Commonwealth of Independent States (CIS) customs union. What I call the Russian-dominated customs union comprises Belarus, Kazakhstan, Kyrgyzstan, and Russia. Russia negotiated the agreement state-by-state. The customs union is discussed in Chapter 4.

³ The hierarchy resulted when Ukraine agreed to rent its Black Sea Fleet base to Russia. I discuss this hierarchy in detail in the Ukraine case study.

⁴RFE/RI Research Report, vol 1, no. 24, June 12, 1992. The article is by Kathleen Mihalisko.

The Foreign Minister proclaimed that "Belarus and its capital are ready to assume the function of a 'Brussels of the East.'"⁵ Belarus appeared to be on a path parallel to its Slavic neighbor. But within a few years, Belarus' course diverged significantly from that of Ukraine. Human rights groups left the capital, calling Belarus a dictatorship. The leadership turned its back on economic reform, eventually leading to the closure of the IMF office in Minsk in April 1998. Due to the state's unwillingness to reform its economy, the IMF had released only \$70 million of the \$500 million in credits it originally pledged to Belarus between opening residence in 1992 and its closure. Belarus focused all its attention on Russia, calling for a full union of the two states. It continued to use the Russian ruble as its primary currency, essentially delegating monetary policy to Russia. The leadership joined and has been implementing the Russian-dominated customs union, under which member states are to set their tariff levels to match those set by the Russian government. While the treaty called for consultation among all members, the power to set the tariff levels clearly rested with Russia. Finally, Belarus has agreed to have Russian troops based on its territory. Although a Russia-Belarus federation is far from being a reality, the Belarusian leadership has been steadfast in its calls for rejoining Russia.

Like Belarus, Kazakhstan's relationship with Russia has evolved but in the opposite direction, moving further away from Russia. For most of its independent years, Kazakhstan has supported the Russian-dominated customs union. Seemingly eager to reap unstated benefits, Kazakhstan began implementing these changes ahead of the agreed upon schedule. President Nursultan Nazarbayev decreed that the nation would use Russian rubles as its currency. In addition, Kazakhstan allowed the Russian government and well-connected Russian citizens to win closed-envelop bids on companies being sold by the State, despite the clear lack of managerial experience these Russians brought to the newly privatized industries. As some point, however, the Russian-Kazakhstani relationship began to change. The Kazakhstani leadership became more assertive in its interactions with Russia. Pressed by Russia to follow stricter rules on currency use, Kazakhstan finally withdrew from the so-called "ruble zone." It stopped changing its tariff levels to match those of Russia and reversed the automobile tariffs that it had altered to match Russia's. The leadership began turning increasingly to Western officials,

⁵Ibid.

including those from the IMF and the World Bank, for technical and other advice. Increasingly, it succumbed to the World Bank's suggestions and pleas for open-and-fair tender bids. In sum, then, Kazakhstan has gone from allowing Russia to control important aspects of its domestic and international policies to a more independent approach that leans toward the Western world.



Figure 1.1: Map of the Former Soviet States

In contrast to Ukraine, Belarus, and Kazakhstan, the Transcaucasian states have been embroiled in wars. In response to these high security threats, the states have had varying strategies regarding whether or not and in what capacity to involve Russia. The Armenians have turned to Russia for significant assistance, while Azerbaijan has refused Russian offers to base military troops on its land. Armenia has consistently sought aid from the Russians. It was among the first states to sign agreements with Russia to base troops on its land. In 1994, the Russian government announced it was planning to set up two military bases in Armenia. By early 1995, Armenia was the only FSU state to have combined its air defense system with Russia. That same year, the two states signed an agreement allowing Russia to base troops and equipment at two sites in Armenia. Armenia also has Russian

troops on its external borders. In contrast, although Azerbaijan has occasionally flirted with the idea of Russian military assistance, it has consistently backed away, refusing Russian offers. While Armenia is better known for its love of independence and freedom than is Azerbaijan, it is Armenia that has entered into a relationship that requires it to forsake some freedom in its decision-making authority in exchange for Russian assistance.

These summaries highlight the variation among state relations with Russia. Not all of the states in the region have approached Russia in the same way or developed the same type of relationship. They are not uniform. A close look at the region reveals that in some cases the non-Russian states are giving up some decision-making authority to Russia. As such, they are entering into what can broadly be called a hierarchical relationship. Others have retained their full autonomy, despite pressure from Russia. Some have been consistent while others have changed their relationships, either giving up autonomy or reclaiming it.

As a new century presents itself, scholars have the rare opportunity of observing the dynamics of new states forming relations with other states. The Soviet Union's death gave birth to 15 new states whose leaders must set the course for their relationships with each other, as well as the rest of the international community. Although the states share a recent united history, their futures are not on parallel paths. In this dissertation, I find patterns among the seeming chaos of the former Soviet states, develop a generalized theory to explain these patterns, and test the theory with five detailed cases: Ukraine, Belarus, Kazakhstan, Armenia, and Azerbaijan. As the region's most powerful and most watched state, Russia's relationships with each of the other former republics are of particular importance. Thus, my focus is on the dyad—or pair—of Russia and each of the other 14 states. I generalize Russia as the *strong state*, while the others can be considered *weak states*. When focusing on these dyads, I find that the region is a microcosm of the international community, displaying a range of relationships. Some of these relationships are based on autonomy while others look more like forms of empires or, more generally, hierarchies. Under autonomy, traditional Westphalian assumptions hold. State leaders make policy decisions for their own states. In contrast, under hierarchy, one of the states delegates some decision-making authority to another state.

This chapter serves as an introduction to and summary of the dissertation. I begin by summarizing the structure and disintegration of the Soviet system. After generalizing the dependent variable, I discuss the ways in which the international relations and regional literature falls short of explaining the puzzle. I then summarize my own theory. Before concluding, I explain my case study selection and methodology. Chapters 2 and 3 elucidate the dependent and independent variables. Chapter 4 is devoted to the former Soviet Union generally, including the economic and security network of the Soviet system and the independent and dependent variables for the region as a whole. Chapters 5 through 7 cover the cases: Ukraine and Belarus; Kazakhstan; and Armenia and Azerbaijan. The first two chapters focus on economics while the third focuses on security. In Chapter 8, I conclude by summarizing my contributions and suggesting future directions for research.

The Integrated Soviet Union and Its Disintegration

The Soviet economic system had been developed with the idea of a permanent empire, in which all the parts would be connected to the center.⁶ Within this empire, Russia was the central player and was the primary trading partner for most of the other republics. The few exceptions were due to geographical proximity⁷ and the natural gas exchange between Turkmenistan and Ukraine.⁸ The non-Russian states benefited from subsidized oil and gas, the bulk of which came from Russia. In addition, they received high prices for the products they manufactured and sold in Russia and the other Soviet regions.⁹ There has been much, often emotional, debate about who got the better deal: Russia or the others. But the point here is not who got the better deal, but rather that one state—Russia—was more economically independent than the others.

⁶ This section is a brief introduction. For more detail, see Chapter 4.

⁷ Moldova's primary partner was Ukraine; Tajikistan and Turkmenistan's primary partners were Uzbekistan and Kazakhstan.

⁸ Dienes 1993, 499-500, including footnote 6 on 500.

⁹ While the other states did benefit from subsidized fuel prices, they often suffered negative externalities, such as excessive shale mining in Estonia, the Chernobyl disaster in Ukraine and Belarus, and the cotton mono-culture in Uzbekistan.

Table 1.1 below demonstrates the independence of Russia vis-a-vis the other republics.¹⁰ While Russia generated 65 percent of final demand for its products within its own borders, the non-Russian republics could generate only 13 percent within their borders. In the Soviet system, an industry in one republic might produce a component, which was then purchased by an industry in another republic. These inter-industry linkages demonstrate the extent to which the non-Russian republics relied on demand from Russian industries. For Russia, foreign trade accounted for more of the final demand than did the other Soviet republics. In contrast, the non-Russian republics relied on foreign trade for only 11 percent of the final demand. Clearly, the non-Russian republics needed Russia much more than the other way around.

Table 1.1: Final Demand in the Soviet System, 1987

	Percentage of Final Demand ^a	
	Russia	Non-Russian Republics ^b
Within own borders	65	13
Inter-industry linkages with Russia	N/A	76
Inter-industry linkages with other republics	14	N/A
Foreign trade	21	11
Total	100	100

^aFinal demand is defined as investment and consumption, including military outlays.
^bCombined total for all non-Russian republics.

The military forces, both conventional and nuclear, were similarly centered in Russia. Russia had most of the nuclear weapons and the accompanying forces on its territory. Of the approximately 1,400 intercontinental ballistic missiles belonging to the Soviet Union in 1991, all but 360 were in the Russian Republic (104 were in Kazakhstan, 176 in Ukraine, and 80 in Belarus). Russia also housed most of the nuclear complex, including uranium enrichment plants, plutonium production facility, a nuclear weapons design center, warhead fabrication site, and heavy water production facilities. Of the

¹⁰ The study is discussed in Dienes 1993, 500. The study was conducted in 1991 by the Institute of Economics and the Organization of Industrial Production of the Siberian Section of the Russian Academy of Sciences, using 1987 data.

12 major components of the complex, Russia had 11; the only nuclear test site was in Kazakhstan.¹¹ As with the nuclear forces, most of the conventional military equipment and troops were based toward the assumed front, the western border. The Conventional Forces in Europe treaty, however, meant that weapons had recently been moved away from the front and into other areas where the Soviets had not yet exceeded their treaty limits or which were east of the treaty-covered area.¹² The republics were also tied together by a unified air defense system.

At the end of 1991, in a historical moment anticipated by few, the Soviet Union became history. On December 9, Russia, Ukraine, and Belarus announced the founding of the Commonwealth of Independent States (CIS). At the same time, they disavowed the 1922 Union Treaty, the founding document for the U.S.S.R. On December 21, all but the Baltic states and Georgia joined the CIS. With the collapse, the knots that connected the economies to the center and to each republic unraveled at alarming speed. In just one year, all of the new states saw their Gross Domestic Products fall. In the worst cases, 1992 levels were only 56 to 65 percent what they were in 1991.¹³

Trade plummeted, both between states within the former Soviet region and between FSU states and the rest of the world. Total trade (exports plus imports) within the region declined by 29 percent between 1991 and 1992.¹⁴ Exports declined in every state, with the highest percentage being a 79 percent decline in Georgia. Other big losers included Estonia (down 66 percent), Uzbekistan (65 percent), and Moldova (61 percent). Russia did not fare as badly, with exports within the region falling by 28 percent. Imports declined by lower percentages, with a couple states even showing slight increases (Kazakhstan at 7 percent and Turkmenistan at 16 percent). Still, imports declined precipitously in Georgia (74 percent), Estonia (69 percent), Uzbekistan (62 percent), and Armenia (56

¹¹ Nearly all of the FSU states had nuclear research centers and some had other components of the nuclear complex. Ukraine and Kazakhstan in particular had several important components. Table 4.5 shows the location of the nuclear complex.

¹² The Conventional Forces in Europe (CFE) treaty sets ceilings on various types of equipment within the CFE area, which is west of the Ural mountains in Russia. For details on what equipment and troop levels were based where, see appendix 3.

¹³ Latvia's GDP in 1992 was only 56 percent of what it had been in 1991; Armenia's, 61 percent; and Azerbaijan's 65 percent. Noren 1993, 421.

¹⁴ The statistics used here on trade decline are reported in Michalopoulos, p. 27, table 2. The original sources are the CIS Goskomsta, Russian Goskomstat, World Bank and IMF staff estimates.

percent). As with exports, Russia fared better than most, with imports dropping by only 6 percent. While the data are subject to wide margins of error, the significant decline in trade levels seems clear.¹⁵

Trading levels declined for numerous reasons. Some of the major factors include a disruption in the production and supply system which had been controlled by a now-defunct central planning network; export constraints imposed by new governments; and Russia's decision to stop supplying the new states with certain raw materials. For example, under the Soviet system, Russia supplied several republics with crude oil, which was then refined by the recipient republic, and cycled back into the system. From the first six months of 1991 to the same period in 1992, Russian oil supplies to Belarus dropped by a third, from 18.8 to 12.5 million metric tons. As a result, Belarusian fuel production declined by 40 percent and petrochemical output by 17 percent.¹⁶

In the military arena, it was unclear who inherited what after the Soviet Union's death. Did the troops and equipment on non-Russian territory belong to the state on which they were based or to the Russians? Perhaps not surprisingly, the answer usually depended on the nationality of the respondent. The Russian leadership generally argued that the equipment belonged to Moscow as the former center of the Soviet Union. Leaders of other states tended to disagree. The Ukrainians resolved the question for themselves by declaring possession of Soviet military assets on their territory, most notably nuclear weapons and the Black Sea Fleet, and taking control of the military troops. The soldiers were told to sign pledges of allegiance to Ukraine or leave the state. While many of the other non-Russian states followed suit, the Russians retained control over most of the forces outside its territory, most likely because most of them were Russian nationals. While some states negotiated the withdrawal of these now-Russian troops, such as the Baltic states, others invited the troops to stay on their territory as protectorate forces.

¹⁵Trade statistics for the former Soviet Union are known to be flawed, particularly for this time period. Custom's officers were not on most borders, making it impossible to calculate trade via that method. Also, there is wide-spread bartering and black market activity, further undermining the data.

¹⁶Sovetskaya Belorussiya, Aug. 12, 1992, p. 2, as reported in Noren 1993, 436. One metric ton is the equivalent of 1.12 short tons, the measurement used in the U.S.

Summarizing the Dependent Variable

Transaction cost economics (TCE) provides a useful analogy for the dyads in the former Soviet Union. TCE, as expounded by Williamson, focuses on relationships between two economic units. As in the international system, these units can combine as a type of alliance, whereby each remains independent, or they can unite in a hierarchy. The former Soviet states can similarly be conceived of as dyads consisting of two political units. Since Russia is the dominant political actor in the region, I compare dyads consisting of Russia and each of the other 14 new states. In more general terms, these dyads represent the relationship between a strong state and a weak state, as measured by Gross Domestic Product (GDP) and military forces. As in TCE, each dyad can be analyzed as falling along a spectrum that ranges from autonomy—in which each state formulates and implements its own domestic and international policies—to hierarchy, in which the strong state is understood by both parties to have some decision-making authority over domestic and/or international policies. Autonomy is the current norm in the international system. It rests on the assumption that states are sovereign. Yet, not all states, or political units, fit this definition. Many states have granted some decision-making authority to another state. For example, when Tajikistan allowed large numbers of Russian troops to be based on its territory, overwhelming its own defense force, the government was delegating to Russia the right to make some decisions about how the civil war would be fought. Russian officers, rather than Tajiks, would decide the strategy and tactics. While they might consult with the Tajiks, the final decision fell to the Russians. Hierarchy occurs in the economic as well as security arenas. When Belarus and Kazakhstan joined the customs union with Russia, they agreed that Russia would set their joint tariff levels. States may also cede their monetary policy to another state. When a state uses another's currency as its only currency, it has given monetary decision-making authority to the currency's "home" state. These hierarchies can include other domestic economic policies as well, such as setting price levels. The idea of hierarchies in the international system is not new. An empire is an extreme form of hierarchy: a state controls most of another political unit's international and domestic policy. What has been under appreciated in the extant literature is that relationships fall on a range, with empire being one end point, and autonomy, the other.

The State of the Literature and Alternative Explanations

"A key element in science is the painstaking development of theory. Theory is an intellectual tool that provides us with a way to organize the complexity of the world and order facts into data and that helps us to see how phenomena are interrelated."¹⁷

The literature most applicable for describing and explaining the empirical puzzle can be broken into two broad groups based on the type of scholars: international relations specialists and area specialists. This review section discusses first the theories of the international relations generalists and then the regionalists.

International Relations Theories

My empirical puzzle and theory engage several distinct literatures in the international relations discipline, including integration, alliance, empire, and interdependence theories. Whereas the area studies literature, discussed below, tend toward descriptive accounts and implicitly theoretical work, the international relations discipline has increasingly moved in the direction of formulating generalizable, carefully specified, tightly argued, and testable theories. However, these theories generally fall short in explaining the range of dyadic relations in the FSU. International relations scholars tend to overlook the full range of relationships in the international system, to underplay or even ignore the role of the weak state in determining its relationship with strong states, and to leave unspecified the costs and benefits that determine which relationship will emerge.

International relations scholars have given considerable attention to the question of why states give some decision-making authority to international organizations, but have generally not evaluated why states surrender sovereignty to *other states*. Numerous European and American scholars have dedicated their careers to understanding the origins and success of the European Union (EU), for example.¹⁸ Some analysts have drawn on transaction cost economics to explain security organizations

¹⁷Russett and Starr, 30.

¹⁸ Haas 1958, Sandholdz and Zysman 1989, and Moravcsk 1991 are among the most important American contributors.

that range from hierarchic to anarchic (K. Weber, 1997). Krasner's recent (1999) exploration on the meaning of sovereignty focused on states giving up sovereignty to international organizations via agreements, conventions, and contracts, such as signing the European Convention on Human Rights and accepting loans from the International Monetary Fund along with the accompanying commitments to change domestic policy. These theories, however, do not seek to explain why states surrender sovereignty to individual *states* as opposed to international or multilateral organizations and agreements. In the dyads I explore here, there is a distinct power asymmetry between the two dyad members. In international organizations, there may be power asymmetries between some members, but one of the benefits of the organization is that other members may be able to offset the power of one strong player. In most international organizations, even a powerful state must find ways to build consensus to get what it wants. This dynamic differs from a simple dyad. As I point out in Chapter 3, there may be cases in which my theory also applies to international organizations, but this is not its primary objective. Unlike integration theories and those that seek to explain why states surrender authority to international organizations, I am focused on hierarchy in the dyad.

Alliance and empire literatures are generally separate endeavors and therefore do not shed light on why political units might end up in an alliance as opposed to an empire. The security alliance literature focuses on questions of whether states will balance or bandwagon with threatening states (Morrow 1993; Walt 1987; Waltz 1979), the sources of military doctrine and alliance choices (Posen 1984; Lynn-Jones and Miller 1993; and Rosecrance and Stein 1993), and the relationship between system structure and alliances (Christiansen and Snyder 1990, Mearsheimer 1990, Waltz 1979). Some alliance literature explores the connection between security alliances and economic relationships (Gowa 1994, Papayoanou 1999). S. Weber (1993) discusses the choice between multilateral alliances and bilateral agreements in security relations. Still, these are choices between types of alliances. He does not distinguish the dependent variable by the level of hierarchy.

In the economic arena, the international political economy literature that examines cooperation has generally focused on questions concerning why the international system and individual states are

relatively liberal at times and more closed or protectionist at other times.¹⁹ While these studies have advanced our understanding of these policies, they do not address why states might agree to have another state set its monetary and/or tariff policies. While Yarbrough and Yarbrough (1992) examine types of economic governance structures, they do not evaluate dyadic relations.

The empires literature is another source for potential insights. However, this body of literature does not explain why states might choose empires over alliances as a relationship form (Snyder 1991, Doyle 1986). Rather, these studies focus on why some strong states become imperial centers and how the empire is then ruled. For example, Snyder argues that some domestic groups are inherently interested in expansion while others—namely average tax-paying citizens—are opposed. The domestic political structure determines the degree to which the expansionist groups succeed in reaching their preferred goal. While his model is insightful in explaining which states are most likely to pursue imperialist policies, it is not designed to explain which states, or political entities, the imperialists will attempt to overtake. The dependent variable has only to do with the strong state, not with the weak state or other political entity that finds itself at the bottom of the hierarchy. For the FSU region, Snyder's work might be insightful for understanding why Russia is pursuing hierarchy at all, but not for explaining why we do not see hierarchy with every dyad. In comparative politics, at least one article offers interesting insights on why we see various types of federalism, but does not attempt to explain the range from alliance to empire (Riker 1964).

The economic interdependence literature sheds some light on the empirical puzzle, but needs further development for dyadic cases in which one state gives up sovereignty to another. Regional specialists have often noted the economic interdependence of the former Soviet states. The republics relied on each other for both supply and demand. With limited access to the international market, the states depended on one another to supply necessary economic inputs and finished products, and to "demand" the inputs and finished products in which they specialized. This oft cited interdependence raises questions of what exactly interdependence means, how much it matters, and in what ways it

¹⁹ Major contributors working in this area include Kindleberger 1975, 1981; McKeown 1983, 1984; Milner 1988a, 1988b; Milner and Yoffie 1989; and Yarbrough and Yarbrough 1992.

matters. As Stein (1993) elucidates, there are numerous variants of interdependence theory, but the central claim (of most) is that high volumes of trade between two states tends to lead to peace. Extant theories have operationalized interdependence for large- n studies and thus have used broad measurements such as levels of foreign direct investment and trade patterns (Rosecrance 1986, Rosecrance and Stein 1973, Keohane and Nye 1989, Papayoanou 1999). However, as Waltz (1970, 1979) argued, these measures are inadequate, primarily because they measure what Waltz calls sensitivity rather than vulnerability.

States that are only sensitive to trade disruptions can refocus their trade or simply do without the volume of trade. For example, many Americans were concerned about the Japanese dominance of computer microchips. But, as Stein and others argued, a disruption in this type of trade would not be catastrophic. To be truly vulnerable the states have to be trading something that their economy relies on and for which they cannot find suitable trading partners without incurring significant costs. Waltz points to the international oil crisis of the 1970's as an example of vulnerability. In this study, I evaluate on a case-by-case basis which economic sectors are vulnerable to the other dyad member's actions. In so doing, my study contributes to our understanding of what kind of economic vulnerabilities matter.

Finally, most international security and political economy studies focus solely on great powers. For example, the plethora of studies on the number of poles in the international system is concerned with counting the number of great powers (Mearsheimer, Waltz). Even those unconcerned with pole-counting tend to focus on the major states in the system. Similarly, in the international political economy literature, the majority of studies focus on the trade and finances of industrialized states. These theories often do not account for small state actions, as Stephen David (1991a, 1991b) pointed out in his work on alliance choices. Yet, most of the world lies outside the First World. In the international system there is an abundance of weak states whose leaders must develop relationships with the strong states. Few international relations theories systematically address the issues that leaders in these weaker states face. Similarly, few draw on the developing world as a basis for theory development. Of those books that explicitly address challenges facing developing state leaders, most were published in the 1960's and 1970's, with what Samuel Huntington called the Third Wave of

democratization. Many of these works lack theoretical rigor, having been written in a time when international relations scholars were more interested in relatively “thick description” and less rigorously stated propositions. Furthermore, many of these studies do not focus on relationships between specific weak states and a strong state. Instead, they tend to evaluate the difficulties of being a weak state in the international system and ways that these states have collectively worked to improve their bargaining power, such as through the United Nations Conference on Trade and Development. While there are unquestionably legitimate reasons for focusing on the great powers, the rest of the world also merits study and theoretical explanation.

Regional Studies Literature

Area studies scholars interested in state relations have tended to focus on either separate foreign policies of Russia and the non-Russian FSU states or on the CIS. The majority of published works covering the region focus on domestic issues, specifically, market and political reforms (Åslund 1994, 1995; Bremmer and Taras 1993, 1997; Dixon 1994; among many others). Those analyzing Russian foreign policy point to the shifting concerns of Russian leaders (Wallander 1996), the role of ideas and nationalities in shaping Russia's foreign policy (Goble 1994; Zviagelskaia 1995), the differences between individual Russian bureaucracies (Allison 1996; Clark 1994; Karaganov 1994; Zisk 1996), and security concerns, particularly the role of nuclear weapons and who controls them (Arbatov 1993, 1994a, 1994b; Potter 1995).

A smaller group focuses on the foreign policies of the non-Russian FSU states. Many of these studies examine single states or sub-regions. Many of these studies are not explicitly theoretical, making it difficult to determine the weight of each of the many factors that the scholars mention. With more variables than observations, these studies suffer from an indeterminate research design.²⁰ In some cases, it is even difficult to determine what the dependent variable might be. Some authors would no doubt explain that theory was not their objective; rather, their objective was to make an important

²⁰See King, Keohane, and Verba, 118-122.

contribution to our empirical databases.²¹ I have no objection to descriptive studies, as they are the foundation on which my work as well as that of many others rests. The social science project, however, calls for moving beyond description and into theory.

In addition to moving beyond description, analysis in the region could be advanced by comparing the non-Russian state's foreign policies across regional areas. Few extant studies directly compare and then explain the variation in the non-FSU states' policies toward Russia. Authors tend to explore only a single state or region. Numerous authors have focused on Ukraine, identifying it as the most "Western" in terms of geography, history, and ideology, and as playing an important future role in Europe (Garnett 1997; Kuzio 1995; Motyl 1993, 1995, 1997).²² Belarus has gained separate attention for being geographically Western, but favoring integration with Russia (Garnett and Legvold 1999). The Central Asian states are often studied as a group (Hyman 1994; Mandelbaum 1994; Olcott 1996), as are the Baltic states (Hansen 1998; Sorsa 1994).²³ Analyses of the Transcaucasian states usually focus on ethnic conflict in that subregion (Carley 1998; Dudwick 1993, 1997; Hunter 1994, 1997).²⁴ By focusing on a single state or subregion, analysts may make incorrect inferences. For example, one might conclude that an Islamic tradition explains the Central Asian states' policies. To determine the power of this variable, however, one would want to examine non-Muslim states as well. Without variation on the independent variable, the study suffers from a selection bias.²⁵ Finally, many of the early articles and books on the region were about the CIS and its organizational structure (Shaposhnikov 1994). However, interest in the CIS as a unit of analysis has waned as it increasingly appears to be mostly a paper organization.

²¹ While attending a conference on empires, I made the point that there were too many variables for us to determine what explains the outcome. The response from one scholar was, "Well, of course. We are not trying to explain anything." A point well taken.

²² See also Dementev 1993, Batiouk 1992, Furtado 1994, Koropeskyj 1992, and Kuzio and Wilson 1994.

²³ On Central Asia, see also Kaser and Mehrotra 1992, Lewis 1992, Malek 1994.

²⁴ See also Furman and Asenius 1996.

²⁵ I have not seen any scholar make the claim that Islam accounts for *foreign* policy in the region, in no small part because there are not many similarities in the Central Asian states' foreign policies. Most studies exploring religion in Central Asia have used the variable to discuss domestic policies and politics and the ability of the state to coalesce. This raises an interesting question about Islam as an explanatory variable for domestic policies. Why would it be so powerful for domestic but not foreign policy?

In general, the literature on the region tends to be descriptive or only implicitly theoretical, making it extremely difficult to tease out what the independent and dependent variables might be, how they are operationalized, what hypotheses might be generated from them, and whether the theory can be generalized to other regions or whether it is peculiar to the former Soviet space. As such, it is difficult to determine the power of the explanations and to compare them with alternative explanations. For many scholars, this is not the intention of their work. While there is room in the academy for many types of research and writing, I would argue that the former Soviet Union region has been underutilized as a ground for building generalizable and testable theories.

While most regional specialists do not offer explicit theories to explain the variation from autonomy to hierarchy, they often mention factors that can be divided into three broad groups: (1) ethnic composition, (2) nationalism, and (3) economic history. Regional specialists often allude to these variables as being important factors in foreign policies. At first blush, they seem to offer reasonable answers to the empirical puzzle. While some of these overlap with each other, they can be considered as distinct variables. I elaborate on each explanation before turning to a general critique.

The ethnic-composition argument states that if the weak and the strong state contain a large percentage of the same ethnic group, the weak state is more likely to re-enter into some type of hierarchical relationship with the strong state. The causal mechanism operates in the following way: The center's own ethnic group was most likely privileged in the imperial system and may now feel threatened as the minority group. At the very least, members of the center's ethnic group that are living in the new states may lose their positions in government, leaving them without employment. At the extreme, they may be massacred by the titular ethnic group. In between these options are all sorts of other unpleasant alternatives, including wide-spread discrimination, property confiscation, and mob attacks.²⁶ These concerns or fears may lead to the strong state's own ethnic group immigrating en masse to the strong state. This could be highly destabilizing to the strong state, particularly if it is undergoing its own difficult transition. To stave off this scenario, the strong state would aggressively fight for

²⁶ These kinds of fears are similar to those Fearon discusses in his work on credible commitments as a means of preventing ethnic conflict. See Fearon 1994 and 1998.

control over the weak state, in this way ensuring that their ethnic group will be well treated by the new state government. For the former Soviet region, hypotheses that follow from this argument include: (1) Those weak states with the highest proportions of Russian nationals will favor a hierarchical relationship with Russia. (2) Conversely, weak states that have few Russian nationals on their territory will most likely pursue strategies that result in freedom from Russian dominance. Analysts that implicitly assume this focus on the high percentages of Russians in Kazakhstan.

Related to the ethnic-composition argument is the history of nationalism, which goes something like this: if the weak state's titular nationality is ethnically very close or identical to the strong state's dominant nationality, then the weak state will be more likely to seek assistance from the strong state than will a weak state with an ethnic composition distinct from the strong state's ethnic group. This occurs because the weak state's leadership does not think of itself as a unique group and therefore lacks a compelling reason for being an independent state. Since the groups are so ethnically similar, citizens of the weak state do not fear the strong state leaders or their citizens. Similarly, with the strong state better able to provide for the weak state than the weak state can on its own, the state simply gives up part, or even all, of its governing power and returns to a hierarchical relationship with the strong state. For the former Soviet states, this argument generates the following hypotheses: (1) States with citizens who are ethnically similar to Russians will favor a hierarchical relationship with Russia. (2) On the other hand, the more ethnically different the citizens in the weak state are from Russians, the more likely they will pursue strategies that reduce the chances that Russia will dominate them. This explanation is often given for explaining why Belarus is seeking a reunification with Russia while Ukraine resists.

If a weak state has never been an independent nation or if it does not have a strong national character, it is more likely to slide back into a neo-imperial position.²⁷ Conversely, a state with a long history of independence before becoming a colony and/or a strong, identifiable national character is more likely to reject hierarchy. The Baltic states, Armenia, and Ukraine are often held up as examples

²⁷ For various arguments on the role of history in shaping the future of the former Soviet states, see Starr's edited volume (1994).

of states that have a strong national character and have known independence and will therefore cherish it more than those states that lack these attributes. For example, Misiunas (1994) argues that the Baltic states see themselves as “merely reestablishing their sovereign national existence after a long period of occupation....they seek to stress that they had never de jure formed a part of the U.S.S.R. in the first place” (95). Similarly, Motyl’s 1997 book on Ukraine’s independence focuses on the historical and cultural distinctions that make Ukrainians unique and their struggle for independence a unique struggle among the FSU states. Like many regional specialists, Motyl does not attempt to rigorously test his variables on other states or even suggest how we might operationalize them for other states. In contrast, some of the Central Asian states are held up as states that lack the history of political independence. Still missing the necessary ingredients, these states are easy targets of Russian domination. Kazemzadeh (1994), for example, argues that the Russian task of conquering Kazakhstan was “relatively easy and cost few Russian lives. Kazakh society was primitive. There existed no state, no common political structure, no unified military command, and no military technology that could compare with that of the post-Petrine Russian army” (203). These conditions still pertain, he argues. As a result, “Russia will continue to play a dominant role there” (214).

The third alternative explanatory variable is economic history. Before being colonized, some weak states were economic trading societies while others were nomadic. Civilizations with traditions of trade, even if it was bartering, are better prepared for and more accepting of the international market economy than those with nomadic traditions. The public’s preparation and acceptance allows the state to pursue third party options that are more likely to involve market transactions. On the other hand, those with a nomadic tradition will rebel against or not understand the market economy. This in turn will either force the leadership to pursue the more culturally comfortable position of hierarchy, or the citizens will simply fail to turn around the economy through third party options, leaving bargaining as the only option left to the political leadership. On this variable, Uzbekistan is often contrasted with Kazakhstan and Kyrgyzstan. While Uzbekistan was an active part of the Silk Route and has one of the oldest sedentary cultures, nomads historically peopled the latter two states.

There are three major problems with these explanations: operationalization, mixed predictive power, and difficulty explaining change. First, there is considerable difficulty in specifying what we mean by culture, independence, ethnicity, and economic history. For example, it is difficult to say whether Kazakhs are more or less like Russians than are the Kyrgyz. Similarly, while there are clear distinctions between Belarusians and Ukrainians, on a scale including all the former Soviet states, these two would be the closest to each other and to Russia. It seems a stretch to say that Belarusians are culturally too much like the Russians to be independent, but the Ukrainians are not.

Despite the difficulty in labeling the states, table 1.2 depicts my best evaluation of these variables and how well they predict the observed relationships.²⁸

Table 1.2: Alternative Explanations for Hierarchy in the Former Soviet Union

Explanation	Dyads that Correlate	Mixed/ Indeterminate	Dyads that Do Not Correlate
Ethnic Composition			
a. Russians	Azerbaijan, Lithuania,	Belarus, Estonia, Kyrgyzstan, Moldova, Turkmenistan	Armenia, Georgia, Latvia Kazakhstan, Tajikistan, Ukraine, Uzbekistan
b. titular nationality	Azerbaijan, Kyrgyzstan, Lithuania, Turkmenistan, Ukraine	Belarus, Estonia, Georgia, Moldova, Tajikistan	Armenia, Kazakhstan, Latvia, Uzbekistan
Nationalism and State Identity			
a. language, religion	Azerbaijan, Belarus, Turkmenistan, Uzbekistan	Armenia, Baltic states, Georgia, Moldova	Kazakhstan, Kyrgyzstan, Tajikistan, Ukraine
b. independence	Baltic states, Belarus, Kyrgyzstan, Moldova, Tajikistan		Armenia, Azerbaijan, Georgia, Kazakhstan, Turkmenistan, Ukraine, Uzbekistan
Economic History	Armenia, Baltic and Central Asian states, Ukraine	Azerbaijan	Belarus, Georgia, Moldova

For ethnic composition I looked at the percentage of Russians and the percentage of the titular nationality. States that have a higher percentage of the titular nationality and/or a low percentage of Russians should not be in hierarchies. Those with a relatively low percentage of the titular nationality and/or high percentage of Russians should tend toward hierarchy. In evaluating the titular percentages,

I ranked states with 46 (Kazakhstan) to 57 (Latvia) percent as low; those between 75 (Ukraine) and 93 (Armenia) as high; and others as medium, with all in the 60's and low 70's. For the Russian percentages, if there were fewer than 10 percent, I ranked the state as low; 22 (Ukraine) to 35 (Kazakhstan) percent was considered high; the others were medium. For nationalism and state identity, I considered whether the state's language was eastern Slavic and the dominant religion Christian, and whether the state had any history of being an independent state. States where the dominant language was eastern Slavic and the religion was Christianity should have been drawn to hierarchy, under the assumption that they lacked a nationality distinct from Russia's. States that lacked a history of independence should have tended toward hierarchy. For most states, these variables do not point to a clear outcome. For economic history, I evaluated which states were historically nomadic. These included Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan. If a nomadic state was in a hierarchy and a sedentary state in an autonomous relationship with Russia, then I considered the prediction to correlate with the outcome. Azerbaijan is unclear as it has a mixed history. (See appendix one for more information on how I coded the cases.)

Table 1.2 shows that each variable has mixed results in predicting the outcome. For some dyads, there is correlation between what the variable predicts and the outcome, while for other dyads the predictions do not correlate with reality. I operationalized culture as language and religion, the first two columns. Recall that the hypothesis for this variable would be that those states where the dominant language is an Eastern Slavic language and Christianity is the dominant religion, as is the case in Russia, we should see more hierarchy than among those that are neither Slavic speakers nor predominantly Christian. The prediction works well for Belarus and the Baltic states, but for the others the results are mixed. Similarly, the economic history of being sedentary does not predict well whether or not a state remains autonomous. Uzbekistan had a rich history as a trading nation and it has fought off hierarchy. But when we move out of Central Asia, most of the states were sedentary, but they have mixed outcomes; some are autonomous, others hierarchical. For the Baltic states, there is correlation between their histories of independence and current state of autonomy. But when we move to other

²⁸ For more detail on how I labeled each dyad, see Appendix 1.

regions, we see that the results are again mixed. The same occurs for the percentage of titular nationality and Russians in the weak state.

The third problem with these variables is that some of the states have moved in and out of hierarchy. I used the 1998 benchmark for the last column of the table, but a review over time indicates that the outcomes also vary *within* a dyad. The above variables and their related hypotheses by themselves cannot explain policy and outcome changes. Yet, state leaders have changed their strategies over time. For example, Kazakhstan's leaders were originally quite deferential toward Russia. But over time, they have become increasingly emboldened in challenging Russian interests. For example, Kazakhstan began changing its tariff rates to match those of Russia's, but then stopped. Azerbaijan's leadership has at various times courted Russian assistance, only to then back away. Without Russian encouragement, Kyrgyzstan joined the Russian dominated customs union, but then did not implement the agreement. To explain these changes, historical and ethnic explanations must be coupled with a theory of politics. More sophisticated ethnic and historical arguments would show how political entrepreneurs draw on different ethnic groups to bring about a ruling majority, or how these leaders manipulate citizens either to care or to ignore their ethnicity or historical events as it suits the politician. For example, in his work on the Yoruban culture, Laitin (1986) demonstrated how the state can use language, symbols, and myths to manipulate people, to bring out their biases. Fearon's (1994, 1998) work on ethnic violence in the former Yugoslavia similarly demonstrates how political entrepreneurs can bring ethnic biases to the forefront, or let them linger in the background, as it suits the leader. Scholars have not used this approach in any systematic way to account for the variation among the FSU dyads.

To say that these explanations are incomplete is not to say that historical, cultural, and ethnic variables do not matter. It is impossible to spend much time in the region without witnessing the impact of recent and distant experiences in the attitudes and actions of FSU citizens. Indeed, I believe the FSU ground is fertile for developing theories that build on the work of Laitin, Fearon, and others who examine the role ethnicity plays in explaining political outcomes. But this work has not yet been done. Given that my resources are bounded, I have chosen to focus on often neglected variables in the FSU

that appear more promising than the historical, cultural, and ethnic variables discussed above. I leave for others the important and potentially fruitful task of exploring the other variables.

Explaining the Range of Relations

Hierarchies are associated with several potential costs and benefits, for both the weak and the strong state, as summarized in the following table:

Table 1.3: Potential Costs and Benefits of Hierarchy

	<i>Benefits</i>	<i>Costs</i>
<i>Subordinate State</i>	Financial assistance Military assistance	Incompatible policy choices Domestic political cost
<i>Dominant State</i>	Greater policy control Domestic political benefit	Financial cost Tied hands International political cost

Weak states frequently face severe economic and/or security challenges. To meet these challenges, political leaders often turn to more powerful states for financial and military support. While strong states may be willing to provide succor, they are unlikely to do so out of beneficence. In return for assistance, the strong state may require that the weak state submit to a form of hierarchy. Hierarchies give the strong state greater control over policies affecting the weak state. If the strong state can set the tariff rates for the weaker state, for example, it can reward its own domestic constituency. If the strong state fears the weak state will act opportunistically or is incompetent, it can reduce the costs by controlling policies itself. As the two leaders bargain over the nature of their relationship, both are constrained by their domestic political coalition. To win and retain their political positions, even authoritarian leaders must woo and reward a supporting coalition. The extent to which the leaders seek hierarchy depends in part on the nature of their respective coalitions. For example, the leader of a dominant state like Russia may find that to remain in office, he must at least attempt to form some kind of hierarchy with neighboring weaker states. When the leader does so, he gains domestic

political benefits. Weak state leaders are similarly constrained, or enabled, by their coalitions. Chapter 3 elaborates on these costs and benefits.

In addition to their political coalitions, leaders are constrained or enabled by what transaction cost economists call relation specific assets (RSAs). RSAs are high-cost investments that have little or no value outside the dyadic relationship. If the relationship were to end, one or both states would have an asset of little value. Examples in the former Soviet Union include pipelines and electricity grids that connect two states together. The RSA does not have to include an economic investment. Geography, for example, can be an RSA. Russia's desire to retain and further invest in a strategic defense system means that it is reliant on certain states to participate in the defense. Without radars in critical locales, the system will be vulnerable to attack. Bordering Afghanistan makes Tajikistan an invaluable state for preventing Islamic fundamentalism and drugs from entering Russia. RSAs point to the important causal value of options. A state that has significant RSAs connecting it to another state has fewer options than one without RSAs. RSAs can leave the strong state, the weak state, or both, vulnerable. Russia's dependence on pipelines traversing Ukraine and Belarus and leading to markets in Europe makes it vulnerable to Ukraine and Belarus. On the other hand, Ukraine and Belarus rely on Russian transit fees to fuel their economies.

The link between RSAs, the cost-benefit analysis, and hierarchy rests on the idea of vulnerability. When the weak state is made vulnerable by the assets, the strong state has more bargaining leverage. If the strong state's leader finds it in his political interest to seek hierarchy, the RSA provides greater leverage over the weak state. The strong state can threaten to use the RSA against the weak state unless it consents to hierarchy. Conversely, a strong state made vulnerable by the weak state may seek hierarchy in order to control the assets that threaten it. Since it is assumed to have greater power, it can use its leverage to win the hierarchy. If the states are mutually vulnerable, however, the weak state can take hostages, ameliorating the strong state's leverage. Ukraine can raise transit fees when Russia tries to force it into a hierarchy, for example. The RSAs also alter the cost-benefit analysis, affecting the outcome. If the weak state is vulnerable due to RSAs, the strong state can use its leverage to lower the cost of hierarchy. Related to the concept of RSAs are white knights.

White knights are options that emerge over time, reducing or even eliminating a state's vulnerability. These potential rescuers include other strong states, alliances of weak state, international organizations, and private parties, such as foreign direct investors or mercenaries. In chapter 3, I develop several testable hypotheses derived from these ideas. The concluding chapter includes an assessment of the degree to which the hypotheses are supported by the cases.

Case Selection and Methodology

In selecting my five cases for detailed analysis, I selected dyads that would give me a range of values on the dependent variable, encompassing security and economic hierarchies as well as autonomy. As King, Keohane, and Verba (1994) note, this is often the way research begins: "We find some fascinating instances of variation in behavior that we want to explain." I did not, however, also select on the independent variables, as this would have severely limited my ability to make meaningful causal inferences, as well as committing "the most egregious error" in case selection.²⁹ In addition to looking for variation on the dependent variable, I selected cases from different regions of the FSU—the Western FSU (Ukraine and Belarus), Central Asia (Kazakhstan), and the Caucasus (Armenia and Azerbaijan). In addition, this group of states challenges the theory to elucidate not only Slavic state behavior, but also that of states in the Caucasus and Central Asia. This selection in turn requires a more general formulation of the theory.

I use a qualitative, comparative method to test my model and hypotheses. The comparative method, in contrast to statistical methods, is best used when the number of cases is small, restricting the utility of statistical analysis.³⁰ Detailed comparative analysis was the best option for three reasons. First, the variables of relation specific assets and white knights do not easily lend themselves to statistical analysis. A review of the two states' economies should yield enough information to compare the level of RSAs within dyads. In something as significant as the direction in which the entire nation will orient its economy, RSAs of significance will be large and readily identifiable. For security, a

²⁹ King, Keohane, and Verba 1994, 142.

review of what types of conflicts the state faces cannot be ascertained from the Militarized Interstate Dispute (MID) or similar databases. These databases do not capture anticipated conflicts or the strain that a state leader is under to satisfy his or her constituency. In addition, the large databases are not current enough to capture FSU interactions; the last year of the most recent MID is 1992. Expected white knights also do not lend themselves to a large-*n* study. Where a state sits geographically, for instance, partially determines what military alliance options are available. Second, part of the value of the case studies is that we can watch them unfold. By examining the bargaining process between Russia and the other states, we can gain insight into how the independent variables translate into the outcome. Finally, related to the second point, observing the process provides more observations, essentially increasing the number of observations. By evaluating the cases over time, from 1992 to 1997, I am essentially increasing the number

Although John Stuart Mills warned political scientists about using the comparative method—because they could not hold all save one variable constant—I concur with Lijphart on this point: political scientists can valuably use the comparative method, but should attempt to find comparable cases.³¹ Given the common history of the FSU states with Russia and the collapse that affected all of the states nearly simultaneously, I can control for variations that can occur from temporal differences. Another advantage of focusing on the FSU is that we can see states pursuing strategies as they have unfolded over the last several years, something that is relatively more difficult to see for historical cases when information was more tightly held and reported in less abundance. To the extent that we can understand the processes and apparent outcomes in these states, there may be major policy implications for the United States.

For each of the five detailed cases, I researched their distant histories and cultures—as a check on the related alternative variables—as well as their recent political situation immediately before and since their independence. The political landscape elucidates the potential political costs of agreeing to a hierarchy with Russia. I conducted field research in three states—Russia, Kazakhstan, and Ukraine. In

³⁰ Lijphart makes this distinction between statistical and comparative methods on pages 684-85.

³¹ Lijphart 1971, 687-88.

particular, I obtained written reports from and interviewed numerous experts on the RSAs in the region. For example, I interviewed officials on the way in which the electricity grids are structured and the technical aspects of interrupting the electricity flow. This information is generally not available in published documents.³²

Conclusion

The model I have summarized here and develop further in chapter 3 makes several contributions to international relations theory and to understanding significant changes occurring in Eurasia.

- Using dyads as the level of analysis and focusing on two salient variables—vulnerability and white knights—helps us make sense of the seeming chaos in the region. It also provides a useful framework for thinking about how the region might evolve over time. My research has implications for other regions, or other historical periods, in which there is a dominant power with the capability and will to impose some type of hierarchical relationship on the subordinate power(s).
- By bringing together the way in which security and economics define the relationship called empire, my model of the dependent variable touches on the empires literature.
- For regional specialists and policy makers in Washington, the model provides a way to think concretely about what we mean to "go back to Russia." If my model is correct, we should have some ideas about the consequences of withdrawing aid from these new states. The focus on third party options helps make clear the limitations of IMF/World Bank and other international organizations and the importance of foreign direct investment in changing the expected outcome for many of these states. Once we understand what lies behind Russia's relations with the other successor states, policy makers can appropriately target scarce resources within the region.

³² Interviews with representatives of international organizations and business executives were generally more fruitful than those with local officials and academics. Western officials were usually more willing to share information and to be less suspicious of a Western scholar.

- For those interested in emerging regional issues, the analysis directs us to what kinds of ties keep a region together and which let a state pull out of the Russian-dominated region and, perhaps, into another region. My dissertation suggests what the future Eurasian landscape might look like.

In the next two chapters, I elucidate the dependent and independent variables. My goal in these chapters is to develop an abstract, generalized theory that can explain more than the former Soviet cases.

Chapter 2 - Clarifying the Dependent Variable: The Range from Autonomy to Hierarchy

The Peace of Westphalia (1648) fundamentally transformed the international system. From that point forward, the international system would be based on “states exercising untrammelled sovereignty over certain territories and subordinated to no earthly authority.”³³ States became equal units. Yet, when faced with managing weak, unstable, insecure states, political leaders sometimes surrender state sovereignty to other, stronger states. This type of surrender occurs in all regions of the world. It occurs in both the economic and security arenas. Some state leaders do it willingly, without pressure, as when Ecuador recently opted to adopt the U.S. dollar as its own currency. Abandoning the ability to print its own money, Ecuador relinquished some monetary decision making authority to the United States. Similarly, Puerto Rico regularly votes to remain a protectorate of the United States. On the other hand, some polities surrender decision- making under duress. When Germany and Japan agreed to allow U.S. forces to dominate their territories in the 1940’s, they waived the right to make decisions about how and what wars they would fight. Of course, they agreed in the wake of losing World War II. Not all polities succumb when pressured. Although militarily weaker than its neighbor, Ukraine has successfully resisted pressures from the Russian Federation. The variety of foreign policies toward other states and the resultant relationships that I have described here can be seen in the former Soviet Union as well as in the international system as a whole. In this way, the FSU is a microcosm of the international system and a useful arena for studying this range of relationships. In this chapter, I elaborate on the dependent variable.

³³ Leo Gross, 20.

Hierarchy and Autonomy: The Dependent Variable in the Abstract

To begin to understand and then explain the complex relations in the former Soviet Union and similar cases throughout the world, we need a clear way of categorizing the range of relations in which states engage. While some scholars focus on the unique nature of the former Soviet states—historically, culturally, economically, and militarily—I am more interested in mining the region for patterns that exist elsewhere in the international system. Particular cases can help us develop general theories, and general theories can lead to a better understanding of particular cases.³⁴ Furthermore, by generalizing the cases, we increase the number of observations, allowing us to make stronger causal inferences. In a single case-study, it is difficult to tease out which of numerous factors are paramount in explaining the outcome. By comparing cases, we can rule out variables that seem to account for the outcome, but when absent from a similar case raise questions about their explanatory power. For example, one might observe that Belarus is Slavic and its leadership has advocated a union with Russia. One might then argue that there is a causal relationship between the two variables: being Slavic leads to a desire for a union with another Slavic state; more generally, states with similar cultures are more likely to seek union with each other. However, Ukraine, another Slavic state, has actively resisted embracing Russia, suggesting that something else is required to explain Belarus' behavior. It cannot be the Slavic culture alone. Hence, expanding the number of cases can in turn help us better understand the particular case.³⁵

The FSU states are unique, but they are also part of a larger class of states. While the FSU region has its own peculiar mix of ethnic groups and political, social, military, and economic history, one can see these states' leaders as facing constraints and incentives that are common to other states in the international system. Attempting to build a nation and state, to resuscitate a dying economy, to fend off internal and external threats are not challenges unique to the FSU leaders. Similarly, despite its unique place in history, Russia shares with other great regional powers certain characteristics,

³⁴For a more detailed discussion on the value of generalizing, see King, Keohane, and Verba.

³⁵As with all analytic choices, there are pitfalls in the process of generalizing. One must be careful not to engage in conceptual "stretching," as Collier and Mahon warn us. Stretching refers to distorting the general concept so that it no longer usefully fits the particular case. For example, the term democracy has been much debated by scholars and politicians alike. To theorize about democracies using Mexico and Russia as cases is to

incentives, and constraints. In addition, as politically motivated people, the leaders of the FSU states have much in common with leaders all over the world. For these reasons, I believe it is valid and valuable to analyze relations in the FSU using a generalized theory.

Given that Russia is the dominant power in the region and of considerable concern to the international community, I am interested in exploring its relationships with the other FSU states. Moving from the specific to the general, Russia is part of a larger category of "strong states," while the non-Russian states belong to the category of "weak states."³⁶ My unit of analysis is the "strong state-weak state" dyad, or pair. Throughout the analysis, I compare dyads such as the Russia-Ukraine dyad to the Russia-Belarus dyad and the Russia-Kazakhstan dyad. In the former Soviet region, this formulation gives me 14 dyads.

The asymmetric strength of the strong and weak states can easily be measured through standard objective economic and military indicators: Gross Domestic Product (GDP) and levels of military equipment and expenditures. For my analysis, the strong state should have markedly higher GDP and equipment levels than the weak state. Since my theory assumes that the strong state has resources to offer the weak state, this asymmetry in power is a critical assumption.

Categorizing Russia as a strong state may strike some as inappropriate given Russia's fall from superpower status and mounting evidence that it resembles in many ways a developing state. The industrial infrastructure is out-dated and crumbling. The economy has suffered numerous crises. The standard of living for most Russians is extremely low.³⁷ Much of the military equipment is rusting in fields. The political system is rampant with corruption. The mafia is a powerful force. With the chaos of Chechnya and Daghestan, it is tempting to focus on the weakness of Russia. However, for those living near Russia in the former Soviet region, there is no question about which state dominates the

engage in conceptual stretching, as these states are democracies in under only the weakest definition. With this caution in mind, I suggest that we can fruitfully generalize the FSU cases.

³⁶ My use of the terms *weak* state and *strong* state are strictly related to the military and economic strength of the states relative to *each other*. It does not correlate to literature on states that are considered weak or strong relative to the *societies* that they govern, as in the case of Evans, Rueschemeyer, and Skocpol's edited volume, *Bringing the State Back In*.

³⁷ The U.S. Central Intelligence Agency estimates Russia's 1998 GDP per capita (purchasing power parity) to be \$4,000. Web site <http://www.odci.gov/cia/publications/factbook>.

area. Despite being a shadow of its former self and no longer a world superpower, Russia looks strong from the viewpoint of a Georgian, Kazakh, or any of the other titular nationalities in the region.

Relative to the other FSU states, Russia is economically and militarily strong; the others are weak.

Asymmetry in power is a necessary condition for the theory. This is because I assume that (1) the strong state has the capabilities, if not willingness, to assist economically and militarily the weak state; and (2) in a hierarchical relationship, the strong state would certainly dominate the weak state rather than the other way around. If the two states are relatively equal in capabilities, it is unclear which state would dominate a hierarchy, should one develop. In the theory I develop in the next chapter, I assume that the strong state, identified by GDP and military equipment and troop levels, will dominate the hierarchy. The theory does not address cases in which dyad members are relatively equally matched on these indicators. Similarly, the theory is not designed to address relationships in which the leader of the hierarchy is not a single state, as is the case with international organizations, federal systems, or quasi-federal systems such as the European Union.

For convenience, I use the terms “state” and “state leadership.” In the former Soviet region, the international community recognizes the units that I am examining as independent states. However, the analysis applies more generally to political units. The units that are already in the subordinate position of a hierarchy are often not considered states and are often given names to signify this. These units are variously called territory (U.S. Virgin Islands); colony (Falkland Islands); dependency (Bermuda); autonomous region or community (Canary Islands, Azores); commonwealth (Puerto Rico); *département d’outre-mer* and *territoire d’outre-mer* (Guyane, French Polynesia); or, collectively, the periphery.³⁸ Since I focus on the process that leads to outcomes ranging from autonomy to hierarchy and the units that engage in that bargaining, I use the term *state*. I refer to the political units, or polities, that are in the hierarchy as the *dominant state* and *subordinate state*. In the real world, however, these units may take on formal titles, such as those listed above.

³⁸These various official terms are defined in Aldrich and Connell 1998. The proper names listed here are examples of current units that are designated as such.

Evaluating forms of organization or relationships follows in the tradition of the cost economics (TCE) literature. It is to this literature that I look for insights into the empirical puzzle and how to solve it. Much of the recent theorizing in political science has its origins in economic theory. The insights of Hayek (1945, 1967), Coase (1937, 1960), and other New Institutional Economics (NIE) theorists have recently been adapted to answer a wide-range of political science questions (Cox 1987, Cox and McCubbins 1993, and North 1990).³⁹ In economics, one of NIE's primary contributions is the concept of transaction costs. Although economists do not have a precise definition of transaction costs, they generally mean the costs associated with making a contract and then maintaining and enforcing the contract. Because it is costly to obtain information, transactions between agents include the cost of measuring the value of the assets being exchanged and the cost of monitoring and enforcing agreements. Introducing transaction costs into economic theory brought attention to economic governing structures (Eggertsson 1990). Neoclassical economists had focused on the gains that are made from trade, arguing that specialization and the division of labor lead to increased savings from economies of scale. They have since been critiqued for focusing on the benefits of exchange while ignoring the costs. NIE analysis brings these costs into the equation. In international relations, this has opened a fruitful research agenda that examines questions about how nations cooperate given transaction costs such as incomplete information and principal-agent slippage. Scholars argue that international institutions and third parties can aid states in overcoming disincentives to cooperate (Fearon 1994, 1998; Martin 1992; and Keohane 1983, 1984).

³⁹ There is considerable room for confusion about the various branches of economic theory related to efficiency explanations. The similarity of names, such as the New Economics of Organization and New Institutional Economics, adds to the confusion. In his 1985 article, "Assessing Contract," Williamson discusses where the different approaches merge and break off. According to Williamson, explanations for non-market organizations can be divided into two broad categories: monopoly and efficiency. Classical production function explanations relate to the monopoly explanation and include factors such as leverage, price discrimination, and entry barriers. Those focusing on efficiency take one of two approaches: evaluating incentives, such as property rights and agency problems, and those who analyze transaction costs. When I discuss TCE, I am focusing on the last subcategory. For a thorough discussion of the historical progression of economic theories, see Eggertsson and Langlois.

TCE is a subcategory of NIE.⁴⁰ Most closely associated with economist Oliver E. Williamson, TCE's primary concern is the range of governance structures, or organizations, that players use in economic production. "The basic insight of transaction cost economics—that transactions must be *governed* as well as designed and carried out, and that certain institutional arrangements effect this governance better than others—is now increasingly accepted."⁴¹ Williamson was interested in explaining why firms or vertically-integrated companies develop as opposed to remaining separate entities. Following Coase's 1937 groundbreaking article, "The Nature of the Firm," Williamson sought to explain the dichotomous choice between firm and discrete market interactions. More recently, economists have conceptualized the dependent variable as a continuum between firms and discrete markets, with varieties of economic relationships falling between the two end points. In his analysis of coal-burning electric generating plants, Joskow analyzed long-term contracts. In another case, Palay (1985) evaluated informal agreements used by U.S. rail-freight shippers and carriers. These organizational forms are neither firms nor discrete market interactions; they lie somewhere in the middle.

This TCE organizational range provides a useful analogy for relationships within the international community. Some international relations scholars have used this analogy to explain economic structure in the international system (Yarbrough and Yarbrough 1992), security relationships among individual states (Lake, 1996, 1999; K. Weber, 1997), colonization (Frieden 1994), and the emergence of the state as the dominant unit in the international system (Spruyt 1994). In applying insights from TCE to their particular cases, international relations scholars use the terms and concepts

⁴⁰ TCE, sometimes called the New Economics of Organization, assumes bounded rationality. Some economists, such as Eggertsson, argue that TCE's assumption of bounded rationality moves it out of the core of economic theory, which assumes full rationality. Without the assumption of full rationality, analysts cannot make generalizable theories, the argument goes. Instead, analysts would have to determine the way in which an individual's brain works. Theories would then be specific to certain types of people, categorized by their cognitive abilities. I argue, however, that Williamson's use of bounded rationality only serves the analytical purpose of making contracting for all future contingencies impossible. Given this, one can easily substitute imperfect information or uncertainty for bounded rationality. Political scientists frequently do this and still formulate generalizable theories.

⁴¹Shelanski and Klein 1999, 90.

somewhat differently from each other, but they have in common an interest in explaining the variety of governance structures.

In evaluating the range of economic and security relationships in the international system, Williamson's firm is analogous to two states that are vertically integrated into a political hierarchy. The economists' separate economic entities are in turn analogous to states that remain separate political entities, with no implicit or explicit understanding of a hierarchy between them. These states treat each other as autonomous units, neither surrendering decision-making authority to the other. Each dyadic relationship can then be codified as falling on a range between two end points: autonomy and hierarchy.⁴² Not all—indeed, probably few—dyads can be found at the end points. Like Joskow's long-term contracts and Palay's informal agreements, there are dyadic relationships that lie somewhere along the continuum.

Where a dyad lies on the range depends on whether it has surrendered any decision-making authority to another state. Under full autonomy, state leaders retain full decision making authority. Autonomy implies that neither state controls the foreign and/or domestic policies of the other state, even on areas in which they may be cooperating. Most states treat other states in the international system as though they are autonomous units. They usually do not consider the myriad international agreements signed every day as signaling any special alliance. Analysts often refer to this type of interaction as "normal" or Westphalian state relations. Nearly all states in the current international system engage in numerous relationships with different partners in which each assumes that its partner is responsible for its own domestic and international policies. States form autonomous relations with numerous states on the whole gamut of issue areas. They enter into scientific and cultural exchanges, agreements to co-produce military equipment, treaties to jointly fight drug traffickers, and tariff agreements, among countless others. The majority of these agreements are made without either side relinquishing control over its policy making.

⁴²K. Weber 1997 and Lake 1999 examine the security arena and uses a range from autarchy (or anarchy) to hierarchy. While the terms and definitions vary somewhat, they are closely related.

When states enter into these agreements based on autonomy, they frequently are not signaling any long-term alliance with the other member of the dyad. The leadership in both states, and in the international community at-large, implicitly understands that both states will enter into agreements with numerous other states on various issues. Neither party surrenders control over its decision-making and both parties understand that this is the nature of the relationship. In formal and informal agreements, each state is assumed to speak for itself, with neither making decisions for the other. Within a relationship based on autonomy, one state may be stronger than another, as measured by the strength of its military or economy. The stronger state may attempt to use this leverage to encourage the weaker state to act in certain ways, but the two parties understand that this leverage is employed as part of the bargaining process for a specific, limited agreement. Once the agreement is finalized, the states have equal control over their own politics and policy making.

In contrast to relationships under autonomy, a weak state usually enters into hierarchical relationships with only one strong state. Weak states in hierarchical relationships tend to be subordinate to only one master.⁴³ Unlike in autonomous relationships, states in hierarchical relationships are usually signaling a longer-term relationship. In the traditional form of empire, the periphery is economically, militarily, and politically tied to the center power. If the weak state agrees that the strong state can determine when it goes to war, for example, it is unlikely that the weak state will be considered a viable alliance partner for other states. Similarly, if a strong state is setting tariff rates for the weak state, another state is less likely to ask for the same privilege. This often occurs because strong states agree among themselves, implicitly or explicitly, to spheres of influence. During the Cold War, for example, Europe was divided between the United States and the Soviet Union. Not all of these states were in hierarchies, but those that were had only one hierarchy leader: either the U.S. or the Soviet Union, not both. This can change over time, as some Middle Eastern states did, but in one time period, there was usually only one hierarchic leader.

⁴³ There are notable exceptions to this, such as the Concert of Europe. However, the norm seems to be deference to only one master.

Theoretically, this does not have to be the case. A weak state could give some decision-making authority to several different powers. For example, a former Soviet state could allow Russian troops on its borders but then enter a monetary hierarchy with the United States, by dollarizing, for example. A state could also agree to match the tariff rates of Russia while tying its currency to the dollar. Having several rulers govern one territory was common during the medieval period, when the “system of rule reflected ‘a patchwork of overlapping and incomplete rights of government.’”⁴⁴ In the modern era, however, members of empires, protectorates, and other hierarchies are usually beholden only to one strong state.

In contrast, the strong state often heads a hierarchy with more than one weak state. While the strong state may be constrained by costs, theoretically, it can have an unlimited number of subordinate states. Historically, once great powers started colonizing other political units, they generally accumulated quite a few. In historical cases of empire, the dominant state had many entities in its empire, but the weak states gave up sovereignty to only one power. Once they did so, they were often seen as being off limits to other imperial powers, unless the challenger elected to fight—militarily or otherwise—the center for domination over the subordinate unit.

Hierarchy can occur in the security and/or economic arena—the two primary international relations categories; we observe both types in the FSU. Under a security hierarchy, the strong state controls some or all of the military decision making for the weak state. Under an economic hierarchy, the weak state delegates monetary and trade policy to the strong state. Under a complete hierarchy, a state would have given all decision-making authority to another state. This is often what we mean by an empire. A central state makes decisions for another state or political entity. The Soviet Union was such an empire. The center—Moscow—made decisions about the political, economic, and military policies of the various Soviet republics. While the republics had some minor decision-making authority, their leaders were largely responsible only for implementing the policies made by the center. Hierarchies do not have to be complete, however. States can delegate decision making only in the

⁴⁴ Strayer and Munro 1959 quoted in Ruggie 1986, 142. On these different structures of government, see also Spruyt 1994.

economic sphere or only in the security sphere. The dependent variable can be pictured as shown below in figure 2.1, with some historical cases placed on the two spectrums.

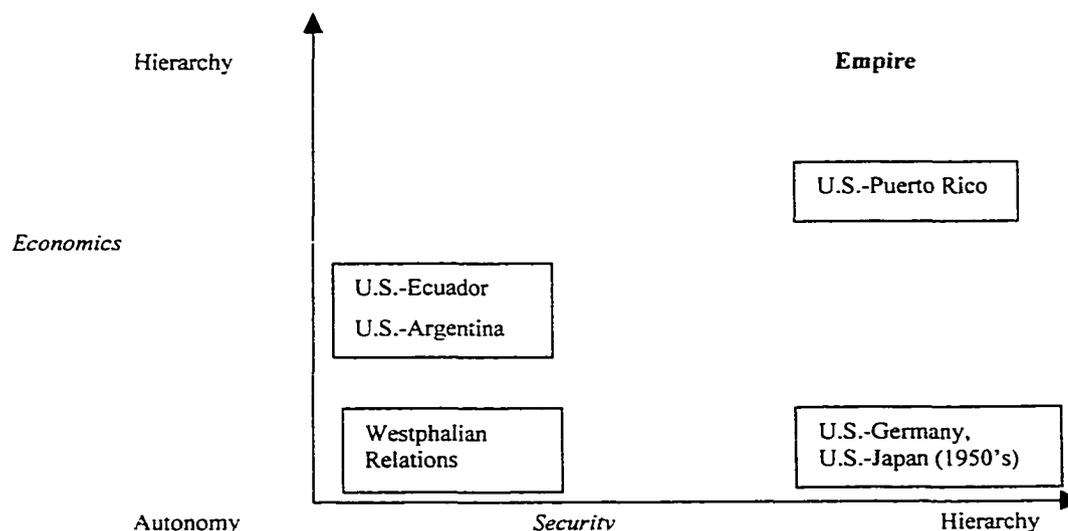


Figure 2.1: Examples of the Range of Relations in the International System

These dyads are just a sample of the kinds of hierarchies in the international system. While large land-based empires like the Soviet, British, Austro-Hungarian, and Ottoman empires have died out, other types of hierarchies remain. I have selected dyads in which the United States is the dominant state as a means of demonstrating the variety of hierarchies one state may lead. In addition, using the U.S. makes clear that hierarchies are not just for authoritarian states. Liberal democracies are just as capable and likely to dominate hierarchies as any other state type.

The starting point of autonomy on both ranges is Westphalian relations, the dominant relationship in the international system. The other dyads depicted here violate Westphalian assumptions. Weak states often find it in their interest to surrender sovereignty; strong states find it in their interest to steal some. In some cases, political leaders voluntarily compromise the autonomy of their own state. At other times, the would-be dominant state diplomatically or violently coerces the weaker state into compromising its autonomy.

The two cases of only economic hierarchy shown here refer to the weak state's decision to use a currency board and peg its currency to the U.S. dollar (Argentina) and to replace its local currency with the U.S. dollar, a policy known as dollarizing (Ecuador).⁴⁵ Currency boards are one step short of adopting a foreign currency to serve as the domestic currency. Three rules generally govern a currency board regime: a fixed exchange rate against a strong currency, often the U.S. dollar; unrestricted convertibility into that currency; and sufficient assets to keep the exchange rate fixed. States that choose currency boards add credibility to their monetary policy at the cost of flexibility in pursuing other goals. Reeling from the peak inflation years of the 1980's, Argentina adopted a currency board in 1991. The state chose the U.S. dollar as the anchor currency. "Although the central bank was retained, its discretionary powers were severely curtailed by a law stipulating full convertibility" of Argentina's peso "at a fixed parity to the U.S. dollar" and mandating dollar reserves to cover the monetary base.⁴⁶

Ecuador was also looking to stabilize its currency, the sucre, after watching its value plummet from around 7,000 sucres to the U.S. dollar in January 1999 to 19,000 in late December 1999, and as low as 30,000 in the first days of January 2000. Ecuador's president subsequently announced that the country would officially dollarize, converting completely to the U.S. dollar as its currency. While the proposal did not save the president from being removed from office, his vice president, who assumed the position of president, received parliamentary support for the measure and signed the law into force in March 2000.⁴⁷

Dollarizing will eliminate Ecuador's ability to control its monetary policy. It also means giving up seigniorage, or currency profit.⁴⁸ Once it is fully dollarized, Ecuador will not be able to print money to help pay international debts, bail out troubled banks, or close a budget gap. Dollarization would make this impossible. In fact, that is the point. The benefits include lower inflation rates and a

⁴⁵Panama, with a population of 2.7 million, is the largest officially independent state that is already dollarized; it dollarized in 1904. Argentina and El Salvador considered dollarizing but rejected the option. For information on the Ecuador case, I am grateful to Jennifer Collins, who was conducting research in Ecuador at the time of the 1999/2000 economic crisis.

⁴⁶ Cohen 1998, 53. See p. 52-55 for more on currency boards.

⁴⁷ "Ecuador Congress OKs U.S. Dollar Plan," Associated Press, March 1, 2000.

stable currency, which should lead to more foreign direct investment and domestic savings. Although the U.S. was not officially pressing for this hierarchical position, some Congressional members have introduced legislation to make dollarization more appealing to other states considering it.⁴⁹

Much of the recent literature on states giving up sovereignty or violations of Westphalian assumptions, focuses on multilateral organizations rather than individual states. The European Union, the North Atlantic Treaty Organization (NATO), and the Commonwealth of Independent States (CIS) are all types of hierarchies. In each of these cases, member states or other political units, surrender some decision making authority to a central authority that is comprised of representatives of at least some of the member states. The degree of hierarchy varies among these organizations, as do the governing rules, such as each member's degree of representation, enforcement mechanisms, and the like. Larger political units are sometimes given a greater voice than the smaller units. Some organizations have clear monitoring and punishment procedures and the power to enact the punishments. Neo-liberal theorists have focused on precisely how these international institutions affect outcomes.

While these are cases of hierarchy, not all can be analyzed using my model. To fit within the parameters of my theory, the same conditions discussed above must apply. First, there must be at least one strong state and one weak state. In cases in which the member states have relatively equal GDPs and military equipment and troop levels, strong-weak dyads do not exist, a necessary condition for my theory. In those cases in which there is at least one strong state and one weak state, these hierarchies can be broken down into a collection of dyads. For example, NATO can be viewed as dyads that include the United States-the Czech Republic, the United States-Portugal, France-the Czech Republic, and so on. Germany-France would not be a dyad in this category, as they are too close in power.

⁴⁸ Seigniorage is the profit made by the treasury when printing money. For example, although a \$1 bill costs only 3 cents to print, the U.S. government can use it to buy \$1 worth of goods. Without rebates of seigniorage, countries that officially dollarize would lose this revenue.

⁴⁹ Perhaps most notably, the Chair of the U.S. Congressional Joint Economic Committee introduced legislation to allow the U.S. to certify officially dollarized countries as eligible to receive seigniorage rebates from the United States. According to the Senator's office, Ecuadorian officials have indicated that the prospect of a rebate of seigniorage from the United States favorably influenced their decision to dollarize. See the Joint Economic Committee's web site: <http://www.senate.gov/~jec/ecsum.htm>, February 2000. See also "Basics of

Historically, the United States-Germany would have been a strong-weak dyad, but probably not currently.

The second condition is that the weak state must have given some decision-making authority to the strong state. In a multilateral organization, this would mean that the strong state in the dyad being analyzed has significant decision making authority over the weak state or states. If the members of the multilateral organization have equal voting power, for example, this dyad would not meet the criteria for my analysis. For example, assume that there are 4 members of a multilateral organization: A, B, C, and D. Assume that A is the strong state and the others are weak states. There are then 3 “strong state-weak state” dyads that, thus far, fit the criteria for my analysis: A-B, A-C, and A-D. Assume that the organization has a governing body to which the four states have delegated some decision-making authority. The voting rules in the organization determine whether or not these dyads meet the criteria. If the voting rules give State A 51% of the votes, the rest of the votes are divided up amongst the remaining three states, and a majority vote is all that is required to pass decisions, then each of the dyads fits my criteria. The three weak states have essentially delegated decision-making authority to the strong state. Although the joint decision-making body formally gives some influence to the other states, the strong state has veto power. The rules tell us whether there is an explicit understanding that these decisions will be followed by the subordinate states. If there is evidence of the weak states following through on the strong state’s decisions, then the relationship fits my definition of hierarchy and can be analyzed using my theory.

In other international organizations, such as the European Union’s Council, decisions might be made by representatives from each of the member states, with no one state having veto power. These types of hierarchies are outside my theory. Without a “strong state-weak state” dyad with the strong state making decisions for the weak state and the weak state accepting that decision-making authority, the relationship is outside the scope of my theory. Other international relations theories that focus specifically on why states delegate authority to multilateral organizations, such as those used to explain

Dollarization, July 1999” updated January 2000, Joint Economic Committee Staff Report, Office of the Chairman, Connie Mack. Web site: <http://members.dencity.com/sgrimsle/numisphilv/dollarization/jec/basics.htm>

the development of the European Union, are better suited to analyzing these types of hierarchical relationships.

Some multilateral organizations have characteristics of hierarchy that both falls within and outside my theory. (Of course, the organization might not be a hierarchy by any definition.) For example, in NATO, member states formally have equal decision making authority. States are encouraged to use standardized military equipment, to devote a certain percentage of their GDP to military expenditures, and the like, but there is no implicit or explicit understanding that the strong power, the United States, makes these decisions. However, in those cases in which the United States has military troops on another state's territory, as has been the case with Germany and other European states, and the weaker state is largely dependent on those forces to meet its security needs, there is hierarchy that accords to my definition. (I discuss below why the presence of foreign troops indicates hierarchy.) In the case of foreign forces based in Germany, while these were ostensibly NATO forces, the forces were led by an American commander, U.S. troops comprised the majority of the forces, and the forward based nuclear forces were American. Until recently, Germany was largely reliant on these forces for its security. By relying on American forces, the Germans were delegating some of their decision-making authority to the United States. If the Soviet Union had attacked Germany, for example, U.S. political and military leaders would have had veto power over the direction and means by which Germany was defended. Thus, an organization cannot clearly be labeled hierarchical or not without evaluating the particular context of specific situations. Only by evaluating the specific decision making structures and the context of the relationship can the theorist determine whether the hierarchy of a multilateral organization fits within the scope of my theory.

The range from autonomy to hierarchy builds on Lake's recent (1996, 1999) work on security issues. Lake argues that security relationships can be placed on a spectrum that ranges from anarchic to hierarchical.⁵⁰ My work further builds on Lake's by suggesting that this range encompasses not only security relationships but also economic relationships. By incorporating the economic dimension in my

work, I more closely match what I believe others mean by empire. Finally, Lake's focus on security leads him to define empire as a security hierarchy. But empires encompass both security and economic dimensions, the primary arenas in international relations.

Operationalizing the Dependent Variable

In the days of empire, when states proudly called themselves *imperial*, hierarchical relationships were virtually common place. Indeed, in 1919, the U.S. Government published a (then-confidential) book listing "types of restricted sovereignty and of colonial autonomy." In a definition that stands up well to time, the authors defined sovereign states as those "which exercise supreme authority over all persons and property within their borders and are completely independent of all control from without....They do not involve legal dependence upon another State or States." Semi-sovereign states are those which lack some attributes of a fully sovereign state, but which have enough independence in the control of their politics and policies "to be able to claim some degree of international personality."⁵¹

Today, with the "Days of Empire" consigned to the history books, states customarily deny what are now considered accusations of imperialism. This complicates the task of identifying empires and other hierarchical relationships. Nevertheless, these arrangements do exist, even if they are not identified by the labels used in 1919. Without clear labels, each dyad's placement on the spectrum depends on the understood decision-making structure for the pattern of economic and security relations between the states. In other words, the relevant question is "Do both the strong state and the weak state control decision making in their respective states, or does the strong state make some decisions for the weak state?"

⁵⁰Lake uses anarchy in much the same way that I use autonomy. I prefer the latter term because I believe that it more closely matches most political scientists' common use of the Westphalian concept. Using the range from anarchy to hierarchy seems to invite confusion with Waltz's terms.

⁵¹Willoughby and Fenwick, p. 5. The following statement brings the reader back to the reality of when this Handbook was written: "...certain States which possess full sovereignty, but whose civilization is regarded as backward in comparison with that of Europe, are excluded from the family of nations because it is believed that they have not reached that stage of political development at which it is possible for them adequately to fulfill the obligations which international law imposes upon the adult international person" (p. 6).

In the security arena, the most obvious indicator of hierarchy is when the strong state has its troops, under command of its officers, on the weak state's territory, including external or unshared borders. Military officers and troops and their weapons ward off foreign attacks and refugee overflows. "They patrol territorial waters and the exclusive economic zones off coasts, and curb contraband, drug-smuggling, illegal immigration and terrorism."⁵² American forces in Puerto Rico, French units in Polynesia, and Russian troops in Tajikistan give the United States, France, and Russia some control over the policies of territories on which their forces are based. Even if the subordinate state has its own forces, the very presence of the foreign units means that they are likely to have some impact on decision making in the subordinate state. The greater the ratio of foreign troops to domestic troops, the greater the hierarchy. The relatively large number of forces allows the strong state to physically, even violently, overrule decisions by the weak state, should it choose to challenge the strong state. Furthermore, if the weak state is under attack, it has little power to determine the direction of the counter-attack or defensive maneuvers. It must defer to the strong state.

A slightly more shallow hierarchy exists if the strong state's officers command the weak state's troops. Sending both officers and soldiers loyal to the strong state gives it significant control over how the units choose to protect the subordinate unit. When only the officers have a sworn loyalty to the strong state, the strong state is in slightly less control than when it manages the entire force. To the extent that the powerful state determines how and when the military forces protecting the weak state will fight external enemies, and with whom the weak state can ally, the relationship is hierarchical. Even in cases in which the strong state appears to defer to the weak state, the very presence of the strong state's forces, as long as they are more powerful than the weak state's forces, implies hierarchy. This is because the strong state's forces can overtake the weak state's forces and then determine the direction of the battle. In addition, if the weak state's leadership is reliant on the strong state's forces to defend it against external attacks or civil war, the strong state will have a de facto voice in decisions that affect the battle. Under NATO, the United States signed basing agreements with its allies allowing American troops to be located on other NATO members' territory. Under the current Stationing of

⁵²Aldrich and Connell 1998, 169.

Forces Agreements—SOFA's, as they are called—the United States is leasing the bases from the host government and must request permission from the host as to how the bases will be used and whether forces may deploy on the host government's territory. In cases in which American troops are not actually located on the other state's territory or only in insignificant numbers relative to the host's domestic forces and NATO must request permission to use the bases, there is no hierarchy. On the other hand, if the host government lacks the ability to control the foreign government's forces in this way—either because there is an understanding that the strong state can use the bases at its discretion or because the strong state's forces outnumber the weak state's forces—the relationship is hierarchical.

In coding cases on the security dimension, a dyad receives 1 point if the strong state controls 25-50 percent of the total troops or equipment on the state's territory; 2 points if it controls 51-75 percent, and 3 points for 75+ percent. If the strong state controls fewer than 25 percent of the forces, the dyad receives 1 point if the strong state controls 50 percent or more of a security function: air defense, nuclear weapons, external borders, or a branch of the military (army, air force, navy). The dyad gets 1 point for each function controlled, with a maximum of 3 points. Zero points indicates autonomy. Thus, states can score from 0 to 3 on this scale, with 3 being the most hierarchic.

In the economic sphere, hierarchy implies control over the trade and finances of the weak state. A deep hierarchy would be marked by control over both domestic and international trade and finance, while a more shallow hierarchy might address only international economics. If the strong state determines the tariff levels, quotas, or other trade controls of the weak state, then the weak state no longer determines its own trade policy. If the weak state's leadership must set its state tariff rates to match those of the strong state, it gives up some of its ability to reward domestic constituents through protectionist practices or free trade, depending on the constituency it wishes to please. In monetary policy, a weak state might agree to use the same currency as, or more commonly, to tie its currency to that of the strong state. Using the same currency, the strong state would most likely have sole power over currency emission. In this case, the weak state has very little control over its macroeconomic policy, having essentially ceded monetary power to the strong state. For example, the strong state can restrict the monetary supply to rein in inflation in its own state. This restriction may or may not be in

the interest of the weak state. There are also other forms of surrendering sovereignty. As Cohen remarks in *The Geography of Money*, “choices are not restricted simply to the stark alternatives of your own money or someone else’s.”⁵³ Weaker forms of economic hierarchy include using currency boards, as Argentina does, and pegging the local currency to the currency of a strong state, such as Germany, Japan, or the U.S. In so doing, the state leader loses some control over his state’s monetary policy. Unable to use exchange rate adjustments, he foregoes a key economic adjustment mechanism.

In coding the cases on the autonomy-hierarchy scale, a dyad receives 1 point if the strong state controls either monetary policy (through dollarization, for example) or external tariffs. If the strong state controls domestic economic policies as well, the dyad receives an additional point. A dyad receives 4 total points if the strong state appoints the weak state’s leadership. As with the security range, dyads can score between 0 for autonomy and 3 for a moderately deep hierarchy.

At the maximum, dyads can score 4 points. Overarching relations between strong-weak dyads may also be characterized by the strong state controlling the domestic leadership in the weak state. A strong state can achieve this either by direct control—sending to the periphery officials from the dominant state—or by indirect control—effectively controlling the local officials in the periphery. The strong state can enact indirect control by appointing the leader in an authoritarian regime, or by influencing democratic elections through substantial financial support, payoffs to candidates, or rigged elections. To be considered a hierarchical relationship this influence would be followed by the ability of the strong state to significantly control the actions of the leader in the weak state. This type of relationship sometimes characterized relations between the USSR and the other Warsaw Pact members, for example. A strong state controlling the domestic political leadership is, for many scholars, the effective definition of empire. This form of control allows the strong state to dominate both the domestic and international policies of the weak state. This is the strongest form of hierarchy and would theoretically stretch to all policy dimensions. Dyads with this type of relationship score a 4, the deepest form of hierarchy.

⁵³ Cohen 1998, 51.

Some will argue that we cannot determine hierarchy until the weak state challenges the strong state. Only if the strong state stands up to the weak state can we call the relationship hierarchical. I disagree. Weak states can raise the cost of hierarchy, as I discuss in greater detail in chapter 3. They can do so by demanding more money from the strong state, by rioting, by inviting competing strong states onto their territory, among many other tactics. These higher costs may indeed result in a troop withdrawal. For example, when the Philippines “asked” the United States to withdraw its forces from the islands, the U.S. complied after basing costs increased and U.S. policy makers ascertained that the benefits of remaining had decreased. This does not mean that autonomy marked the entire preceding period. The very presence of large numbers of U.S. forces and highly technical weaponry makes clear that the United States had enormous influence over Filipino security affairs. The U.S. presence raised the cost of other powers’ influence. Indeed, it was this very influence that the Filipino government wanted to rid itself of.

Hierarchy is distinct from merely close relations between two states. Scholars have evaluated whether the FSU states seem to be leaning toward or away from Russia. “Leaning” is related to hierarchy but distinct from it. The question of whether a state is moving closer to or further from Russia reflects Cold War thinking. It does not capture the changes that have occurred since the Soviet collapse. During the Cold War, states were pushed to identify themselves as members of one of two camps; they were essentially asked, “Communist or capitalist?” For the weak state, choosing sides meant, hopefully, *gaining benefits from the selected camp*. While states often hedged their bet by waffling or secretly accepting assistance from both the Soviets and the United States, they were pushed to make the choice and often received increased benefits for doing so. Under the current international environment, however, this obvious choosing of sides is no longer applicable. States can and do choose to have many partners in both the economic and security arenas. They no longer have to identify themselves as *Communists or capitalists*. While the United States and Russia are often not on the same page in terms of both international and domestic affairs, they are not clearly enemies. To then suggest that the former Soviet states have to choose one or the other camp no longer makes sense.

Many of the non-Russian states have gone to great pains to show that they are beholden to neither the West nor Russia. For example, while Ukraine is often considered a Western-looking state, it continues to have close ties with Russia, is a Commonwealth of Independent States (CIS) member, and has made no concrete efforts to join NATO. Kazakhstan pointedly involves Russian, American, European, Japanese, and other nation's companies in many of its state-run business deals. Kyrgyzstan joined the Russian-designed and -dominated customs union, but also completed its World Trade Organization application in record time. Georgia often espouses anti-Russian sentiments, but continues to provide military basing for Russian troops. Kazakhstani troops engage in military maneuvers with both the Russians and NATO. The southern states have also looked to Iran and Turkey for assistance and close relationships as well as to Russia. Even Armenia has made diplomatic appeals to Turkey, apparently in hopes of garnering economic benefits. In sum, defining the dependent variable as "leanings toward Russia" forces the analyst to make a distinction that many states are not making themselves and therefore inadequately captures much of what is happening in the region. Furthermore, it obscures another puzzle in the region: the variation from autonomy to hierarchy.

What analysts and policy makers really want to know, it seems to me, is not whether states have close relationships with Russia, but whether they have given up some autonomy to Russia, what I have labeled as hierarchy. It is hierarchy, not choosing Russia as well as one of many other partners, that really concerns U.S. policy makers. Hierarchy often implies that the state has made a choice that excludes other states. If the weak power has given some decision making authority to a strong state, third states desiring relationships with the weak state must now contend with the strong state's leadership as well as, possibly, that of the weak state. If the strong state does not have good relations with the third state, or wishes to challenge it, the third state may be excluded from important security and economic relationships with the weak state. In regional terms, the United States may be pushed out of, or have fewer opportunities in, weak states that have delegated decision making authority to Russia.

Conclusion

While international relations theorists have typically considered states to be fully sovereign, in fact, there are and always have been a variety of relationships in which a weak state delegates some of its decision making authority to a stronger state. The literature on empires, the remaining colonies, alliances, and other forms of state relationships demonstrate this difference. Yet the range is generally not specified as a puzzle and has not been used to identify patterns in the former Soviet region, or any place other than in Lake's recent work on security relationships between the United States and its allies.⁵⁴ In this chapter, I have elaborated on the abstract concept of states having various levels of sovereignty in their relationships with other states and how this applies to the former Soviet region. The indicators of hierarchy for the FSU may apply to other world regions or dyads. The challenge to the analyst is to look for areas in which weak states have delegated some decision making authority to another state and that this delegation is understood, at least implicitly, by the two parties. This type of delegation is not as easy to spot as it once was when political leaders had no qualms about calling themselves leaders of an empire. Still, when one looks closely, these hierarchical forms are indeed there. The following chapter elaborates on the variables and the theoretical apparatus connecting the variables to the outcome.

⁵⁴Lake 1999.

Chapter 3: Explaining the Variety of Relationships: Relation Specific Assets and White Knights

Emerging in the former Soviet Union are a variety of dyadic relations. If extant theories cannot fully explain these relationships, what other factors can? In this chapter, I develop a model that draws on insights from transaction cost economics (TCE). My intention is not to enumerate all the variables that might matter or to give a detailed historical account of the evolving relationships. My goal instead is to develop a parsimonious and generalized theory to explain relations not only in the former Soviet region, but in the international system at-large. By focusing on just a few factors, largely ignored or underplayed to date, I argue that we can make progress in understanding how and why some states surrender, sell, or grudgingly give up some sovereignty to another state. Looking from the other side of the equation, my model sheds light on why strong states sometimes seek to steal another state's sovereignty while leaving others untouched. I begin with a generalized, abstract description of the actors.

The Actors and Their Environments

But you know I am not used to being a slave. I am used to being a master and I want to be a master in my country, without anyone above me. (Ukraine's President Kuchma, 1994)⁵⁵

Who exactly are the players making the decisions about the nature of the dyadic relationship? Having elaborated on the dependent variable in chapter 2, I now turn to the actors who determine the type of relationship that develops. In my analysis, the two actors do not literally sit at a bargaining table and negotiate in some series of organized sessions, à la Evans, Jacobson, and Putnam, ed. Rather, the negotiations are on-going bargains that are struck through numerous channels and over extended

⁵⁵Interview with *NTV, Moscow*, June 12, 1994, as reported in Kuzio, 41.

periods of time. The bargains are not necessarily codified in formal treaties and agreements, though they often can be found in documents. Many of the negotiations and specific bargains can be deduced by analyzing news reports and through interviews with analysts, business leaders, and other area specialists. In this section, I elaborate on the actors and the environments in which they interact.

In the previous chapter, I referred to *states* as the primary actors without elaborating on exactly who or what is meant by the *state*. Waltz and other structural realists reify the state, giving it assumed goals. Theorists in this tradition “assume that states seek to ensure their survival.”⁵⁶ This *conceptualization of the state removes the human and therefore the political story from the picture*. In structural realism, one does not get a sense of people managing states, weighing options, and making decisions about the future of the state. There are no people to worry about election results, forming coalitions, or their political legacy. The structure determines the outcome, leaving references to political players unnecessary and superfluous.⁵⁷ For the empirical puzzle at hand, however, rather than thinking of the players as abstract amorphous states, I conceptualize the state as the political leader, who must make decisions about the future of the state. Hence, following many comparativists, the key actors in my model are the state leaders to whom I assign a set of goals. Benjamin and Duvall refer to one type of statist who conceives of the state as government, “by which is meant the collective set of personnel who occupy positions of decisional authority in the polity.”⁵⁸ This approximates my own view of the state with the exception that I am focused on the executive rather than all personnel with “decisional authority.”⁵⁹ The executive leadership is the central player because of its responsibility for negotiating with foreign powers, considerable control over information flows, and relative control over the military and other important bureaucratic players. Depending on the political system, the leadership

⁵⁶ Waltz, 91.

⁵⁷ Structural realists would presumably agree with this statement, as they are indeed interested in the constraining effects of international structure and not in the people who are constrained by these structures.

⁵⁸ Roger Benjamin and Raymond Duvall, “The Capitalist State in Context,” unpublished manuscript, University of Minnesota, p. 4-4 to 4-8. Quoted in Krasner 1984, 224.

⁵⁹ Benjamin and Duvall include bureaucracies, legislatures, and other political leaders in their definition.

may be best represented by the president, the prime minister, or some other central figure, or group of leaders. The important point is that the leadership sets the agenda.⁶⁰

The political leaders have “only a limited number of ways in which [they] can combine their resources.”⁶¹ This combination is limited by both strong interests which must be accommodated and the channels through which pressure and politics are negotiated. In some cases, the interests are so fundamental to the state, no political leader can ignore them, regardless of the political institution through which interests are channeled. These are often referred to as strategic interests. In modern states, one such sector is the energy sector. It cannot be ignored. If the state exports significant amounts of oil and gas, no leader can choose to ignore this important industry. As a fundamental hard-currency earner, the industry plays an important role in any political coalition. In addition, fuel is critical for keeping domestic industries operating. In some countries, the state actually owns the industry, thereby melding state interests with industry interests. When the industry is privately owned, it still wields considerable power given the state’s reliance on energy sources to fuel enterprises as well as provide heating and light for homes. This does not mean that these economic sectors get whatever they demand. Even as Russia’s Gazprom brings in vast amounts of hard currency, its preferences are not always supported by the political leadership. For example, the state has recently enforced tax laws applicable to Gazprom, despite Gazprom’s wish to continue avoiding paying its taxes. However, when it comes to interstate relations, the state is highly likely to support its domestic fuel industry.

Depending on the political institution, the political leadership may not be able to ignore other politically entrenched groups. In a political system in which the legislature has real power, the executive may have to appease an important voting bloc. In some former Soviet states, this is the Communist party or former Communist members who have continued to support economic centralized planning or other vestiges of the Soviet system. In Belarus, for example, President Lukashenka has not

⁶⁰My focus on the leader is similar to the convention used in Evans, Jacobson, and Putnam, ed.

⁶¹Krasner 1984, 228. As Krasner points out, this conception of the state contrasts with pluralists who see numerous societal forces heavily constraining the political leaders. In my conceptualization, the political leader has more power, relative to what the pluralists allow for. On the other hand, he is still constrained by the type of coalition that he can form.

found an effective way around the Communist bloc and has thus, apparently, given up on many market reforms which the parliament has repeatedly blocked.

Actors have what Shepsle and Bonchek call internal and external environments in which they make decisions and interact with one another.⁶² The internal environment includes the preferences of the actors and the rationality assumption. The external environment is marked by uncertainty and the clues, or external stimuli, that indicate the actor should update his beliefs. I assume that the primary goal of the leaders of both the weak and the strong state is to remain in office, and once there, to implement their policy preferences. The office-seeking goal is a widely used and well-supported assumption in comparative politics. This assumption holds particularly well for states in transition. Transitioning states usually have relatively poorly defined political systems that are often more authoritarian than democratic. In such systems, the opportunities for wielding power from non-state positions are minimal and highly uncertain.⁶³ In transitioning states, leaders themselves are uncertain of what final direction their states will take in terms of even the broadest categories of regime-type, economics, and security. Leaders in these environments cannot be sure even in the relatively short-run whether their states will generally be democratic or authoritarian, market-oriented or state-run, pro- or anti-Western. This uncertainty means that leaders have exceptionally short time horizons. They have strong incentives to cling to as much power as they can while trying to keep the state stable. We know that even in established liberal states political leaders are loathe to give up their positions of political power. The failure of volunteer term-limits in the U.S. Congress is a case in point. Yet, political leaders in democracies know that if they should lose their positions of power, they most likely will have a future in the private sector or even as state leaders. Leaders in transitioning states have much less security. When they leave office, it might be because of a coup, a civil war, economic collapse or some

⁶² See Shepsle and Bonchek 1997, 17-19.

⁶³ See David for an interesting discussion of how transitioning states differ from mature states.

other catastrophe that will leave them with few or no options for private sector jobs or other governmental positions. They may end up in prison, fleeing the country, or worse.⁶⁴

The state leader can accomplish the goal of retaining power through various methods. By itself, the assumption that leaders will try to hold onto power does not determine whether the leader seeks to surrender some sovereignty. We can imagine a situation in which the domestic polity pressures the state leader into pursuing war with a neighboring state, a policy of autarky, international adventurism, or anything else. The precise political coalition largely determines what course the leader pursues as a means of retaining power. The role of the assumption is to narrow the range of possible options for the leader. For example, if the parliament has passed laws that are anti-market reform, the leader may not be able to simply overrule them by decree and thus make it easier to obtain financial aid from the International Monetary Fund and other international organizations. In the case studies, we should see leaders assessing their political fortunes before, during, and after they negotiate with the dyad member.

Once in office, a state leader strives to enact his policy preferences in both the domestic and international arenas. Thus, states will interact with other states to reap the gains from trade, but a leader will simultaneously attempt to reduce vulnerability to states with which he fears his policy preferences will diverge. If a state leader sees that his state is completely dependent on a threatening state for a critical resource, such as oil, the leader will seek to escape this dependence by courting other partners, by creating a domestic capability, or by significantly reducing domestic demand and switching to alternative fuel sources, moving from oil to natural gas or nuclear power, for example. The two preferences—a desire to remain in office and to enact policies of one's own choosing—work together.

Another internal environmental assumption is rationality. Consistent with transaction cost economics (TCE), I assume an environment of bounded rationality. Bounded rationality means that actors intend to be rational, but have cognitive limitations and incomplete information about the

⁶⁴ The former Soviet region is replete with various former leaders surviving assassination attempts, fleeing the country, and evading arrest.

situation in which they find themselves.⁶⁵ This is analytically equivalent to saying that there is some degree of uncertainty. The rationalist assumption has been much debated in economics and political science. In response to objections that humans are not all-seeing and all-knowing, and therefore cannot be considered fully rational, analysts have invented terms for less-demanding forms of rationality, such as satisficing, minimal rationality, and bounded rationality.⁶⁶ While these terms have taken on specific meanings for formal modeling, the rationality assumption, as I use it here, simply means that the players do the best they can, given the information available to them, to reach their goals. As Shepsle and Bonchek state, "The term 'rationality' as we shall use it does not mean brilliant or all-knowing. The men and women whose behavior we wish to understand are not gods, so we certainly do not want to characterize any deviation from omniscient, godlike behavior as irrational (for then nearly all behavior would fall in this category)." ⁶⁷ When pressed to make choices, rational state leaders will weight the costs and benefits of hierarchy, while trying to preserve their leadership position. Given the information they have before them, they will pursue the relationship that best meets the survival goal. In my empirical chapters, I present the evidence that the leaders appear to have before them and show how the state leaders make these choices.

Complementing the internal environment of preferences is the leaders' external environment: the world in which they interact. This environment is filled with uncertainty. The two state leaders are at least somewhat uncertain about the strength and interests of their own political coalitions. That is, they can assume with only a limited degree of certainty that their chosen strategy for dealing with the other state leader will be supported by their domestic political coalition. For this reason, a leader might try a strategy of courting international institutions as a means of escaping hierarchy only to find that the strategy threatens his political position. Similarly, the leader is also uncertain about the strength of his domestic opposition. He cannot say with complete certainty whether or not the opposition has the

⁶⁵Williamson (1985), 47. It is unclear how Williamson's concept of bounded rationality differs from limited rationality and other related terms. The analytical purpose is to make it clear that planning for all contingencies is not possible.

⁶⁶For some of the more prominent works on the subject see Green and Shapiro 1994, Elster 1989, and March and Simon 1958.

strength to remove him from office, or whether the opposition will try to remove him by legal or extralegal means.⁶⁸ Furthermore, each leader has some uncertainty about the strength and interests of the coalition supporting his bargaining partner; that is, the other state's leader. Neither leader can be certain of his opponent's bottom-line bargaining position.

Related to uncertainty is the concept of beliefs and the role of external clues. Consistent with the rationality assumption, I assume that "preferences are fixed and that changes in behavior are caused by changes in the situation and the information available to actors."⁶⁹ The actors have beliefs about the connection between actions taken and the desired outcome. When presented with external clues or signals, the leaders update their beliefs about this connection. The leaders believe that a certain strategy will lead to their preferred outcome. New information provided by the external environment, such as a legislative vote, public protests, private lobbying, an assassination attempt, economic sanctions from an international organization, and any other myriad ways of communicating information may signal to the leader that his beliefs need updating. If this information is signaled to him in a timely and clear manner, the leader will adjust his strategy in order to keep his political support. When the dyad partner's domestic coalition signals whether or not it supports the partner's strategy, the leader may alter his strategy to take into account this new information. For example, assume that the weak state's leader believes that reforming the economy in exchange for IMF funding will lead to the outcome in which he remains in political power and does not have to sacrifice policy-making to another state. If the legislature repeatedly blocks IMF-mandated reforms, resulting in IMF funds being withheld, the leader may update his beliefs about the utility of pursuing a market economy. Without IMF funding, the leader cannot energize the failing economy, thus risking his political position. Updating his beliefs, the leader may now decide to pursue another strategy, which he perceives as the best action for obtaining the favored outcome. He decides, for example, to bargain away some economic autonomy in exchange for cheap oil and gas from Russia.

⁶⁷Shepsie and Bonchek 1997, 16.

⁶⁸ Given that all the political leaders in my case studies are men, for simplicity I use the masculine pronouns when discussing the leaders.

⁶⁹ Morrow 1994, 19.

Cost-Benefit Analysis and the Role of Relation Specific Assets and White Knights

Extant theories of empire and lesser forms of hierarchy generally omit an analysis of costs and benefits of hierarchy to both the subordinate and dominant state. For example, Jack Snyder (1991) focuses on the various domestic groups in strong states that favor hierarchy, but does not address similar players in the potential colonies. On the other hand, Stephen David (1991a, 1991b) gives priority to the factors that weak state leaders assess when deciding to invite foreign troops onto their territory; he does not evaluate the advantages and disadvantages the strong state leader considers when accepting or rejecting the invitation.

By thinking of hierarchy as a type of transaction between two state leaders, we can develop a list of costs and benefits that would accrue to each of the state leaders. Table 1.3, reproduced below, summarizes the cost-benefit analysis. Thinking of hierarchy as a transaction highlights the differing cost-benefit factors for the subordinate and dominant states. As the benefits for hierarchy increase for either or both states, and the costs decrease, hierarchy becomes more likely. This framework helps us see why weak states might agree to or even seek out hierarchy. Since the subordinate state can benefit from hierarchy, the weak state's leadership may attempt to lower the strong state's hierarchy costs, making hierarchy more likely. Strong and weak states are more likely to seek out and accept hierarchy when there are no other options available. Without additional partners from which to choose, the states is more willing to accept hierarchy.

Table 1.3: Potential Costs and Benefits of Hierarchy

	<i>Benefits</i>	<i>Costs</i>
<i>Subordinate State</i>	Financial assistance Military assistance	Incompatible policy choices Domestic political cost
<i>Dominant State</i>	Greater policy control Domestic political benefit	Financial cost Tied hands International political cost

Both States Can Win: The Benefits of Hierarchy

Contrary to Westphalian assumptions, weak states sometimes welcome hierarchy. The leaders are willing to sacrifice some autonomy in exchange for benefits. Leaders might “voluntarily compromise the autonomy of their own polity,” as Krasner puts it.⁷⁰ The subordinate state’s primary benefit of hierarchy is financial and/or military assistance. Hierarchy is favored, even actively pursued, when the weak state requires economic assistance to aid its economy and/or to provide for greater military security. Financial and military support can aid the subordinate state in a way that allows the economy to recover and prevents or quells conflict. A weak state may be willing to trade some sovereignty for succor. The weak state may be seeking these benefits or the strong state may supply them as a means of “buying off” the weaker state. A leader that cannot keep the economy afloat or stave off massive internal violence and war may be threatened by removal from office, through legal or extralegal means. When a leader feels threatened in this way, he may seek grants; loans; credits; military and border troops for internal and external control; military equipment and training; low-cost critical commodities such as oil and gas or military subcomponents; transit routes to important markets, or to seas and oceans; low-cost or free use of ships and other forms of commercial transportation; reduced (or no) tariffs and other trade barriers; training and administrative assistance with legal issues, customs collections, and other services. While this list is not exhaustive, it shows the variety of benefits a weak state might obtain from a strong state. These benefits help keep the subordinate leader from losing his political position. To obtain the benefits, the weak state leader might be willing to forego some

⁷⁰ Krasner 1999, 7.

autonomy. Knowing this, the strong state may push the weak state to concede some sovereignty. Thus, weak states that are suffering from severe economic crises and/or imminent threats, are more likely to enter into hierarchies than are those without these crises. The probability increases further when there are no other alternative benefactors. Thus, gauging the value of the financial and military assistance that hierarchy offers requires an estimate of the weak state's requirements for assistance as well as the probability that others options for aid exist.

As is more commonly assumed, the dominant state also may benefit from hierarchy. There are two primary reasons for this: greater policy control and its related political benefits, and claims of great power status. In some cases, the weak state and the strong state can gain by cooperating in the economic and/or security arenas. They could agree to trade with each other or to cooperate in fighting a common enemy. This cooperation could occur without either state surrendering decision-making authority to the other. Despite this common interest, the strong state leader may prefer hierarchy. This is primarily because hierarchy gives him greater policy control. The desire for greater policy control stems from two fears about the weak state: opportunism and incompetence. Even when the leaders of the strong and weak states agree that they would benefit from pooling their resources, their interests will not always align. With different domestic constituencies, external relationships, and economic strengths and weaknesses, there will be times when the leaders' interests will diverge. The weak state's domestic constituency may demand that the weak state fight the security threat for only a limited time before making concessions. If the strong state is unable to effectively monitor the weak state's behavior, the weak state leader could secretly make concessions that are antithetical to the strong state leader's policy preferences. The weak state's leader may also be tempted to use some of the funding from the strong state in ways that the strong state did not intend, such as for political patronage or personal gain. Again, if the strong state cannot effectively monitor the weak state, the weak state may be acting against the wishes of the strong state without the latter's knowledge. Furthermore, the strong state may doubt the competency of the weak state and its ability to carry through on its promises. The weak state may have a poor reputation for being able to control its own military, customs officials, bureaucrats, and other governmental and societal forces. If the state cannot control its military officers,

for example, how can the strong state trust that the weak state will adequately defend against a mutual threat? The difference between opportunism and incompetence is the intention behind the behavior. When a state acts opportunistically, it is doing so with “guile,”⁷¹ while an incompetent state may be trying to comply with the strong state’s preferences but simply lack the ability to do so. In either case, the strong state benefits from hierarchy. By directly or indirectly controlling policy in the weak state, the strong state can more be confident that policy will align with its interests.

To illustrate the benefits of greater control, suppose a highly unstable third state borders the weak state which in turn borders the strong state. In other words, the weak state serves as a “buffer zone” between the strong state and the unstable state. Both the weak and the strong state might fear that their states would suffer from their proximity to the unstable state. Their territory may be flooded with refugees fleeing the unstable state, used as a launching pad for insurgent forces, and infected by a revolutionary ideology. Faced with a common threat, the strong state could finance the weak state’s efforts to fight the common threat, leaving it up to the weak state to make decisions about battlefield tactics, bargaining strategy, the role of international organizations, and so on. This might seem to be the best strategy particularly when the weak state and not the strong state borders the threatening state. The weak state’s closer proximity means that it might be better able than the strong state to support logistically the battle. The weak state’s forces might have a better understanding of the terrain. They might fight more vigorously since the threat will seem more palpable. Despite these advantages, the strong state may see fit to fight the battle itself or send in its own officers to lead the battle rather than allow the weak state to make its own decisions. While the strong state might wish to simply give the weak state some economic support or military equipment to fight off their mutual threats, the strong state leader has to worry that the policy preferences of the two leaders may be incongruent. Under hierarchy, concerns about incongruent policy preferences are allayed as the strong state makes decisions for the weak state and, in a deeper hierarchy, carries out those decisions itself.

A related benefit of greater policy control is the leader’s ability to reward his political coalition. Under hierarchy, the dominant state’s leader controls a larger polity which may allow him to

⁷¹ Williamson (1985, 30) defines opportunism as “self-interest seeking with guile.”

better reward his coalition. State leaders can expand their power by expanding the number of states whose policies they control. This does not necessarily require physically occupying the land. Hierarchy can be subtler than that, as discussed in the dependent variable chapter. If a state leader determines not only the economic policy of his own state, but also that of another state, he is able to expand his power base. For example, a state leader who determines the tariffs of both his state and a neighboring state can better protect domestic industries by expanding the protected market. By imposing high tariff rates, the Russian Duma can protect a Russian industry from outside competition. For example, if the Russian leader can get Kazakhstan, which does not have an automobile manufacturing industry, to raise its tariffs on automobiles entering from everywhere but Russia, then the Russian leader has rewarded the Russian automobile industry by expanding the protected market. Similarly, the leader can boost financing for the military by having host states pay part of the troops' salaries or by building military housing. This may translate into political support from the military establishment.

The second benefit is that the strong state's leadership may profit politically from being able to claim great power status. While the "days of empire" may be over, political leaders may benefit by demonstrating to their constituents—and opponents—that their state is powerful enough to lead a hierarchy of states. For some, controlling other states is part of the definition of a great power. While this clearly is not something that all leaders would want to claim, Russia is an example of a state pining for great power status. The Russian leadership has sought some type of economic and security control over its former union members. Initially hoping to accomplish this via the Commonwealth of Independent States (CIS), Russian leaders have since pursued bilateral measures to win hierarchical control, with varying success. Reviewing the internal political environment, it is clear that Russian opposition leaders such as Vladimir Zhirinovskiy pushed the Yeltsin leadership to seek these dominant positions as a means of demonstrating that Russia is still a great power.⁷²

⁷² This move toward dominating the former Soviet states is discussed in greater detail in chapter 4.

The Costs of Building and Maintaining Hierarchy

While hierarchy can benefit the subordinate and dominant states, there are also costs. Beginning again with the subordinate state, there are two basic costs to hierarchy: incompatible policy choices and domestic political costs. First, the dominant state may choose policies that do not favor the subordinate state. This cost is simply the reverse of the dominant state's benefit of greater policy control. The reduced policy control may leave the subordinate state leader unable to adequately reward his political coalition. This in turn may threaten his long-term political survival. A leader that cannot sufficiently reward his supporting coalition may be forced out of office. Flipping around the example of the Russian automobile industry, the Kazakhstani leadership may favor low tariffs on cars, thus giving its citizens the opportunity to buy high quality automobiles at relatively low cost. Its policy preferences differ from those of Russia. If Kazakhstan gives Russia the right to determine external tariffs, the Kazakhstani leadership will pay the cost of incompatible policy choices. This may threaten the leadership. In the security arena, the weak state leader may prefer to negotiate a cease-fire in a civil or interstate war. If the weak state is in a hierarchy, however, the dominant state may override this policy preference. If the dominant state's forces are themselves fighting or commanding the troops, they can override the weak state's preference to negotiate. Again, this may threaten the weak state leader's political survival.

Second, the leadership may suffer domestic political ramifications for agreeing to a hierarchy. Political opponents may accuse the leadership of selling the state's sovereignty. Such attacks often resonate with citizens of relatively weak states. For example, Ecuador's decision to *dollarize* was met by protests that the leadership was giving away important fiscal decision-making power. Similarly, the Arab coalition supporting the United States in the Persian Gulf War was faced with protests for having surrendered decision-making authority to U.S. forces. The nearly perennial debate about whether Puerto Rico should seek its independence is based on the belief that it should claim its full sovereignty rather than ceding decision-making to the United States. Of course, accusations of unnecessarily lost

sovereignty may not carry much political weight. Nevertheless, the weak state's leader must at least consider the possible political cost of agreeing to be a subordinate player.

While the dominant state leadership may enjoy numerous benefits of hierarchy, it may also bear significant economic and political costs. These costs will vary depending in part on whether the hierarchy is negotiated or forced. First, if the weak state refuses to peacefully negotiate a hierarchical order, the strong state may choose to impose a hierarchy using whatever force is necessary. This is the time-honored method of empire-building, dating back to the ancients. It is also probably the most expensive way of building a hierarchy. Depending on the degree to which the weak state resists, imposing a hierarchy may require significant outlays for military troops, equipment, and logistics, and will likely result in battle deaths. As such, these costs may be both monetary and political. The struggle to impose and maintain an unwelcome hierarchy can cost significant sums of money and/or numbers of lives. If these costs threaten the leader's political security, he may elect to cease forcing the hierarchy or dismantle an established hierarchy. Whether his political security is threatened will depend on his supporting coalition. As Snyder argues, narrow imperialist interests can "hijack national policy" and pass on the costs of imperialism "to society through taxes imposed by the state."⁷³ In this case, the leader's coalition not only allows hierarchy but also actively favors it. Those paying the costs face a classic collective action problem: they are too diffuse to challenge the leader's political security. In contrast, states with democratic institutions strengthen the diffuse interests, making violent, forced hierarchy politically costly and therefore less likely.

The second potential cost is related to the principal-agent problem. Once the hierarchy has been established, the strong state may need to monitor the weak state to ensure that the subordinate is in compliance with the strong state's decisions—that is, that there is no slippage or shirking. This monitoring may be expensive. When interests diverge, the subordinate may not carry out the dominant state's decisions. This is a principal-agent problem. An economic concept often employed in American political analysis, the principal-agent problem involves two actors: the principal who has decision-

⁷³ Snyder 1991, 17.

making authority and the agent to whom the principal has delegated some of that authority.⁷⁴ The principal's interests, however, do not perfectly match those of the agent. As a result, there is some slippage in the agent's execution of the principal's orders. In many facets of life, people hire someone else to act in their interests. People hire gardeners, accountants, cooks, nannies, and attorneys to perform activities that people could do for themselves. In other words, people "reject self-sufficiency."⁷⁵ However, as already mentioned, the principal and the agent do not always have the same interests. Think of the client-attorney relationship. The client delegates some authority to the attorney to act in his behalf. While both the principal and his agent have an interest in winning the case, their interests do not align perfectly. The attorney may have other high-paying clients. Wanting to free up her time for those clients, she may encourage the client to take an early settlement that is not in the client's best interests. The same occurs when the principal and the agent are separate states.

Shirking and slippage occurs when the agent's perceived interests diverge from those of the principal and when the principal has incomplete information. Unable to know for certain how the manager is carrying out his activities, the company owner fears that there will be some shirking and slippage. In an international hierarchy, the dominant party operates without complete information on the extent to which the subordinate is carrying out the policies set by the dominant state. To guard against shirking and slippage, the principal can *ex ante* select a reputable agent. But in the international arena this may not be possible given limited options for partners. Once the agent has been selected, *ex post*, the principal can monitor the agent's behavior and sanction it when it does not enact the dominant state's policy preferences. This may be costly.

The cost of monitoring depends, in part, on the type of monitoring. McCubbins and Schwartz (1994) identify two different forms of monitoring: police patrols and fire alarms.⁷⁶ Police patrol oversight is active, centralized, and direct while fire alarms are less active, decentralized, and indirect.

⁷⁴ For Americanists using this approach, see Keiwiet and McCubbins 1988, McCubbins and Page 1987, McCubbins and Schwartz 1994, and Shepsle and Weingast 1995.

⁷⁵ Shepsle and Boncheck 1997, 360.

⁷⁶ See Banks and Weingast 1992; Bawn 1995; McCubbins 1985; and Weingast 1984 for more on the types of monitoring. See Songer, Single and Cameron 1994 for a discussion of litigants as fire-alarms in the judicial system; and Brehm and Hamilton 1996 for monitoring compliance with environmental regulations.

Police-patrol monitoring can be infrequent and relatively hands-off, such as surprise or planned visits to the subordinate state. It may also be continuous. Strong states can monitor the weak state by placing officers and troops; customs officials; military, legal, and other types of economic advisors directly on the weak state's territory. These are active forms of monitoring. While they are more costly than monitoring from afar, they are also generally more reliable. It is harder for the weak state to slip and shirk when the military officers and troops doing the fighting belong to the strong state. The strong state's own customs officials, collecting tariffs for the weak state, can more easily monitor whether the weak state is complying with the strong state's tariff rates than can the strong state's leader located in his home state. Presumably, a leader has more control over his own citizens than over citizens of another state. A dominant state may need a tightly monitored hierarchy when a weak state has a poor reputation for being able to control its own military and political forces, has a reputation for acting opportunistically, and is an unwilling member of the hierarchy.

The high cost of police-patrol monitoring includes not only the direct costs mentioned above but the wasted time monitoring when the subordinate state is fully implementing the decisions. Dominant states can reduce their monitoring costs by using fire alarms.⁷⁷ By shifting monitoring costs to others, fire alarms require less organization and direct resources from the dominant state. The dominant state can provide incentives for other states, international organizations, organized interests, and citizens to pull the fire-alarm on the subordinate state, should it fail to properly implement policies. The dominant state can, for example, rely on exporters to alert them to tariff rates that are not in accordance with a customs union. In the security arena, the dominant state might encourage international monitors to conduct the oversight for them. While state leaders generally consider the media their enemies, reporters can also serve as fire-alarms by unearthing evidence of slippage.

The third cost of hierarchy relates to demands by the weak state. Even when the hierarchy is negotiated peacefully, the dominant state may incur economic costs for implementing and maintaining

⁷⁷ In the domestic arena, McCubbins and Schwartz had in mind rules and regulations that enable and incentivize citizens and organized interests to detect slippage and shirking on the part of the executive administration. "Congress places fire-alarm boxes on street corners, builds neighborhood fire houses, and sometimes dispatches its own hook-and-ladder in response to the alarm" (166).

the arrangement.⁷⁸ In the bargaining process, the strong state may have to buy off the weak state in order to gain its compliance in the relationship. This “buying off” can take many different forms. As discussed under the benefits section, the subordinate state may request economic subsidies in the form of reduced taxes, lower tariff rates, low interest rate loans, or outright cash transfers or direct payments. It may request continuing military benefits after the hierarchy ends, such as military housing and ongoing training for its own troops. A bargain might also include leaving behind military equipment and spare parts. It is important to note that these costs may not require large economic outlays from the dominant state. To win hierarchy in the bargaining process, the strong state can provide benefits that will cost them in the long-run – such as high tariff rates – but that do not require outlays. This helps clarify why a financially-strapped state such as Russia can still successfully bargain to win a hierarchy. By giving benefits such as low-cost gas and allowing payments in-kind, Russia does have something to offer to the weak states in exchange for hierarchy.

Fourth, there may be economic costs associated with the strong state’s own economic and security requirements. To meet the dominant state’s objectives, the subordinate state’s economic and security infrastructure may require upgrades or enhancements, irrespective of the weak state’s own requests or needs. If the weak state cannot pay for these upgrades and enhancements itself, or chooses not to, the strong state may have to bear these costs. For example, many of the Soviet Union’s expenditures went toward modernizing the non-Russian republics. The Soviets financed and built electric power grids, mass transportation systems (trolleys and underground trains), gas and oil pipelines, railroads, paved roads, and other types of infrastructure. There is little evidence to suggest that the republics demanded these modernization efforts. It seems likely that the Soviets built many of these things in order to mine the riches of the republics for the benefit of the central state.⁷⁹ In either case, this infrastructure became costly to maintain and is at least partially responsible for the demise of the Soviet Union.

⁷⁸ For a discussion of similar costs in security hierarchies, see Lake’s 1999 discussion of governance costs (9-11). Lake does not include political costs and benefits.

⁷⁹ Soviet accounting systems were unreliable, making it nearly impossible to know whether the Soviet system economically benefited Russia or the republics more.

Fifth, as Lake points out, the strong state's leader may agree to tie his state's hands to demonstrate that it will not act opportunistically against the subordinate state. If the state leader chooses to gain hierarchy by bargaining with the weak state leader, rather than violently forcing hierarchy, this is one possible bargaining chip. If the strong state leader can give the weaker state some assurances that it will not abuse its decision-making power, the weak state leader may be willing to accept the hierarchy. Tied hands, however, are a cost that the subordinate state has to take into account when deciding the value of the hierarchy. The Persian Gulf War provides an example of a dominant power choosing to tie its hands in order to gain the benefits of hierarchy. When U.S. troops arrived in Saudi Arabia and other states, they essentially turned these host states into protectorates. To give them guarantees that it would not act opportunistically, the U.S. agreed to expand the size of the coalition. This agreement later cost the U.S. flexibility in its war fighting strategy. With more states to coordinate, the U.S. had less latitude in its actions.⁸⁰

Finally, in the modern international system, states can face serious penalties for forcing a hierarchy on an unwilling weak state. These penalties can come from individual states or international organizations. They may include economic sanctions, such as discontinued assistance from the IMF and World Bank, increased tariff rates, and embargoes. They may be more violent, such as land invasions, missile attacks, and terrorism. The retribution may be more of a political slap, as in suspending a joint military exercise or passing non-binding resolutions. Depending on the benefits the strong state is getting from the punishing state and organizations, the international cost may be too high to force hierarchy.⁸¹

As the previous discussion suggests, both the dominant and subordinate states can alter the costs of forming and maintaining a hierarchy. States that win hierarchy through negotiation are less apt to receive international punishments for doing so. The international community accepts that hierarchy

⁸⁰Lake 1999, chapter 6.

⁸¹ Economic sanctions are not easily implemented and often do not result in the desired change. This follows from the collective action problem since economic sanctions require cooperation among states to be effective. The barrier to cooperation suggests that the expected cost of the international community's sanctions may not be a considerable cost to hierarchy. Martin 1992, however, convincingly shows how institutions aid states in

is sometimes desirable by both the subordinate and dominant states. It is politically far easier for the international community to chastise and punish Iraq for invading Kuwait than to chastise and punish Russia for sending troops to Tajikistan and Georgia. In the latter case, the post-Soviet states invited Russian troops onto their territory to assist in fighting internal conflicts. While some former Soviet domestic actors oppose Russian bases on their territory, the political leadership has generally encouraged the hierarchy. Even in cases in which heavy handed but non-violent bargaining takes place, the international community is less apt to respond negatively to hierarchy formation.

Weak states seeking hierarchy can lower the strong state's costs. As the cost-benefit analysis indicates, weak states may seek hierarchy in exchange for economic and military benefits. However, this might be unrequited love. The strong state might have little to gain from a hierarchy with a particular state; the costs may be too high or the benefits too low. If the weak state leader needs the benefits enough, he can attempt to lower hierarchy costs as a means of enticing the strong state. The weak state leader might agree to finance some of the hierarchy; this does not necessarily require outlays. For example, the weak state leader could agree to let the strong state's troops stay in existing housing. The weak state could make clear to the international community that it is seeking the assistance of the strong state, thereby eliminating possible punishments from abroad. The leader might even implement a hierarchy without the explicit consent of the strong state. The weak state could begin matching its tariff rates to that of the strong state, in hopes that the strong state will reward it for doing so. States that officially dollarize are often volunteering to a hierarchy with little or no pressure from the currency issuing state. A dollarizing state might choose to forego all or some seigniorage, in turn giving the issuing state additional revenue.⁸² Weak states might also agree to give strong state officials – military personnel, customs officials, lawyers, etc. – special privileges while stationed on their territory, in effect reducing costs to the strong state. For example, many believe that Russian military

cooperating to enforce economic sanctions. Her work suggests that this may well be a cost that strong states take into account when considering forcing hierarchy.

⁸²Seigniorage is the revenue from issuing currency. Net seigniorage is the difference between the cost of putting money into circulation and the value of the goods the money will buy. For example, it costs the U.S. Treasury about 3 cents to make a \$1 bill. Net seigniorage is then 97 cents.

personnel in Tajikistan are allowed to engage in the illegal drug trade as a means of supplementing their incomes.

The various economic and political costs and benefits that accrue to both the dominant and the subordinate states can be summarized into two general hypotheses:

H1: The higher the political and economic benefits of controlling policy making in the weak state and the lower the financial and political costs of governing the hierarchy, the more likely the strong state will pursue hierarchy with the weak state.

H2: The higher the economic and military benefits and the lower the political costs of being governed, the more likely the weak state will pursue hierarchy with the strong state.

As with all the hypotheses developed here, these two include the usual *ceteris paribus* clause. That is, all things being equal, the greater the need for economic assistance or military security from a strong state, the more likely hierarchy will emerge. These hypotheses and the following ones are probabilistic statements; they describe a tendency, not a certainty. In addition, they are comparative statics. That is, given two weak states in a given time period, the one in greater need of economic or military assistance is the one more likely to agree to a hierarchy.

The Role of Relation Specific Assets in Determining Hierarchy

Relation specific assets (RSAs) affect the various costs and benefits elaborated above, acting as constraints or opportunities for state leaders. The power of RSAs in predicting organizational structure is one of TCE's key contributions to economic theory. Relationships that are marked by high asset specificity tend to result in arrangements that are closer to the hierarchical end of the spectrum than to the discrete, market transaction end of the spectrum. By analogy, these assets affect the type of relationship states have with one another. In general, specific assets are durable investments that are made for particular transactions and for which their value is significantly lower in best alternative uses, or by alternative users, should the original transaction be prematurely terminated.⁸³ More succinctly,

⁸³This is a paraphrasing of Williamson 1985, 55.

these are “durable transaction-specific sunk investments.”⁸⁴ All aspects of the definition are critical. The investments must be durable, of some significance, and the value of alternative uses must be significantly lower outside of the relationship.

TCE theorists argue that under conditions of high asset specificity and frequent interactions, economic units will tend to become vertically integrated; that is, they will be more likely to form a firm. This hierarchical relationship ensures that the other partner, to whom they would be vulnerable, can no longer act opportunistically against the other. For example, suppose a supplier makes a military component that is specific to a particular final product. This component can only be used in this one product and the supplier is the only one making the component. The buyer and supplier are then mutually vulnerable. Fearful of opportunistic behavior, the buyer may buy-out the seller, thus vertically integrating into a firm. As a single unit, the company can safeguard against opportunistic behavior by outsiders. What was once a separate supplier becomes a sub-division within the company. As in the case of international relations, other costs arise with hierarchy, which explains why all economic entities are not firms.

Economists working in the TCE tradition point to four types of specific assets as having significant explanatory power: site, physical, dedicated, and human.⁸⁵ First, site specific assets are those that are too heavy or large to easily move to a new location. As a result, production stations are located next to each other to reduce inventory and transportation expenses. For example, in the shipping construction industry, the platforms on which ships are built would be considered site specific assets. They are large, heavy pieces of infrastructure which would be extremely expensive to transport to a new site. They are, then, site specific. In contrast, welding and pipefitting for the shipping industry

⁸⁴Joskow 1985, 37.

⁸⁵Williamson 1993, 17. Also, see Shelanski and Klein 1988, 341; and Joskow 1985, 38. Masten, Meehan, and Snyder 1991 introduce temporal specificity. Temporal specificity refers to one party being able to hold up the project at the last minute. While the other partner could get more supplies from another source, as the assets are non-specific, the time-critical aspect of the project makes this difficult. In his 1993 article, Williamson adds brand name specificity to the list. This type of specificity has rarely been used in TCE analyses, and I do not include it in mine.

would not be site specific. These tasks do not require heavy equipment and can easily be performed at one location and then relocated to another without undue expense.⁸⁶

Second, physically specific assets are those that have design characteristics specific to the transaction and have lower values in alternative uses.⁸⁷ These assets are physically tailored for a certain project. Equipment and machinery, such as specialized molds required to produce a component, often fall into this category. Unlike site specific assets, they might be easily transported to another location, but their next best use is of very low value. For example, automobile shippers using railways have specific physical requirements. They require expensive bi-level and tri-level rail cars developed to handle the size, weight, and design of finished automobiles. To build these, the carrier has to raise the clearance level on the rail car and build special off-loading ramps. The next best use for these assets is scrap metal.⁸⁸ Another example of highly specific physical assets are the stamping machines for metal closed-body automobile parts. These specific assets are considered a major reason that General Motors merged with Fisher the body parts maker.⁸⁹

Dedicated assets, the third type, are "discrete investments in a general purpose plant that are made at the behest of a particular customer."⁹⁰ These involve substantial general purpose investments that would not have been made if not for a particular relationship. The investor makes a commitment that is necessary to serve a large customer. While these assets are not specific to that customer as in the case of physically specific assets, if the exchange were discontinued, the investor would be faced with excess capacity.⁹¹

Finally, human assets, the third type of specific assets, relate to workers' specialized education and training and the learning curve required for people to carry out the economic activity. Sectors that are high in human specific assets might be called knowledge intensive areas. For example, ship

⁸⁶Masten, Meehan, and Snyder 1991, 11, discuss the shipping construction industry and aspects that are asset specific.

⁸⁷Joskow 1985, 38.

⁸⁸This example comes from Palay 1985.

⁸⁹Klein, Crawford, and Alchian 1978, 300-310.

⁹⁰Williamson 1993, 17.

⁹¹Masten 1999, 40.

building requires lengthy apprenticeships, and the skills and knowledge associated with ship building have limited application outside the shipyard.⁹² Plumbing skills, on the other hand, would be considered less specific as they have wider application than ship building skills.

The more ways in which an RSA is specific, the more difficult it is for the parties to use the asset for alternative purposes. For example, if the asset is both costly to move to another location—physically specific—and was designed to satisfy a large client—a dedicated asset—ending the relationship is more costly than if the asset were specific in only one of these ways, all things being equal.

In most cases, one cannot generalize across industries in determining asset specificity. For this reason, the economic literature on transaction cost economics and governance structures is replete with extensive case studies.⁹³ However, one can make some generalizations in the case of industries that rely on what are called “bottleneck” facilities. These industries tend to be heavily asset specific.⁹⁴ Bottleneck facilities are those that sit between upstream production and transportation to downstream markets. They link otherwise isolated buyers and sellers. Examples of bottleneck facilities are local telephone switches, oil and gas pipelines, electric transmission wires, and railways.⁹⁵ Bottlenecks have potential for large quasi rents.⁹⁶ To protect against opportunistic behavior, these industries are often marked by long-term governance structures and are usually regulated because of the potential for large quasi rents.

The U.S. gas industry provides an example of the pressures to vertically integrate when bottleneck facilities are involved. Only laws and regulations prohibiting hierarchies and long-term

⁹²Masten, Meehan, and Snyder 1991, 10.

⁹³Shelanski and Klein (1988, 1999) list many of these.

⁹⁴Bottleneck facilities and the relationship to governance structures are explored by Lyon and Hackett (1993).

⁹⁵Lyon and Hackett 1993, 381.

⁹⁶ According to Klein, Crawford, and Alchian (1978), “An appropriable quasi-rent is not a monopoly rent in the usual sense, that is, the increased value of an asset protected from market entry over the value it would have had in an open market. An appropriable quasi rent can occur with no market closure or restrictions placed on rival assets. Once installed, an asset may be so expensive to remove or so specialized to a particular user that if the price paid to the owner were somehow reduced the asset’s services to that user would not be reduced. Thus, even if there were free and open competition for entry to the market, the specialization of the installed asset to a particular user (or more accurately the high costs of making it available to others) creates a quasi rent, but no ‘monopoly’ rent. At

contracts led to the least preferred governance structure of short-term contracts. In the early 20th century, Appalachia was the source for natural gas. Short pipelines carried the gas to the industrialized Northeast. Most producers at that time had access to multiple pipelines—that is, the assets were not relationally specific—and short-term contracts were typical. In the 1920's, the situation changed. Natural gas was discovered in the Southwest and long pipelines were needed to carry the fuel to the Northeast and Midwest. Due to the high cost of building pipelines, many of the fields used a single long pipeline and formed vertically integrated governance structures. In the 1930's, laws and regulations made vertical integration costly, leading to the pipeline companies disassociating from the suppliers. Given that the assets were still specific, economic entities favored the second-best solution of long-term contracts with minimal purchase guarantees. Regulations finally disallowed even these governance structures, leading to all pipelines becoming open access.⁹⁷

As with economic units, states have varying levels of asset specificity in their relationships with other states. The same type of specific assets found in TCE are also found in international relations. In the economic arena, oil and gas pipelines traversing states are RSAs. A coal mine near a border between two states is a site specific asset. The mine cannot be moved. If the coal is exported to the neighboring state and the state relies on that coal, it is specific to the relationship. Electricity grids crossing state lines are RSAs. In the security realm, infrastructure built for a military purpose by one state on another's territory is a relation specific asset. Missile sites and military housing cannot easily be transported to other locations. Even a state's location can translate into high asset specificity. Lake uses the example of forward basing.⁹⁸ If the strong state can use any of a number of states for forward basing, there is low asset specificity. But when the strong state requires one particular location to complete its forward basing plan, there is high asset specificity. The weak state has considerable leverage when it is the only available location. As a result, the strong state fears that the weak state will act opportunistically against it.

the other extreme, an asset may be costlessly transferable to some other user at no reduction in value, while at the same time, entry of similar assets is restricted. In this case, monopoly rent would exist, but no quasi rent" (299).

⁹⁷For more detail on the history of the natural gas industry, see Lyon and Hackett, 386-387.

⁹⁸ Lake 1999, 8.

A particular asset may well have more than one of the four properties that make it a specific asset. For example, returning to one of the most prominent specific assets in the former Soviet Union, oil pipelines are dedicated, site specific, and physically specific assets. In some cases, the pipeline owner is reliant on another state to provide the crude oil that runs through the pipelines. Without this supplier, the pipeline owner has excess capacity that cannot easily be filled by another supplier. This makes the pipeline a dedicated asset. In addition, the pipelines are site specific. They are heavy assets that cannot easily be moved to a new location should the supplier abandon the relationship. Finally, the pipelines are physically specific because they cannot easily be used for alternative purposes. The pipelines are designed specifically to carry crude oil and gas; it would be highly costly to alter them for an alternative use.⁹⁹

While pipelines can be RSAs, the asset by itself is not enough to tell us whether there is high or low asset specificity *within the dyad*. In order for a state to feel vulnerable to another state's actions, the asset must not only be durable – require significant investments – but be specific to the relationship; there must be few or no alternative partners for the asset. Fuel pipelines by themselves are not *relation* specific assets. Nor does their presence in the relationship indicate which state will be vulnerable. In some cases, the pipeline owner may be vulnerable while in others the fuel exporter will be vulnerable. Consider the three scenarios summarized in Table 3.1:

Table 3.1: Pipelines as Relation Specific Assets

Scenario	Pipeline Owners	Fuel Exporters	Vulnerable Party
1	State X	State A State B State C	Fuel exporters
2	State X State Y State Z	State A	Pipeline owners
3	State X	State A	Both

Under Scenario 1, State X owns a pipeline that carries crude oil to an important export market. The transit fees that it collects contribute significantly to its economy. Three states (A, B, and C) all

⁹⁹My thanks to Matthew Baum for pointing out that oil pipelines have been converted to carry grains, albeit at

need to export their fuel through the pipelines and all have oil fields close to the pipeline and the infrastructure in place to access State X's pipelines. State X is in the position of determining how much of each exporting state's fuel it will allow to be transported through its pipelines. When production is high, there is insufficient capacity to accommodate all three states. This gives State X a critical advantage in negotiations with the three exporters. It can ask for high transit fees and then play the exporters off each other, perhaps obtaining bids well above the asking price. In turn, the exporters are vulnerable to State X's actions. When production is relatively low, State X can accommodate all three states. Even in this situation, however, it can charge high transit fees, as it is the main export route available to exporters. Of course, there is a limit on how much the pipeline owner will charge in transit fees. Pushed too far, the exporting states may invest in building their own pipelines or using alternative transportation such as railcars.

In Scenario 2, the roles are reversed and it is the single fuel exporter, State A, who has the advantage. When production is high, the exporter's fuel can fill all three pipelines to capacity. However, when production falls, State A can bargain with States X, Y, and Z, playing them off each other. With many bargaining partners and as the only supplier, State A is in a strong bargaining position. In need of transit fees to fuel their economies and with no alternative fuel exporters, the pipeline owners are vulnerable to the State A. In Scenario 3, the two states are mutually vulnerable.¹⁰⁰ Neither has the advantage; they rely on each other to export fuel. State A needs State X's pipeline route; State X needs State A's fuel.

It can be either the weak state or the strong state that is dependent on the other dyad member. The weak state and strong state are distinguished by their military and economic capabilities: troop and equipment levels and GDP. But this difference does not always translate into the weak state being dependent on the strong state in every way. In some cases, the strong state might be vulnerable to the weaker state. An example within the former Soviet region (though not one of the dyads I discuss in this study) is the Uzbekistan-Kyrgyzstan dyad. A large river – the Naryn – runs through Kyrgyzstan and

some expense. This is a reminder that it is inaccurate to say that these assets cannot be used for alternative purposes, only that it is very costly and therefore unlikely.

empties into Uzbekistan's cotton fields. Before the river crosses the Uzbekistani border, it passes through a large hydroelectric plant belonging to Kyrgyzstan. This plant is one of Kyrgyzstan's few important economic assets; it supplies surplus electricity which could potentially be sold to China, Afghanistan, or some other neighboring country. Using the most obvious power indicators, GDP and military forces, Uzbekistan would be considered the stronger of the two states. Yet it is Uzbekistan that is vulnerable to Kyrgyzstan's actions. Uzbekistan relies on the Naryn river to feed its thirsty cotton crops. But the Naryn runs through Kyrgyzstan before Uzbekistan, and Kyrgyzstan has a large dam that stops the river's flow. Uzbekistan needs the water during the growing season. If Kyrgyzstan releases the water during winter, Uzbekistan's cotton fields may go thirsty during the spring. This gives Kyrgyzstan the leverage, making Uzbekistan vulnerable on this issue.

As the three scenarios illustrate, the asset by itself does not determine whether it is relationship specific. Some sectors, however, are more likely to have RSAs within a dyad simply because the sectors tend to use specific assets. The defense and aerospace industries have more specific assets than does the agricultural sector, for example. More states grow fruits and vegetables than produce tanks and airplanes. There are relatively few companies producing specific military subcomponents or assembling tanks. As a result, it is more likely that a state will be vulnerable to another state supplying its military subcomponents than vegetables. The three scenarios also demonstrate that the vulnerable partner may be upstream or downstream. There may be a monopoly or a monopsony or both. The number of optional partners determines the direction of the dependency or whether there is mutual dependence – or what others have called interdependence.

¹⁰⁰ Below I discuss how mutual vulnerability tends to lead to autonomy rather than hierarchy.

Vulnerability: The Common Concern of Relation Specific Assets and Interdependence

Theories

The role of RSAs in determining political outcomes intersects the interdependence literature of the 1970's and 1980's.¹⁰¹ Interdependence theories and relation specific asset arguments share a concern about vulnerability and its effects on state interactions. In international relations literature, vulnerability is often related to the concepts of economic dependence and interdependence. A state that is dependent on another state for vital economic goods is vulnerable to actions taken by the providing state. The vulnerability that results from RSAs is conceptually the same as that discussed by Waltz (1970) and others. "Interdependence suggests reciprocity among parties. Two or more parties are interdependent if they depend on one another about equally for the supply of goods and services. They are interdependent if the costs of breaking their relations or of reducing their exchanges are about equal for each of them."¹⁰² While Waltz was focused only on great powers, other analysts have evaluated levels and types of interdependence between weak and strong states. Writing about North-South relations, Mazrui noted that "The different parties in [the mature] stage of interdependence must not only need each other – their different needs also must be on a scale that enables serious mutual dislocations in case of conflict."¹⁰³ In other words, there must be a high cost to breaking the relationship. The quotes by both Waltz and Mazrui parallel my earlier discussion of the role that RSAs play in binding together two states.

Similarly, Caporaso's (1978) structural conditions for dyadic dependence are similar to concepts from relation specific asset arguments. Assuming that there are two states—A and B—Caporaso argues that the analyst searching for dependence must evaluate three conditions: "(1) the magnitude of A's interest in or desire for a good (x), (2) the extent of control of x by another actor B; and (3) ability

¹⁰¹ For major contributions from international relations theorists (as opposed to economists and dependency theorists), see Keohane and Nye 1989, Rosecrance 1986, Rosecrance and Stein 1973, Stein 1993, and Waltz 1970. Numerous others from various fields have contributed to the debate; see Stein's chapter for an extensive bibliography.

¹⁰² Waltz 1970, 143.

¹⁰³ Mazrui 1975, 39. Mazrui argues that there are three stages of interdependence: primitive, feudo-imperial, and mature. Mazrui's mature interdependence is equivalent to Waltz's notion of interdependence.

of A to substitute for x or for B.”¹⁰⁴ For dependence (and by extension, interdependence) to have analytical meaning, State A must have a strong interest in or desire for item x. Similarly, in my analysis, I consider only those goods of significant interest to the state – oil but not canned pears or perfume, to use Caporaso’s examples. His second and third conditions parallel the concepts in relation specific asset arguments of limited partners and the costs of finding alternatives or making internal adjustments. Dependence becomes relevant when a state cannot easily find an alternative source for the economic or military good when its current source is interrupted or acts opportunistically. If a state can easily find alternatives, then dependence is not an important causal variable. “Just as anyone can risk offending a storekeeper when other merchants sell at comparable prices, nations would in no way be constrained by their commercial ties.”¹⁰⁵

Traditionally, interdependence theorists focused on economic dependence only. Relation specific asset arguments allow me to extend the analogy to security as well. States can be interdependent in the security as well as economic arena. Liberal interdependence theorists see a connection between economic interdependence and security issues, but in a different manner than I employ in this study. Dating back to John Stuart Mill and Adam Smith, interdependence theorists have argued that greater interdependence reduces the probability of conflict.¹⁰⁶ Concerned about breaking trade and other economic ties, powerful state interests will prefer to avoid conflict with states with whom they are interdependent. While I do not seek to explain peace and conflict in this dissertation, RSAs as indicators of dependence and interdependence suggests an interesting research agenda for traditional interdependence arguments.

A second way in which relation specific asset arguments intersect interdependence arguments is in the discussion on levels of vulnerability. In the 1970’s and 1980’s, interdependence theorists sought to distinguish between vulnerability and sensitivity.¹⁰⁷ Sensitivity, according to Waltz, means

¹⁰⁴ Caporaso 1978, 21.

¹⁰⁵ Stein 1973, 257.

¹⁰⁶ Stein 1973 points to five strands of liberalism each of which claims that interdependence is related to peace (244-254).

¹⁰⁷ Waltz 1979, 139-143.

that something happening in one part of the “world may affect somebody, or everybody, elsewhere.”¹⁰⁸ Scholars who define interdependence as sensitivity in this broad, systemic sense consider most international exchanges to be salient.¹⁰⁹ My argument, on the other hand, is concerned with dyadic rather than systemic dependence and interdependence.¹¹⁰ Keohane and Nye (1989), also interested in dyadic interdependence, view possible policy-changes as the critical factor. They argue that sensitivity means that the dependency is politically induced and, therefore, can be changed at relatively low cost. In contrast, vulnerability indicates that policy changes cannot reduce the dependency. The state is locked into the dependency, generally because of serious resource constraints. Keohane and Nye provide the example of the oil crises in the 1970’s. The United States was sensitive to actions by the oil producing states of the Organization of Petroleum Exporting Countries (OPEC), as increased oil prices and long lines at gasoline stations demonstrated. Japan, in contrast, was vulnerable. The difference is in each importing state’s ability to turn to other sources, including domestic production. Since the United States could increase domestic production, given political will, while Japan could not, due to natural resource limitations, Japan was more vulnerable to actions taken by the oil producing states. With policy changes, the United States could free itself of its dependency.

Despite Keohane and Nye’s efforts, there is no bright line separating sensitivity from vulnerability. Thinking of sensitivity and vulnerability as dichotomous is not particularly useful. Keohane and Nye suggest as much. “Vulnerability dependence can be measured only by the costliness of making effective adjustments to a changed environment over a period of time...The vulnerability dimension of interdependence rests on the relative availability and costliness of the alternatives that the actors face.”¹¹¹ There appears then to be a range with sensitivity and vulnerability as end points; adjustment costs increase as one moves toward the vulnerability end of the spectrum and away from sensitivity. Over time, states that are closer to the vulnerability end of the spectrum will take much

¹⁰⁸ Waltz 1979, 139.

¹⁰⁹ Stein 1973 makes this point on page 258.

¹¹⁰ Tetreault 1980 (431-32) criticizes Rosecrance, et al (1977) for using bilateral measurements to demonstrate a systemic phenomenon. In his excellent article, Caporaso distinguishes between dependence and dependency, two concepts that have often been confused or blurred in the literature. Among other important distinctions, he argues that dependence is a dyadic phenomenon while dependency is systemic.

longer to make adjustments away from dependence, if they are able to do so at all. Those close to the sensitivity end will be able to move away from dependence in a relatively short time period and at little cost. In my terms, those states that are vulnerable due to high asset specificity will find it much more difficult to move away from dependency than those with low asset specificity. In the section below on white knights, I explore how states can reduce or eliminate their dependency over time.

Finally, my research program diverges from some dependence and interdependence research programs while overlapping with others. First, I am interested only in dyadic dependence, as opposed to systemic dependence or dependence between a state and an organization, such as the European Union (a point I made earlier). My work here focuses on relations only between a pair of states. Second, my concern is in dependence, as opposed to dependency, a distinction Caporaso (1978) makes. Dependence is a highly asymmetric form of interdependence; “Dependence as asymmetric interdependence is immediately a dyadic concept and a “net” concept, i.e., it is measured by looking at the differential between A’s reliance on B and B’s reliance on A.”¹¹² Dependency, on the other hand, is the absence of autonomy. This meaning is more common to the North-South debate and has its origins in Latin America.¹¹³ Third, the dyads of interest in my analysis differ from those evaluated in some interdependence literature. My dyads consist of one strong and one weak state, whereas much of the (American) interdependence literature is focused on relations between developed states.¹¹⁴ Fourth, my argument differs from Hirschman’s 1945 book on power and trade in the following ways: Hirschman considers economic vulnerability to be a state goal, whereas relation specific arguments take vulnerability as the result of the assets and something to be avoided or reduced. In addition, Hirschman sees technology as the cause of the monopoly whereas relation-specific investment causes

¹¹¹ Keohane and Nye 1989, 12-13.

¹¹² Caporaso 1978, 18.

¹¹³ Former President of Brazil Fernando Henrique Cardoso is perhaps the best known and most prolific author on the topic.

¹¹⁴ Caporaso 1978 points out that the majority of contributions to dependency literature came out of Latin America with more recent (1970’s) contributions coming from Scandinavia, Western Europe, and the United States (13-14). His extensive footnotes document the vast literature and variety of nationalities writing on the subject.

the bilateral monopoly in my argument. No state has a monopoly on pipeline production.¹¹⁵ What is critical is that the pipeline, as shown under Scenario 1 above, creates a bilateral monopoly within that relationship. Finally, interdependence literature is concerned with economic and sometimes social and political interactions. It does not cover security issues, which is part of my puzzle. As Lake (1996, 1999) and K. Weber have shown, and as I also argue, RSAs are an important variable in determining security hierarchy.

The Causal Mechanism: How High Relation Specificity Leads to Hierarchy

In the international arena, high relation specificity within a dyad tends to lead to hierarchy, except when the states are mutually dependent – making mutual hostage taking possible – or when the weak state has assets that it can sell to the strong state to forestall hierarchy. High asset specificity means that one state may be highly vulnerable to actions taken by the other state; this parallels Williamson and his colleagues' argument about economic units. However, unlike economic units, strong states cannot simply “buy” another state and incorporate it into a vertically integrated “firm.” Weak states may actively resist being “purchased” by another state or giving up any sovereignty. Returning to the cost-benefit analysis gives insight into the causal mechanism connecting RSAs to hierarchy. In general, as benefits increase and/or costs decline for either or both of the states, the probability of hierarchy increases. The question, then, is how do RSAs lower costs and/or increase benefits of hierarchy?

In situations in which relation specificity is high, three types of vulnerability are possible: (1) the weak state is vulnerable to the strong state, (2) the strong state is vulnerable to the weak state, and (3) they are mutually vulnerable. These correlate to the three scenarios summarized above in Table 3.1. Using that same table, in Table 3.2 below, I substitute *Strong State* for *State X* and *Weak State* for *State A*. Under the first scenario, if the relationship between the weak state and the strong state were severed, it is the weak state that would suffer most. This situation is reversed under the second scenario. Under

¹¹⁵ This discussion on how relation specific asset arguments differ from Hirschman's is derived from Yarbrough and Yarbrough 1992, 44-46.

the third scenario, both states would suffer about equally from a severed relationship; they are interdependent. The direction of the vulnerability and whether it is uni-directional or bi-directional affects the type of relationship as well as how it occurs. While the example below uses economic assets—pipelines and fuel—the same logic applies for RSAs in security relationships.

Table 3.2: Vulnerability Scenarios for a “Strong State-Weak State” Dyad.

Scenario	Pipeline Owners	Fuel Exporters	Vulnerable Party
1	Strong State	Weak State State B State C	Weak State
2	Strong State State Y State Z	Weak State	Strong State
3	Strong State	Weak State	Both

Under the first scenario, the weak state is vulnerable to the strong state. This gives the strong state bargaining power which it can use to compel the weak state into hierarchy. This bargaining power in turn lowers the cost of hierarchy for the strong state. In bargaining over the nature of their relationship, the strong state can threaten to use its privileged position against the weak state if it does not agree to the hierarchy. The weak state is therefore more likely to agree to hierarchy without demanding assistance from the strong state. In addition, the probability of the strong state employing expensive military force to implement and then maintain hierarchy declines. Able to “diplomatically” coerce the weak state into hierarchy, the strong does not need to militarily force the hierarchy. The strong state leader can avoid expending money and human lives on a violently forced hierarchy. This in turn means that the strong state can avoid the cost of the international community sanctioning it for forcing hierarchy. As discussed above under the cost-benefit analysis of hierarchy, the international community is less likely to punish strong states for hierarchies that are not violently forced. While the strong state will have to monitor the weak state’s performance in adhering to the hierarchy, it is less likely to have to tie its hands or economically and militarily assist the weak state in ways that are unrelated to the strong state’s interests. The strong state may have to expend resources for the infrastructure required for its own purposes, but it will not have to expend anything extra for the weak state. In other words, the weak state is in a poor position to demand that the strong state hobble itself or

provide military or financial assistance. The strong state may still choose to monitor the weak state's compliance through direct (police-force) or indirect (fire-alarm) means. If the weak state is caught not complying, the strong state can punish the weak state, as suggested by the principal-agent problem. Finally, the lower cost of implementing and governing the hierarchy lowers the potential domestic political cost that can come with expensive adventurism. The dominant state is more likely to reap the benefits of demonstrating to its political coalition that it was able to achieve dominance at a low cost. As a result, there is a lower probability that the leader's political survival will be threatened. In sum, the benefits of hierarchy outweigh the costs as enumerated earlier.

H3: When relation specific assets make the weak state vulnerable, hierarchy is more likely to emerge.

Under the second scenario, where the strong state is vulnerable to the weak state, RSAs operate somewhat differently in changing the costs and benefits of hierarchy. In this case, the causal mechanism more closely matches that of traditional TCE arguments. When the strong state is vulnerable, it seeks a relationship in which it can remove this vulnerability. Like the economic purchaser that fears the supplier will use its position opportunistically, the strong state fears the weak state will implement policies that are incongruent with its own interests. The state that is vulnerable due to RSAs seeks to reduce the expected costs of vulnerability by controlling the assets itself. In this way, it gains the benefit of greater policy control over an important asset. It can control the assets by taking over the state; that is, creating an empire under which the dominant state sets policy for the subordinate political unit. The expected costs of opportunism and incompetence are reduced when the dyadic members become part of the same unit. Able to set the policy for the other state, the strong state is not as vulnerable as when the states were separate.¹¹⁶ Potentially high transit fees for pipelines are no longer a concern when the fuel supplier and the pipelines are owned by the same state, as was the case

¹¹⁶ This does not mean that members of the hierarchy always share the same incentives. Indeed, they do not. The manager and employee have different incentives, as do the shareholders and the management. The need to monitor the relationship was discussed in an early section. For an early contribution, see Berle and Means' (1968) study of large corporations in which they argue that stockholders and the executive management team do not share the same incentives. For a survey on governance structures, see Shleifer and Vishny's (1997) review article.

in the Soviet Union. When the Soviet Union was whole, the central government controlled the transit fees, the quantity of fuel that would be exported through the pipeline, and the source and destination of the fuel. Similarly, when the United States occupied Germany and Japan after World War II, it was less concerned about opportunism from the two subordinate states. Running Germany's and Japan's militaries for them, the United States and its allies set the military policies of the states. They eliminated much of the cost of incongruent policies. The same logic holds for security policy. If specialized forces and equipment are required for a military action, the strong state would prefer to control policy affecting these investments, *ceteris paribus*. If a weak state holds a geographic position required for the strong state's defense effort – a type of relation specific asset – the strong state would prefer to control policy affecting the military action. Lacking alternative partners, which could be played off each other in a bargaining situation, the strong state prefers to control the weak state's policies.

Politically, the domestic interests that rely on the relation specific asset will want protection against opportunistic behavior. By assumption, the assets are significant to the state's economy or to its security.¹¹⁷ As such, the owners will be part of any political coalition. In some cases, the state owns the assets; in others, private industry is the owner. In either case, it will be in the state leader's political interest to reduce vulnerability. If the strong but vulnerable state can control the pipelines, then it will be simultaneously satisfying a strong domestic interest. Greater policy control over another state allows the dominant state to appease its political coalition, one of the benefits of hierarchy. The second scenario, when the strong state is vulnerable, can be summarized in the following hypothesis:

H4: When relation specific assets make the strong state vulnerable, it will pursue hierarchy.

Under the third scenario, when mutual vulnerability exists, RSAs alone do not determine the outcome. Other costs and benefits must be evaluated. The weak state must consider the potential costs

Williamson, of course, has written extensively on governance; *The Mechanisms of Governance* (1996) addresses the different incentives and means of dealing with them.

¹¹⁷ This assumption is consistent with one of Caporaso's factors of dependence. Recall his distinctions between oil and canned pears and perfume.

of the hierarchy and determine whether these costs outweigh the benefits. If hierarchy is deemed costly, because of expected incompatibility of policy or because of strong domestic opposition to hierarchy, the weak state may wish to avoid hierarchy. If the leader is able to obtain sufficient economic assistance from another party, be it a state or multilateral organization, and has a long enough time horizon, then the potential benefits of hierarchy decline significantly. Substantial economic benefits from outside sources can help the weak state eventually break its vulnerability to the strong state. Given the high sunk cost of the RSAs, the weak state cannot immediately break the chains of vulnerability. Over time, however, sufficient outside funding can enable the weak state to reduce or eliminate the relation specificity. In the economic arena, for example, the weak state may be able to attract sufficient outside funding to finance alternate pipelines. Even if the third-party funding cannot break the vulnerability, it replaces the potential benefits of hierarchy with the strong state. With IMF funding, for example, the weak state may be able to stabilize and restructure its economy, thereby bringing the same benefits that it would have received from a hierarchy with the strong state. In the security arena, outside funding may enable it to fight the threat on its own, no longer needing the strong state's assistance. The weak state leader may determine that surrendering sovereignty to an international organization or some other state outside the dyad is preferable to hierarchy with the strong state. Having then determined that the costs of hierarchy are high and no longer requiring the benefits, the weak state will resist hierarchy. It must, of course, weigh the commitments and potential hierarchy it creates with the third party against the hierarchy it is attempting to avoid with the strong state. (Under the *white knights* section below, I evaluate the sources of assistance and the potential costs of using white knights.)

If the weak state elects to resist hierarchy, hostage taking may ensue. Given an environment of uncertainty, the strong state leader may attempt to force the weak state leader into a hierarchy. If the weak state leader has determined that the costs outweigh the benefits of hierarchy, he can raise the strong state's costs of forcing hierarchy. If the strong state leader attempts to force a hierarchy by threatening or engaging in opportunistic action, the weak state can counter with a similar threat or action, leading to a stale-mate. Given that the reliance is mutual, for every threat that the strong state

makes, the weak state matches it: "If you don't join this customs union, we will cut off your electricity." "If you cut off our electricity, we will quadruple the pipeline transit fees." The threats and actions are not necessarily confined to one economic sector or even to the economic arena. Hostage-taking circumscribes the economic and military strength of the strong state relative to the weak state. For this reason, under mutual vulnerability, the weak state's leader may not have to surrender sovereignty. Hostage-taking is a means of keeping the other state honest. Ex ante, threatened retaliation raises the cost to the other state leader of acting opportunistically; ex post, actual retaliation punishes and attempts to compel him to revoke or reverse the behavior. Able to quell the expected costs of opportunism in this way, and assuming there are no other significant benefits to hierarchy, one or both states may prefer autonomy over hierarchy. Of course, given the strong state's superior economic and military strength, if pushed far enough, the strong state could retaliate with its full force. However, even strong states are sometimes loathe to use their full strength. Violence and overt dominance may be met with international condemnation, sanctions, and even military action.

A relationship built on mutual hostage-taking is a type of self-enforcing agreement. Self-enforcing agreements occur in both economic and political science theories. Economic scholars of self-enforcing agreements, such as Telser (1980) and Klein and Leffler (1980) assume away contract enforcement by the government or third parties. "A self-enforcing agreement between two parties remains in force as long as each party believes himself to be better off by continuing the agreement than he would be by ending it."¹¹⁸ Telser goes on to say, "It is left to the judgement of the parties concerned to determine whether or not there has been a violation of the agreement...No third party intervenes to determine whether a violation has taken place or to estimate the damages that result from such violation" This mirrors international relation scholars' assumptions about anarchy—the lack of government in the international system.

If the weak state's leader cannot find alternative funding sources and the economic crisis or security threat is imminent, which in turn shortens the leader's time horizon, he may agree to hierarchy in order to gain immediate economic and military benefits. If the weak state faces an imminent threat,

giving the leader little time to seek outside funding, train its forces, and purchase needed military equipment, it will tend to agree to hierarchy in exchange for the significant force that the strong state can quickly bring to bear. For these immediate and vast benefits, the weak state leader may find it advantageous to agree to the hierarchy, even if it fears long-term incompatible policy choices. As Stephen David's *omnibalancing* theory suggests, an immediate threat often outweighs a distant threat. David argues that balance of power theory does not explain the choice of Third World actors in making alliance choices among the great powers. Leaders must also balance against domestic threats. Under omnibalancing, these states may balance with a super power that has been historically threatening as long as that threat is less immediate than an internal threat. David's analysis can be extended to cover not only significant internal threats, such as civil war, but also external security threats and economic crises that require outside assistance. If the threat is severe and imminent, the weak state leader may prefer hierarchy to defeat by internal or external violent forces or loss of political power due to economic crisis.

Even if hierarchy does not form, for the reasons given above, states in dyads marked by high relation specificity will continue to cooperate with each other. As TCE and many interdependence theorists argue, there are high costs to breaking the relationship. If the states rely on each other for critical economic or security assets and have no other options, either internally or externally, they do not want to disrupt their relationship. Mutual vulnerability may make the two state leaders nervous, particularly at the beginning of the relationship. Uncertain of the other's bargaining will, the strong state may attempt to coerce the weak state into hierarchy. It may threaten the other state or otherwise act aggressively. Nevertheless, the states have strong incentives to continue interacting, given the cost of changing their economies to eliminate the RSAs. The assets already exist—there are sunk costs—and the states can still benefit from trading with each other. The bonds still hold. If Russia can move its oil and gas through pipelines to Europe while Ukraine gains from transit fees, the states will continue this economic relationship, *ceteris paribus*. The states may even increase the RSAs, tightening the bonds that hold them together.

¹¹⁸ Telser 1980, 27

H5: When relation specific assets result in mutual vulnerability, the states are more likely to have an autonomous relationship.

Weak states wishing to avoid hierarchy have one other option: they can sell or donate assets to the dominant state as a means of forestalling and hopefully avoiding hierarchy all together. Rather than bargain away some autonomy in exchange for benefits, the weak state can bargain away assets in exchange for benefits or simply to quell the strong state's ambitions, buying time until the weak state can find a more permanent means of avoiding the hierarchy. As long as no decision-making authority is exchanged as part of the bargain, the weak state will remain in an autonomous relationship with the strong state. For example, the weak state could agree to give the strong state a minority interest in one of its industries. It could sell the position in exchange for cash, or preferential treatment of some type, such as low interest loans.

H6: Weak state leaders who perceive high costs of hierarchy, will be more likely to try to sell assets to the strong state as a means of escaping hierarchy.

Knights to the Rescue

As the discussion on mutual vulnerability suggests, players outside the dyad can affect the nature of the dyadic relationship; I refer to these players as *white knights*. By providing economic and security assistance, outside actors can change the near-term and long-term cost-benefit calculus for the dyad members. In the short-run, these actors might provide more benefits to the weak state than the strong state can. This could be because the outside actors are wealthier than the strong state. In the long-run, outside actors can assist the dyad members in reducing or even eliminating their RSAs and the related vulnerability. In the following paragraphs, I elaborate on how white knights can reduce the probability of hierarchy, introduce a typology of white knight options, and explore the reasons why white knights aid weak states.

The term *white knight* comes from the financial world, but can be usefully applied to international relations.¹¹⁹ A firm that has been targeted for a hostile take-over might seek to avoid this undesirable outcome by courting one or more potential white knight bidders. These bidders are considered friendly to the targeted firm and therefore more acceptable buy-out options than the firm making the hostile bid. In a similar fashion, the weak state might seek out white knights that it prefers to the strong state that is bargaining for hierarchy.¹²⁰ White knights in the international arena provide an alternative source of assistance for the weak state and thus "save" it from an undesirable outcome. The more powerful the white knight that the weak state successfully courts, the less likely the weak state will end up in a hierarchy with the strong state, *ceteris paribus*. By offering an alternative to the strong state, the white knights enhance the weak state's bargaining power vis-a-vis the strong state. No longer faced with only one assistance option, the weak state can play the white knights off the strong state. If the weak state's leader believes that the white knights will be forthcoming, he will attempt to hold off the strong state until he can gain sufficient assistance from the white knights. In so doing, white knights work against hierarchy by raising the strong state's costs of imposing and maintaining hierarchy. If the weak state's leader believes he can court enough assistance to escape hierarchy, he will resist the unwelcome advances of the strong state's leader. Seeking to avoid hierarchy, he will match pressure from the strong state with pressure of his own. In the long-run, the white knight can completely free the weak state from economic vulnerabilities to the strong state.

On the other hand, a state with no white knights may lower the strong state's cost of hierarchy. Even if the strong state originally shows no interest in hierarchy with a particular weak state, the weak state's leadership may offer up some autonomy or agree to pay for part of the hierarchy costs, such as providing lodging for customs officials or military troops, in hopes of gaining needed assistance. Without white knights, the state leader's only possible benefactor may be the strong state. Thus, states

¹¹⁹ My thanks to David Lake for suggesting the term *white knights*.

¹²⁰ As with all analogies, this one should not be taken too far. The white knight options I discuss here are not necessarily taking over the entire state, as a white knight in business would do. In addition, in finance, a white knight bid is defined as a friendly bid that follows a hostile bid. This sequencing is not necessary for my use of the term. For a discussion of white knights in the finance literature, see Schleider and Vishny 1986, Smiley and Stewart 1985, and Banerjee and Owers 1992.

with high vulnerability and no white knight options will tend to be pressed into accepting offers of giving up some autonomy to the strong state in exchange for benefits, thus ending up in a hierarchical arrangement.

In searching for economic and security white knights, states can take one or more of four actions: forming alliances with other weak states; courting international organizations; obtaining aid from strong states other than the dyad member; and encouraging foreign investments. First, the weak states can form security and economic alliances, such as customs unions, with other relatively weak states in or even outside the region. If there is not a clearly dominant state among the potential alliance members, the weak states may be able to negotiate an agreement based on autonomy rather than hierarchy. A customs union may create enough trade between the states that they can grow their economies away from the vulnerable position. While these have not been successful options in the former Soviet region, state leaders have toyed with alliances. For example, in the first few years after independence, President Nazarbayev of Kazakhstan proposed that the new states of Central Asia form a security and economic union. Although unstated, the union would be a means of avoiding or at least mitigating Russian domination in other forums that the Russians have designed, most notably the CIS. This point is not lost on the Russian government, which has opposed the creation of such a union.

Second, the weak state leaders can court existing international organizations that supply financial assistance, economic and military technical assistance, military grants, security guarantees, peacekeeping forces, and officer training. The most powerful players among this group are the International Monetary Fund (IMF), the World Bank, and NATO. Also important in the post-Soviet region are the European Bank for Reconstruction and Development (EBRD), the European Union's Technical Assistance to the CIS (TACIS), and the Asian Development Bank.

Of the potential security white knights, the most powerful knight is unquestionably NATO. Others with less power, but that are still active include the Organization for Security and Cooperation in Europe (OSCE) and the United Nations. NATO is the dominant choice for a white knight. The organization requires that member states spend a certain percentage of their budgets on defense and standardize their military equipment with that used in NATO. Joining a Western security alliance

would also require the state to abstain from joining an alliance with Russia. The OSCE and UN offer what might be called services, rather than real military assistance. As mediators and peacekeepers, the OSCE and the UN can provide focal points for negotiations and certain guarantees for the opposing sides. Still, they are relatively ineffective if the weak state needs strong forces to control a civil war, for example, or mighty external threats. For example, while the OSCE has attempted to carve out a place for itself in the Nagorno-Karabakh conflict between Armenia and Azerbaijan, its role has been solely as a mediator and it has been relatively ineffective in its capacity as peace guarantor. In addition, these international groups attempt to be unbiased, acting primarily when the aggressor and victim are obvious, as in the case of Serbia and Kosovo, or when the two sides have already ceased firing.

Third, the state can obtain financial and technical assistance and military equipment, training, and even troops from strong states other than the dyad partner. For example, the U.S. Agency for International Development, the organizing agency for foreign assistance, has hundreds of contractors giving advice and technical assistance to the FSU states in all areas of the economy, including privatizing state-owned enterprises, using fertilizers and pesticides, and running a legal database. In addition, government-supported venture capitalists lend money to small enterprises. Of course, defense departments and ministries of any state can provide training, equipment, and troops.

Finally, the leadership can encourage financial investments, joint ventures, donations, and volunteer or mercenary forces from foreign private companies and individuals. To encourage companies and individuals to invest, state leaders can create the "rule of law." Specifically, they can pass legislation that will protect the property rights of investors, build up and support an independent judiciary that will give investors a channel of recourse in the event of disagreements. More expeditiously, and much more commonly in the FSU region, state leaders work directly with businesses to assist them in forming joint ventures, stewardships, and other types of investments that are coupled with a managerial role. These ventures generally include the state remaining as a partial owner or future owner once the venture becomes viable. State leaders often prefer this method of encouraging investments as it gives them greater personal control over the business as well as allowing a quick infusion of money and talent but allowing for the state itself or citizens to become partial owners in the

future. As for donations and forces, a large and/or relatively wealthy diaspora is the critical link for this option. For example, Armenians living in the U.S., France, and Canada have sent substantial financial aid and even volunteered to fight the Azerbaijanis.

Somewhere between private contributors and the governmental sources are cross-breeds such as the U.S. Overseas Private Investment Corporation (OPIC). OPIC is a government agency that sells investment services to assist U.S. companies investing in emerging economies. OPIC currently has reserves of more than \$3 billion. OPIC assists U.S. businesses by insuring investments against numerous political risks, providing loans and loan guaranties, financing private investment funds which in turn provide equity to U.S. businesses operating overseas, and by advocating for U.S. businesses operating abroad.¹²¹ OPIC and organizations like it act as white knights by increasing the likelihood that private investments will be made in the weak economies.¹²²

Given the fungibility of money, an increase in economic wealth can translate into increased security, or what Waltz, Mearsheimer, inter alia, call internal balancing.¹²³ Thus, white knights in the economic arena may end up serving as white knights in the security arena, though that may not have been their intention. Most commonly, the incoming investments may free up government finances for security purposes. In addition, state leaders might negotiate "bonuses" (bribes) into a joint venture package with a foreign investor. This money may then become part of a slush fund which can be used for a variety of purposes, including buying military equipment or funding a larger military force. The weak state might privatize a state-owned enterprise, of which there were millions in the FSU, and then allocate the funds for security purposes. Having raised the idea of white knights and their intentions, I now turn to a more detailed discussion of why white knights would assist weak states.

¹²¹OPIC web site: <http://www.opic.gov>, July 1999.

¹²²OPIC insures against three types of political risks: currency inconvertibility, expropriation, and political violence. It can insure up to \$200 million per project.

¹²³In their respective works on the relative security of bipolar and multipolar worlds, both scholars differentiate between external and internal balancing. External balancing refers to alliance formation, while internal balancing refers to a state building up its own military forces to counter a security threat.

Unlike in fairy tales, the white knights in my story are not altruistic.¹²⁴ White knights are not necessarily benign; they are simply preferable to the strong state. Like the strong state, a white knight acts in its own interest. The white knights have various reasons for wanting to assist weak states. Some white knights are essentially trading financial and technical assistance for policies favorable to the donor or assisting states. Liberal state governments seek to make foreign markets as safe as possible for their overseas businesses and investors. Market-oriented economies, stable political systems, and peaceful states are more welcome places for investors seeking to expand their wealth. The IMF and the World Bank attempt to compel a recipient state to privatize its economy, reduce budget deficits, increase tax collection, stabilize its currency, and other economic policies that are favorable to the member states. Multinational corporations seek stable states for direct foreign investment. Cheap labor markets are more attractive when accompanied by rules of law that provide the corporations with some protection. The oil and gas industry is highly lucrative. If Chevron Oil can make millions or billions of dollars by investing in Kazakhstan, why wouldn't it? The fact that Chevron is also assisting Kazakhstan in reducing its RSAs and then breaking free of Russia is not particularly relevant to their motivations. In addition, stable and relatively wealthy states can become valuable markets for Western exports. Various governmental programs assist the new states in developing their economies and militaries with the goal of building stable states.¹²⁵

In determining whether to accept assistance from these white knights, the weak state leadership must evaluate the costs and benefits of a hierarchy imposed by the white knight. To some degree each of these white knight options requires some loss of control, however short-term and minute, for the weak state's leadership. As mentioned above, to receive continued assistance from the IMF and the World Bank, the weak state leader has to follow certain economic prescriptions in order to continue receiving tranches. Other states might impose human rights or other standards on the weak state.

¹²⁴Actually, even in fairy tales it is not clear that white knights act selflessly. The knight that comes to the maiden's rescue often expects some kind of benefit in return, even if just a kiss.

¹²⁵In Kyrgyzstan, for example, the U.S. AID funds a legal program in which American lawyers teach Kyrgyz lawyers how to write briefs. Contractors in Moldova enlighten farmers on the intricacies of fruit and vegetable marketing. In Kazakstan, NATO troops train with the local military units.

Foreign businesses entering into joint ventures with the weak state may exert outside pressures on the domestic political system. Each of these white knights thus imposes their own costs.

While nearly all assistance comes with some strings attached and some white knights might at first seem to be more knights in tarnished armor than shining armor, the weak state is still better off having choices for assistance than the single option of the strong state. For example, assume a hypothetical knight in tarnished armor is eager to invest in the weak state's economy as a means of increasing its own wealth. Rather than having to rely solely on investments from the dyad member, which would put the weak state in a poor bargaining position, the weak state could negotiate to have both states invest in its economy. It can play one off of the other. Furthermore, the weak state's leader will be willing to accept succor from an historically threatening power if that threat is less immediate than the ongoing threat and if there are no other alternatives for aid.

H7: The vulnerable state will seek to escape its vulnerability by courting white knights.

H8: The more a weak state leader anticipates white knights becoming available, the more likely he will forestall hierarchy with the strong state.

The discussion thus far has focused on the reasons why RSAs in a dyad tend to push the dyad toward hierarchy, except when (1) there is mutual vulnerability, (2) the weak state has a large numbers of assets that can be sold to forestall hierarchy, or (3) the weak state anticipates white knights changing eliminating its vulnerability. The other possibility is that there are no significant RSAs in the dyad. In this case, the theory predicts that there will be a relationship based on autonomy.

H9: When there are no significant relation specific assets, the relationship is more likely to be based on autonomy.

Conclusion

Two general hypotheses were derived from transaction cost economics, as explored in this chapter.

H1: The higher the political and economic benefits of controlling policy making in the weak state and the lower the financial and political costs of governing the hierarchy, the more likely the strong state will pursue hierarchy with the weak state.

H2: The higher the economic and military benefits and the lower the political costs of being governed, the more likely the weak state will pursue hierarchy with the strong state.

The hypotheses follow from the idea that hierarchies emerge as the result of negotiated agreements between two state leaders. The state leaders calculate the various costs and benefits, as detailed earlier, of entering into a hierarchy. In addition, I explore two variables—RSAs and the related white knights—and how they affect the probability of hierarchy. The following hypotheses summarize these expectations:

- H3: When relation specific assets make the weak state vulnerable, it is more likely to agree to hierarchy.
- H4: When relation specific assets make the strong state vulnerable, it will be more likely to pursue hierarchy.
- H5: When relation specific assets result in mutual vulnerability, the states are more likely to have an autonomous relationship.
- H6: Weak state leaders who perceive high costs of hierarchy, will be more likely to try to sell assets to the strong state as a means of escaping hierarchy.
- H7: The vulnerable state will seek to escape its vulnerability by courting white knights.
- H8: The more a weak state leader anticipates white knights becoming available, the more likely he will forestall hierarchy with the strong state.
- H9: When there are no significant relation specific assets, the relationship is more likely to be based on autonomy.

In the following chapter, I discuss some of the key variables in the former Soviet region. The subsequent chapters test the nine hypotheses against five detailed case studies.

Chapter 4: Integration and Disintegration: An Integrated Soviet Union and the Aftermath of Its Collapse

Chapter 3 laid out my general theory for explaining the variety of economic and security relations in the former Soviet Union and in dyads throughout the international system. This chapter provides a more specific evaluation of the former Soviet Union. Below, I elaborate on the economic and security interdependencies that existed at the time of the USSR's demise, and, broadly, the region's most significant RSAs and white knights. I then discuss the direction in which Russian foreign and security policy has moved since the Soviet Union collapsed. This discussion provides insights into how hierarchy, in general, increasingly had domestic political benefits for Russian leaders. Finally, I provide an overview of the variety of relationships in the former Soviet region, including the primary indicators of economic and security hierarchy.

Interdependencies during the Soviet Period

The intricate and cross-weaving webs of the Soviet system account for the current high levels of interdependence and hence potential vulnerability among Russia and the other republics. This structure then provides the background for understanding one of the independent variables. The following is a brief discussion of some of the hurdles the new states have had to clear now that they have their formal independence.

The Soviet system built in massive price distortions, as measured against a market economy, that set the stage for immediate policy concerns for the political leadership of these new states. While my project is not about reform to a market economy, per se, the nature and extent of the reforms are critical to understanding how state leaders must make decisions to build and maintain their economic and security relations.

Under the Soviet system, the republican administrations were set up to implement policy made at the center. In other words, leaders of the Soviet republics did not formulate and implement their own economic or, perhaps more obviously, their security policies. In Ukraine, for example, only 6 to 7 percent of industry was run by the Ukrainian Council of Ministers in 1987.¹²⁶ In the oil and gas sector, "ministries set prices, output and investment targets, and were rewarded at each stage of exploration, development, and production on the basis of quantity. For example, the Ministry of Geology and the enterprises under it were compensated according to the volume of reserves discovered; drilling companies were paid for the number of wells drilled; and producing enterprises were rewarded on the basis of crude petroleum or natural gas produced. There was little direct contact between energy producers and consumers and state trading monopolies controlled domestic and foreign markets as directed by state plans."

The Soviet economy was marked by massive price distortions at the wholesale, purchasing, and retail levels. Centralized planning prevented supply and demand mechanisms from governing prices. The system lacked an efficient mechanism for adjusting to changes in consumer demands. Profits and losses were not well connected to efficiency and competitive performance. Through informal and formal subsidies from the center, inefficient enterprises were allowed to survive and even thrive. The State set quotas for enterprises, purchased many of the goods produced, and then redistributed them among the republics. Managers lacked incentives to control quality or to take into account value and cost considerations. Managers were driven by the demands of the planners, not by consumer or efficiency concerns.

Early in the Soviet period, the Soviet leaders consolidated industrial and agricultural producers into large, socialized units, thus simplifying command planning. They created two types of industrial monopolies. One type of monopoly controlled highly specific parts of a final product. The parts were linked in a chain of other parts, moving toward a final product. If the demand for a semifinished or final product weakened, each link in the chain was at risk. Given the high specificity of the product and the skills required to produce certain items, it was extremely difficult to reorient the capital assets and

¹²⁶Lukinov, 31.

labor force. There was no efficient mechanism for product reorientation or enterprise restructuring. The second type of monopoly exercised control over select markets in the economy. Despite the collapse of the Soviet system, the former republics have retained many of these monopolies. Although they tend to be State-owned or at least predominantly State-owned as in the case of Gazprom, they are administratively separate from the State.¹²⁷

The Soviet leaders divided up economic tasks among the republics. Some of the high concentration of various subsectors within a given republic is the result of natural resources found in the different areas. For example, ferrous metallurgy and the fuels subsectors are developed where deposits were found at the lowest relative costs. But not only natural resource allocation explains certain states' economic specialization during this period. Soviet planning accounted for more of the sectoral concentration. As previously noted, the Soviet planners tended to favor extremely large plants in order to reap the gains of specialization. Some analysts have also argued that the Soviet planners sought to geographically concentrate industries and processes in different republics in order to make them reliant on the center and each other.

Consider some indicators of the differences between the various states: Five of the new states have virtually no oil or natural gas fields. Over 91 percent of the USSR's oil and about 77 percent of its natural gas came from the Russian Federation. Eight republics do not mine coal. Eleven of the 15 states do not mine iron ore or produce pig iron, and 6 do not smelt steel. On the other hand, ferrous metallurgy dominates the industrial structure of several former Soviet districts. For example, in two Ukrainian districts—Dnepropetrovsk and Donetsk—ferrous metallurgy accounted for 45 and 33 percent, respectively, of economic output. Agricultural production also was centralized. Only six republics produced cotton; of these, only three produced high-quality, specialized cotton fibers: Tajikistan, Turkmenistan, and Uzbekistan. During the Soviet period, Georgia supplied nearly 100 percent of the citrus fruit and 92 percent of the tea leaves to the Union. Russia and Ukraine accounted for 92 percent of the Soviet Union's sugar beets.¹²⁸

¹²⁷Shen, 35-36.

¹²⁸ Figures are from Lukinov 1992, 32-22; and Sagers 1992, 510.

The previous paragraph suggests some particular deficiencies and strengths of the individual republics during the Soviet period. Table 4.1 provides a more general picture of each republic's specialization in the industrial sector. In some areas, there is relatively little difference between republics. For example, the glass sector accounts for less than 1 percent for each of the republic's total industrial sector. In other areas, however there are wide differences. For example, over 22 percent of Turkmenistan's industrial output was in the primary industries sector, far more than for any other republic. Kazakhstan was the second highest, at 12.8 percent. Belarus' economy is particularly tilted toward the machine-building and metalworking sector, comprising 32 percent of its industrial structure. Russia (29.9 percent) and, perhaps surprisingly, Armenia (29.7 percent) have the next highest levels. In the fuels sector, Turkmenistan (24.8 percent) and Azerbaijan (13 percent) stand out; Turkmenistan remains a significant natural gas producer while Azerbaijan continues to be a major oil producer. Relative to the other republics, Ukraine's economy was unusually tilted toward ferrous metallurgy (12.9 percent) while Kazakhstan stood out in nonferrous metallurgy (11.5 percent). The economies of Tajikistan (47 percent), Turkmenistan (39.9), and Uzbekistan (31.1) were heavily tilted toward light industries; this reflects their economies' heavy reliance on cotton production. Moldova (44 percent) and Georgia (39.2 percent) were notable for high percentages in the food industry, reflecting their large agricultural sectors. Latvia and Lithuania each had relatively balanced economies. The percentage of total commercial output in the major sectors – machine building and metal working, light industry, and food industry – ranged between 21 and 26 percent. (The figures mentioned in this paragraph are in bold in the table below.)

Table 4.1: Industrial Structure of the Former Soviet Union in 1985 (in percent of total commercial output)

Republic	Primary industries	Electric power	Fuels	Ferrous metallurgy	Nonferrous metallurgy	Chemical and petrochemical	Machine building and metalworking
Armenia	3.8	3.9	.0	.3	4.2	6.6	29.7
Azerbaijan	6.5	3.9	13.8	1.5	2.7	7.2	16.4
Belarus	2.3	2.9	5.6	.6	.1	9.3	32.0
Estonia	5.8	5.7	6.6	.1	.1	3.7	15.6
Former USSR	8.7	3.7	7.7	6.2	4.0	7.0	27.0
Georgia	5.2	3.4	6.4	2.2	2.3	5.8	18.7
Kazakhstan	12.8	4.6	8.5	6.0	11.5	6.0	17.3
Kyrgyzstan	6.1	3.5	1.2	.2	2.7	.6	24.5
Latvia	7.0	1.9	.5	1.7	.2	7.6	26.4
Lithuania	3.0	3.4	4.3	.5	.1	4.3	23.0
Moldova	.8	4.5	.0	.4	.0	2.5	16.1
Russia	9.5	3.8	8.6	5.8	5.1	7.6	29.9
Tajikistan	6.0	3.9	.9	.1	7.5	4.1	8.8
Turkmenistan	22.2	4.3	24.8	.1	.0	3.9	5.0
Ukraine	8.6	3.2	7.3	12.9	1.2	6.2	24.4
Uzbekistan	5.8	3.8	4.1	.7	4.0	5.5	15.8

Republic	Wood, paper, woodworking	Construction materials	Glass	Light	Food	Other	Total
Armenia	2.2	5.2	.6	24.2	19.1	.5	100.3
Azerbaijan	1.7	3.2	.4	20.9	27.1	.4	105.7
Belarus	4.5	3.4	.4	20.1	17.7	1.1	100.0
Estonia	8.3	4.1	.4	24.9	25.7	.6	101.6
Former USSR	4.5	3.7	.4	15.3	17.4	.7	106.3
Georgia	3.9	5.3	.3	20.9	39.2	.2	113.8
Kazakhstan	2.8	6.0	.1	16.3	18.6	.4	110.9
Kyrgyzstan	1.7	4.0	.6	28.5	30.5	.8	104.9
Latvia	5.6	3.1	.7	21.1	25.8	.2	101.8
Lithuania	5.2	4.9	.2	22.5	25.3	.7	97.4
Moldova	3.2	3.7	.5	21.6	44.0	.7	98.0
Russia	5.5	3.6	.4	13.2	14.5	.9	108.4
Tajikistan	1.7	4.9	.4	47.0	19.6	.0	104.9
Turkmenistan	1.3	6.0	.3	39.9	13.7	.6	122.1
Ukraine	2.5	3.3	.5	11.8	20.3	.5	102.7
Uzbekistan	1.7	5.6	.3	39.1	17.7	.4	104.5

Notes:

(1) The table is from Sagers 1992, 503-5, "Table 4: Industrial Structure of the Former Soviet Regions and Republics in 1985 (in percent of total commercial output)." The original source is unpublished data compiled by Goskomstat USSR.

(2) The totals are my calculations. They do not add to 100 for several possible reasons, including rounding errors, errors in the original data, errors in Sagers' transmission from the original, and missing data.

(3) Figures in bold demonstrate areas in which states have relatively high percentages for that sector, as discussed in the paragraph preceding the table.

Trade statistics offer another broad measure of the degree to which the republics were interdependent. The insulation and centralization of the Soviet system meant that trade patterns were

heavily tilted toward Russia and other republics. In particular, the adage “all roads lead to Rome” can be accurately applied to the Soviet Union: all roads lead to Moscow. Two measures, both of which are shown in Table 4.2 below, suggest how economically interconnected the Soviet republics were with one another, especially Russia, as opposed to the outside world: (1) the total volume of trade as a percentage of GDP for each republic, and (2) the share of total trade that was with other republics in the region, as opposed to states outside the Soviet Union. These data show how much more economically independent Russia was from the other republics than they were from Russia. Russia's trade accounted for only 22.3 percent of its GDP. For the others, the range was from 33.9 (Kazakhstan) to 63.9 (Estonia) percent. The average for all republics was 45 percent. Similarly, most of the republics traded little with the non-Soviet world. Aside from Russia, Uzbekistan had the highest percentage of trade outside the Soviet Union at 21 percent. For each of the other 13 republics, trade with Soviet republics accounted for over 80 percent of each republic's total trade. Russia, in contrast, traded much more with the outside world, though still over half of its trade was with other Soviet republics.

Table 4.2: Comparison of Intra-USSR Trade Flows

Republic	Total Trade (as percent of GDP) ^a	Intra-USSR Share of Total Trade (percent)
Armenia	54.9	89.1
Azerbaijan	42.0	85.6
Belarus	51.4	85.8
Estonia	63.9	85.1
Georgia	44.3	86.5
Kazakhstan	33.9	86.3
Kyrgyzstan	45.2	86.9
Latvia	54.6	86.7
Lithuania	54.9	86.9
Moldova	53.1	87.8
Russia	22.3	57.8
Tajikistan	41.6	86.3
Turkmenistan	39.3	89.1
Uzbekistan	34.1	79.0
Ukraine	39.5	85.8
Average	45.0	84.3

Source: International Monetary Fund 1992a, p. 37. Only the average is my own calculation. The other calculations are taken directly from the IMF. The IMF's cited source is Goskomstat, USSR. I did not independently verify the accuracy of the calculations.

^aAverage of exports and imports of goods. GDP for each republic is estimated using total GDP for the USSR and dividing it according to share of value added of each republic in net output of the USSR.

While the statistics on the industrial structure and inter-republic trade during the Soviet period provide a useful method for comparing republics' economic activities, a caveat is in order: the Soviet Union's reported statistics on economic and military matters were far from accurate. As economist Vladimir Treml noted, "When the economic history of the USSR is rewritten, it will undoubtedly address the issue of the information base of the Soviet system and note that it was much poorer than envisioned by either Western or Soviet historians and economists." With time, "[i]t becomes increasingly clear that the information available to key Soviet officials in the past was fragmentary and often misleading. The lack of understanding of the true state of the economy reached the highest level of the government and the party."¹²⁹ Unfortunately, many of the problems with Soviet statistics have not yet been corrected by the new states, and may have worsened in some cases. The disintegration of the old collection agencies combined with the difficulty of monitoring disparate economic activities, many of which remain underground, have complicated that task of collecting accurate data.¹³⁰ The CIS Statistical Office does not have the authority, or personnel, to verify the information the member states provide it. Given these problems, one must approach statistical data for the region with even greater caution than is often afforded statistical analyses. Nevertheless, the statistics provide useful comparisons of the republics.

The fact that states specialized in certain sectors does not mean that other states are incapable of producing the same products. Other states will no doubt begin growing citrus fruit, for example. These figures do indicate the degree to which inter-republic trade marked the Soviet economy and now hampers some of the new states. When the imperative of buying from within the Union disappeared, many states began turning to non-FSU states for higher quality products. The Russian market, for example, is now flooded with fruit importers. Grapefruit from all over the world now adorns even the street markets. Georgia must compete with other more efficient and higher quality producers in and outside the FSU. Similarly, states such as Kazakhstan have stepped up their oil and natural gas production. When the Soviet Union was a single entity, it was more economical to bring oil from

¹²⁹ Treml 1992, 6.

Russian fields than to develop all Kazakhstani fields. As an independent state, however, Kazakhstan has an interest in increasing the share that the fuels industry contributes to its economy.

In addition to production issues, the Soviet system had a centralized payments system for factories and other components of the economy. Inter-republic trade was approved by the central planning organization, Gosplan. The central bank, Gosbank, handled the payments for inter-republic trade. Banks frequently allowed enterprises to use non-cash payments, generally in the form of a payment order. Banks would then clear these orders through a network of settlement centers. Although this system was extremely slow, enterprises were not concerned about the delays. Gosbank guaranteed payments related to trade approved by the central planners. To cover temporary cash shortfalls, enterprises could easily obtain credit at both the commercial and central and bank levels.¹³¹ In the late 1980's, the Soviet government began loosening centralized controls. Under this loosening, Gosplan and Gosbank's power diminished. With less central control, the republics and regions began formulating their own economic policies.

The peculiarities of the Soviet system meant that as newly independent states, the former republics were far from blank slates. The specifics of each state's economy in large part has determined the state's vulnerability to Russia and hence the likelihood that it will end up in a hierarchical relationship dominated by Russia.

Economic Vulnerability in the Former Soviet Region

The economic web of the former Soviet Union left many of the dyads with specific assets that bind the states together. Oil and gas pipelines and electricity grids cross borders, linking together two or more states. These are the most visible specific assets. In addition, military plants that built components now rely on facilities in other states to assemble those components. Energy generators in one state rely on coal mined in a neighboring state. This portion of the dissertation discusses the

¹³⁰ Trembl 1992 and Khanin 1993.

¹³¹ International Monetary Fund 1992a, 8-9.

dominant specific assets in the region, with special attention paid to the RSAs for my six case studies: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, and Ukraine.

Under the case study chapters I detail the extent to which Russia and the other states are vulnerable to each other due to RSAs. As discussed in chapter 3, the dependency can run in one direction or in both directions. A weak state might be dependent on Russia for an important economic sector, while Russia has numerous other partners that can supply the same commodity or service. On the other hand, it might be Russia that is dependent on the weak state. In the case of interdependence, the two states depend on If the dependency is met by Russia and is difficult to replace, the state is vulnerable both lack alternative partners. For example, Ukraine produces military subcomponents. To produce these, it requires enormous electricity reserves. The electricity in turn is dependent on generators and grids. If Russia controls the grids and generators as well as the assembly plants, Ukraine is highly vulnerable to Russian actions. Similarly, a state producing crude oil is reliant on oil pipelines to move the crude beyond the FSU region and into the more lucrative European markets. The producing state is then vulnerable to the state that controls the pipelines. If a producer requires the Russian owned pipelines and lacks alternate routes, but Russia is also dependent on the transit fees that the producer supplies, the states are mutually vulnerable, or interdependent. As the fourth column in table 4.3 depicts, there is a variety of vulnerability types in the FSU.

To reduce vulnerability, an oil or gas producing state can build pipelines that bypass Russia. For example, if states like Azerbaijan or Kazakhstan with the highly tradable commodities gas and oil can eliminate their dependencies on Russian pipelines, they will dramatically reduce their vulnerability. Similarly, Russia could build pipelines that use oil and gas from another state, or increase its own production capacity to fully utilize its pipelines without having to rely on the other state.

Table 4.3 summarizes the most significant RSAs in the former Soviet region. While there are numerous other RSAs, the ones I summarize here are significant enough to a state's economy for that state to alter its foreign policy because of the asset. A state will be unlikely to agree to a hierarchy, for example, if the RSAs comprise a minor part of the economy. The assets must dominate the economy to

the point that it would push the political leaders to act in the interest of the sector. The sectors summarized in table 4.3 are powerful enough to do that.

Table 4.3: Significant Relation Specific Assets at the Time of the Soviet Collapse

Economic Subsector	Type(s) of Specificity	Dyads with the RSA (Each dyad includes Russia)	Vulnerable Dyad Member
Electricity grids	1. Site 2. Physical 3. Dedicated	1. Kazakhstan 2. Ukraine	1. Both 2. Both
Oil and gas pipelines	1. Site 2. Physical 3. Dedicated	1. Ukraine 2. Belarus 3. Kazakhstan 4. Azerbaijan	1. Russia 2. Belarus 3. Kazakhstan 4. Azerbaijan
Oil and gas refineries and products	1. Site 2. Physical 3. Dedicated	Kazakhstan	Both
Coal pits	1. Site 2. Dedicated	Kazakhstan	Both
Military components and subcomponents, assembly plants, and testing sites	1. Site 2. Physical 3. Dedicated 4. Human	1. Ukraine 2. Belarus 3. Armenia 4. Kazakhstan	1. Ukraine 2. Belarus 3. Armenia 4. Both
Space program: rocket launch site	1. Site 2. Physical 3. Dedicated	Kazakhstan	Russia

Of the six most important subsectors that are dominated by RSAs, five are specific in at least three ways: physical, site, and dedicated. As discussed in chapter 3, RSAs that are site specific are those that are too heavy or large to easily move to a new location. As in the case of a coal pit, the asset may be impossible to move. Physically specific assets have design characteristics specific to the transaction and have lower values in alternative uses. Dedicated assets involve investments in a general purpose facility that are made at the behest of a particular customer. If the relationship were to dissolve, the facility would have excess capacity and no (or few) alternative customers. The fact that these assets are specific to the relationship in several ways, rather than just one, makes them even more difficult to replace or reorganize should the relationship end. Below I elaborate on each of these sectors. For greater detail, see the individual cases.

Electricity

Electricity can be relatively easily bought and sold by numerous international customers, both for industrial and for home use. States do in fact purchase electricity across borders all over Europe, for example. Without considering the conduits, or grids, electricity itself is highly tradable. Therefore a state with nuclear, thermal, or hydroelectric power plants that can generate electricity in excess of its domestic demands should be able to sell it on the international market. Clearly, however, electricity is dependent on power grids to transport it between states. Without high capacity grids to move the electricity to the customers, a state cannot sell its electricity, no matter how great its excess capacity. If one state generates electricity, but another state controls the grid, the producer may be vulnerable to the grid owner. On the other hand, if the grid owner relies on the other state's electricity to power its grids, the two states are mutually dependent.

An electricity system requires a means to generate electricity, a network to transmit the electricity to industrial and other users, and a central dispatch to regulate transmission. To minimize energy losses, electricity is transmitted at the highest voltages possible. Modern technology makes it relatively simple to convert electricity down to the proper voltages. Electric utilities producing power are tied together by transmission lines into vast systems called power grids. Utilities are then able to exchange power, so that a utility with low power demand can assist another with a high demand. The dispatchers along the grid must coordinate with each other, otherwise serious power outages can occur.

When the power grids cross international borders, the participating states must make and enforce agreements with one another to ship a certain amount of energy through the grid. If one side fails to transmit the requisite amount of electrons, the electrical flow ceases and may then surge. When electricity suddenly stops flowing and/or surges, it causes crippling damage to the machines relying on the flow. (If you have ever had a power surge due to lightning or mechanical failure and did not have a surge protector in place, you know what happens to computers, televisions, and other appliances relying on stable flows.) When demand exceeds supply, the dispatch reduces demand through brown outs or black outs. These involuntary demand reductions keep the system from completely shutting down.

The power to affect another state's electricity comes about from the position of both the generators and the central dispatch. If a state is purchasing electricity from another state, then it is vulnerable to that state simply refusing to supply electricity, for political or other reasons. In times of short energy supply, the purchasing state might well find itself having to endure blackouts. The state that controls the Central Dispatch can also cut off electricity to some parts of the grid. It is highly unlikely that a state would ever shut down the main grid as it would lose electricity itself, but depending on the configuration, it may well be able to cut off dead-end circuits—those smaller circuits that branch off from the main grid.¹³² Hence, relying on other states to supply electricity flows is risky. If the producing state has increased domestic demand but has no means of quickly increasing supply, it seems likely that it will reduce or cut entirely its supply to foreign customers rather than to its domestic customers. For the latter, there is a much higher political price to pay.

In the West, the frequency in the electricity grid is controlled at three different levels as a means of ensuring high quality frequency with few fluctuations in power and at an economical level.¹³³ In the former Soviet region, on the other hand, frequency control comes only at two levels and is effected by the countries which have enough reserve power to affect frequency, i.e. Russia in Western Europe and Tajikistan and Kyrgyzstan in Central Asia. To keep the frequency quality high, the supply of energy must meet the demand. When supply cannot meet demand, then demand must be reduced or supply increased. In the West, this usually involves using excess supply to meet the demand (although New Yorkers will recall that this does not always work out). In the former Soviet Union, however, difficulties with securing adequate supply often result in reducing demand instead. In a policy that is euphemistically called “load shedding” but which is better known as a brown out or black out, the controller essentially flicks a switch, cutting supply to a region. It can be one block, one part of town, or the whole city. If the controller does not reduce demand, the result will be *cascading* or *backfiring*

¹³²Personal interviews with Mamishev, Hanson and Hardin, Biddison.

¹³³ The European Union's TACIS program is heavily involved in helping the FSU states privatize and improve their electricity systems, including assisting non-Russian states in reducing their vulnerability to Russian actions. The discussion on frequency control is from the 1996 TACIS report on energy, pages 4-10, hereafter referred to as *TACIS-Energy 1996*. In addition, I have relied on personal interviews with TACIS specialists working in the region.

which can do major damage to the electricity system. Shedding is a brutal form of controlling demand. With nuclear power, have to shut down immediately to avoid catastrophic results. All of this adds up to dependence on the controlling state to continually provide high quality voltage. The state controlling the system is more likely to cut the other state's electricity flow to shed the load.

The Soviets used all three major sources of generation: nuclear, thermal, and hydroelectric power. Depending on their type, thermal plants require coal, natural gas, or refined oil as fuel. Since fuel generally accounts for about 60-70 percent of the total electricity production cost, the type and source of fuel is extremely important to keeping electricity costs manageable. In addition, fuel costs are a strong driver for using generation methods that rely on domestic fuel sources. During the Soviet period, the generation type used in each region was largely dependent on local demand and available resources. Thus, in Kyrgyzstan where there is a vast river—the Naryn—the Soviets built a massive hydroelectric facility. In Belarus, where there was high demand but limited natural resources, nuclear power plants were used for electricity generation. Ukraine has a large coal basin but not large enough to support its industry-heavy economy. As such, it employs thermal plants and nuclear power plants. In coal rich Kazakhstan, the generators tend to be thermal. Russia relied on all three, but was and is most heavily reliant on thermal power plants. According to a joint US-Russian study, thermal power provides 69 percent of Russia's electricity generation; hydroelectric plants account for 21 percent; and nuclear, 10 percent.¹³⁴

When Lenin and his successors brought electricity to all parts of the Soviet Union, they built grids that crossed republic borders. With the collapse, these same grids now cross numerous state borders. Some states are tied to several independent grids. For example, northern Kazakhstan's electricity grid is connected to southern Russia, where the central dispatch is located. Southern Kazakhstan, however, derives its electricity from the Central Asian grid, and southeastern Kazakhstan relies on Kyrgyzstani hydroelectric power. The Central Dispatch for the Central Asian grid, which loops together the five Central Asian states, is based in Uzbekistan. While the dispatch in Almaty can

¹³⁴ Energy Policy Committee of the U.S.-Russia Joint Commission on Economic and Technological Cooperation 1995.

cut electricity to a single apartment, block, or neighborhood in Almaty, the Central Dispatch in Uzbekistan can cut the entire supply to Kazakhstan. Similarly, the electric grid for the North Caucasus in Russia runs through Ukraine and back into the Russia. This gives Russia the power to cut those portions of Ukraine, but it also gives Ukraine power to cut some parts of the Caucasus. The Omsk power system in southeast Russia requires electricity from Kazakhstan and Russia's Kaliningrad and Pskov regions must transfer power through the Baltic states.¹³⁵

When grids cross state lines in different places and gives both state control over the other, vulnerability is mutual. For example, during the 1996-97 winter, Russia shut off electricity to northern Kazakhstan when demand exceeded supply and the electricity company chose to protest non-payments which had been a long-standing problem. Kazakhstan responded by withholding coal that fuels Russia's electricity plant that feeds the region, including parts of Russia.¹³⁶ This mutual vulnerability—Russia's reliance on Kazakhstani coal and Kazakhstan's reliance on Russian electricity—led to a resumption of the former status quo. Russia resumed dispatching electricity to Kazakhstan and rescheduled Kazakhstan's debt. Reciprocating, Kazakhstan resumed coal deliveries. Mutual vulnerability meant that Russia could not effectively use what appeared to be strong bargaining power.¹³⁷

A state can slightly reduce its dependency on another state's electricity generation by using diesel-powered and gas-turbine portable generators. At least one company has opted to break its dependency by using these alternative means. TengizChevroil, the US-Kazakhstani company working the Tengiz oil field use their own generators. According to a representative, they wanted to avoid having their electricity held hostage to political or other maneuvers. However, in comparison to nuclear, thermal, and hydroelectric power plants, these are expensive and inefficient means of generating electricity and are unlikely to significantly reduce a state's vulnerability.

¹³⁵Energy Policy Committee of the U.S.-Russia Joint Commission on Economic and Technological Cooperation 1995; and interview with Biddison 1997.

¹³⁶Personal interview with Ruslan Mamishev, the World Bank. Dr. Mamishev is an economist who is an energy specialist at the World Bank's Resident Mission in Kazakhstan.

Fuel: Pipelines, Crude, and Refined

The fuel industry runs the gamut on dependencies. It includes pipelines which are specific assets that are dependent on fuel to make them worthwhile—it is difficult to imagine the value of pipelines without fuel; refined oil and gas products, which have many trading partners, but are dependent on refineries which may or may not be in the same state as the fuel; and the fuels themselves which are highly tradable but rely on pipelines to move vast quantities to the most lucrative markets which are located outside the FSU. For some states, there are high vulnerabilities to Russia associated with the sector, while for others there are virtually none. In the case of Ukraine, Russia needs it for its pipelines to Europe, while the situation is flipped for Kazakhstan which relies on Russian owned and controlled pipelines.

The non-Russian FSU states that produce oil and gas are vulnerable to Russia on several counts. First, given severe cash shortages, all of the states have a strong need to earn hard currency. With Russia controlling most of the pipelines that access these regions, the other states fear Russian strong-arming. This particularly includes the high producing states: Azerbaijan, Kazakhstan, and Turkmenistan. In addition, the smaller states have to compete with Russia's own oil and gas industries which are desperately in need of hard currency themselves. When pipeline capacity issues arise, as they often have, Russia—not surprisingly—gives precedence to its own industries. The other states must endure temporary shut downs or reductions in exports. These shut-downs or reductions can result for numerous reasons, including political pressure for some unrelated issue, insufficient capacity, unpaid bills, and sabotaged pipelines that must be repaired. The capacity problem emerged immediately following the collapse of the Soviet system. For example, in 1991-92, Russia refused to transfer 9 billion cubic meters of Turkmenistani gas to Azerbaijan, claiming that it lacked the capacity to carry this additional amount.¹³⁷ Russia and other states controlling pipelines often state unpaid bills as the reason for reduced or eliminated access to the pipelines. But since all states are in debt at most times, it

¹³⁷One might wonder why the Russian dispatch even attempted this action. It seems likely that the Russians were testing the waters, uncertain whether Kazakhstan would have the resolve to reciprocate. The operators might also have seen it as a symbolic action and had no real expectation that it would have an immediate and direct affect.

¹³⁸Sagers, 1992, 256.

seems likely that there are other pressures at work. In any case, when Russia shuts down or reduces the flow for another state, the weak state is reminded of its vulnerability to Russian actions.

Not only the weak states, however, are vulnerable on the pipeline issue. Since Ukraine and Belarus divide Russia from the rest of Europe, oil and gas pipelines carrying Russian fuel traverse their territories before entering the more lucrative markets. On this point, Russia is particularly vulnerable to Ukraine which is home to the largest capacity pipelines for both oil and gas. The largest oil pipeline crossing Ukraine is the Druzhba (Friendship) pipeline, with a capacity of 1.2 million barrels per day (b/d). The pipeline, which extends all the way to central Germany, is the single largest export route for Russian oil. In 1997, 895,000 b/d of Russian oil passed through the Druzhba pipeline to points outside the former Soviet Union, more oil than was exported through any of the other export routes. At the time of the Soviet collapse, 90 percent of Russian natural gas was exported through Ukraine.¹³⁹

Acutely aware of this vulnerability, Russia has been actively looking for alternate routes to Europe. The more states that large fuel pipelines traverse, the less power any one state has over Russia. For example, under the current situation, if Ukraine threatens Russia with raising transit rates threefold, Russia has very little bargaining power. If, however, pipelines crossing other states gave Russia sufficient access to the European markets, Russia could threaten to move its fuel through other routes if Ukraine persisted in its rate hike. As discussed in chapter 5, Russia is building a pipeline in Belarus for precisely this reason.

The final step in the fuel chain, at least as far as RSAs are concerned, is refining or processing the crude oil and natural gas into consumer products. Crude oil is refined into several products, including gasoline, diesel, kerosene, jet fuel, and mazut.¹⁴⁰ Different refineries in the FSU are capable of producing different mixes of these products. In a similar process, natural gas is transferred to gas processing plants.¹⁴¹

¹³⁹Sagers 1993, 389.

¹⁴⁰Mazut is a thick, bottom-of-the-barrel fuel that is not often used in the West. The Soviets, however, used mazut to run some of their generators. It remains an important product in the former Soviet region. Interview with Mamishev, World Bank Energy specialist in Kazakhstan.

¹⁴¹U.S. Congress, Office of Technology Assessment 1994a, 46.

While extraction is done in one location, the refinement or processing stage may require moving the crude oil or natural gas great distances through pipelines to the refineries and processing plants. In some cases, the pipelines carry fuel from one state to a refinery in another state. Again, this situation is a remnant of the Soviet system, in which crossing borders was relatively meaningless. For example, oil is extracted in western Kazakhstan and then sent north through pipelines to a Russian refinery. In eastern Kazakhstan, the flow runs in the opposite direction, with Russian oil flowing down the pipelines to Kazakhstani refineries. In this case, at least at this time, the vulnerability is mutual. In the future, however, if one state built a refinery within its own borders, the arrangement would turn to a one-way vulnerability. The refinery-fuel dependency also occurs between Russia and Ukraine and Russia and Belarus. With minor oil producing capacities, Ukraine and Belarus are dependent on Russian crude oil to keep their refineries operating at full or even near full capacity.

I conclude this section by noting that the Russian fuel sector remains tightly centralized and well connected to the State, making it relatively easy for Russia to use the industry for political purposes, especially when it suits the industry. Beginning in 1992, Russia began reforming the oil sector. The oil sector enterprises, which had been under the energy ministries' jurisdiction, were converted into joint stock companies. These companies were then divided into three vertical holding companies—LUKoil, Yukos, and Surgutneftegaz. These companies engage in exploration, production, refining, and distribution. The State retains a controlling interest in all of these enterprises, many of which are still run by the so-called *oil generals*. Transneft, which reported revenues of \$2.5 billion in 1999, currently holds a monopoly over oil shipments via pipelines in Russia.¹⁴² Controlling over 29,000 miles of pipeline, Transneft remains a state-owned company.¹⁴³

¹⁴² Graham & Whiteside Ltd. 2000; "Pipeline Monopoly Hikes Tariffs By 12.2%," Financial Times Information, July 14, 2000.

¹⁴³ The New York Times, Celestine Bohlen, "Energy Companies Are Tools in Russian Power Struggle," Oct. 11, 1999, Sec. A, p. 3, col. 1; and "The Central Moscow Depository Suspended The Operations On Accounts Of The Owners Of The Preference Shares Of Transneft", RIA Oreanda, Economic News, Feb. 9, 1999.

The Coal Industry

The coal industry plays an important role in Ukraine, Kazakhstan, and Russia. Kyrgyzstan has some coal deposits as well. Ukraine has 276 coal mines spread across the country; the majority of Ukrainian territory is coded by the Petroleum Economist as a "coal area."¹⁴⁴ Theoretically, coal producing states might be reliant on another state's railways. Because coal is mined away from city centers and is extremely heavy and therefore costly to transport, companies generally rely on railways to move the coal to its destination. A state could be dependent on Russian controlled railways in the same way that they are on Russian controlled pipelines. As with the pipelines, there are alternative transportation routes, but these are significantly less efficient and more expensive. However, in contrast to oil and gas industries, there is relatively little export potential outside the FSU for the coal industry. Most of the coal mined in the region is for domestic consumption with some exported to neighboring states. The primary exception to the non-RSA nature of the coal industry is found in Kazakhstan, as discussed in chapter 6. Kazakhstan exports some coal to Russia for electricity generation for northern Kazakhstan and Russia. If Russia were to abandon the electricity generator, or switch to alternative energy sources, Kazakhstan would have excess capacity. In this particular case, however, the dependency is mutual since Russia relies on the electricity generated with Kazakhstan's coal.

The Military-Industrial Complex: Conventional and Nuclear

A weak state's involvement in the FSU's military-industrial sector may involve making components and subcomponents, assembling military equipment, and/or selling fully manufactured military equipment. Each of these roles has different degrees of dependencies and, therefore, of potential vulnerability to Russian actions. The Ukrainian and Belarusian states were largely responsible for making components and subcomponents for Soviet defense equipment. Armenia's economy was also heavily dependent on the military-industrial complex. The components were then transported to assembly plants which were generally located in the Russian Federation. States making the components now have few trading partners for this commodity. The components were designed for Soviet

equipment which is largely no longer in demand. Numerous factors have led to a serious decline in demand for new Soviet-style equipment. These include the collapse of the Communist states and their general interest in Western military alliances, the Russian economy going through a massive transformation and a move away from its heavy military-industrial complex; a reduced Russian defense budget; and a conventional arms control agreement—the Conventional Forces in Europe Treaty—that calls for destroying or selling rather than building equipment. These factors all contribute to depressed demand for the types of components that Armenia, Belarus, and Ukraine manufactured.

The states that dominate the manufacture of these components have two other dependencies besides the assembly plants in Russia: electricity and energy. The industrial sector in the FSU is outmoded and in decay. Many of the military-industrial facilities are highly energy inefficient, a serious shortcoming for two states that are coincidentally resource poor. While Ukraine is rich in coal and therefore can operate thermal power plants relatively cheaply, it is highly dependent on imported oil and gas to fuel its energy-hungry industries. Belarus and Armenia are similarly dependent on imported energy. While this fuel could theoretically come from any source on the international market, this dependency is the result of Russian policy. At times, Russia has sold fuel to the other FSU states at prices significantly below world market prices and was subsequently lenient in demanding payments. Almost since independence, Ukraine and Belarus have owed significant funds to the Russian oil and gas concerns. Russia has also accepted barter agreements in lieu of currency. The pipelines that bring fuel to Ukraine and Belarus are mostly controlled by Russia and thus usually deliver Russian fuel, as discussed under the fuels section above. This further increases Ukraine's and Belarus' vulnerability to Russian actions in this sector, *ceteris paribus*. Russia could eliminate Belarus' and Ukraine's dependency by raising prices to international levels and insisting on prompt payments. Ironically, with low prices and favorable payment options no longer a reason for buying from Russia, Belarus and Ukraine would have an unwelcome "freedom" to pursue other supply options. To date, this has not occurred, as Russia has continued its policy of being a generally lenient collector.

¹⁴⁴The total number of mines comes from the U.S. Geological Service study on Ukraine, 6.

As home to most of the military equipment assembly plants, Russia might have dependencies in the military-industrial sector but under current conditions they are not severe. As the home territory for most military equipment assembly plants, Russia is reliant on the component manufacturers to deliver their products to its facilities. In times of great demand, this might be a serious vulnerability, but since the market is relatively depressed and Armenia, Belarus, and Ukraine are in need of a customer, Russia has the upper hand. To get a sense of how much domestic demand has fallen, consider that in the mid-1980's, the Soviet Army purchased 2,000 tanks annually; in 1994, it bought only 40 tanks.¹⁴⁵ Of course, there are other markets. Internationally, Russia is active in the arms export business, often ranking second in sales, by its own estimates. In 1995, Russia reported selling \$3.1 billion of weapons abroad and expected even higher figures for subsequent years.¹⁴⁶ With time to gear up for increased sales, Russia can develop alternative suppliers, either in Russia or by encouraging non-FSU states to enter the market. Alert to their vulnerability, well-organized military-industrial lobbying groups have formed in Ukraine and Belarus and with the governments' support have negotiated special purchasing arrangements with the Russian assembly plants. This is discussed in greater detail under the case studies.

The final type of RSA in the conventional military-industrial complex includes testing sites. Kazakhstan has several testing sites for sophisticated weapons systems. These testing facilities are of little value to Kazakhstan itself or to partners other than Russia. The highly technical testing equipment was designed for Soviet military research and development. Since Russia inherited those capabilities, it is the only partner able to use the highly specific facilities without incurring significant restructuring costs. Russia requires these facilities, making the relationship mutually dependent.

Like the conventional military-industrial complex, the former Soviet nuclear complex also has significant RSAs. At the time of the Soviet collapse, four republics had nuclear weapons on their territory: Russia, Belarus, Ukraine, and Kazakhstan. As Table 4.4 demonstrates, Russia had the bulk of the weapons and warheads. With nearly 7,500 warheads, Russia had nearly 75 percent of the warheads

¹⁴⁵ OMRI Brief, Aug. 9, 1996.

on the former Soviet territory. While having a much smaller force, Ukraine's 1,400 warheads made it the third largest nuclear power, behind only Russia and the United States. Of the three non-Russian states, Belarus had the smallest force, all of them being land-based intercontinental ballistic missiles with single warheads.

Table 4.4: Strategic Nuclear Weapons in Former Soviet Union Republics

		Weapons	Warheads
Russia	Intercontinental ballistic missiles	1,040	4,260
	Submarine-launched ballistic missiles	832	2,696
	Bombers	110	257
Ukraine	Intercontinental ballistic missiles	176	1,240
	Submarine-launched ballistic missiles	0	0
	Bombers	20	160
Kazakhstan	Intercontinental ballistic missiles	104	1,040
	Submarine-launched ballistic missiles	0	0
	Bombers	40	320
Belarus	Intercontinental ballistic missiles	80	80
	Submarine-launched ballistic missiles	0	0
	Bombers	0	0
Total		2,402	10,053

Source: International Institute for Strategic Studies

As the only remaining nuclear military power in the FSU—the others handed over their equipment to Russia—and as the only FSU state currently capable of running a space program, Russia is vulnerable to other states. The Soviet nuclear complex was spread throughout the state. Eleven of the fifteen republics had some part of the complex; only Azerbaijan, Lithuania, Moldova, and Turkmenistan have no part of the nuclear complex on their territory. Most of the nuclear military equipment was and is produced in Russia. Russia's Votkinsk plant produces the SS-25 Topol ICBM and mobile launchers are produced in Volgograd. The modified SS-25 for mobile and silo-basing can be produced at these two plants as well. Tu-95 and Tu-160 heavy bombers were produced in Samara and Kazan, both in Russia, but are now discontinued. The strategic submarine shipyards are based in Russia; some of these will continue production for military purposes while others are scheduled for conversion to commercial shipbuilding. The four submarine-launched ballistic missile production

¹⁴⁶ RFE/RL Newline, Jan. 8, 1997. It is not clear how much of this is new equipment as opposed to old Soviet equipment.

plants are also in Russia.¹⁴⁷ As Table 4.5 demonstrates, Russia has its own facilities for each aspect of the complex, with the exception of the sole nuclear testing site, which is located in Kazakhstan. This notable exception has given Kazakhstan some leverage in its negotiations over the nature of the Russia-Kazakhstan relationship, as shown in chapter 6.

Table 4.5: Location of the Nuclear Complex, as of January 1992

	Ar	Az	Be	Es	Ge	Ka	Ky	La	Li	Mo	Ru	Ta	Tu	Uk	Uz
Strategic nuclear weapons			+			+					+			+	
Power reactors	a					+					+			+	
Research reactors						+					+			+	
Uranium enrichment plant											+				+
Plutonium production facility											+				b
Nuclear weapons design center											+				
Warhead fabrication											+				
Fuel fabrication						+					+				
Heavy water production	?										+	?		+	
Uranium mining/milling						+	+				+	+		+	+
Nuclear test site						+									
Nuclear research center	+		+	+	+	+		+			+			+	+

a: Two nuclear power reactors in Armenia were shut down in 1989.
b: Most western reports indicate that all uranium facilities were in Russia. But Potter's interviews with former Soviet nuclear scientists and recent reports in the Russian press indicate there may have been a facility in Uzbekistan.

Legend: Ar = Armenia, Az = Azerbaijan, Be = Belarus, Es = Estonia, Ge = Georgia, Ka = Kazakhstan, Ky = Kyrgyzstan, La = Latvia, Li = Lithuania, Mo = Moldova, Ru = Russia, Ta = Tajikistan, Tu = Turkmenistan, Uk = Ukraine, Uz = Uzbekistan

Source: Potter 1995, 3.

The Space Industry

Within the space industry sector, the Kazakhstan-Russia dyad contains a significant RSA. In addition to being home to the only former Soviet nuclear testing site and important conventional testing facilities, Kazakhstan's vast and sparsely populated land also houses the FSU's only rocket launch site, called Baikonur. Baikonur contains highly sophisticated equipment designed for the sole purpose of launching rockets into a geosynchronous orbit, one of the most lucrative orbits for commercial satellite launches. As the only former Soviet state currently capable of launching satellites, Russia requires

¹⁴⁷The strategic submarine shipyards are in Komsomolsk, Severodvinsk, St. Petersburg, and Nizhniy Novgorod. The submarine-launched ballistic missile production plants are in Zlatoust, Krasnoyarsk, Biysk, and

access to the site. Like the conventional testing facilities, the assets are specific to the former Soviet Union.

Non-Relation Specific Assets: Two Examples

In the previous sections, I detailed the most significant RSAs in the region. All other assets are not of sufficient importance to push a state to alter its foreign policy so dramatically as to accept a hierarchy. Of the assets that I did not cover, some are RSAs but not of sufficient importance to detail here, while others assets are not RSAs at all. Two important sectors that do not contain substantial RSAs are non-energy minerals and agriculture. To further demonstrate the difference between RSAs and non-RSAs, in this section, I briefly discuss why non-energy minerals and agriculture do not meet the definition.

As raw inputs, minerals are generally highly tradable and therefore not RSAs. Minerals are usually not specific to a particular region's or country's industrial requirements, but can be adapted for use all over the world. In both semi-processed and processed form, minerals are one of the few commodity types in considerable world demand. In the former Soviet region, Russian reliance on minerals from other FSU states is low and is likely to decline even further. Of the approximately 90 mineral commodities that the U.S. Bureau of Mines identifies, Russia's most important non-fuel minerals include diamonds, manganese, tin, antimony, mercury, the platinum-group metals, silver, and aluminum.¹⁴⁸ In those areas in which Russia is deficient, the government is building processing plants or developing new deposits, and therefore will be unlikely to rely substantially on imports from any state, including the FSU states.¹⁴⁹ Similarly, the non-Russian states can buy and sell minerals on the world market and do not have to rely on Russia. A state specializing in minerals is unlikely to encounter vulnerability issues with Russia, *ceteris paribus*. Of course, like the coal industry, the state could be reliant on Russia to transport the minerals via railway. None of the six cases I examine have this vulnerability.

Mias. Arbatov, 185

¹⁴⁸ Bond 1994, 546.

The second example of a sector without significant RSAs is the agricultural industry. The variety of states from which fruits, vegetables, grains, livestock, and other agricultural products come suggests that the agricultural sector would be marked by abundant trading partners, making these non-RSAs. This is not to suggest that the FSU states have easily transitioned to selling and buying agricultural products on the international market. Agricultural enterprises tend to suffer from several inadequacies; they lack fertilizers for rapid growth, efficient machinery for low cost harvesting, high quality seeds for high quality produce, refrigeration for storage and transportation, and sophisticated marketing and packaging skills, among other things. Agroprocessing faces many of the same constraints. For example, according to the World Bank, "Most of the agroprocessing plants are old or inefficient and could not operate under competitive conditions. In some industries (like sugar), plants are too small to compete internationally. Investments will eventually have to be made in most plants to lower production costs, improve product quality, broaden product range and conform to environmental and sanitary standards."¹⁵⁰ In addition, Ukraine and Belarus have the taint of the nuclear accident at the Chernobyl plant which is located near the Ukraine-Belarus border. Despite these serious limitations, the FSU states have numerous optional partners to help them fix their industries. Furthermore, even in states where agriculture plays an important part in the economy, farmers are not a cohesive lobby in the way that, say, an oil and gas monopoly is. Furthermore, the agricultural sector is unlikely to be able to raise the levels of hard currency that RSA-heavy sectors such as the energy industry can, and are not as critical to national security as military weapons and the space industry.

Economic White Knights in the Former Soviet Region

Given that RSAs make states vulnerable to opportunistic behavior, state leaders will seek ways of reducing the vulnerability by finding alternative partners or increasing their domestic abilities so that they no longer rely on others. In chapter 3, I outlined the four ways in which weak states can attract economic and security white knights: (1) form economic alliances with other relatively weak states, (2)

¹⁴⁹ Ibid.

court existing international organizations, (3) obtain grants, weapons donations, and other types of assistance from strong states other than the dyad member, and (4) encourage foreign direct investment (FDI) from private companies and individuals. While white knights can provide assistance, each may also impose costs that outweigh the potential benefits. For example, the International Monetary Fund (IMF) requirements may so seriously threaten a political leader's position that the politician would prefer hierarchy with Russia over IMF concessions sure to result in the leader's ouster. Of these different types of white knights, the IMF and World Bank have been the most significant multinational players, while FDI has made the most obvious changes in states' vulnerability. Most notably, international businesses have poured in billions of dollars to the oil and gas industries, promising reduced, if not eliminated, vulnerability to Russia. FDI is by far the quickest remedy.

Alliances with other weak states have not been a successful route to escaping economic or security vulnerability. Sensing a common base, the Central Asian states have spoken most openly about creating their own security and economic union, but the "union" remains largely a series of meetings. President Nazarbayev of Kazakhstan has repeatedly called for a Euro-Asian Union that would include all the Central Asian FSU states. He has received some support from the potential member states. During a 1995 meeting with the presidents of Kazakhstan and Uzbekistan, Kyrgyzstan's president Akayev said, "It is our goal to build a Euro-Asian Union that would mitigate the problems arising from an amorphous structure like the CIS."¹⁵¹ As alluded to by Akayev, the union would be a means of avoiding or at least mitigating the CIS and other Russian-dominated fora. This point is not lost on the Russian government, which has opposed the creation of such a union. However, Nazarbayev's idea has not developed into anything concrete and certainly has not been a significant player in reducing vulnerability.

International organizations have had more impact on reducing economic vulnerabilities than the weak state alliances, but have not been particularly useful on the security front. One of the most important third party options for the former Soviet states are the international organizations that supply

¹⁵⁰World Bank, 1993, 22.

¹⁵¹RFE/RL Newslines, Feb. 10, 1995.

financial, technical, and other types of assistance. In the current environment, the most powerful players among this group are the International Monetary Fund (IMF) and the World Bank. Other important players in the economic arena are the European Bank for Reconstruction and Development (EBRD), the European Union's Technical Assistance to the CIS (TACIS), and the Asian Development Bank.

The IMF and the World Bank have the most visible roles in the region and sometimes, in the case of the IMF, the most infamous role as well. The policies that states must implement to satisfy the IMF often challenge entrenched powers. In general, states are asked to reform their economies to allow for less government intervention in the domestic market. For the former Communist states this means privatizing state-owned businesses, removing price controls and subsidies, improving tax collection, implementing a strong, independent, and honest judiciary so that companies and individuals can protect their legal rights. The IMF has no real enforcement powers to make states change their domestic policies. The power comes from the threat to withhold the loan if the states do not make some progress in reforming their economies. In recent years, the IMF has instituted regular reviews to see if the state is making progress. If not, the IMF may withhold a tranche or installment. This has occurred countless times for most of the FSU states. Russia and Ukraine seem to rarely get their tranches on time.

The World Bank is an investment bank, mediating between investors and recipients. It borrows money from investors and lends money to states for reconstruction and development. The Bank's owners are the governments of its 180 member nations with equity shares. It obtains most of its money by issuing bonds to individuals and private institutions in more than 100 countries, as well as by selling bonds and notes directly to governments, their agencies, and central banks. The proceeds of the bond sales are then lent to developing countries at affordable rates of interest to help finance projects and policy reform programs that give promise of success.

Smaller international organizations acting as white knights in the region include the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank, and the Technical Assistance for the CIS (TACIS) group. EBRD was formed in 1991 to aid the former Communist states in their transition to market economies. The EBRD provides financing for private sector activities and

economic restructuring, including privatizing state industries, as well as funding for the infrastructure that supports these activities. The main forms of financing are loans, equity investments (shares), and guarantees.¹⁵² The Asian Development Bank, which was formed in 1966 and currently includes four of the five FSU Central Asian states (Turkmenistan is the exception), provides similar funding for its members.¹⁵³ Between 1992 and 1998, net financial flows for the regional development banks totaled \$941 million in nonconcessional flows and \$229 million in concessional flows. All of the latter appear to be from the Asian Development Bank, as these are net flows to Kazakhstan (\$50 million) and Kyrgyzstan (\$178 million).¹⁵⁴ Europe's other primary contribution to the FSU states is TACIS which is funded by the European Union and operates under its laws. It was established in 1991, before the collapse of the FSU and was subsequently amended to reflect the fact that the Soviet Union is now 15 independent states. TACIS provides grants for technical "know-how," primarily in the form of sending technical experts from its member states the region.

The IMF and the World Bank, and to a lesser extent these smaller international aid groups, have aided many of the FSU states by helping to stabilize their currencies, improve macroeconomic indicators, and provide loans for projects that would otherwise be unlikely to obtain funding. Their assistance has allowed states to seek aid outside of Russia, and in some cases to signal to the international community a willingness to move quickly to a market economy. However, to dramatically change a state's bargaining power vis-a-vis Russia, quick infusions of relatively string-free millions and even billions of dollars are required, as well as a willingness to challenge Russia. The international groups are ill-suited to meet these two requirements. IMF and World Bank funds clearly come with strings attached. Helping the weaker states free themselves of Russian control is a tricky political game for these organizations.

The third type of possible white knights are strong states other than Russia. To break free of Russia, weak states may seek out support from other strong states that they consider less threatening,

¹⁵²EBRD web site: <http://www.ebrd.com/english/opera/index.htm>. See appendix 2 for details on the EBRD projects in the FSU.

¹⁵³Asian Development Bank web site: <http://www.asiandevbank.org>.

¹⁵⁴ World Bank, World Development Indicators 2000.

plan to use to increase their bargaining power vis-a-vis Russia, and/or simply want to maximize the aid they can obtain. Most FSU leaders have made frequent public statements indicating that they are not choosing between Russia and other states, but that they can "be friends" with many states. At a time when their economies are suffering and this is no longer a bipolar world in which weak states must choose sides, it is unsurprising that leaders would choose to encourage as many saviors as possible. The United States, some European states, and Japan have been some of the biggest states outside Russia to offer governmental assistance to the FSU states. Much of this aid comes in the form of technical expertise. Through the United States Agency for International Development (USAID), Department of Energy, Environmental Protection Agency, Agricultural Department, and others, the FSU states enjoy free consulting and training in areas such as building a stock exchange, fertilizing crops, privatizing industries, marketing bread, modernizing electrical grids, and countless other projects.¹⁵⁵ Strong states can also assist through government sponsored banks designed to support trade, such as the United States Export-Import Bank and Japan's Eximbank. In general, however, like the weak state alliances, strong states generally lack the financing and quick response time of private investors.

Foreign direct investment is the most important form of white knight in the FSU. The flexibility of FDI, if a state can obtain it, has helped some of the FSU states forestall, perhaps indefinitely, a hierarchy with Russia. As the U.S. Office of Technology Assessment wrote regarding the importance of FDI, "...the international oil companies have large development budgets that dwarf the resources available from public sector institutions."¹⁵⁶ Compared to the IMF and the World Bank, private investors ask little of the weak states. They are prepared to challenge Russia when it suits them. They are willing to work with dictators, sometimes even claiming to prefer them to democracies.¹⁵⁷

FDI is a relatively new phenomenon in the region. Until 1987, the Soviet government had forbidden FDI. The first change was to allow joint ventures with up to 49 percent of the equity owned

¹⁵⁵These are just some of the thousands of projects about which I talked to consultants working in the region.

¹⁵⁶ Office of Technology Assessment 1994a, 51.

¹⁵⁷In personal interviews, numerous consultants and businesspeople told me that they preferred Uzbekistan to those states that were attempting democracy. In their view, dictators were better able to deliver on their promises. Oil executives even made the public relations error of publicly showing their enthusiasm for the brutal Taliban in Afghanistan because they thought they would be easier to work with than the previous regime.

by foreign companies.¹⁵⁸ Later, foreign companies were permitted to take full ownership and control. Since the Soviet collapse, there has been wide variation among the FSU states on the extent to which they encourage FDI and to which they have been successful in obtaining it. Of course, companies have to believe that there is substantial money to be made before they are willing to dedicate substantial funds. Not surprisingly, it is the highly tradable sectors of oil and natural gas and minerals that have received the highest FDI levels. Oil companies have gambled that with enough money, they will be able to overcome the pipeline dependencies that exist today. As the chapters on Azerbaijan and Kazakhstan demonstrate, their gamble appears to be paying off.

FDI in the FSU comes in four variants: (1) joint ventures, (2) production sharing agreements, (3) equity-sharing agreements, and (4) tenders and auctions. Joint ventures are a common form of FDI in the former Soviet region. The host country receives an immediate infusion of cash, convertible currency revenues, and modern technical and management skills. The investors, on the other hand, "gain access to local information and expertise and assistance in dealing with FSU bureaucracies."¹⁵⁹ In the Soviet system, personal contacts were everything; that way of doing business has not changed much. Having well-connected Russian players on the team is critical for success in the region. In the oil industry, production sharing agreements have been negotiated on a case-by-case basis. In early 1993, the first such agreement was signed. The agreement between a French company, Elf Neftegas, and the Russian Interneft called for Elf to finance exploration of a tract. In exchange, Elf will be repaid in petroleum. The third form of FDI is equity-sharing agreements. Many of the largest enterprises in the FSU are still owned by the State. To bring in investment funds, the State sometimes allows a certain, usually low, percentage of shares to be owned by foreign investors. In Russia, for example, a total of 15 percent of shares in oil and gas companies may be sold to foreign investors. Finally, all of the FSU states have held tenders and auctions on all varieties of enterprises. In the high-stakes industries, these auctions have often been tainted by scandal.

¹⁵⁸ Office of Technology Assessment 1994a, 52.

¹⁵⁹ *Ibid.*, 53. The following discussion on forms of investment is largely drawn from the Office of Technology Assessment report.

While FDI is highly desirable for restructuring the FSU economies, the FSU states pose obstacles to potential foreign investors. These obstacles can be divided into five categories: (1) political uncertainty, (2) nationalism, (3) lack of legal and regulatory framework, particularly the lack of clear property rights, (4) high levels of corruption, and (5) potential investors' domestic laws that prohibit certain types of investments. The FSU states suffer from political uncertainties. Elections are held and re-held, scandals are often reported, prime ministers are thrown out with regularity, and some presidents have more or less announced that they are presidents for life. This uncertainty can make potential investors jumpy. Uzbekistan illustrates the point. In November 1996, the president suddenly banned hard-currency transactions and the conversion of Uzbekistan's som into dollars. This action was particularly surprising since Uzbekistan had been working hard to build a reputation as a stable investing environment.¹⁶⁰ For many entrepreneurs operating in Central Asia, Uzbekistan was something of a darling. In response, international businesses investing there flew their top executives to Tashkent, often for meetings with President Karimov himself, in which they begged and bargained to have some money released.¹⁶¹ Such unwelcome and sudden actions have undoubtedly scared off some investors.

Furthermore, in many of the FSU states, there are strong strains of nationalism. These attitudes have sometimes led states to be reluctant to accept assistance from states that the leaders once perceived as inferior or that the leaders fear may take too much control and/or wealth from the leadership. For example, in the energy sector, the "suspicion toward international oil companies is ... particularly acute in Russia, a pioneer in the oil industry and, for much of its history, the world's largest oil producer."¹⁶² Much of the suspicions have been fed by the perception that the Westerners sent to these countries to aid them seem to be getting rich while the recipient economy continues to decline. Nationalism may also play a role in those states with domestic industries that the leadership seeks to protect.

¹⁶⁰RFE/RL Newline, Nov. 11, 1996, Nov. 19, 1996.

¹⁶¹Personal interview with Thomas Jacobs.

¹⁶²Office of Technology Assessment 1994a, 56.

The lack of legal and regulatory framework may further discourage investments. Most of the FSU countries lack laws that govern property ownership rights, intellectual property, due process in cases of expropriation, and environmental liability. In addition, in some countries, it is unclear who owns the property or enterprises to begin with: is it the local, regional, or national government? Or perhaps the production association? This uncertainty has generally improved over time, as states have become more stable and there are precedents to fall back on. Finally, when laws are established, they are often detrimental to foreign investors. For example, in a 1993 study on Russian taxes affecting the oil industry, an American economist finds that foreign companies are subject to seven different types of taxes, including an export tax, VAT, profits tax, production royalties, currency exchange requirements,¹⁶³ social reserve fund, and repatriation tax.¹⁶⁴

The fourth impediment, corruption, is widespread in many of these countries. While giant international companies may be able to afford the bribes, in some states, such as in the United States, it is illegal for companies to use bribes for access or favoritism in foreign markets. Despite these laws, however, foreigners operating in the FSU markets generally acknowledge that bribes are necessary for survival.¹⁶⁵ Small businesses generally cannot afford to include bribes in their business expenses.

Finally, potential investors' domestic laws may prohibit or deter them from making investments in this region. The best known case of this occurring is the US prohibition on doing business with Iran. This prohibition makes building alternate oil and gas pipelines from Central Asia through Iran problematic. While oil companies have lobbied for exemptions, they have thus far been unsuccessful. To date, however, this has not prevented them from making initial investments,

¹⁶³Oil companies were required to exchange 50 percent of their hard currency receipts from export into rubles at market rates. Given the instability of the ruble, Office of Technology Assessment estimates this requirement amounts to an implicit 25 percent tax on the currency exchanged. Office of Technology Assessment 1994a, 55.

¹⁶⁴Source is James L. Smith, Department of Economics, "Poor Economic Prospects Face Investors in the Russian Oil Industry" (Houston, TX: University of Houston, April 1993), 2, as reported in Office of Technology Assessment 1994a, 55.

¹⁶⁵In an attempt to gauge the pervasiveness of bribes, I asked an American oil executive in Kazakhstan about the rumors that the company Proctor & Gamble was having trouble doing business in Kazakhstan because executives publicly announced that they would not pay bribes and had held to this position. I had heard the Proctor & Gamble story from U.S. Embassy officials in Kazakhstan. The oil executive simply smiled and said, "It is very expensive to do business in Kazakhstan."

apparently with the confidence that they will either succeed in changing the law or find a way to work with it or around it.

Russia's Domestic Political Benefits of Hierarchy

Two of the factors that affect the probability of hierarchy are RSAs and the white knights that can help reduce the relation specificity within a dyad. Another factor is the domestic political benefits that can accrue to the dominant state when it leads a hierarchy. Since this variable has been increasingly positive for Russia throughout the FSU, I discuss it here in the general section on the region. In chapter 7, I go into greater detail as to why a security hierarchy with Armenia and Azerbaijan offer particularly high rewards for the Russian leadership.

For the Russian leadership, the domestic political benefits of hierarchy with the former Soviet states have generally been high and increasing. While the immediate post-Soviet period was marked by enormous enthusiasm for Western ideals and financial support, Russian leaders increasingly carved out an independent course that balanced Western benefits with a focus on the former Soviet republics. Although Russia was economically and militarily weak compared to the Western states, it was strong relative to its fellow former Soviet states. If Russia was going to be dominant anywhere, it would be in its own region. Russian leaders found that in dominating at least part of the former Soviet space, they could reclaim some of the prestige of a great power. As a result, the domestic political benefits of hierarchy increased. When powerful interests and the Russian population supported greater activism and even control over the neighboring states, the Russian leadership gained politically from at least pursuing hierarchy.

Since the Soviet collapse, two general trends in Russian foreign and security policy have emerged: First, while Russian political leaders were initially enamored with the West, they soon developed an independent course that recognized Russia as a unique state with interests that often diverged from those of the West. They did not abandon Western assistance or the principles of the market economy and democracy, but they did begin developing a foreign and security policy that

sometimes put them at odds with Western leaders. A more assertive, even interventionist, policy toward the former Soviet states, or what Russians call the “near abroad,” is part of this trend. Second, Russia’s initial focus on the Commonwealth of Independent States has given way to a more bilateral approach. Rather than using the CIS as the primary forum for interacting with the near abroad, Russian leaders have increasingly dealt with the CIS members bilaterally, outside the structure of the CIS.¹⁶⁶ For example, Russia courted states separately when forming its customs union. The customs union that was originally proposed as a CIS-wide union has not materialized.

In the subsequent elaboration of these two trends, I demonstrate that domestic political pressures as well as external events, such as separatist movements in the near abroad, have propelled Russian leaders toward more hierarchic relations with some former Soviet states. In addition, the evidence indicates that Russian leaders have moved away from the CIS as the forum for designing and implementing hierarchies and toward direct, bilateral relations. This is consistent with my focus on dyads as opposed to the CIS.

At the end of 1991, in a historical moment anticipated by few, the Soviet Union ceased to exist. On December 8, the leaders of the Russian, Ukrainian, and Belarusian Republics announced that “the Union of Soviet Socialist Republics ceases to exist as a subject of international law and a single political reality.”¹⁶⁷ They disavowed the 1922 Union Treaty, the founding document for the USSR, and announced the formation of the CIS. Given the size of the three Slavic republics, the CIS could not be ignored. The three republics accounted for 73 percent of the former Soviet Union’s population and 80 percent of its territory, and controlled most of its economic and military power.¹⁶⁸

At the initiative of the Kazakhstani leader, Nursultan Nazarbayev, most of the other republics would soon join the CIS. Signaling his close relationship with Gorbachev, Nazarbayev rushed to the Kremlin to meet with Gorbachev and Yeltsin. The entire 80-minute meeting reportedly consisted of

¹⁶⁶ Karaganov (1994, 16-23) and Aron (1998) each describe stages in Russia’s foreign policy. Karaganov focuses on Russia’s views toward the former Soviet states while Aron is more concerned with Russian policies toward the West. Writing in 1994, Karaganov only speculates about a future Russian move from multilateral to bilateral relations with the other former Soviet states.

¹⁶⁷ Quoted in Ruritov 1993, 157.

¹⁶⁸ Twining 1993, 8.

Gorbachev and Nazarbayev questioning Yeltsin on the Slavic states' agreement.¹⁶⁹ In a subsequent press conference, Nazarbayev was reportedly upset at being excluded from the Slavic states' agreement to disband the USSR. He "complained to correspondents that an interstate structure based on ethnic affinity is a relic of the Middle Ages."¹⁷⁰ On December 13, Nazarbayev hosted a meeting of the Central Asian states' leaders.¹⁷¹ After several days of discussions, the leaders announced that they supported the Commonwealth but wanted equal status with the founding states. They argued that the Commonwealth should "not be based on ethnic or confessional considerations, and that existing borders should be recognized as inviolable."¹⁷² Nazarbayev's alacrity and skill in convening the Central Asian leaders resulted in the Slavic presidents agreeing to add Kazakhstan and others as signatories to a subsequent document of dissolution, what came to be called the Alma-Ata accords (or declaration), after Kazakhstan's capital.¹⁷³ In addition to Nazarbayev, the December 21 declaration was signed by the leaders of Armenia, Azerbaijan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan.¹⁷⁴ Thus, by late December, all but the Baltic states and Georgia had joined the new CIS.¹⁷⁵ The eleven states subsequently ratified both agreements.¹⁷⁶

The CIS's founding states envisioned the commonwealth as a type of voluntary USSR. According to this model, the members would form a common market and develop common policies to

¹⁶⁹ RFE/RL Newswire, "Gorbachev, Yeltsin, Nazarbayev Meet," Dec. 10, 1991.

¹⁷⁰ RFE/RL Newswire, "Nazarbayev's Press Conference," Dec. 10, 1991.

¹⁷¹ RFE/RL Newswire, "Central Asian Leaders To Discuss Commonwealth," Dec. 12, 1991; "Central Asian Leaders Meet," Dec. 13, 1991.

¹⁷² RFE/RL Newswire, "Central Asian Republics Want To Join Commonwealth," Dec. 16, 1991.

¹⁷³ Correctly naming Kazakhstan's capital can be challenging. During the Soviet period, the capital was called Alma-Ata and was located in the extreme south-eastern corner of the republic, near the China-Kyrgyzstan border. In 1993, Kazakhstan changed the name from Alma-Ata to Almaty, to more accurately reflect the Kazakh pronunciation over the Russian one (Akiner 1995, 61). In 1994, Nazarbayev and the parliament agreed to move the capital to Akmola in north-central Kazakhstan. *Akmola* can be translated as *white grave* or *white welfare*, neither of which carry positive connotations. In 1998, then, Nazarbayev changed the name from Akmola to Astana. The neutral *Astana* is simply Kazakh for *capital*. See RFE/RL Newswire, "Kazakh Capital Becomes 'Capital,'" May 7, 1998.

¹⁷⁴ RFE/RL Newswire, "Commonwealth of Independent States Proclaimed in Alma-Ata," Dec. 23, 1991.

¹⁷⁵ Georgia's request to join was initially rejected by Yeltsin. Later, after Georgia's leadership was overthrown, it became a CIS member. See the discussion below on Abkhazia for details. See the Kazakhstan chapter for details on how the Central Asian and Caucasus states came to join the CIS.

¹⁷⁶ See Olcott, Åslund, and Garnett for detailed coverage of how and why the CIS failed as an institution.

cover security, the environment, immigration, and organized crime.¹⁷⁷ The CIS would jointly control the nuclear weapons of the former Soviet Union.¹⁷⁸ Furthermore, the commonwealth, under the International Economic Committee, would assume control of transnational systems—such as power grids, oil and gas pipelines, transportation, and communications—and of jointly-owned assets, such as industrial and financial corporations.¹⁷⁹ In other words, the CIS would control the major RSAs of the former Soviet Union. As of 2000, most of these plans had not come to fruition.

Rather than waiting for these common policies to develop, Russian President Boris Yeltsin, like the leaders of the other 14 former Soviet republics, formulated an independent foreign and security policy. As the leader of the Russian Republic during the waning days of the Soviet Union, Yeltsin had made clear his support for democracy and the market economy, while indicating his disdain for what he considered Gorbachev's incompatible policies, what he called marrying a hedgehog to a grass snake.¹⁸⁰ As President of the new Russian Federation, Yeltsin matched his foreign policy with his earlier proclamations and policies on domestic issues. He did this by fully embracing the West. Analysts have dubbed this early post-Soviet period the honeymoon phase.

Russia's strongly pro-Western view, which has been called Atlanticist, naturally met with great approval in the West.¹⁸¹ According to the Atlanticist view, Russian policy should be focused beyond the former Soviet borders and should be marked by "gradualism, negotiations, accommodation, and solidarity with the U.S.-led 'civilized world'."¹⁸² As the primary spokesman for the Atlanticist view during this period, Foreign Minister Andrei Kozyrev declared that Russia's aim was "to become a full member of the international community" and to be viewed as a state that is "a threat neither to its own

¹⁷⁷ Ruritov 1993, 157.

¹⁷⁸ Richard Woff. April 1, 1992. *Jane's Intelligence Review*. Vol. 4; No. 4; Pg. 174 "High Command of the CIS -- Putting the Pieces Together Again."

¹⁷⁹ RFE/RL, October 24, 1994.

¹⁸⁰ Yeltsin said about Gorbachev, "He wanted to combine things that cannot be combined—to marry a hedgehog and a grass snake—communism and a market economy, public-property ownership and private-property ownership, multiparty system and the Communist Party and its monopoly on power. But these things are incompatible." Quoted in Åslund 1994, 28.

¹⁸¹ Dunlop 1997, for example. Others, such as Aron 1998, have used the term internationalist to describe a similar viewpoint.

¹⁸² Aron 1998, 24.

citizens nor to other countries.”¹⁸³ In line with this approach, the Russian government indicated that it would continue the arms control regime that Gorbachev had initiated. Russia advocated banning nuclear testing, destroying chemical weapons, banning or even destroying space and conventional “smart” weapons, and reducing military forces to levels sufficient for only defensive operations. Yeltsin continued Gorbachev’s commitment to cooperation with NATO, CSCE and other European security institutions. As *Jane’s Intelligence Review* reported, these positions indicated “that a pro-Western orientation is enjoying a consensus, even among the more conservative part of the military bureaucracy.”¹⁸⁴ Official Russian policy of the time gave little indication that Russia was interested in forming hierarchies with the former Soviet republics. The focus was clearly on the West and Western ideals. The West, in turn, was enthusiastic about the changes taking place in the former Soviet Union and applauded Russia’s progress in moving toward a democratic, capitalist state while sending clear signals that it would not be militarily aggressive. Russia’s foreign and security policy was met by “a rhetoric of unlimited goodwill in the West.”¹⁸⁵

This period of unabashed pro-Western rhetoric ended rather quickly. The change occurred for several reasons. First, the West was unable or unwilling (depending on one’s point of view) to save the collapsing Russian economy. The failure of the West to sufficiently aid Russia has been blamed on the U.S., the IMF, and on the Russian administration itself. When the Soviet Union unexpectedly dissolved, the United States was pre-occupied with a presidential election. As one analyst wrote, “In January 1992, instead of exploring suggestions that a ‘Marshall Plan’ for Russia be devised, George Bush and James Baker set a more urgent priority—the reelection of the president.”¹⁸⁶ In addition, Bush had inherited a national debt of \$2.2 trillion, leaving him with little room for large foreign assistance outlays.¹⁸⁷ By April 1992, however, the G-7, World Bank, and IMF had put together an aid package totaling \$24 billion. Unfortunately, according to some analysts, the package was poorly designed.

¹⁸³ Andrei Kozyrev. “Transformed Russia in a New World.” *Izvestiia*, Jan. 2, 1992, p. 3, as translated in FBIS/SOV/Russia, Jan. 2, 1992, p. 77. Quoted in Rubenstein 1997, 34.

¹⁸⁴ *Jane’s Intelligence Review*. “Toward Reform and Cooperation.” August 1, 1992. Vol. 4, no. 8.

¹⁸⁵ Aron 1998, 23.

¹⁸⁶ Rubenstein 1997, 37.

Russia spent \$11 billion in commodity credits, which weakened the ruble. In an ironic turn, the IMF then disqualified Russia from receiving a planned \$6 billion in ruble stabilization funds. Economist Anders Åslund, who worked closely with the Russian government, blamed the IMF for the absurd sequencing of conflicting credits, adding that the IMF's handling of the currency reform could hardly have been worse.¹⁸⁸ Finally, Russian leaders seem to have dramatically underestimated the enormity of the changes required to turn around their economy, while overestimating the ability of the West and its institutions to finance the change. In addition, the administration was unable to mobilize the necessary resources from within Russia that would have allowed it to escape dependence on the West.¹⁸⁹ As a result, the Russian population and many of its leaders grew disenchanted with the West itself and, therefore, Russia's strongly pro-Western policies.

As the Russian economy was collapsing under the dramatic and swift market reforms, instability in the former Soviet states was increasing, in several cases leading to war. In 1992, it seemed that the former Soviet region was unraveling at the seams. Civil wars broke out (or deepened) in Georgia, Azerbaijan, Tajikistan, and Moldova. The three Baltic states adopted anti-Russian policies, and Ukraine refused to submit to Russian pressure in several important policy areas. These events brought Russian attention to the former Soviet region and provided Russia opportunities to intervene in what came to be called the "near abroad."

In Georgia, opposition forces ousted President Zviad Gamsakhurdia. Gamsakhurdia had been elected in May 1991 with 84 percent of the vote.¹⁹⁰ In 1990, two regions of Georgia—Abkhazia and South Ossetia—had declared themselves sovereign republics, independent from Georgia.¹⁹¹ Given his dissident roots and the erupting conflicts over Abkhazia and South Ossetia, Gamsakhurdia

¹⁸⁷ *Ibid.*, 38.

¹⁸⁸ Åslund 1995, 218.

¹⁸⁹ Richter 1996, 85.

¹⁹⁰ RFE/RL, "Gamsakhurdia Elected Georgian President," May 28, 1991.

¹⁹¹ See Jones (1997), 535-543 for a chronology of major events between December 1988 and January 1995.

unsurprisingly took a nationalist approach. He advocated against minority rights and enacted anti-Russian policies, while extolling the virtues of the Georgian people and state.¹⁹²

Although Gamsakhurdia had significant electoral support in the republic, he crossed some powerful interests, which would later result in his downfall. In August 1991, after the Russian putsch failed, Gamsakhurdia demoted the Georgian National Guard. These two events—the putsch and the demotion—led to 15,000 members of the National Guard denouncing the President for his failure to condemn fully the putsch and announced that they were no longer loyal to Gamsakhurdia.¹⁹³ While the conflict continued between the National Guard and other opposition forces, on one side, and Gamsakhurdia and his supporters on the other, the Georgian government became increasingly aggressive with the still standing Soviet government. In November 1991, one month before the USSR collapsed, Gamsakhurdia seized Soviet military equipment and property on Georgian territory.¹⁹⁴ When the Soviet Union collapsed and the CIS emerged in its place, Yeltsin rejected Georgia's application to join the commonwealth, citing his anti-minority policies.¹⁹⁵ In January 1992, after months of armed conflict between the President and the opposition, and himself under siege for 15 consecutive days, Gamsakhurdia fled Georgia.¹⁹⁶ A Military Council subsequently ruled the state until March 1992, when it handed power to Eduard Shevardnadze, the former Soviet foreign minister, and a State Council.¹⁹⁷ Throughout 1992, armed conflict continued between government forces and those loyal to Gamsakhurdia, as well as secessionists in Abkhazia and South Ossetia. Both break-away regions border the Russian Federation; Russian interests were clearly challenged. To protect its interests, Russian peacekeeping forces were deployed along the border with South Ossetia, while

¹⁹² In numerous speeches, for example, Gamsakhurdia argued that minorities, such as the Ossetians and Azerbaijanis, were not guaranteed the right of residency in Georgia or equal status with the dominant ethnic groups. Despite these less-than-democratic positions, the President did take some measures toward democracy and market reforms. See Jones (1993), 295-297, for a discussion of Gamsakhurdia's policies. For an example of Gamsakhurdia's views, Jones (fn 21) recommends a speech justifying removing South Ossetia's regional autonomy in *Sakartvelos Republik'a*, Dec. 12, 1990, 1, 4.

¹⁹³ RFE/RL, "Georgia National Guard Revolts," August 26, 1991.

¹⁹⁴ RFE/RL, "Gamsakhurdia Orders Seizure Of Soviet MVD Property," Nov. 8, 1991.

¹⁹⁵ RFE/RL, "Yeltsin Rejects Commonwealth Membership For Georgia," Dec. 27, 1991.

¹⁹⁶ RFE/RL, "Gamsakhurdia Flees," Jan. 7, 1992.

¹⁹⁷ RFE/RL, "Georgian Rebels Consolidate Power," Jan. 7, 1992; Jones (1997), 522-23.

Russian forces were flown into Abkhazia to protect Russian nationals and military equipment. Russia informed Georgia that all aircraft flying over Abkhazia must receive clearance from Russia's air defense commander.¹⁹⁸ The Georgian government balked at Russia's heavy handed intervention, eventually accusing it of helping the Abkhazians in this fight against Georgia.¹⁹⁹

Georgia was not the only state in the Transcaucasus dealing with a civil war. In Azerbaijan, Georgia's neighboring state, the simmering conflict between Armenians in Nagorno-Karabakh and the Azerbaijani government led to several massacres.²⁰⁰ With the collapse of the Soviet government and without troops of its own, the Azerbaijani government was unprepared to battle the militias supporting Nagorno-Karabakh's independence. In this vacuum, the militias' power expanded considerably. In February 1992, the Nagorno-Karabakh guerrillas took control of an Azeri village and massacred large numbers of Azeri civilians.²⁰¹ Due in large part to this massacre, Azerbaijan's president resigned in March 1992. A new president, Abulfazl Elcibey, was elected in June. Elcibey was a well-known Azeri nationalist who advocated pan-Turkism, and by extension, was unfavorable to Russia. He resisted Russian pressures and did not join the CIS. Like Gamsakhurdia, Elcibey was challenging the Russians in an area they have long sought to control. Azerbaijan is strategically important due to its proximity to Iran, Turkey, and the oil-rich Caspian Sea.²⁰² The battle over Nagorno-Karabakh continued throughout 1992.

Although most of Central Asia was relatively quiet, Tajikistan was engulfed in a civil war. This third major event in Russia's near abroad began with the Soviet Union's collapse. Tajikistan's President Rahmon Nabiev signaled that he would retain an authoritarian state government, similar to the pre-reform USSR. In response, numerous opposition groups emerged. By spring 1992, four main opposition groups existed, with varying commitments to democracy, Islam, and Tajik nationalism. Unable to unite sufficiently to overthrow the government, the groups held demonstrations throughout

¹⁹⁸ Aves 1998, 179; Janes Defence Weekly. September 5, 1992 "Former Soviet Union." Vol. 18, 10, 33.

¹⁹⁹ Aves 1998, 180; The Economist. "Russia and Georgia; Their choice of hornets' nests." Oct. 7, 1992.

²⁰⁰ See chapter 7 for details on Nagorno-Karabakh.

²⁰¹ Aves 1998, 178; Hunter 1997, 448.

²⁰² Hunter 1997, 448-450.

the state. After the government fired on and killed some of these protestors, violence erupted in several regions. There was no one perpetrator. In some cases, government forces initiated the violence; in others, opposition forces were the initiators. As the upheaval continued, the President himself was threatened. On September 7, 1992, Nabiev was seized by opposition members at the Dushanbe airport and forced to resign. The subsequent coalition government was unable to restore peace, and resigned in November. In its place, the ex-communists created a new government, which excluded opposition groups. With Russia's assistance, the ex-communists retook Dushanbe in December 1992. Several Russian officers were killed in the conflict.²⁰³

In the Western region, Moldova was reeling from its own civil war. The Dniester River parallels, but does not comprise, Moldova's border with Ukraine, which lies to its east. The land between the river and the Ukrainian border is known as the Transdniester. The region occupies about 12 percent of Moldova's land. Its multiethnic population is 40 percent Moldovan, 28 percent Ukrainian, and 25 percent Russian. Although the smallest of the three major groups, ethnic Russians controlled most of the economic and political power during and after the Soviet period.

Following the August 1991 putsch in Moscow, Transdniester declared its independence from Moldova. Tiraspol was both the capital of Transdniester and home to the Soviet, and then Russian, 14th Army. After declaring independence, a militia took up arms, most of which were either stolen from or given by the 14th Army. After taking over most of Transdniester, the well armed and trained militia moved beyond the river and into Moldova proper. Russian official policy was non-interventionist. However, the proximity of the 14th Army meant that troops found themselves in the line of fire and quickly became part of the conflict.²⁰⁴

In April 1992, the Russian government reclaimed control of the 14th Army. Two months later, Yeltsin appointed General Alexandr Lebed, a charismatic Afghan war hero, Commander of the 14th Army. Lebed took the side of the separatists, committing troops and equipment to their cause.²⁰⁵ By June 1992, over a thousand people had been killed in the conflict and 20,000 refugees were

²⁰³ Atkin 1998, 611-613.

²⁰⁴ Baev 1998, 211.

uprooted.²⁰⁶ In July, the Russian government brokered a peace agreement, one which the Moldovans had little choice but to accept. The agreement was to be enforced by a trilateral peacekeeping force consisting of equal numbers of Russian, Transdnistrian, and Moldovan troops. The conflict in Moldova made clear that despite its weakness relative to the West and the former USSR, Russia could still wield military power over some states.

Although Moldova was the only Western state to erupt in civil war, the Baltic states—Estonia, Latvia, and Lithuania—and Ukraine quickly demonstrated that they would not be shy about exerting their newly gained independence, even to the point of directly challenging Russia. During 1992, the three Baltic states became more adamant and aggressive in their demands that Russian troops withdraw from their territory. For example, in July 1992, the three states threatened to hold up the final summit declaration of the Conference on Security and Cooperation in Europe, unless the Russian government agreed to set specific dates for troop withdrawals.²⁰⁷ Furthermore, the Baltic states began restricting the rights of Russian nationals living on their territory. All three states passed laws requiring those holding public office to speak the local language.²⁰⁸ In Latvia, this requirement extended to state and private sectors of the economy; employers were even allowed to annul contracts of employees whose knowledge of Latvian was deemed insufficient to perform their duties.²⁰⁹ In addition, to qualify as an Estonian or Latvian citizen, one had to have resided in the republic in 1938, or be descendant of a resident. This disqualified most of the ethnic Russian population, as they arrived after 1940, when Stalin annexed the Baltic republics. These policies antagonized the Russian government, which had already stated the importance of protecting Russian nationals in the “near abroad.” Estonia and Latvia have particularly high percentages of Russian nationals. According to the 1989 official census, Russian nationals comprised 30 percent of Estonia’s and 34 percent of Latvia’s population.²¹⁰ The Russian

²⁰⁵ Chinn 1996, 104-109.

²⁰⁶ New York Times. “One Ethnic War After Another.” July 2, 1992. Section A; Page 12; Column 1.

²⁰⁷ Ibid.

²⁰⁸ The Economist. July 4, 1992. “Baltic States; Getting Bolshie.” P. 46.

²⁰⁹ Muiznieks, 393. An English-language version of the law was published by the Standing Commission on Human Rights and National Questions, 76-80.

²¹⁰ Data for Estonia are shown in Raun, 405; for Latvia, see Muiznieks, 380.

government would have been hard pressed to ignore these highly inflammatory restrictions against Russian nationals.

Finally, like the Baltic states, Ukraine was actively asserting its independence, despite Russian pressures. Among other things, Ukraine was refusing to surrender the Black Sea Fleet and to withdraw its nuclear weapons to Russian territory. It demanded compensation for the uranium on the strategic nuclear weapons that it had promised to move to Russia. Also in 1992, Ukraine began requiring the former Soviet troops, including those on the Black Sea Fleet, to take loyalty oaths to Ukraine.²¹¹ On the economic side, Ukraine created its own currency, and demonstrated that it would not always follow Russia's lead on CIS matters.²¹²

While these external events were unfolding, Yeltsin's political position at home was under attack. The president's primary opposition was in the Supreme Soviet and its parent organization, the Congress of People's Deputies—the bodies that comprised the legislative branch. While some in the legislature sought to slow reforms, others favored reversing or indefinitely stalling them. Some favored restoring the USSR.²¹³ Yeltsin's chief opponent in the Supreme Soviet was Chairman Ruslan Khasbulatov. Khasbulatov viewed the Supreme Soviet as superior to the presidency and believed that this was supported by the Constitution. As such, he aggressively challenged Yeltsin on both domestic and international issues. He proposed an alternative economic program and criticized the IMF and the U.S. for supporting Gaidar. In 1992, he traveled to Saudi Arabia and India, where he expressed support for strong relations with these states. He declared the disintegration of the USSR a tragedy and claimed that the excitement of independence had worn off.²¹⁴ This challenge between the presidency and the legislature became known as a situation of *dvoevlastie*, or dyarchy.²¹⁵

By the end of 1992, the legislature was prepared to move against Yeltsin. In December, the Congress of People's Deputies tried on three occasions to strip Yeltsin of his powers. In March 1993,

²¹¹ Krawciw 1995, 140.

²¹² See the Ukraine chapter for details on these and other areas in which Ukraine challenged Russia.

²¹³ Dunlop 1997, 52.

²¹⁴ Buszynski 1996, 26.

²¹⁵ Dunlop 1997, 52.

Yeltsin declared that he would begin ruling by decree. In response, the Supreme Soviet threatened to impeach Yeltsin. The Constitutional Court supported the Supreme Soviet's position, and Yeltsin backed down. In July 1993, the Supreme Soviet gave government industries and ministries the right to take over the powers of the State Property Committee, the organization responsible for privatization. In so doing, they sought to reverse the privatization process.²¹⁶

Seeking to decisively end the dyarchy, Yeltsin decreed in September 1993 that both the Supreme Soviet and the Congress of People's Deputies be dissolved and parliamentary elections held in December 1993. The Russian Constitutional Court again declared Yeltsin's decree unconstitutional. The legislature fought back. Parliamentarians refused to leave the White House, which housed the parliament. With military troops surrounding the White House, the administration cut off electricity, gas, and telephone lines. When that failed to bring out the deputies, the military stormed the White House. According to official figures, 145 people died in the conflict and 733 were injured.²¹⁷

During the dyarchy period, Yeltsin moved away from the Atlanticist approach. With the West falling off its pedestal, Russia's neighboring states in turmoil, Russian nationals under attack in some states, Russia successfully exerting itself in regional conflicts, and Yeltsin under serious challenge from the Supreme Soviet, the administration's Atlanticist view gave way to what some have called the Eurasianist view.²¹⁸ This position characterizes current Russian policy. The Eurasianist view advocates policies that emphasize Russia's position as a great power, with a complementary focus on the former Soviet states as Russia's sphere of influence. This view recognizes Russia as a unique nation-state, with its own interests and personality.

²¹⁶ See Archie Brown, *Los Angeles Times*, "Perspective On Russia; Yeltsin Has Himself To Blame, Too; Tactical And Strategic Blunders Turned A Political Confrontation Into A Government Crisis That Is Far From Over," March 30, 1993, part B, p. 7, col. 2; Richard Boudreaux, *Los Angeles Times*, "Lawmakers Challenge Yeltsin's Selloff Of State Firms; Russia: Free-Market Reform Plan Is Imperiled. Supreme Soviet Acts While The President Vacations," July 23, 1993, part A, p. 9, col. 1.

²¹⁷ Dunlop 1997, 51-53.

²¹⁸ Some have called this group the *dershavniki*; *dershava* means great power or state. See Aron 1994. Some analysts further divide up the groups. Buszynski (1996, 1-15) argues with some justification that Atlanticist and Eurasianist are conceptually too broad. The terms lump together groups that do not necessarily share the same approach. He argues, for example, that the Eurasianists have a Messianic approach to foreign policy, while what he terms geostrategists focus on strategic concerns. These two groups, he argues, should be distinguished from each other (9). Still, for our purposes, the general division into Atlanticist and Eurasianist is sufficient to capture the change in foreign policy.

If Kozyrev was the administration's chief spokesman for the Atlanticists, Sergei Stankevich was the counterpart for the Eurasian approach. According to Stankevich, Yeltsin's political advisor, "Our state emerged and grew strong as a unique historical and cultural amalgam of Slavic and Turkic, Orthodox and Muslim components...." It has a "thousand-year history and legitimate interests" in the former Soviet states.²¹⁹ Not all Eurasianists agree on precisely which former Soviet republics fall within their sphere—for example, some omit the Baltic states—but they do agree that Russia "should not be afraid to use her muscle" in defending these interests.²²⁰

One of the first indicators that Yeltsin was being pushed by the nationalists toward a more Eurasianist view was in September 1992. Yeltsin suddenly cancelled a visit to Japan in which he was scheduled to discuss a dispute over the Japanese islands that Russia had seized in the final days of World War II.²²¹ The Kurile Islands were ceded to the Soviets at the Yalta conference, but Japan had been pressing for their return. Russia's relationship with Japan had been clouded by this issue. In an attempt to pressure Russia into returning the islands, the Japanese government was withholding financial support to Russia. Yeltsin's sudden cancellation was reportedly in response to pressure from nationalists, who feared that the president would give up the islands. It was not until October 1993 that Yeltsin finally made the visit; he did not concede control over the islands.²²²

A more significant signal of Yeltsin's move toward the Eurasianist approach occurred during the legislature's December 1992 challenge to the president's powers. To stave off the threat, Yeltsin sacrificed Yegor T. Gaidar, the "architect and symbol" of Yeltsin's economic reforms and the Acting Prime Minister. Yeltsin replaced Gaidar with Victor S. Chernomyrdin, who stated that he would

²¹⁹ Both quotations are found in Dunlop 1997, 51. The first quote was originally in "Derzhava v poiskakh sebya." *Nezavestya gazeta*. Mar. 28, 1992.

²²⁰ Dunlop 1997, 51.

²²¹ *Christian Science Monitor*. Sept. 10, 1992, p. 2. "Yeltsin Cancels Visit to Japan."

²²² *New York Times*. Aug. 12, 1993. "Russia-Japan Relations on the Rocks." Section A; Page 22; and David E. Sanger. *New York Times*. "Yeltsin, in Tokyo Limelight, Avoids Islands Dispute." Oct. 14, 1993. Section A; Page 11; Column 1

continue pursuing market reforms but at a more moderate pace.²²³ Removing Gaidar was a concession on the domestic front. Yeltsin was also making concessions at the international level.

In 1993, the administration's foreign policy rhetoric indicated a more assertive approach to the "near abroad." In March 1993, Yeltsin stated that, "Stopping all armed conflicts on the territory of the former USSR is [in] Russia's vital interest."²²⁴ In April, Yeltsin signed "The Basic Provisions of the Conceptualization of the Foreign Policy of the Russian Federation." The document was drafted by the Security Council and called for a tough approach to safeguarding Russia's national interests and protecting the rights of its citizens. Threats to national security were broadened to include anything that threatened CIS integration. In November, he signed "The Basic Provisions of the Military Doctrine of the Russian Federation," which identified peacekeeping within the former Soviet borders as one of the military's most important missions. The document claimed that Russia had the right to "terminate any unlawful violence" within the borders of the CIS.²²⁵ In what came to be called a Russian Monroe Doctrine, Foreign Affairs Minister Kozyrev declared in a September 1993 speech to the UN, that Russia would preserve the stability of the former Soviet states. The Russian leadership claimed that it had rights in these areas because of Russian nationals living there. "Russia has made peacemaking and the protection of human rights— particularly [those] of national minorities—the priority of its foreign policy, first of all in the territory of the former USSR," he said. He argued that "no international organization or group of states can replace our peacemaking efforts in this specific, post-Soviet space."²²⁶

Although Yeltsin successfully overthrew the legislature, the December 1993 parliamentary elections made clear that a sizable minority of Russians did not support Yeltsin's policies. While the

²²³ After Yeltsin's battle with the Supreme Soviet and the new parliamentary elections, Yeltsin reinstated Gaidar under pressure from the United States, the IMF, and other Western states. On Gaidar's return, see *New York Times*. "West is Welcoming Reformer's Return to Moscow," Steve Erlanger, Sept. 18, 1993, section 1, p. 4, col. 1; and "Yeltsin Restoring Ousted Economist," Serge Schmemmann, Sept. 17, 1993, sect. A, p. 3, col. 4. Quote is from *New York Times*, "Yeltsin Abandons His Principal Aide to Placate Rivals," Serge Schmemmann, Dec. 15, 1992, sec. A, p. 1, col. 6.

²²⁴ Yeltsin's speech to Civic Union, as reported on Moscow Television, February 28, 1993, Foreign Broadcast Information Service -- Central Eurasia 93-038, March 1, 1993.

²²⁵ "Basic Provisions of the Military Doctrine of the Russian Federation," from *Rossiiskie vesti*, November 18, 1993, cited in FBIS-SOV, 93-222S, November 19, 1993.

²²⁶ The speech was on September 28, 1993. *Air Force Magazine*. December 1993. "Russia and the 'Near Abroad.' 79.

four democratic parties won a combined 34 percent of the seats reserved for party lists, giving them the largest percentage of seats, the misnamed Liberal Democratic Party (LDP) won 23 percent of the seats.²²⁷ (The Communists won 12 percent). In addition to the large percentage of support from the general population, reportedly 40 percent of the voting military officers voted for the LDP.²²⁸ The LDP's charismatic and outspoken leader was Vladimir Zhirinovsky. Zhirinovsky had run against Yeltsin in the June 1991 presidential elections, where he took third place with nearly 8 percent of the vote. Since that time, he had become a vocal critic of Yeltsin's policies. In April 1992, he argued that the great powers—Russia, the U.S., Europe, and China—should divide the world according to spheres of influence. In Russia's sphere would be Turkey, Iran, Afghanistan, and Japan.²²⁹ He subsequently called for Russia to return to "its 'historical borders' and for the former Soviet Union to be regarded as an exclusive sphere of Russia's vital interests."²³⁰

Russia's position regarding the war in Yugoslavia demonstrates the change in Yeltsin's approach. During 1992, Russia and the United States were generally in agreement on how to handle the conflict. By 1993, however, Yeltsin chose an independent path for Russia. In March 1992, Russia had joined U.N. peace keeping forces in Croatia, their first international mission since the Soviets went into Afghanistan.²³¹ Russia had initially voted in the UN Security Council against sanctioning the Serbs. Citing their common Slavic heritage, Russian leaders proposed continued talks with the Serbs. In May 1992, they negotiated a cease-fire. But the cease-fire held for less than a day, leading to Yeltsin's announcement that Russia would reverse its decision and support sanctions: "Go for sanctions, the

²²⁷ Only 225 of the 450 Duma seats were allocated to party lists. The remaining seats went to individual candidates, many of whom were not identified with a major party. For details on the election, see Dunlop 1994 (April).

²²⁸ Tsyarkin 1995, 24.

²²⁹ The U.S. would have Latin America and the Caribbean, Europe would have West Africa, and China would have South Asia and Oceania. See Buszynski 1996, 14.

²³⁰ The "spheres of influence" view was espoused in the LDP's party program based on the party's third congress of April 19, 1992. His views regarding the "near abroad" were published in 1994. See Buszynski 1996, 14 and fn. 59 and 60.

²³¹ John F. Burns. *The New York Times*. "Russians March Into Croatia Armed With Promise of Peace," March 17, 1992.

heavier and harder, the better.”²³² On May 31, when the UN voted for trade sanctions, Russia did not exercise its veto power.²³³ By January 1993, however, Yeltsin had found his independent voice. As *The New York Times* reported, “Russia’s smoldering annoyance with United States policy broke into the open on Monday, when President Boris N. Yeltsin accused Washington of a tendency to ‘dictate terms’ in regions like Iraq and Yugoslavia and expressed the hope that President Clinton would be more open to a dialogue.”²³⁴ Yeltsin had reportedly first heard about the air strikes on Iraq through news reports.²³⁵

Russia’s most dramatic security event of 1994—the invasion of Chechnya—served to reinforce the administration’s Eurasianist view.²³⁶ The recent conflict in Chechnya began during the Soviet period. On September 6, 1991, former Soviet Air Force General Dzhokhav Dudayev’s radical national guard stormed the parliament of the Chechen-Ingush Autonomous Republic. Russian officials strongly denounced Dudayev and his followers. In response, Dudayev warned the republic that it must prepare for war against the Russians.²³⁷ On October 27, 1991, Dudayev won the Presidential election in his republic. In November, Dudayev declared Chechnya independent from Russia, an act that simultaneously led to Ingushia splitting off into its own Autonomous Republic. In response, Yeltsin declared a state of emergency and sent in interior ministry (MVD) troops to enforce his decree. Gorbachev refused to send Soviet troops. Acting on inside information, Dudayev sent forces to confront the MVD. At about the same time, Duma members registered their opposition to the operation. Yeltsin backed down and brought home the troops.²³⁸ Later, when the Russian Federation asked its 89 republics and regions to sign the Federation Treaty, indicating that they would be part of

²³² Paul Lewis. *The New York Times*. May 31, 1992. “U.N. Votes 13-0 For Embargo On Trade With Yugoslavia; Air Travel And Oil Curbed,” Section 1, page 1, column 6. Quote from Michael Parks, *Los Angeles Times*, May 31, 1992, “Yeltsin Shifts, Serbia Loses Its Last Friend,” Part A; Page 1; Column 6.

²³³ John M. Goshko. *Washington Post*. May 31, 1992, page A1. “U.N. Votes Curbs On Yugoslavia.”

²³⁴ Serge Schmemmann. *The New York Times*. Jan. 27, 1993. Section A; Page 6; Column 1; “Russian Sensitivities; As Choices Become Harder, Moscow Grows Skeptical About U.S. Policies.”

²³⁵ *Ibid.*

²³⁶ For details of the current Chechen conflict and its historical roots, see Dunlop (1998) and Lieven (1998).

²³⁷ Vice President General Aleksandr Rutskoi was particularly vocal in his condemnation. Dunlop 1998, 105-112.

²³⁸ See Bennett 1999, 329; Nicholson 1999, 55; Truscott 1997, 39.

the newly independent Russia, Chechnya along with Tatarstan, refused to sign.²³⁹ For about three years, the new Russian government forestalled further action in Chechnya.

The calm that followed Chechnya's announced independence came to an end in 1994. In February 1994, Russia signed an agreement with Tatarstan allowing the republic to collect its own taxes and conduct its own foreign economic policy. Chechnya declined to negotiate a similar agreement.²⁴⁰ With the Chechen government refusing to bargain, Russia started supporting opposition forces. In response, Dudayev declared martial law on August 12, 1994. Opposition units, with some assistance from Russian forces, attempted to take Grozny in October and November; they failed to do so. Dudayev's threat to kill Russian prisoners brought a strong response. The Russian Security Council met on December 7, and voted to send Russian forces to Grozny.²⁴¹ The Chechen conflict can be seen as a reminder to Russians of their need to focus on Eurasia, rather than on the West.

By the time that Russian troops attacked Chechnya, it was clear that the administration had moved to the Eurasianist approach. Once the architect of the Atlanticist program, Kozyrev now embraced the Eurasianist view. In November 1994, he stated that the CIS was meant "to become in the future a real military-political soyuz [union] of republics united by a common history and by the common CIS border, for we simply do not have and do not need another border." He added, "Let the West react as it pleases, we will do our work as we need. We have nothing to explain to anyone, we don't have to justify ourselves. . . . There are, of course, those who see any strengthening of Russia or the CIS as harmful because they prefer a weak partner to a strong one. Well, let them think that way while we strengthen both Russia and the CIS."²⁴²

Russian foreign and domestic policy has continued along Eurasianist lines. As Prime Minister Primokov put it in 1997, Russia was taking a "middle course" between the "extremes of Soviet anti-

²³⁹ Nicholson 1999, 54.

²⁴⁰ RFE/RL, "Russian-Chechen Talks Come To Naught," Mar. 29, 1994; "Federation Council To Propose Recognition Of Dudaev," Mar. 31, 1994; "Chechnya Commemorates Victory Over Tsarist Troops," June 3, 1994; Also, see Truscott, 41.

²⁴¹ Tuscott 1997, 41.

²⁴² RFE/RL, Nov. 22, 1994.

Westernism” and Kozyrev’s “pro-Western romantic approach.”²⁴³ Russia’s views toward NATO exemplify this middle course. On the one hand, in June 1994, Russia announced its intention to participate in NATO’s Partnership for Peace. On the other hand, it has opposed NATO’s expansion to the east. As one analyst noted, “Russian politicians of all ideological stripes continued to vehemently oppose NATO expansion, viewing it as directed at the long-term ‘containment’ of Russia.”²⁴⁴

In addition to the move from an Atlanticist to a Eurasianist perspective, the administration has moved away from a CIS focus and toward a bilateral approach when dealing with the former Soviet states. While the administration (and Western writers) often conflate the CIS with the former Soviet states, these are two distinct groups and entities. First, not all former Soviet states are members of the CIS, or of all aspects of the CIS. The Baltic states, for example, are not members of the CIS.²⁴⁵ Second, there are many aspects to the CIS; not all members support all aspects. For example, Ukraine has joined the economic but not security section of the CIS.

As CIS agreements were signed one after the other, but remained largely unimplemented, Russia has increasingly focused on bilateral negotiations. Despite the ambitions laid out at the foundation of the CIS, the organization has not been the powerful player Russia might have hoped for. The common market does not exist, let alone the commonly owned and operated infrastructure, and is unlikely to occur in the near future. In October 1994, Russia called for a CIS future joint peacekeeping force, a CIS rapid deployment force, weapons standardization within the commonwealth, a common military-strategic space, and cooperative weapons production. However, only some of the CIS state leaders approved the proposal.²⁴⁶ The proposed common currency has been shelved indefinitely. There is no CIS mechanism for resolving trade disputes. As a result trade disputes are dealt with bilaterally. The common security policy also did not materialize. Military intervention in the region, even when it is ostensibly in the name of CIS, has been dominated by Russia with other forces playing

²⁴³As quoted in Aron 1998, 30.

²⁴⁴Parrish, Annual Survey 1997, 300.

²⁴⁵U.S. policy has long been to not recognize the Baltic states as members of the Soviet Union. This policy was meant as a protest against Stalin’s move to forcibly integrate the Baltic states. I include them as former Soviet states, however, since they were integrated into the Soviet economic and security system.

²⁴⁶RFE/RL, Oct. 24, 1994.

mostly a symbolic role.²⁴⁷ As the authors of *Getting it Wrong* conclude “the list of ways in which the CIS has failed is much longer than is its list of successes. The whole rhetoric of the CIS is modeled on that of the European Union, but the CIS displays none of the features of the EU, or even the potential to develop them.”²⁴⁸

In sum, throughout most of the former Soviet period, Russian leaders have been under pressure to exert their state as a major power in the region. A highly visible way of showing great power status is to dominate hierarchies with other states. While Russian leaders have to balance the financial cost of running hierarchies against the benefits, Yeltsin learned the lesson that Russian leaders who do not pursue dominance over the “near abroad” are political vulnerable. As the empirical chapters demonstrate, Russian leaders have been active—and sometimes effective—in pursuing hierarchies.

Hierarchy in the Former Soviet Union: A Microcosm of the International System

Since the collapse of the Soviet Union, the 14 newly independent states have formed a variety of relations with Russia. The definition of empire that I developed in chapter 2 is a stringent one that is not met by any of the FSU dyads. However, as Figure 4.1 shows, there is significant variation in the region, with many states having somewhat hierarchical relationships with Russia in both the economic and security arenas. Since the first days of independence, relationships have shifted and have generally done so in a patterned way: some of the economic hierarchy has been reduced while security hierarchies have increased. Changes will no doubt continue. The independent variables that I elucidate in Chapter 3—*relation specific assets* and *white knights*—change, resulting in shifts in the dependent variable.

The points on the chart are discrete moments, snapshots of a given time. In Figure 4.1, some states have changed their relationships over the course of the 1993 to 1997 time period that I am examining, while others have remained constant. While other dyads in the region might be of interest,

²⁴⁷ For a detailed account of how the CIS has failed as an organization, see Olcott, Åslund, and Gamett 1999.

such as Azerbaijan-Iran, I account only for the dyads that include Russia and one of the weak states. This is for analytical reasons. Introducing other dyads complicates the theory without clearly providing rewards. To make the problem more tractable, therefore, I limit the type of dyad I am seeking to explain to those that include Russia as the strong state. Given Russia's weight in the region, historical significance, and importance to Western states, I believe these are the right dyads on which to focus.

As shown in figure 4.1, none of the FSU dyads received higher than a 1 on the economic scale and a 3 on the security scale. (For convenience, I did not include the full range of hierarchy, which goes up to 4.) Within each group, the dyads are ordered alphabetically by the non-Russian dyad member. Some features of the figure are worth noting. First, with the exception of Tajikistan and Ukraine, which have remained in the same place, all other dyads have moved toward autonomy and away from hierarchy. Second, by 1997, more states are in security hierarchies than economic hierarchies. Seven states—Armenia, Belarus, Georgia, Kyrgyzstan, Moldova, and Turkmenistan—have some type of security hierarchy with Russia, while only two—Belarus and Kazakhstan—have economic hierarchies. This is particularly notable considering that in the international system as a whole there are more economic hierarchies.²⁴⁹ Third, there are no clear geographic or ethnic patterns. Variation exists within the four usual geographic groupings of Baltic, Western (non-Baltic), Transcaucasian, and Central Asian states. Similarly, there is variation among the Islamic states as well as the Christian states and Slavic states. Finally, with the exception of the Baltic states and Ukraine, all states were in an economic hierarchy with Russia in 1993. For many this did not last very long.

The placement of the dyads in figure 4.1 are based on the following hierarchies developed by Russia: the Russian-dominated customs union, customs guards for shared borders, the Russian-led ruble zone, and military basing agreements, each of which I elaborate on below.²⁵⁰ Dyad positions have changed over time. To reflect this, the dyads' positions as of January 1993 are in bold. A second

²⁴⁸ Olcott, Åslund, and Garnett 1999, 232.

²⁴⁹ My thanks to Miles Kahler for pointing this out.

²⁵⁰ As in all regions of the world, written agreements in the former Soviet region do not always tell the full story. Understanding what was really going on in the Soviet period required not just reading documents, but assessing the situation based on behavior. In the post-Soviet time period, some things appear to stay the same. For

snapshot (1997) is shown in a regular font style. Table 4.6 below summarizes the coding for the FSU dyads. A detailed description of the hierarchies in the region follows the table.

Hierarchy					
ECONOMICS	1	Azerbaijan Kazakhstan Uzbekistan	Belarus Kazakhstan Moldova Turkmenistan	Belarus Georgia Kyrgyzstan	Armenia Tajikistan^a
	0 Autonomy	Azerbaijan Estonia Latvia Lithuania Uzbekistan	Armenia Georgia Kyrgyzstan Moldova Turkmenistan Ukraine^a		Estonia Latvia Lithuania
		0 Autonomy	1	2	3 Hierarchy

SECURITY

^aThe state did not change positions between 1993 and 1997.

Figure 4.1: Placement of Dyads in the Former Soviet Region (Russia and the Other Fourteen States), 1993 and 1997

Table 4.6: Summary of Hierarchies within the FSU Dyads, as of 1993 and 1997

this reason, in determining whether or not there is hierarchy, I rely on interviews with specialists in the region as well as news reports rather than trusting the written documents to tell the full story.

	Economics ^a		Security ^b	
	1993	1997	1993	1997
Armenia	Ruble zone = 1	0	75+% = 3	25-50% = 1
Azerbaijan	Ruble zone = 1	0	0	0
Belarus	Ruble zone = 1	Customs union = 1	External borders + Nuclear weapons = 2	Air defense = 1
Estonia	0	0	75+% = 3	0
Georgia	Ruble zone = 1	0	50-75% = 2	25-50% = 1
Kazakhstan	Ruble zone = 1	Customs union = 1	Nuclear weapons = 1	0
Kyrgyzstan	Ruble zone = 1	0	External borders + air defense = 2	External borders = 1
Latvia	0	0	75+% = 3	0
Lithuania	0	0	75+% = 3	0
Moldova	Ruble zone = 1	0	25-50% = 1	25-50% = 1
Tajikistan	Ruble zone = 1	Ruble zone = 1	75+% = 3	75+% = 3
Turkmenistan	Ruble zone = 1	0	External borders = 1	External borders = 1
Ukraine	0	0	Nuclear weapons = 1	Navy = 1
Uzbekistan	Ruble zone = 1	0	0	0

Notes:

^a A dyad receives 1 point each for the ruble zone and customs union. Zero indicates autonomy.

^b A dyad receives 1 point if Russia controls 25-50% of the total troops or equipment on the state's territory; 2 points if it controls 51-75%, and 3 points for 75+%. If Russia has fewer than 25% of the forces, the dyad receives 1 point if Russia controls 50% or more of a security function: air defense, nuclear weapons, external borders, or a branch of the military (army, air force, navy). The dyad gets one point for each function controlled, with a maximum of 3. Zero indicates autonomy. See chapter 4 for a general description of the coding.

Customs union

In the economic arena, Russia focused first on the CIS-wide economic union then on the customs union between a few partners, negotiated one at a time. In January 1995, shortly before a scheduled CIS meeting, Russian officials announced that Russia would sign a protocol on a customs union and free trade agreement with a subset of the CIS states: Belarus, Kazakhstan, and Ukraine. When the time came, only Belarus and Kazakhstan signed the accord. Ukraine refused to join on the basis that the agreement did not give all states an equal say.²⁵¹ Uzbekistan, Kyrgyzstan, and Tajikistan expressed interest in joining the union, but did not sign at that time.²⁵² Later, in September, all three again expressed interest in joining, but only Kyrgyzstan's president Akayev signed the agreement.²⁵³

²⁵¹The Ukrainian government later signed an agreement for a customs union with Moldova. At the press conference for that agreement, the presidents of Ukraine and Moldova said their "customs union will be totally different from that between Russia and Belarus, because it will be based on full equality" (OMRI, March 12, 1997).

²⁵²OMRI Daily Digest, January 3, 1995, Jan. 25, 1995

²⁵³OMRI Daily Digest, Sept. 15, 1995, Sept. 25, 1995

Tajikistan continued to express interest in joining the customs union, but had not been admitted as of early 1998. Uzbekistan has not joined.²⁵⁴

Customs unions, by definition, call for removing internal tariffs between the member states and harmonizing trade policies toward the rest of the world. What makes this particular customs union unusual—and hierarchical—is the understanding by all parties that Russia would set the external tariff rates and the others were to match those rates.²⁵⁵ While the Russian parliament is technically supposed to take the other members' interests into account, there is no formal mechanism for doing so. Indeed, there is little reason to believe that they would. Another hierarchical feature of the agreement calls for Belarus to raise its domestic gas prices to match the higher prices in Russia.²⁵⁶

While implementation has been far from perfect, there is evidence that the governments of Belarus and Kazakhstan started harmonizing their external tariffs with those of Russia. In some cases, the changes have not been through published tariff rates, but rather through taxes by other names, such as value added taxes (VATs) and excise taxes. Still, the presidents apparently intend these higher taxes to serve the same purpose of protecting the Russian market, as the customs union is designed to do. In return, the presidents have sometimes criticized Russia for not removing internal barriers to trade, which would provide the expected benefits to Belarus and Kazakhstan.

Belarus has been on a faster pace than Kazakhstan. In keeping with the bilateral negotiating approach, the Russian government worked out implementation details first with Belarus, then with Kazakhstan. As early as February 1995, the Belarusian Cabinet of Ministers approved tariff levels on various goods in line with those established by the Russian Duma.²⁵⁷ On February 21, President Lukashenka "signed a decree imposing an unspecified VAT on Ukrainian goods imported into Belarus,

²⁵⁴Uzbekistan subsequently joined a customs union with Kazakhstan and Kyrgyzstan, but it apparently has not been implemented.

²⁵⁵News reports on Russia's role in setting external tariffs for the customs union are supported by interviews with David Hoelscher, IMF Resident Director; Alexander Katkov and Oxana Grushchak, Commercial Services, U.S. Embassy; Brian O'Shea, consultant with Booz-Allen & Hamilton, U.S. AID, Development, Trade and Investment Project; and an analyst at the Kazakhstani Institute for Strategic Studies. All interviews took place in Almaty, Kazakhstan in February and March 1997. For news reports that refer to this aspect of the agreement, see OMRI Daily Digest, July 27, 1995; Feb. 24, 1995; July 27, 1997; and Jan. 13, 1996.

²⁵⁶OMRI Daily Digest, Aug. 11, 1995

²⁵⁷OMRI Daily Digest, Feb. 23, 1996

Ukrainian and Belarusian Radio reported. The decree is aimed at bringing Belarus' legislation into line with Russia's."²⁵⁸ In February 1996, the Belarusian Cabinet of Ministers announced that it was preparing a new list of tariffs to match the changes made in Russia.²⁵⁹ In 1997, the CIA estimated that the "Customs Union agreement with Russia—which required Minsk to adjust its foreign trade practices to mirror Moscow's—has resulted in higher import tariffs for Belarusian consumers; tariffs rose from 5%-20% to 20%-40%."²⁶⁰

Russia has occasionally put pressure on Belarus to live up to its side of the agreement. For example, on August 2, 1995, the president of the Belarus' gasoline concern Belnaftaprodukt, told a press conference that despite the customs union, the discrepancy in gasoline prices between the two countries would continue. At the time, gasoline cost around the equivalent of 45 cents per liter in Russia but only 24 cents in Belarus.²⁶¹ But just one week later, after a visit from Russian officials, Belarus reported that the price of oil and oil products would increase to match prices in Russia, as envisioned by the customs union.²⁶²

While Belarus began implementing the customs union in February 1995, it was not until August 1995 that the Kazakhstani and Russian governments held detailed talks on implementing the customs union. In September of that year, Nazarbayev ratified the agreement.²⁶³ Kazakhstan immediately closed customs controls between the two states, but Russia refused to do so. According to a high-ranking Customs official, Russia was not willing to remove internal customs until Kazakhstan harmonized its external tariffs with those of Russia and Belarus.²⁶⁴ In January 1996, Russia removed the customs controls between the two states.²⁶⁵

²⁵⁸OMRI Daily Digest, "Belarus Imposes VAT On Ukrainian Goods," February 24, 1995.

²⁵⁹RFE/RL, Feb. 23, 1996. Original source was Belarusian Radio.

²⁶⁰From the CIA's web site (www/odci.gov/cia/publications/factbook/country.html).

²⁶¹OMRI Daily Digest, Aug. 4, 1995.

²⁶²OMRI Daily Digest, Aug. 11, 1995.

²⁶³OMRI Daily Digest, Aug. 21, 1995 and Sept. 21, 1995. Nazarbayev had dismissed the parliament, giving him full authority for ratifying the agreement, according to U.S. embassy sources in Almaty.

²⁶⁴OMRI Daily Digest, Sept. 27, 1995.

²⁶⁵OMRI Daily Digest, Jan. 3, 1996.

The Kazakhstani then began setting the relevant external tariffs to match Russia's.²⁶⁶ The most prominent example of Kazakhstan changing tariffs was in the automobile sector. In the summer of 1996, the Kazakhstani government increased by six times the tariffs on automobiles, citing its customs union with Russia and Belarus. The tariffs went as high as 30-45 percent to protect the Russian automobile industry. By January 1997, the Kazakhstani announced that they would no longer enforce the high tariffs. However, at the same time, the government announced higher excise taxes. These taxes appear to have the same effect as a barrier to imports as higher tariff levels.²⁶⁷

In 1997, the customs union was running into trouble. The most recent member, Kyrgyzstan, had not changed its external tariffs. While Belarus and Kazakhstan made efforts to implement the external tariffs in 1995 and 1996, all parties protested more about the union in 1997. In March, the Russian Customs Committee charged that large quantities of goods were being smuggled through Belarus into Russia. As a result, Russia restored customs checkpoints on the Belarus-Russian border.²⁶⁸ That same month, Kazakhstan's chairman of the State Customs Committee said "the economic security of the state is suffering" due to "the huge amount of contraband goods brought in."²⁶⁹ His comments led to speculation that Kazakhstan may withdraw from the union. In July, the Kyrgyzstani government complained that the customs union was not living up to its potential and accused Kazakhstan of unilaterally raising its tariffs.²⁷⁰ And in August, the Kazakhstani government

²⁶⁶It is unclear exactly which tariffs are to be harmonized, but the Russians apparently distinguish between tariffs that need to be adjusted and those that do not. For example, as reported on Russian Public Television, the Russians complained that the "Belarusian customs committee has apparently levied fees on only a third of the goods considered by the Russians to be covered by the provision," according to OMRI Daily Digest, July 27, 1995. According to O'Shea, the Kazakhstani began adjusting their external tariffs .

²⁶⁷E-mail from the U.S. Embassy in Almaty, Commercial Services Section, dated January 24, 1997; interviews with U.S. embassy officials in Almaty. The automobile excise taxes were printed in *Kazakstanckaya Pravda*, January 9, 1997. I was unable to determine exactly how close to the Russian tariffs these levels would be. It is difficult in both Russia and Kazakhstan to determine exactly what the import fees will be on any given item. While tariff rates are published, they are frequently changed and then only reported in newspapers. Excise and other taxes often go by different names, but have the same effect as import tariffs. For this reason, a straight forward comparison of tariff tables does not reveal whether or not the tariffs match those of Russia.

²⁶⁸OMRI Daily Digest, March 6, 1997.

²⁶⁹OMRI Daily Digest, March 19, 1997.

²⁷⁰OMRI Daily Digest, July 3, 1997.

complained that Russian customs officials were charging tariffs on goods crossing the border via Kazakhstani trucks.²⁷¹

Customs Guards

If the strong state guards the border for products moving across the shared border of the weak and strong state, the strong state has some de facto authority over the trade patterns of the weak state. Guarding these shared customs posts gives Russia control over what products will be let in and which refused, the tariff levels charged for those products, and the ability to retain some of the tariffs collected, legally or otherwise. The customs posts in some FSU states are known to be lucrative positions for the guards. Anxious to move their products, importers are often at the mercy of the customs guards for getting their commodities across the border. The governments reportedly turn a blind eye toward the bribes often required by customs officials, as the practice is seen as a way of boosting the guards' meager salaries.²⁷² Belarus and Kazakhstan have given authority to Russian customs guards. In 1997, the Russian government argued that Belarus was not keeping tight enough control over the border and letting in contraband. As such, Russia tightened the Belarus-Russia border with their own customs forces.²⁷³ This occurred despite the supposed integration of the two states. Russia customs guards are also the sole control authorities at the Kazakhstani-Russian border. While the two states were to have eliminated tariffs between them, as part of the customs union agreement, Russia continued for some time to guard their shared border, opening up the possibility of interference in Kazakhstan's trade regime.

²⁷¹OMRI Daily Digest, August 12, 1997.

²⁷²Personal interview with the director of a customs house brokerage firm, March 6, 1997. In another personal interview, a professor in Kyrgyzstan told of his student whose father had recently taken a position as a customs guard. She told the professor that her family's standard of living had suddenly improved and exclaimed that until her father took the position, she had no idea how well those jobs paid. The professor didn't have the heart to tell her precisely why her father was suddenly making so much money.

²⁷³ OMRI Daily Digest, "Belarus Imposes Vat On Ukrainian Goods," Feb. 24, 1997.

Ruble Zone

The first and most powerful post-Soviet economic hierarchy was the so-called ruble zone. When the CIS essentially replaced the Soviet Union, the new states inherited the Soviet ruble as their currency. With the central authority of the Soviet system no longer in existence, the new states needed to form a banking system to control the currency. As early as December 1991, a CIS banking union proposal was circulated and discussed by the members. The proposal called for state central bank representatives to meet and jointly formulate monetary policy for members of the ruble zone. However, state authorities could not agree on the distribution of voting power, and the proposal was eventually dropped.²⁷⁴ Without a union bank and with all states using the ruble, the Central Bank of Russia became the de facto controller.

As the de facto controller, Russia's Central Bank had considerable power over the other states. Only the Central Bank of Russia had access to the printing presses. Its monopoly position put the other states in a moderately hierarchical relationship in the monetary policy arena. Without the ability to print money, the states could not control inflation and prices to suit their specific needs. A state without its own currency cannot respond to economic shocks by adjusting its exchange rates. When there were changes in the currencies' denominations, only the Central Bank of Russia could print and distribute the new bills. The Central Bank of Russia also determined the interest rates that were extended to the other states' central banks.²⁷⁵ In July 1992, Russia further increased its power over the hierarchy members by creating correspondent accounts for the states. The accounts were designed to alleviate arrears between enterprises that were now in two or more different states. As a side effect, however, Russia had now created non-cash rubles for each state along side the non-cash Russian rubles. This gave Russia the opportunity to create a new exchange rate—one between the different non-cash rubles. The exchange rate was 1:1 up to a certain limit, after which the non-Russian rubles were discounted. Using these accounts and its monopoly position, Russia granted subsidies to the other states via currency transfers from the Central Bank of Russia to the other states' central banks. Russia made clear that

²⁷⁴For sources on the ruble zone, see International Monetary Fund, *Common Issues*, 10-12; Banaian and Zhukov; and Åslund (1994 and 1995).

those who stayed in the ruble zone would be rewarded with subsidies, some of which were transferred via the accounts set up by the Central Bank of Russia. At this point, most of the states stayed in ruble zone, sacrificing some sovereignty in exchange for economic benefits.

Russia did not, however, control all aspects of the money supply. The non-Russian states were allowed to extend credit and provide subsidies to ailing state enterprises, thereby increasing the M1 and broader money supplies, if not the nominal money supply.²⁷⁶ In general, states have nearly complete control over their domestic nominal money supply; only the government is authorized to print new money. However, governments have less control over the broader measures of money supply. By making loans, for example, financial intermediaries increase M1, which includes balances in bank accounts.

The states used their limited control over the money supply with a vengeance. With few tools to keep drowning companies above water, the states issued significant credits to state entities. The lack of discipline in extending credit led to high levels of inflation, which Russia could not control. In 1992, annual inflation rates were in the four digits for 9 of the states.²⁷⁷ Responding to the high inflation, Russia demanded that the other states accept the monetary authority of the Bank of Russia or cease using the ruble as domestic currency. The government also set a ceiling on credit limits for the other states, beginning in July 1993. Russia set up new correspondent accounts in which payments between states would only be processed if the state remained within the credit limits set by Russia. This policy led to several states departing the zone. At roughly the same time, Russia controlled cash disbursements to the ruble zone members.²⁷⁸

In a surprise Saturday morning announcement in 1993, the Central Bank of Russia declared that as of the following Monday, Soviet and pre-1993 Russian rubles would become worthless.

²⁷⁵International Monetary Fund, *Common Issues*, 14.

²⁷⁶The nominal money supply is the total nominal value of all paper money and coins in circulation and is referred to as M. In addition to M, there are three other measurements of the money supply. The M1 money supply includes currency held by the nonbank public, traveler's checks, and balances in accounts at banks and other financial intermediaries against which people or firms can write checks. The M2 supply is M1 plus balances in savings accounts and similar accounts. M3 measures M2 plus balances in most other accounts at financial intermediaries. Finally, L (as in liquidity) measures M3 plus certain short term loans. Stockman, 788, 821-26.

²⁷⁷Åslund 1994, 119.

Citizens would be allowed to exchange only a certain percentage of old rubles for new ones. The Central Bank's decision to nationalize the currency was meant to give Russia greater monetary control within its borders. Russia's abrupt actions sent the economies of the 10 countries still using Soviet rubles reeling. (At this point, only the Baltic states, Ukraine and Kyrgyzstan were no longer using Soviet rubles.) The countries that were using parallel coupons (Azerbaijan, Georgia, and Moldova) along with Turkmenistan announced plans to reform their currencies. The five other non-Russian states (Armenia, Belarus, Kazakhstan, Tajikistan, Uzbekistan) attempted to rescue the ruble zone, despite the clear controls Russia had over the others. They proposed that, as with the earlier zone, Russia would have the sole right to print currency, while the others would be able to emit credit within certain limits agreed to by Russia. This attempted resurrection failed. By the beginning of 1994, all but Tajikistan had withdrawn from the zone. Tajikistan was flooded with old Soviet rubles, causing a whopping 10,922% annual inflation rate for 1993. The Russians stabilized the situation by allowing Tajikistan to exchange Soviet rubles for Russian ones.

²⁷⁸Åslund 1993, 89 and Åslund 1995, 125-129.

Table 4.7: Introduction of National Currencies, by Date Made Sole Legal Tender

State	Currency	Introduced	Sole Legal Tender
Estonia	Kroon	June 1992	June 1992
Latvia	Latvian ruble Lat	May 1992 Mar. 1993	July 1992 Oct. 1993
Lithuania	Talonas ^a Litas	May 1992 June 1993	Oct. 1992 Aug. 1993 ^b
Ukraine	Karbovanets Hryvnya	Nov. 1992 Sept. 1996	Nov. 1992 Sept. 1996
Kyrgyzstan	Som	May 1993	May 1993
Russia	Russian ruble	July 1993	July 1993
Moldova	Moldovan coupons Leu	June 1992 Nov. 1993	July 1993 Nov. 1993
Georgia	Coupon Lari	Aug. 1993 Sept. 1995	Aug. 1993 Oct. 1995
Armenia	Dram	Nov. 1993	Nov. 1993
Kazakhstan	Tenge	Nov. 1993	Nov. 1993
Turkmenistan	Manat	Nov. 1993	Nov. 1993
Uzbekistan	Sum coupon Sum	Nov. 1993 July 1994	Jan. 1994 Oct. 1994
Azerbaijan	Manat	Aug. 1992	Jan. 1994
Belarus	Belarusian ruble Rubel	May 1992 Aug. 1994	May 1994 Oct. 1994
Tajikistan	Tajik ruble	May 1995	May 1995

Source: The International Monetary Fund 1994a, 42-49, as reported in Åslund 1994; and Odling-Smee, et al, 1994a and 1994b, as reported in Lybek 1999, 19.

Notes:
^a Several states began with coupons, which went by various names and were traded on a par with the ruble. The states subsequently changed to permanent national currencies.
^b The conversion to litas was completed in July, but all domestic transactions were to be performed in litai as of August 1993.

The ruble zone was a case of a hierarchical monetary arrangement. The non-Russian states agreed to cede some sovereignty to Russia. This was well-understood by all the parties concerned. With time, it became apparent to the Russian leadership that the hierarchy was potentially damaging to Russia itself. When Russia attempted to tighten its control, however, the FSU states balked and withdrew from the hierarchical arrangement.

Russian Basing Agreements

One of the most important determinants of a security hierarchy are basing agreements that allow the strong state to place forces on the weak state's territory. In several of the new states, Russia has stationed troops on former Soviet bases with the consent of the other state's government. In those cases in which Russian troops are based either within the territory or on the external borders, I consider

these to be hierarchical arrangements. The larger the contingent of Russian forces relative to local forces, the tighter the hierarchy.

There are two types of Russian forces on other states' territories: military troops and border guards.²⁷⁹ In May 1992, when it became apparent that the CIS states were going to establish their own military forces, Yeltsin issued a decree establishing the Russian Armed Forces and then claimed for Russia the Group of Forces (in Germany, Poland, and the Baltic states); the 14th Army, located mostly in Moldova; and the former Soviet troops in the Caucasus. The forces in Central Asia were put under joint control with Russia and the country on which they were based.²⁸⁰ At present, these troops are generally stationed on former USSR bases. (For details on the number of Russian troops and type of military on other former Soviet states' territory, see Appendix 2.)

The Baltic states were the first to negotiate the departure of Russian troops from their territory. While the withdrawal was negotiated and in progress, however, the Baltic states were in a hierarchical relationship with Russia. Clearly, the Baltic governments were not pleased to have these forces on their territory and had "invited" them to leave at the earliest possible date. Still, as long as they remained on the territory of Estonia, Latvia, and Lithuania, these states' sovereignty was diminished. In 1992-93, Russia controlled 23,000 military personnel in Estonia; 40,000 in Latvia; and 43,000 in Lithuania. In contrast, the local governments controlled about 2,000 in the case of Estonia and Latvia, and 7,000 in Lithuania. In addition, Russia had a sizable number of tanks, armored infantry fighting vehicles, combat aircraft, surface-to-air missiles, and more. The Baltic states controlled virtually no heavy equipment. By 1995-96, all Russian troops were withdrawn from the Baltic states.

Georgia, Armenia, Moldova, Tajikistan and Belarus all continue to have Russian troops on their territory. In the case of Georgia and Tajikistan, the forces were brought in to quell civil wars. Russia controls about 9,000 personnel and hundreds of main battle tanks, armored infantry fighting vehicles, and artillery as well as other equipment in Georgia. It also reached an agreement with Georgia to use three military bases. Armenia brought in Russian troops to help resolve the battle with

²⁷⁹The customs officials could also be considered forces on foreign territory. However, given their control over economic transactions, I have treated them under the economic issue area.

Azerbaijan over Nagorno-Karabakh. As of 1995-96, Russia had about 5,000 troops in the region as well as 80 main battle tanks, 190 armored personnel carriers, 100 artillery pieces, and one air defense squadron. In Moldova, the old Soviet 14th Army now belongs to Russia and remains based in the Dniester region, despite the Moldovan government's protests. A 1994 agreement with Russia called for having the troops withdrawn in three years. However, as of January 1998, Russian officials have said that the forces will not be withdrawn until the Dniester conflict is resolved. The Duma has yet to ratify the withdrawal agreement.²⁸¹ In Belarus, Russia recently secured basing rights until the year 2000. In Tajikistan, where the civil war never quite seems to end, Russia controls about 14,000 personnel and hundreds of main battle tanks, armored combat vehicles, artillery, ground attack fighter aircraft, and surface-to-air missiles, as of 1998. In addition to conventional weapons and their accompanying personnel, three states—Kazakhstan, Belarus, and Ukraine—had nuclear weapons on their territories. The Russians had the firing codes and were responsible for maintaining the weapons. During this period, the three nuclear states were in a moderate hierarchy with Russia.

Regardless of whether the weak states want the Russian troops and weapons on their territories—as in the cases of Armenia, Belarus, Georgia, and Tajikistan—or whether they have been clear in their desire for the Russians to leave—the Baltic states and Moldova—the massive presence of Russian military officers and troops gives Russia a certain amount of control over the foreign policy of the home state. For example, alliance options are limited if a state has Russian troops sitting on their territory. Or, if a civil war breaks out, the stationed troops can decide whether or not to intervene. Similarly, nuclear weapons controlled by another state give that state certain power over the home-base state. Russia's ability to decide when the weapons would be fired meant that the non-Russian states could become involved in a war that was not of their choosing. If Russia fired the nuclear weapons at Iran, for example, Ukraine might be brought into a war with Iran regardless of what its preferences were. Ukraine's hierarchy was not as strong as others, however, because Ukraine continued to control large

²⁸⁰International Institute of Strategic Studies, 1992-93.

²⁸¹RFE/RL, Jan. 12, 1998; Feb. 3, 1998; April 6, 1998.

numbers of its own forces. This gave them more choices over military action, with whom they wanted to ally with and with whom they might want to fight.

The Russian border guards are a separate unit that does not fall within the Russian military hierarchy. In addition to protecting Russia's borders, Russia's 210,000 guards protect the external borders of some FSU states. The guards have their own artillery and helicopters and are believed by some to be better trained than the regular military units. According to Gen. Andrei Nikolaev, the head of Russia's Federal Border Guards Service, his troops guard the external borders of Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan. Nikolaev explained that "we follow the 'two borders' strategy, which means that we have to protect the national interests and guard the borders of CIS countries, along with protecting Russia's national interests on Russia's borders."²⁸² (Aside from Nikolaev's claim, I did not find confirming evidence for guards on Kazakhstan's external borders.) As with the military forces, the border guards have significant control over foreign security policy for the weak states on whose borders they stand. The guards can determine when to counter threats to the border's integrity; immigration policy enforcement; the effectiveness with which threats are countered; and drug traffic flows, inter alia.

Conclusion

The 15 former Soviet states began their independence with varying degrees and types of dependencies. The republics had heavily depended on each other for trade; on average, total trade accounted for 45 percent of the republics' GDP, with an average of 84 percent of that trade being with other Soviet republics. By far the largest, most resource endowed state, Russia was the least dependent on trade, with trade accounting for only 22 percent of its GDP, 42 percent of which was outside the Soviet Union. Despite being relatively less dependent on the other Soviet republics, Russia found itself dependent on some states via RSAs such as pipelines, electricity grids, military bases, and access routes to important markets in Europe and Asia. Many of the non-Russian states are similarly bound to Russia

²⁸² RFE/R Newsline, "Border Guards Service," Oct. 3, 1996.

through these RSAs. While some give the weaker state bargaining leverage, others prevent the weak state from breaking free of Russia and leave it vulnerable to Russian pressure to join a hierarchy. To break free of these dependencies created by RSAs, both Russia and the weak states have sought white knights, in the form of weak state alliances, international organizations, other strong states, and foreign direct investments.

Political leaders must operate under the constraints of these RSAs. Leaders are further constrained by nationalists within their states. In Russia itself, nostalgia for the superpower days is a powerful force. This force has pushed Russian leaders to be assertive in their efforts to dominate hierarchies with some of the former Soviet states. In several cases, they have successfully negotiated economic and security hierarchies. In some cases, these hierarchies have emerged at the request of the weak state. Desperate for financial and/or military assistance and with no less-hierarchic options, the leaders have been willing to surrender some sovereignty to Russia. Security hierarchies have been more plentiful, in part because there are few non-Russian options available. As the subsequent empirical chapters demonstrate, leaders of weak states must weigh their options and their needs. In some cases, a loss of sovereignty is far preferable to losing political office or watching the state self-destruct in civil war.

Chapter 5: Shades of Difference: Ukraine and Belarus

Russia's two Eastern Slavic siblings—Ukraine and Belarus—are often viewed as contrasting cases. Ukraine has successfully fought off Russian advances, while Belarus courts Russia. Ukraine is depicted as the most “Western” of the former Soviet states (excepting the Baltic states), while Belarus is portrayed as being “back in the USSR.” As the following narratives reveal, however, the truth is more complicated than that. Emotional rhetoric aside, the two states are more similar than different in their relations with Russia. Both states have highly interdependent economies with Russia, both carry massive energy debts with Russia, both have leased military facilities to Russia, and both have strong pro-Russian constituencies.

In this and the other empirical chapters, I begin with a brief summary of what the theory predicts, based on relation specific assets and the costs and benefits of hierarchy. This is followed by a brief discussion of the state's history and culture and a more elaborate account of events and political leaders that have shaped the state immediately before and since its independence. Finally, I explicate my variables as they apply to the case and demonstrate the causal mechanism that translates the variables into the outcome. I conclude with observations about the case.

Ukraine: Recipe for Autonomy?

In the economic arena, the theory predicts autonomy. Mutually dependent in their major relation specific assets (RSAs), Russia and Ukraine can engage in mutual hostage-taking (hypothesis 5). When Russia attempts to force Ukraine into a hierarchy by using its leverage, Ukraine can retaliate with its own leverage. As the narrative below demonstrates, the two states frequently played this game with the energy pipelines. In addition, since international organizations and Western companies acted as white knights in the region, Ukraine did not have to rely on Russia for financial assistance (hypothesis 8). Finally, when Ukraine initially dragged its feet in reforming the economy, delaying much needed IMF and World Bank funds, it was able to sell its nuclear weapons and the Black Sea Fleet to Russia in

exchange for economic benefits. Neither of these sales entailed consenting to a hierarchy (hypothesis 6).

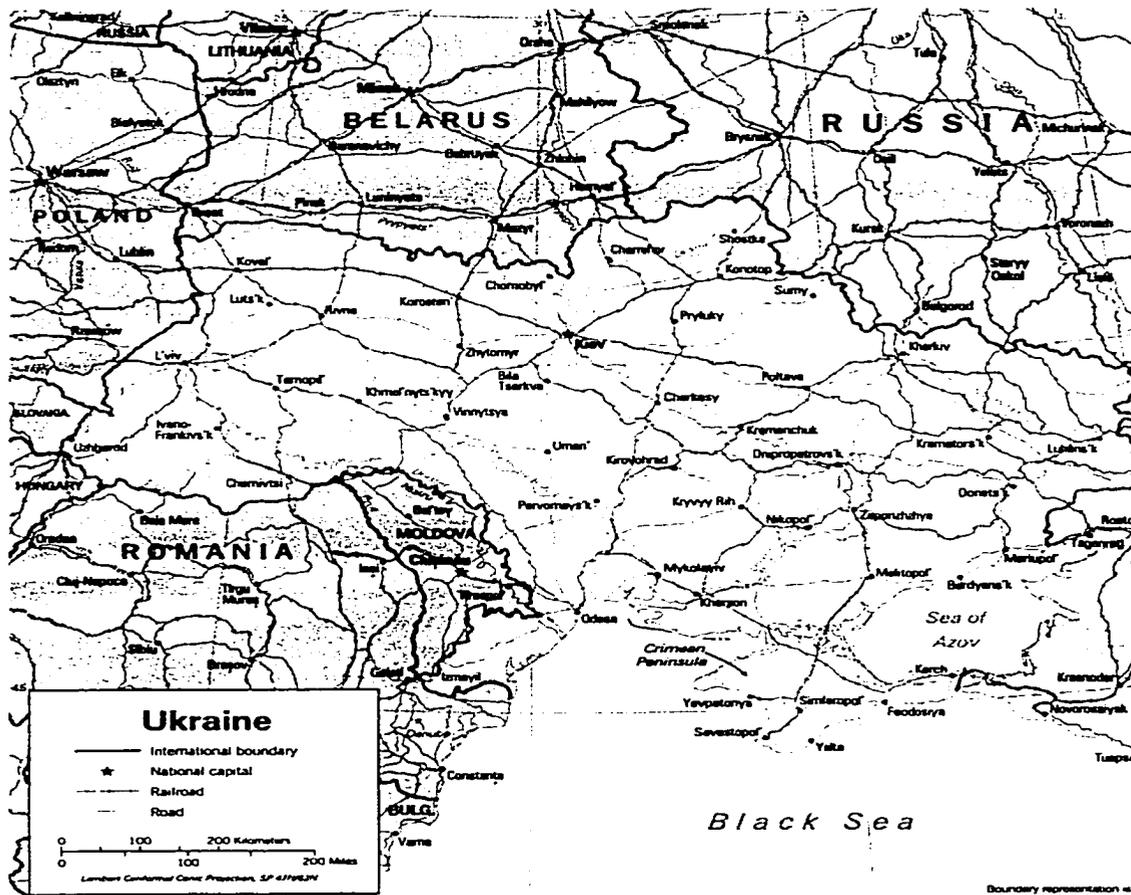


Figure 5.1: Map of Ukraine

On the security dimension, RSAs that lead to mutual vulnerability indicate a relationship based on autonomy. Furthermore, Ukraine has no imminent threats that would require security assistance from Russia or any other state. Even in the event of a threat, Ukraine has a vast military arsenal to defend itself. However, the same pressing economic concerns that led Ukraine to sell the Black Sea Fleet to Russia resulted in Ukraine leasing to Russia the Fleet's Crimean homeport (hypothesis 1). Unable to use the base itself and with no other interested renters, Ukraine's best strategy was to collect rent from Russia, even if this meant entering into a security hierarchy. The fact that the port is on the Crimean peninsula, a region dominated by Russian nationals, lowered the potential political cost of hierarchy.

History and Culture of Ukraine

The word *Ukraine* means borderland. The state is well named given that it “lies on the southeastern edge of Europe, on the threshold of Asia, along the fringes of the Mediterranean world, and astride the once important border between sheltering forests and the open steppe.”²⁸³ Political borders have shifted frequently over the years, making modern Ukraine an amalgam of parts that once belonged to other states, empires, and duchies.²⁸⁴ The differences between regions, in terms of culture, language, and economics; great power battles and struggling for freedom from those powers; and Ukraine’s relationship with Russia all remain salient issues for Ukrainians. These are important factors for understanding the political boundaries within which Ukrainian state leaders must operate.

Despite the numerous ethnic groups that have fought over and occupied Ukraine, most of the 52 million people living there today are ethnically Ukrainian (72 percent) with Russians (22 percent) comprising the second largest group.²⁸⁵ The percentage of Russians steadily increased during the Soviet period; in 1939, they had comprised only 12 percent of the population. Ukrainians are fairly well spread throughout the country, and are a majority in all regions, except the Crimean peninsula where Russian nationals comprise 67 percent of the population. The western regions tend to be more cosmopolitan and to have lower percentages of Russians than the eastern regions. Other major groups in Ukraine include Jews, Belarusians, Moldovans, Bulgarians, Poles, Hungarians and Romanians, each with over 100,000.²⁸⁶

²⁸³ Subtelny 1994, 3.

²⁸⁴ Nearly all of the information on Ukraine’s early history is based on Subtelny’s extensive narrative (1994).

²⁸⁵ The ethnic mix in Ukraine underwent a significant transition after World War II. Stalin evacuated to Central Asia the nearly 650,000 Germans as well as the Crimean Tatars. In the 1930’s, Ukraine’s Jewish population numbered about 2.7 million. Only about 800,000 survived the evacuations and population exchanges. Information on ethnic groups in Ukraine is from Shaw and Bradshaw, 11-14; and Subtelny 1994, 483-484.

²⁸⁶ Regional variations reflect the centuries-long battles over Ukrainian territory. For example, the western part of the Odessa district was part of Romania before 1940. Living there today are about 145,000 Moldovans, who can be considered “Romanians culturally influenced by centuries of contact with Ukrainians” (Shaw and Bradshaw 11). Bordering Hungary and Slovakia is the Zakarpatskaya district where 155,000 Hungarians reside. This territory belonged to Czechoslovakia between World Wars I and II and was annexed by Hungary in 1939. Several western districts once belonged to Poland and now have relatively large ethnically Polish populations.

The Political Landscape Before and Since Independence

Unlike some of the former Soviet states in which there was little interest in independence, the Ukrainian political opposition began pushing toward independence before the Union's collapse.²⁸⁷ In 1990, with signs that the Soviet Union's survival was in doubt, the Communist Party opposition was emboldened and impassioned. In the March 1990 elections to the Ukrainian Supreme Soviet, the democratic opposition won 27 percent of the seats despite being given only one month to campaign. Under pressure from the Ukrainian Popular Movement, known as Rukh, the Supreme Soviet overwhelmingly supported a declaration of sovereignty in July 1990; the vote was 355 to 4. This dramatic act led to the resignation of the Ukrainian Communist Party first secretary and the head of parliament. Leonid Kravchuk, a former ideological secretary of Ukraine's Central Committee who would later win the presidential election, took over as parliamentary leader while a known hard-liner became the first secretary.²⁸⁸ This new team responded aggressively to the opposition movement. "Demonstrations near parliament were banned; troops were massed outside of Kiev; the communist majority in parliament changed procedures and restricted the opposition's use of the air waves; administrative obstacles were raised to thwart the work of democratically-controlled regional and local soviets; and a radical nationalistic deputy...was arrested in a crude provocation."²⁸⁹ In October 1990, students and then workers demonstrated against the government; this eventually led to the resignation of the Council of Ministers chairman who was replaced by a pro-reformer.²⁹⁰ While the Communist leaders in Kyiv were being replaced, Rukh condemned the Communist Party and advocated Ukrainian independence, not just sovereignty.²⁹¹

²⁸⁷My discussion of pre-independence period draws heavily on Motyl and Krawchenko, 246-254.

²⁸⁸ Stanislav Hurenko is the "known hard-liner."

²⁸⁹Motyl and Krawchenko, 249.

²⁹⁰ Vitalii Masol was the chairman of the Council of Ministers who resigned; he was replaced by Vitold Fokin.

²⁹¹ These terms had different meanings in debates and declarations throughout the Soviet Union. In general, sovereignty indicated freedom to make decisions, but did not mean departure from the Union. While a call for

As the handwriting on the wall became clearer, the political elite began to realign. The power was clearly shifting from the USSR and the centrally controlled Communist Party to the Ukrainian state. Members of the Party no longer voted as a single, coherent bloc. This shift in the power locus "served to factionalize the party elite and draw a sizable number of its members, namely, enterprise directors, government ministers and the like, into a group popularly called 'the centrists' or 'communists-sovereignists.'"²⁹² Jumping on the bandwagon, Kravchuk suddenly supported independence. Like many leaders in the newly independent states, Kravchuk had risen through the Party ranks and was not known for being a reform leader.²⁹³ He altered his strategy when faced with new information indicating that his earlier policy positions now threatened his political survival. This is consistent with my assumption that state leaders prefer to remain in political office and will often adjust their policies to attain this goal. In November 1990, his popularity in Kyiv was extremely low, but by June 1991, after embracing independence, polls showed him to be the top choice for President. In contrast, the Communist Party first secretary received less than one percent of the support.

In March 1991, the USSR's central government submitted a referendum to each republic asking citizens whether they wished to remain in the USSR as part of a new federalist state. In Ukraine, the republic's leadership added the question of whether this new Union should be based on Ukrainian sovereignty, leaving the exact definition of sovereignty unclear. The Kravchuk government argued aggressively for support on both questions, and got it: 70 percent of voters supported the USSR's question; 80 percent supported Ukraine's.

In the aftermath of the failed coup in Moscow, Ukraine formally declared independence on August 24, 1991. Throughout the remainder of 1991, the parliament and Kravchuk began putting into

sovereignty was a relatively radical demand in a highly centrist state, it did not go as far as demands for independence.

²⁹²Motyl and Krawchenko 1997, 253.

²⁹³ Kravchuk had been the chairman of the Ukrainian Supreme Soviet. He was born in 1934 in Volhynia, then part of Poland. Kravchuk attended a technical school and then went on to receive an advanced degree in political economy at the prestigious Kyiv University. In 1960, he entered the oblast party apparatus, eventually becoming head of the ideology department. He was promoted to the Central Committee in Kyiv in 1970. Ten years later, he had become the head of the Agitation and Propaganda Department. By 1989, he was a candidate member of the Ukrainian Politburo and the Central Committee secretary in charge of ideology. In June 1990, he

place the institutions of an independent state. Laws were passed to nationalize USSR property, to gain jurisdiction over economic trade, and to develop a national bank and a separate currency. In the security sphere, the government declared possession of Soviet military assets on its territory, most notably nuclear weapons and the Black Sea Fleet, and took control of the military forces. On December 1, 1991, the public overwhelmingly voted in favor of the declaration of independence. The referendum coincided with the presidential election. Kravchuk won the election, becoming Ukraine's first independent president.

At the time of independence, the Supreme Rada, Ukraine's parliament, comprised a group of conservative ex-Communists, the pro-reform and -independence Rukh movement, and a large number of centrists. Kravchuk's strategy was to rely extensively on the former Communist apparatchiks and "to incorporate elements of [the nationalist democrats] into his governing coalition. Kravchuk could not ignore the former Communists, as they represented the only genuine political class in the country."²⁹⁴

Political rhetoric in Ukraine split along two lines: pro-reform and pro-subsidies. Like pro-life and pro-choice, these labels both sound appealing. Reform proponents have focused on the benefits of moving toward Western ideas and institutions and leaving behind the Communist economic system and all of its inherent flaws. However, when a political leader focuses on pro-market reforms, he is left vulnerable to the charge of being callous about the economically devastated population. The pro-subsidy argument is that industrial enterprises as well as the general population need subsidies to survive. At election time, this is a particularly salient argument. As a result of the large percentage of Communists and neo-communists, Kravchuk's administration moved very slowly on privatization and other reforms. The executive and legislative branches were often at odds over reform, with Kravchuk pushing toward a market economy and the parliament dragging its feet. The outcome was an economic policy of *gradualism*.²⁹⁵

was the CPU second secretary, and one month later, the chair of the Ukrainian Supreme Soviet (Motyl 1995, 108-110).

²⁹⁴ Motyl 1995, 118.

²⁹⁵ *Gradualism* and *shock-therapy* were considered two ways of reforming Communist states. *Shock-therapy* called for quickly liberalizing prices, economic activity, and foreign trade and stabilizing the currency, while *gradualism* called for doing this over an extended period of time. After the Soviet collapse, Western specialists

Immediately before and after independence, the government enacted numerous market reforms which it balanced with subsidies. It allowed prices to adjust through market mechanisms while simultaneously increasing subsidies and the money supply. Producer prices rose an average of 125 percent between 1990 and 1991. Retail prices rose by about 84 percent during the same time and then jumped 137 percent the following year. The 1991 state budget included a deficit of about 14 percent of GDP, primarily because of high expenditures which had risen to around 47 percent of GDP. State subsidies increased by more than 5 percentage points of GDP, particularly for the defense industry, food, coal, and housing, transport, and other services. Ukraine used bank financing to cover the deficit, bringing the State debt equal to 20 percent of GDP.²⁹⁶ The money supply accelerated sharply in 1991. During 1990, broad money (M2) rose by 78 percent, and credit to enterprises and other domestic customers rose 145 percent. The National Bank's efforts to tighten monetary policy were consistently undermined by the Parliament which voted for relaxed credits, particularly in the agricultural sector.²⁹⁷ Ukraine also imposed export tariffs on 103 commodity groups plus a "special export regime" for other items, including coal, benzene, minerals, and grains. Further price liberalization in 1992 combined with lax fiscal and monetary policies led to hyperinflation. In 1992, the annual rate was 1,400 percent. It climbed even further the following year, reaching an astonishing 5,000 percent.²⁹⁸ Privatization moved slowly, frequently blocked by the Supreme Rada. At the end of 1993, as presidential elections neared, almost 95 percent of industrial enterprises were still state-owned.²⁹⁹ As the 1994 presidential election season arrived, it became clear that Kravchuk was in trouble. The economy continued to nose-dive, as shown in 5.1, even as other FSU states had finally begun to recover.

heatedly debated which path was best for the states' economies. Most analysts now argue that shock-therapy is more likely than gradualism to lead to a quick recovery and increased foreign direct investment. For arguments on this point, see Hoen 1996; Kaminski and Wang 1997; and Schroeder 1997, 246. The chart showing the relationship between liberalization in the first three years and IMF/World Bank assistance is particularly interesting (Kaminski and Wang, 293). For examples of the early debate, Shroeder suggests Brada 1993 and Murrell 1993.

²⁹⁶ IMF *Ukraine* 1992, 4-6.

²⁹⁷ Economist Intelligence Unit, 1995, 27.

²⁹⁸ McCarthy, et al, 2. While 5,000 is obviously very high, it does not win the prize for highest inflation rate in the FSU. With 14,000 percent annual inflation in the early post-Soviet period, Tajikistan wins that prize.

²⁹⁹ Economist Intelligence Unit, 1993/94.

Table 5.1: Growth in Ukraine's Net Material Product by Sector, Compared to the Previous Year

Sector	1990	1991	1992	1993	1994
Agriculture	-7.0	-18.8	-10.2	-6.8	-22.8
Industry	-.6	-8.2	-20.6	-19.6	-28.5
Construction	.5	-7.0	-45.7	-19.5	-37.5
Others	-6.2	-18.9	-38.4	-19.0	-13.6
Total	-3.4	-13.4	-20.2	-14.3	-24.5

Sources: World Bank and IMF, as reported in The Economist Intelligence Unit, 1996.

With the economy in serious decline, Ukrainian voters sought political change. In July 1994, the Ukrainians elected Leonid Kuchma, the former prime minister, as their new president. In stark contrast to the 1991 elections, Kravchuk swept the western regions, but lost overwhelmingly in the east. The regional split was apparently based on voters' perceptions of how the candidates would interact with Russia. Kravchuk was seen as pro-Western and Kuchma as pro-Russian. Voters in eastern Ukraine saw Russia as their only economic savior and voted accordingly.³⁰⁰

The voters turned out to be wrong about Kuchma. Since his election, he has focused on moving privatization and other reforms forward and working with the IMF and Western businesses and governments. Kuchma began his tenure by trying to keep the budget deficit below 7.3 percent of GDP, as agreed with the IMF. However, Ukrainian agriculture was still heavily reliant on state purchases. As harvesting time arrived, the government found itself short of funds. The Supreme Rada voted to release large credits for agricultural procurement, pushing the government into a budget deficit equal to 16 percent of GDP. Concerted efforts to reduce spending led to a year end deficit of 8 percent of GDP.³⁰¹

The new parliament remained an obstacle to economic reform. The 1994 elections put 173 of 400 seats in the hands of the Communist, socialist, and peasant parties – all pro-subsidy groups. The center won about 136 seats. On the progressive, pro-reform end of the spectrum was Rukh with 27 seats and the more extreme Statehood party with 30 seats. About 34 deputies identified themselves as

³⁰⁰Economist Intelligence Unit, 1996.

³⁰¹ Ibid. 6, 30.

having no faction or party affiliation.³⁰² The Parliamentary Speaker, Oleksandr Moroz, was particularly combative and resistant to economic reforms.

In spring 1995, Kuchma replaced his conservative prime minister with the more pro-reform Marchuk. The Rada continued to delay privatization. To break the parliament's hold on the executive, Kuchma suggested introducing a *Law on Powers*. At this time, the government still had not passed a post-independence constitution. The Law would have expanded the president's powers at the expense of the Rada's. Following a long bargaining period, Kuchma agreed to a compromise, temporary constitution in June 1995. The temporary agreement, which gave the president special powers, was to govern until a permanent constitution could be adopted.

As part of the compromise, Kuchma agreed to moderate his privatization program. Kuchma appeared to be using a strategy of paying off the anti-reform interests by forming what are called Industrial-Financial Groups. While information on these groups is sketchy, they apparently tie together Russian and Ukrainian industrial enterprises in that were once part of the same production line. These linkages would enable the military-industrial enterprises to survive without having to compete in the international market. The government then helped support these groups, essentially buying off their support for privatization.³⁰³ In addition, key reformists in the ministries were demoted while ministers with connections to industrialists were promoted. Meanwhile, parliament became more unwieldy, from the president's perspective. Strong pro-reformers were frustrated with the slow pace of reform and started abandoning the president.³⁰⁴ The government submitted a 1996 budget with a deficit at 6 percent of GDP and continued to push for reduced energy subsidies to consumers. As of early 1996, consumers were paying 60 percent of their utilities costs. The Parliament amended the budget to include increases in public-sector salaries and welfare payments, putting the deficit well over 6 percent of GDP.

³⁰²Economist Intelligence Unit 1995; Kuzio, 8-11; These numbers are just indicators, as deputies can, and do, easily change their faction and/or party identification.

³⁰³Kuzio, 210-213.

While reform has not been as rapid as many Western states and institutions advocated, Ukraine has been able to attract international and national assistance. As I discuss in a subsequent section on relation specificity, this means that Ukraine has not been as reliant on Russia for economic assistance, one of the primary benefits of hierarchy, as it might have been without aid from other sources. With other partners from which to choose, Ukraine has not had to bend to the will of Russia.

Economic Overview of Ukraine

At the time of the Soviet Union's collapse, the Ukrainian economy was characterized by two dominant features: first, it was thoroughly integrated into the Soviet system. With its vital role in the military-industrial complex, Ukraine's economy "was the most tightly controlled and closely supervised" economy of the FSU republics;³⁰⁵ and, second, Ukraine was considered by most experts to have a promising future as a market economy.³⁰⁶ With industry contributing 42 percent of net material product (roughly, the Soviet equivalent of GDP) and agriculture accounting for 30 percent in 1991, Ukraine's economy was diverse.³⁰⁷ It had "the most favorable conditions and resources for diversified economic development" (aside from Russia) given its "well developed industrial, agro-industrial, and scientific-technical base."³⁰⁸ Despite these glowing predictions, Ukraine's economy has not done well. Since independence, the economy has declined rapidly. "According to official statistics, total output declined by about 14 percent in 1992 and 18 percent in 1993. Industrial output is estimated to have fallen by almost 40 percent in the first half of 1994. Real GDP in 1993 was less than 60 percent of its 1989 level."³⁰⁹

³⁰⁴ This group was strengthened when the Agrarians split over reform. In 1995, the faction broke into the Agrarians for Reform and the anti-reform Agrarians of Ukraine. The discussion on Kuchma's battle with the reformers is from Economist Intelligence Unit (1996), 6-7

³⁰⁵ Shen xi.

³⁰⁶ A note on the statistics to follow: Statistics from the FSU do have to be taken with a grain of salt. As The Economist Intelligence Unit says, "Ukrainian economic statistics are often unreliable, incomplete, or contradictory" (1993, 10). Nevertheless, they do give us some indication of the state of affairs and virtually everyone uses them. even after reporting how unreliable they are. I am no exception.

³⁰⁷ World Bank *Statistical Handbook: States of the Former Soviet Union* 1995, 525.

³⁰⁸ Lukinov 1992, 23.

³⁰⁹ McCarthy, et al, 2

Even relative to the other republics, the Ukrainian economy had been suffering for the last two decades before the Soviet collapse. The national income growth rate was the third lowest among the 15 republics; it was the fifth lowest in industry and the lowest in agriculture. The reasons for this poor performance included low investments from the center, obsolete capital stock, and uncompensated income transfers to the center and other republics.³¹⁰

Ukraine, like most of the non-Russian states, conducted almost all of its trade with fellow members of the Union as opposed to foreign states. For Ukraine, more than 80 percent of its total imports and exports were with other Soviet republics. About 70 percent of that trade was with Russia. In addition to oil and gas, the majority of their trade was in the industrial sector. Within industry, the machines and metalworking subsector was particularly strong. According to Ukrainian authorities, in 1989, a full 50 percent of Ukrainian exports and 41 percent of imports were in the machines and metalworking subsector.³¹¹ Of that total, about 85 percent of exports and imports in this subsector were with other republics in the Union, as opposed to foreign markets. Ferrous metallurgy gave Ukraine its highest positive trade balance of the various sectors, bringing in a net balance of 6.2 billion rubles; machines and metal working followed with 2.1 billion rubles. Despite Ukraine's reputation as the breadbasket of the former Soviet Union, agriculture had a positive balance of only .2 billion rubles.³¹² The clear loser in the trade balance sheets was the oil and gas industry. With imports totaling 10.7 billion rubles and exports at 1.5 billion, Ukraine had a negative balance of 9.2 billion rubles. The bulk of these imports—99 percent—came from within the Union, nearly all from Russia.

Russia's and Ukraine's economies were so intertwined, a regional specialist predicted that "A collapse or serious disruption of inter-industry linkages among Russia and Ukraine will cripple the entire economy of these states and of all the others as well."³¹³ However, the degree to which they were

³¹⁰Koropeskyj, 6-7.

³¹¹ The conversion to world prices is a somewhat crude way of correcting for the price distortions during the Soviet period. While the IMF also provides domestic prices, the world price estimates are better indicators of the challenges the new States face in the post-Soviet period.

³¹²IMF, Ukraine, 1992, Table A23. Agricultural exports accounted for .8 billion rubles while imports totaled .6 billion rubles.

³¹³ Dienes 1993, 510.

dependent on each other at the time of collapse was not a clear predictor of the future. The ease with which each state could replace its dependencies would determine how important the linkages were.

Relation Specific Assets Lead to Mutual Vulnerability

Ukraine and Russia are mutually vulnerable due to key RSAs in the high-profile energy and military-industrial sectors. Within the energy sector, the two states are heavily dependent on each other in the following ways: (1) Ukraine is heavily reliant on low cost fuel from Russia, (2) Ukraine requires Russian crude oil as an input to its refineries, (3) an important contribution to Ukraine's economy are pipeline transit fees paid by Russian energy companies, and (4) Russia requires access to the oil and gas pipelines that run through Ukraine into Europe.

Ukraine has virtually no oil and gas on its territory, a problem for any state, but particularly for one dominated by an energy-intensive industrial sector. In 1993, according to a World Bank report, Ukraine exported oil and gas valued at only 182 billion karbovanets (the local currency at the time), while importing fuel valued at 24 trillion karbovanets.³¹⁴ Ukraine, like its FSU siblings, is highly energy intensive compared to the West. The Soviet Union's "energy intensity was 70 percent higher than that of the United States and about 2.5 times that of Western Europe...The iron and steel industry, for example, requires about 50 percent more energy per ton of iron output than is required in the United States."³¹⁵

Nearly all of Ukraine's oil and natural gas is imported from Russia, as was the case under the Soviet system. In the early 1990's, over 90 percent of Ukraine's imported oil and 79 percent of the natural gas came from Russia.³¹⁶ While there has been a slight decline in the percentage of fuel coming from Russia, Russia remains the dominant partner. Furthermore, continuing a practice from the Soviet days, Russia charges below world market prices to its FSU customers. In 1995, for example, Russia

³¹⁴ Up through 1991, Ukraine used the ruble. In 1992, it introduced karbovanets. The current currency is the hryvna. The World Bank *Statistical Handbook* 1995, 534-535.

³¹⁵ Energy intensity is defined as the ratio of primary energy consumption to GNP. Office of Technology Assessment, 35.

charged \$107.5 per ton of crude oil exported outside the former Soviet Union. Within the FSU, the figure was only \$73.9. Even at below-market prices, Ukraine has built up significant oil and gas debts during the post-Soviet period. Ukraine's debts to Russia for gas in 1993 totaled \$2.5 billion; in 1994, the figure was \$1.5 billion. By July 1995, Ukraine already owed Russia \$1 billion for gas that year alone. More recently, in July 2000, Gazprom claimed that Ukraine owed more than \$2 billion, while Ukraine maintained that the debt was \$1.4 billion.³¹⁷ In either case, this is a significant debt. World market prices, along with the lack of pipeline networks to other oil producing nations, make the international arena a much less desirable source for Ukraine. While this could theoretically be changed with a policy decision, Ukraine can ill afford world market prices for fuel. As long as Russia continues its practice, Ukraine will most likely prefer Russian oil over other sources at full market price. However, Russia can at any time choose to charge world market prices. Given its strong market position in Ukraine, Ukrainian leaders must be concerned about their state's vulnerability to Russia.

Not only does Ukraine rely on Russian oil and gas for domestic industrial needs, but it also requires the crude oil imports to keep its six refineries working to capacity. Since it lacks its own crude oil resources, Ukraine must rely on imported crude. Ukraine sells the refined products for industrial and other domestic customers as well as exporting some to other markets in the FSU. Since the pipeline structure is designed to carry Russian crude oil to Ukraine, Russia is the obvious supplier. Without Russian supplied crude oil, Ukraine would not be able to continue refining and selling (or bartering) fuel for exports and domestic use. Until Ukraine can build a pipeline connecting it to other suppliers—an expensive project—it is reliant on Russian crude.

Many analysts have focused on Ukraine's reliance on Russian fuel. But if Ukraine is so beholden to Russia, then why hasn't Russia used its power position to force Ukraine into a hierarchy? The reason lies in Russia's mutual reliance on Ukraine. As much as Ukraine needs Russia's low-cost fuel, Russia needs Ukraine's export pipelines. Russia is largely dependent on Ukraine to move Russian oil and particularly natural gas through the vast network of pipelines traversing Ukraine and carrying

³¹⁶ International Labour Organization 1994.

fuel into the more lucrative markets in the West. As discussed in the theory chapter, these pipelines are highly relation specific. They are site specific, physically specific, and dedicated assets. Given the value of the product that they carry, they are Ukraine's most important source of leverage in its relationship with Russia.

The largest oil pipeline crossing Ukraine is the Druzhba (*Friendship* in Russian) pipeline, with a capacity of 1.2 million barrels per day. Druzhba carries crude oil to Slovakia, the Czech Republic, Poland, Hungary, and Germany. While Russia exports oil via 3 ports on the Black Sea and in each of the three Baltic states, the Druzhba pipeline alone carries about 30 percent of Russian oil exported outside of the former Soviet region. No other single pipeline carries as much. In 1998, the pipeline carried 1.03 million of the 3.08 million barrels per day exported by Russia to non-FSU states.³¹⁸

Ukraine is also home to the most significant export route for Russian natural gas, increasing Russia's dependency on Ukraine. At the time of the Soviet collapse and as recently as 1999, 90 percent of Russian natural gas was exported through Ukraine.³¹⁹ The Bratstvo (*Brotherhood*) and Soyuz (*Union*) gas pipelines, both of which carry Russian fuel to Europe, have a capacity of one trillion cubic feet each. To put this into context, Russia exported about 7 trillion cubic feet in 1997, including to former Soviet states.³²⁰ With a total 2 trillion cubic feet capacity, these two pipelines are critical to Russian exports. The European region that the Ukrainian pipelines serve has grown significantly as Russia's major customer base, with the share of net exports rising from 53 percent in 1992 to 89 percent in 1998.³²¹ Belarus is home to the next most important pipeline—the Northern Lights. With a capacity of .8 trillion cubic feet, Northern Lights is a valuable but less important conduit for Russian fuel.

One of the single most powerful players in the Russian economy is Gazprom, a joint stock giant that is majority-owned by the state. One of the largest companies in the world, Gazprom controls

³¹⁷ RFE/RL Newswire, "Bilateral Commission To Tackle Ukraine's Gas Debt To Russia." July 20, 2000.

³¹⁸ EIA-Russia.

³¹⁹ Sagers 1993, 389; EIA-Russia web site.

³²⁰ It is unclear how much of this went to Europe. <http://www.eia.doe.gov/emeu/iea/table42.html>. Last accessed in September 2000.

³²¹ EIA-Russia web site: <http://www.eia.doe.gov/emeu/cabs/rusexp.html>. Last accessed in July 2000; site last updated July 1999.

about 35 percent of the *world's* known gas reserves. It controls all gas production, processing and pipeline assets in Russia. Its output is equivalent to an estimated 8 percent of the Russian GDP and the value of sales, for 1996, was estimated at about \$30 billion. Through export earnings, it supplied more than half of Russia's hard-currency earnings, and paid about \$4.5 billion in annual direct and indirect taxes. The company directly employs more than 300,000 people and about 3.7 million jobs depend on its economic activities. Gazprom owns more than 140,000 km of pipeline.³²² If it were in full compliance—which it is not—Gazprom would be paying about 25 percent of Russia's total taxes.³²³

While Russia is highly dependent on Ukraine for export routes, Ukraine needs Russian fuel to fill these pipelines so that it can extract transport fees. With no other customers to transport fuel, including itself, Ukraine would lose an important income source should Russia find alternative routes.³²⁴ Russia actually rarely pays the fees, however, as Ukraine instead applies the payment due toward its oil and natural gas debts to Russia. Without Russian fuel coursing through its pipelines, Ukraine would have vast excess capacity with low second-best value for the pipelines—a classic relation specific asset problem. Hierarchy does not result, however, because the reliance is mutual.

While the energy sector is marked by mutual reliance, the military-industrial sector is marked more by one-way reliance. Indeed, it is the primary arena in which Ukraine is dependent on Russia. While the two states were mutually dependent during the Soviet era, in a time of declining military equipment sales and a glut of Soviet weapons on the international market, Russia no longer requires components from Ukraine. Russia is able to independently manufacture and assemble most of the weapons in demand.

During the Soviet period, dependency in the military-industrial sector within the Ukraine-Russia dyad was mutual. Ukraine was home to about 15 to 30 percent of the Soviet military-industrial

³²² Heiko Pleines, "Russia's Gazprom: A Brief Portrait," on Pipeline News, October 1996.

³²³ "Russia: Government Pressure On Gazprom To Pay Taxes May Bring Results." July 3, 1998.

³²⁴ Transport fees change frequently but are infrequently reported, as are any details on how much Ukraine collects from Russia. As such, I was unable to determine how much money Ukraine earns from the oil and gas transit fees. This may in part be because Ukraine never actually collects the money, instead using credits to pay off debts. In any case, the fees are generally considered to be an important income source for Ukraine.

complex.³²⁵ It had around 700 plants, including five major shipyards, numerous major component producers, four missile assembly plants, two electronics assembly plants, and two aircraft assembly plants. The Ukrainian government estimated that 500,000 workers were directly employed in the military-industrial sector and another million indirectly employed in the sector.³²⁶ Ukraine was a major center for making military components which were then assembled in Russia. This relationship worked in both directions. Russia also made components which were then assembled in Ukraine. As such, the two republics were mutually reliant on components and subcomponents for their respective assembly plants.

It is difficult to obtain precise information on just how much of Ukraine's industry was military-related. This information was tightly held during the Soviet period and detailed information remains hard to locate. Nevertheless, the general picture is clear: military components were an important Ukrainian export to Russia.

...37.8 percent of Ukraine's total exports in 1989 were listed under the machine building category. Within that category of exports, 87.7 percent was destined for interrepublic markets. Although a more detailed categorization of such exports was never made public, it was public knowledge that a high proportion of Ukraine's 'machine building' exports consisted of military hardware and components thereof. That is, Ukraine inherited an economy whose export sector depended heavily on military products for which demand had slackened dramatically.³²⁷

President Kravchuk highlighted the dependency problem in the following quote. ³²⁸

Two aspects of the Soviet legacy deserve particular attention....First, 90 percent of Ukraine's 'domestic' product was...brought to 80 percent completion in Ukraine, and then sent [most often] to Russia for the final stages of production. A third of the USSR's military-industrial complex was situated in Ukraine, accounting for 2.5 million jobs. Second, it should be kept in mind that this product was not sold on any market, it was simply delivered. Once the Soviet system fell apart, the orders dried up, and Ukraine's economy plunged into crisis.

While many of the production and assembly capabilities in Ukraine were also found in Russia, Ukraine had a few production facilities that were unique within the Soviet Union. Two facilities

³²⁵ The percentage depends on the source. The CIA (1993, 7) estimates 15 percent, while Kravchuk estimated 30 percent, as reported in Shen, 33.

³²⁶ Information on the number of facilities and employees is from CIA 1993, 7.

³²⁷ Shen, 40.

produced nuclear weapons: Dnipropetrovsk's Southern Machine-Building Plant was the sole producer of the SS-18 ICBM, and a plant in Pavlohrad was the sole final assembly plant for the SS-24 ICBM. Aside from these nuclear facilities, Ukraine's unique capabilities included a shipyard for building aircraft carriers, located in the southern city of Nikolayev, and a facility for building the SL-16 space launch vehicle.³²⁹

With the Soviet collapse, however, the market for components has fallen along with the demand for newly manufactured military equipment from the former Soviet states. With the end of the Cold War and the collapse of the new states' economies, few former Communist states can afford to build up their military forces. In late 1992, Ukraine's Minister of Engineering, Military Complex and Conversion, noted that there were no orders for military equipment from the Ukrainian Army, the Russian Defense Ministry, or from any of the other CIS members.³³⁰ In addition, the Conventional Forces in Europe (CFE) treaty requires former Warsaw Pact states to reduce their conventional equipment through destruction or sales. Since sales are a more attractive option than destruction, which is expensive, many states have opted to sell their equipment. As a result, the market has been glutted with Soviet manufactured equipment. Furthermore, most of Ukraine's capabilities that were unique within the Soviet Union involved nuclear weapons, the demand for which declined with the Strategic Arms Reduction Treaty (START) agreements. A decline in demand for military equipment, combined with the fact that Russia was more independent in this sector than Ukraine, has led to a significant reduced demand for Ukrainian-made components. Ukraine's vulnerability is exacerbated by the extreme obsolescence of Ukrainian heavy industries, making it difficult to find alternative markets for its inefficiently produced goods.

³²⁸Reported in Shen, 33. Originally from the *Ukrainian Weekly*, January 22, 1995: 3.

³²⁹ CIA 1993, 7; John Pike, Federation of American Scientists, <http://www.fas.org/nuke/guide/russia/industry/chemomorsky.htm>. Website last accessed in September 2000; site updated on August 24, 2000.

³³⁰Antonov, 140-141.

Electoral Data Is Consistent with the Relation Specific Asset Argument

Election data support the idea that those citizens most affected by RSAs should favor closer relations with Russia. Relatively reliant on Russian markets and inputs, managers and workers in industries marked by high relation specificity should favor continued positive economic relations with Russia. Citizens are not polled on questions such as, “Do you favor giving some decision making authority to Russia?” However, analysis of the 1994 Presidential election indirectly measures voters’ views about relations with Russia. If RSAs have some validity as an explanatory variable, voters in regions dominated by the military-industrial complex and/or highly dependent on imported Russian fuel should support candidates who favor closer relations with Russia. Not wanting to break the ties that bind due to RSAs, these voters should tend to favor a pro-Russian candidate. On the other hand, managers and workers who believe that their industries can survive, even flourish, without Russian ties would prefer a candidate who is pro-reform and not necessarily pro-Russian. The 1994 presidential election returns show a correlation between the military-industrial sector and support for the pro-Russian candidate.

Ukraine can be divided into three major economic regions, reflecting varying strengths and weaknesses in different sectors and subsectors: Donets-Dnieper, located near the Russian border; the Southwest; and the South. The Donets-Dnieper region is the primary military-industrial region. In Donetsk, Luhansk, Dnipropetrovsk, and Zaporizhyya, the coal, ferrous metallurgy, and heavy machinery branches combined accounted for 52% of aggregate industrial employment at the time of the Soviet collapse.³³¹ Dnipropetrovsk is known as a missile building district. The three steel-making citadels (Dnipropetrovsk, Donetsk, Zaporizhyya) consumed more than 42% of Ukraine’s natural gas. Kharkiv, also in the Donets-Dnieper region, is home to a large tank production factory as well as to enterprises that specialize in electronics and guidance systems. Any decline or delay in oil and gas deliveries, increased prices, or any other fuel interruption severely affects these regions in particular. These areas should support a pro-Russian candidate.

³³¹Dienes, 511-512; Sagers (1992), 508.

In contrast, the southwestern and southern regions are more agriculturally based and have a higher percentage of light and food industries than Donets-Dnieper. The southwestern region "usually ranks below the former USSR average in terms of the share of output represented by most heavy industrial sectors."³³² With fewer RSAs, they should be less interested in pro-Russia candidates. The 1994 presidential election data shows a correlation between regions with heavy industry and support for Russia. During the election, Kuchma was generally viewed as pro-Russian and Kravchuk as pro-Western. While it has been argued that this difference was exaggerated, there is strong evidence that voters perceived the candidates this way.³³³ Given this difference in political rhetoric, I would expect the eastern regions to most favor Kuchma and the west to favor Kravchuk. Electoral maps showing the breakdown in votes is consistent with this expectation. Furthermore, the industrialists were themselves divided in their support for the 1994 presidential candidates. This division shows a split based on whether the sector had successfully transitioned and was now making money on the international market. Those capable of quick transitions are sectors that have low relation specificity. One of the strongest lobbies for Kravchuk, the pro-Western candidate, was one such sector: metallurgy. "Donetsk steelmakers nominated Kravchuk for president and established supporter's clubs to re-elect him."³³⁴ Unlike much of the industrial sector, the metallurgical sector has been financially successful on the world market, earning about 70% of Ukraine's hard currency in the mid-1990's. The trade and chemicals sectors, also low in relation specificity, similarly supported the Western-leaning Kravchuk.

In contrast, the military-industrial complex, which tends to have relatively more RSAs, favored the pro-Russian Kuchma. The directors of these industries lobby as a group under the name of the Inter-Regional Association of Enterprises. This group was largely behind the efforts to slow Kuchma's privatization program. Dependent on state subsidies, these industries would be less likely to support the pro-reform candidate. Kuchma, on the other hand, had been director of Pivdenmash, the world's largest nuclear missile plant during the Soviet period. Located in Dnipropetrovsk, many of the Soviet

³³²Sagers (1992), 508.

³³³Kuzio, 39-43.

³³⁴Kuzio, 61.

Union's missiles as well as space launch vehicles were built here.³³⁵ Industrialists might have assumed that Kuchma would be sympathetic to the military-industrial sector and, therefore, pro-Russian. They threw their support behind Kuchma.

The presidential vote suggests that regions dependent on RSAs with Russia tended to support the pro-Russian candidate, Kuchma, while others tended to favor the pro-Western candidate, Kravchuk. I acknowledge that other factors could account for this difference. Since the highest concentration of ethnic Russians in Ukraine is in the eastern region, it could be that ethnicity rather than economic sector accounts for the vote. This seems less convincing, however, given the split among the industrialists. Those from the highly specific sector—military industrial—supported Kuchma while the less relation specific sectors—metallurgy, e.g.—supported Kravchuk. Still, since “being Russian” and “working in heavy industry” are linked, for reasons discussed in the history section that opens this chapter, it is impossible to be sure which variable accounts for the causal effect. Nevertheless, those claiming that ethnicity accounts for the voting patterns should take into account that citizens *may* be voting based on the economic sector they work in and the degree of relation specificity.

Geography as a Relation Specific Asset

Physical RSAs such as pipelines and power grids are easy to visualize. Another perhaps less obvious potential relation specific asset is geography.³³⁶ A state's geographic position can make it of vital importance to another state's economic or security strategy or, on the other hand, easily interchangeable with others. Lake uses the example of the American forward basing strategy in the Pacific. This “strategy required a chain of naval and air bases along the entire western fringe of the Pacific: any break in the chain threatened to undermine the entire strategy.” Only a small number of islands were suitable for forward basing; there was a “thin” market. The U.S. requirement then made it

³³⁵Potter, 9.

³³⁶ Lake 1996, and 1999.

dependent on these islands in a way that it would not have been if there were many islands from which to choose, or a “thick” market existed.³³⁷

Like the Pacific islands, Ukraine was part of a thin market. For Russia’s hierarchic customs union there were only a handful of states that were high priority members: Belarus, Kazakhstan, and Ukraine. Economic theory predicts that customs unions are more likely to be trade creating and welfare enhancing under the following conditions: the geographically closer the members state are to each other; the greater the number and larger the size of the members; the higher preunion trade barriers to member states; the lower the customs union barriers are to non-members; the more competitive (rather than complementary) the member economies are; and the greater is the preunion trade among potential members.³³⁸ The European Union has been a greater success than was the European Free Trade Association because the states “forming the EU were much more competitive than complementary, were closer geographically, and had greater preunion trade than the EFTA....”³³⁹

While Russian leaders may not have been particularly concerned about enhancing the welfare of non-member states, they were likely to have considered at least some of these factors in targeting prospective members for the customs union. In addition, Russian leaders would certainly have studied the EU case, as so many other state leaders have done, and be familiar with the standard economic arguments explaining its success. Of course, some of this is intuitive; it does not take an economist to figure out that geographic proximity is important, for example.

Beginning with the geographic criterion, Russia had seven contiguous neighbors to consider: Azerbaijan, Belarus, Estonia, Georgia, Latvia, Kazakhstan, and Ukraine. Of these, the most competitive economies, in terms of their industrial and agricultural mix, were Belarus and Ukraine. Georgia’s small economy and Azerbaijan’s civil war made them less attractive targets. Estonia and

³³⁷ Lake 1999 discusses the forward basing strategy in detail on pages 153-56; it is on page 169 that he discusses the Pacific islands as comprising a “thin” market.

³³⁸ Trade creating customs unions improve the welfare of not only the member states, but also non-member states. Non-member states benefit because the real income of the member states increases, enabling them to increase imports from the international market. See Salvatore 1995, 300-306, for information on trade creating customs unions; see pages 305-6 for the six factors that lead to trade creation.

Latvia's unequivocal pro-Western and anti-Russian stance made them highly unlikely candidates, particularly as long as the customs union was hierarchic. Pre-union trade is another important factor. As table 5.2 makes clear, Russian trade both before and after the Soviet collapse was highest with Belarus, Kazakhstan, and Ukraine. Note also that trade with these states relative to the other FSU states has become even more concentrated since independence.³⁴⁰

Table 5.2: Russian Trade with the Other Former Soviet States, as a Percentage of Total Trade, 1991 and 1994

	1991		1994	
	Exports	Imports	Exports	Imports
Armenia	3.5	2.8	1.0	0.5
Azerbaijan	4.9	5.8	1.1	1.3
Belarus	14.0	15.1	19.7	19.0
Estonia	2.0	2.5	2.1	1.8
Georgia	2.7	3.0	0.4	0.5
Kazakhstan	11.9	7.9	13.9	18.2
Kyrgyzstan	2.6	2.4	0.7	0.9
Latvia	2.8	3.6	4.0	1.8
Lithuania	4.3	5.9	4.6	2.5
Moldova	3.2	4.0	3.4	4.3
Tajikistan	1.2	1.5	0.9	0.8
Turkmenistan	1.9	2.9	0.7	0.5
Ukraine	37.1	33.1	42.5	40.1
Uzbekistan	7.8	9.4	5.0	7.8
TOTAL	99.9	99.9	100.0	100.0

Source: World Bank, *Handbook of Statistics 1995*. Pages 438-439 for 1994 statistics; for 1991, table 3-8 for each state, various pages.

Given the four criteria discussed above—geographic proximity, complementary economies, pre-union trade, and size—along with policy considerations which rule out the Baltic states, the obvious target partners for a successful customs union were Belarus, Kazakhstan, and Ukraine. Indeed, the

³³⁹ The EFTA was formed in 1960 by the United Kingdom, Austria, Denmark, Norway, Portugal, Sweden, and Switzerland. The founding members of the EU (formed in 1957 as the European Common Market) were West Germany, France, Italy, Belgium, the Netherlands, and Luxembourg. The quote is from Salvatore 1995, 306.

³⁴⁰ These figures, of course, do not reflect trade with non-FSU states. In 1994, Russia's major export destinations outside the FSU were Germany, the United Kingdom, Switzerland, and the United States, in that order. Combining both FSU and non-FSU states, Germany was second only to Ukraine. For imports, the top states were

Russian leadership spent considerable energy trying to woo these three states. Belarus and Kazakhstan quickly joined the union, but Ukraine resisted Russian pressures. In autumn 1995, in response to Kazakhstan's President Nazarbayev urging Ukraine to join the union, Kuchma responded that the union fails to meet "Ukraine's national interests and only strengthens Russian dominance in the region," according to ITAR- TASS.³⁴¹

Looking at the market from Ukraine's perspective, the market is thick—there are a relatively large number of economic partners from which to choose. In seeking assistance, Ukraine is not limited to an economic union with Russia. It can also gain benefits from international aid organizations, by attracting foreign direct investment (FDI), and by selling off assets in exchange for money, credits, or debt reduction. Ukraine, like other weak states, can evaluate the quantity and quality of benefits offered from each source relative to the degree of hierarchy demanded in return. If some hierarchy is part of the deal, the weak state leader will assess the likelihood of the hierarchy leader having similar policy preferences.

In the long-run, given the wealth of Western states and organizations and the dearth of economic assistance that Russia can offer, weak state leaders are apt to pursue Western third party assistance rather than sacrificing sovereignty to Russia. However, Russia may be able to offer immediate economic assistance that Western states do not. When transforming a centrally planned economy into a market economy, most former Communist states discovered that, in the short-run, the economy gets worse before it gets better. Russia was willing and able to offer immediate assistance that the Western states could not or would not offer. Some states also had assets they could sell for benefits. For this reason, a common strategy in the former Soviet Union has been to combine Western and other state assistance with immediate benefits from Russia.

Germany, the United States, Finland, the Netherlands, and Italy, in that order. See the World Bank *Handbook 1995*, 438-39, for the exact figures on Russia's trade relations.

³⁴¹Reported in OMRI Daily Digest, Sept. 21, 1995. Using a rather interesting strategy of persuasion, Nazarbaev assured "Kuchma that Kazakstan's participation in the union will not harm its ties with other countries, especially since, "like other CIS structures, the customs union has so far failed to work properly," Kazakhstan Radio reported the same day," according to the same OMRI report.

Both Kravchuk and Kuchma actively sought third party assistance, mostly notably from the IMF and World Bank. Ukraine was the first former Soviet state to apply for IMF membership.³⁴² However, given the continued power of the neo-Communists in the Rada, IMF-mandated reforms have been slow to occur or blocked altogether. Meanwhile, Ukraine continued to reap immediate benefits from Russian low-cost fuel and a relaxed payment schedule. In addition, Ukraine had significant assets it was willing to sell to Russia. While only useful in the short-run, this strategy had the effect of (somewhat) removing the immediacy of Ukraine's economic crisis.

Military Relation Specific Assets: Nuclear Weapons and the Black Sea Fleet

In the post-independence years, when Russia and Ukraine were not arguing over gas and oil debts, they were debating the ownership and monetary value of nuclear weapons and the Black Sea Fleet. These assets would later enable Ukraine to trade assets for cash and other economic benefits. When the Soviet Union died, Ukraine's nuclear force made it the third largest nuclear power after Russia and the United States. The inventory included over 2,500 tactical warheads and 1500 strategic nuclear charges. There were 130 SS-19 ICBMs, 46 SS-24 ICBMs, and about 40 strategic bombers (Blackjack–Tu-160, and Bear H–Tu-95). The bombers carried gravity bombs and nuclear-armed air-launched cruise missiles.³⁴³ In addition to the weapons themselves, Ukraine had other features of a nuclear state. The Technical Institute in Kharkhiv was the leader in developing automated equipment for nuclear installations. It also stored uranium enriched to 90 percent. Ukraine was home to 14 nuclear reactors, and had uranium mines, chemical plants for processing uranium ore, and the Soviet Union's principal heavy water production plant.

Ukraine lacked two key elements in the nuclear fuel cycle: uranium enrichment and plutonium reprocessing capabilities, both of which Russia had. In addition, Ukraine also lacked a missile flight test range and site for nuclear weapons tests, both of which Kazakhstan had. Ukraine also lacked the operational codes to the nuclear weapons and therefore could not launch them. Both Russian and

³⁴² RFE/RL Newline, "Ukraine Applies For Membership In IMF." Jan. 2 1992.

³⁴³ Potter 1995, 8.

Western experts estimated that it would take Ukraine about 9 months to a year to break the old codes and create its own.³⁴⁴ Until Ukraine could break the codes, then, the nuclear weapons were RSAs. For the weapons to function as military assets, Ukraine needed Russia.

After its nuclear weapons, Ukraine's most important military asset was the Black Sea Fleet. Sevastopol, on the Crimean peninsula, was the headquarters for the Fleet under the Russian empire; it remained the Soviet fleet's home. At the time of the Soviet collapse, the fleet consisted of 28 submarines, 46 principal surface combatants, 100 patrol and coastal combatants, 60 mine warfare and 15 amphibious craft, along with miscellaneous other craft. Naval aviation attached to the Fleet included 151 combat aircraft, 85 combat helicopters, 126 bombers, 25 anti-submarine warfare aircraft, 32 electronic warfare aircraft and helicopters, 5 mine countermeasure aircraft, and 3 tanker aircraft. There was also a brigade of naval infantry with 265 armored personnel carriers plus 270 main battle tanks and 320 armored infantry fighting vehicles as part of a coastal defense unit.³⁴⁵

Shortly after declaring Ukraine's independence, President Kravchuk stated that the Crimean Peninsula would remain Ukrainian territory, despite the large percentage of ethnic Russians and Russian claims that it should be returned to Russia. If Crimea was now part of independent Ukraine and the Black Sea Fleet resided at a Crimean port, but the troops and officers manning the Fleet were Russian, then was the Fleet Ukraine's property or Russia's? Kravchuk, his administration, and much of the parliament took the position that the Fleet belonged to Ukraine and if Russia wanted the Fleet, it would have to bargain for it.³⁴⁶

In their military capacity, the nuclear weapons and the Fleet were RSAs with mutual vulnerability. They were high cost military systems which neither state could afford to reproduce on its own. Ukraine could not build its own nuclear weapons nor a new fleet. Ukraine relied on Russia for

³⁴⁴ RFE/RL Newline, "Stepashin Claims Ukraine Trying To Retarget Nuclear Weapons," May 19, 1993.

³⁴⁵ Details on the military equipment and personnel attached to the Black Sea Fleet comes from the IISS's *Military Balance, 1991-1992*.

³⁴⁶ As an interesting side-bar, Moscow's Mayor Yuriy Luzhkov has argued that Sevastopol remains Russian land, as it was never given to Ukraine. When Khrushchev handed Crimea over to Ukraine, "'after a drinking binge, Sevastopol was turned into a separate administrative entity and was not handed over to Ukraine.'" RFE/RL Newline, "Moscow Mayor In Sevastopol," Jan. 20, 1997.

maintenance and for the operational codes. On the other hand, Ukraine had the physical weapons; without the weapons, Russia's codes had no value.

Russia had its own nuclear force, but not another warm water Fleet. The strategic location as well as the high sunk costs of the base and the Fleet made it a relation specific asset for the Ukraine-Russia dyad. Since the time of Catherine the Great, Russia considered this part of the world of strategic importance. The Black Sea gave the Russians and Soviets access via the Bosphorus to the warm waters of the Mediterranean and hence allowed it to project its power into the Mediterranean and Middle Eastern countries. While Russia still had access to the Black Sea even without the Crimea, the prohibitively high cost of building a new fleet and headquarters to accommodate that fleet meant that Russia had no near-term alternative partners to Ukraine. If it desired a warm water fleet, which it clearly did, then the one in Sevastopol was the only option. Given the cost of building another fleet and/or a second base, Russia wanted to either "own" Crimea where the base was located or at least "own" the base.

In an interesting twist, Ukraine found a second-best use for its assets: it changed them from security assets to economic ones. In the short-run, given its financial crisis and high debt for Russian fuel, Ukraine could not afford to use the Fleet for force projection. This meant that in the near-term, the Fleet was most useful as a bargaining chip rather than for force projection or defense against an immediate threat.³⁴⁷ With no immediate security threat but severe economic difficulties that threatened the leadership's survival, Ukraine's presidents used the nuclear weapons and the Fleet to bargain for immediate economic benefits. Once Ukraine turned the security assets into bargaining chips, the degree of the relation specificity changed as well. If Ukraine could interest more partners in these assets, it could command a higher price for their sale. The question, then, was how many competing bidders would there be for the nuclear weapons and the Fleet? This would determine how specific the assets were to the Russia-Ukraine dyad and, in turn, affect Ukraine's bargaining power. Given these factors,

³⁴⁷ Motyl (1993, 109-112) argues that Ukraine made a serious error in claiming the entire Black Sea Fleet as its own. This is debatable. While Russia did react strongly to Ukraine's claim, Ukraine managed to surprise Russia by making the first bargaining position a seemingly outrageous one. This allowed Ukraine to then

my model would predict that Ukraine would prefer its autonomy unless Russia would agree to tie its hands and/or provide some kind of economic benefit to Ukraine in exchange for hierarchy. What emerged was a minor security hierarchy in the Crimea in exchange for economic benefits. In the following section, I discuss how the bargaining process led to that outcome as well as in the other areas of vulnerability.

Selling Sovereignty and Assets for Economic Benefits

To earn money for their ailing economy, Ukrainian politicians used their most valuable assets—nuclear weapons and the Black Sea Fleet—to bring in much needed credit and other types of economic assistance.³⁴⁸ Once these assets became bargaining chips, the question of how strong Ukraine's bargaining power would be depended on the number of competing bidders. With the assets essentially up for sale, the number of potential partners increased, thereby increasing Ukraine's leverage vis-a-vis Russia. When control was at issue, Russia was the only likely contender; the assets were specific to its relationship with Ukraine. With the sale of the weapons at issue, Russian and Western interest was high for the nuclear weapons and moderate for the Fleet. In exchange for monetary compensation, Ukraine agreed to return the nuclear weapons to Russia and to rent the Crimean base to Russia. In the case of the nuclear weapons, no sovereignty was lost. It was a one time sale. The base rental, on the other hand, entails the selling of Ukraine's sovereignty, as I discuss more fully below.

From the first days of independence when Ukraine announced that it now owned the nuclear weapons on its land, the United States and Russia shared a common interest in having the weapons removed. Both sides were potentially threatened by nuclear weapons controlled by Ukraine. With the direction of Ukraine's political, economic, and military direction in question, Russia and the United States could not be certain how these weapons might be used in the future. More importantly, Ukraine's inexperience as a nuclear state and its economic weakness meant that the leadership might not be able to track and control the weapons and fissile material. Neither Russia nor the United States

compromise by giving up some of the Fleet. If Ukraine had started by claiming only half of the Fleet, perhaps Russia would have countered with one-quarter for Ukraine and the rest for Russia.

wanted to see the weapons or material sold to rogue states. As a U.S. official testified, “A non-nuclear Ukraine means the elimination of weapons capable of destroying much of the U.S. and a major victory in the effort to curb proliferation.”³⁴⁹

Ukraine used the fears of Russia and the United States to gain economic concessions in exchange for giving up the weapons. At first, Ukraine appeared to be cooperating in becoming a non-nuclear state. Before independence, Kravchuk, then president of the Verkhovna Rada, stated “Ukraine does not seek to possess nuclear weapons. It intends to become a party to the NPT [Non-Proliferation Treaty] as a non-nuclear State.”³⁵⁰ In the December 1991 agreement that established the CIS, Article 6 specified that “Members of the Commonwealth will preserve and support a common military and strategic space under a common command, including *common control over nuclear armaments*, which will be regulated by special agreement” (italics are mine). Five days later, the CIS members signed the Alma-Ata Declaration in which they again agreed to preserve unified control over nuclear weapons.³⁵¹ The nuclear states pledged “to ensure the withdrawal of tactical nuclear weapons to central factory premises for dismantling under joint supervision” by July 1, 1992. The “central premises” were in Russia. Several weeks later, when Gorbachev resigned and turned over the nuclear launch codes to Yeltsin, the CIS members signed the Agreement on Strategic Forces which, among other things, reiterated the need for joint command of strategic forces and the “single control over nuclear weapons” and set the end of 1994 as the deadline for Ukraine’s nuclear weapons to be dismantled. The weapons would be taken to Russia and dismantled there. In agreements with the United States, Ukraine agreed to remove its strategic nuclear weapons within seven years following the date of entry into force for the START Treaty.³⁵²

In early 1992, Ukraine began moving its tactical missiles into Russia. But in March, President Kravchuk announced that Ukraine was halting the tactical nuclear weapon transfer, ostensibly because

³⁴⁸ Furtado 1994 makes a similar point on page 100.

³⁴⁹ James Collins, Before the House Foreign Affairs Committee, June 24, 1994.

³⁵⁰ As quoted in Batiouk, 6.

³⁵¹ See Potter (1994, 12-21) for more information on the early CIS agreements pertaining to joint control, Ukraine’s disagreement about when, how, and whether to have the weapons withdrawn.

of concern about the ultimate disposition of the weapons. Although the withdrawal later resumed, Kravchuk's halting the removal was seen by some as a tactic to gain attention from the West.³⁵³ Then, in September, Ukrainian legislators indicated that Ukraine would renege on its agreement to move the strategic weapons to Russia. They argued that Ukraine needed the hard currency that highly enriched uranium would bring on the open market. The uranium was estimated to bring in as much as \$5 billion.³⁵⁴ Ukraine also argued that it should be reimbursed for the uranium already extracted from the tactical nuclear weapons that had been transferred to Russia, an amount estimated to be worth as much as \$2.5 billion. Ukraine reportedly suggested that this amount could be put toward paying off Ukraine's oil and gas debt to Russia.³⁵⁵ Finally, Ukraine threatened to hold up START ratification if its demands for reimbursement were not met.³⁵⁶

It was rumored that Ukraine was attempting to develop its own launch codes to circumvent the blocking devices on the ICBMs on its territory. In May 1993, Russian Prime Minister Stepashin accused Ukraine of attempting to retarget the nuclear weapons on its territory and to break the security systems that prevented Ukraine from taking over operational control of the weapons. Both Russian and Western experts estimated that this process could take from about 9 months to a year. While Ukraine denied that it was attempting to gain control of the weapons, the reports played into Ukraine's hands by making its threats to keep the weapons a serious concern to the West as well as the Russians.³⁵⁷ If Ukraine could in fact retarget the weapons, break the operational codes, and create its own codes, the United States and Russia had to seriously consider Ukraine's bargaining position.

³⁵² Nash (Leich) 1993, 109.

³⁵³ Potter, for example, argues this point.

³⁵⁴ Ukrainian parliamentarians at a conference in the United State first made the suggestion that Ukraine might renege. The Ukrainian administration denied it at the time, but the following month, Ukraine's foreign minister said the same thing. RFE/RL Newline, "Ukrainian Parliamentarians Want To Keep Missiles," Sept. 18 1992; "Ukraine To Sell Uranium From Nuclear Weapons," 10/7, 1992.

³⁵⁵ RFE/RL Newline, "START-1 Reinterpreted Again? The New Ukrainian Defense Minister, Vitalii Radetsky, Told The UNIAN News Agency On 29 October That The Start-1 Treaty 'Envisions The Liquidation Of 42 Percent Of Launch Vehicles And 36 Percent Of Warheads In Ukraine,'" Nov. 3, 1993; RFE/RL Newline, "No Agreement On Weapons Uranium," Dec. 17, 1993; RFE/RL Newline, "Details On Uranium Negotiations," Dec. 21, 1993.

³⁵⁶ RFE/RL Newline, "Ukraine To Be Compensated For Nuclear Warheads," Nov. 24, 1992.

³⁵⁷ RFE/RL Newline, "Stepashin Claims Ukraine Trying To Retarget Nuclear Weapons," May 19, 1993.

In June 1993, the United States proposed that an international group monitor the severed warheads until the uranium was removed.³⁵⁸ The Clinton Administration pledged to give Ukraine \$177 million toward eliminating its strategic nuclear arsenal in 1993, plus an additional \$175 million in fiscal years 1994 and 1995 and to request from Congress another \$75 million.³⁵⁹ This money was to come out of the Nunn-Lugar funds which had been set aside for dismantling weapons of mass destruction in the former Soviet Union.³⁶⁰

In November 1993, after a series of delays, the Ukrainian parliament finally ratified the START I agreement. However, continuing to use its nuclear weapons to win concessions from the West and Russia, the Ukrainian parliament added several conditions. These included compensation for the tactical nuclear warheads which were withdrawn in 1992, financial assistance for disarmament, and binding security guarantees and recognition of Ukraine's territorial integrity and existing borders.³⁶¹ The attached resolution reaffirmed Ukraine's right to "administrative control" and its ownership of the nuclear weapons.

Soon after, Presidents Clinton, Yeltsin, and Kravchuk announced an agreement under which Russia would supply Ukraine with fuel assemblies for nuclear power with 100 tons of low-enriched uranium in exchange for Ukraine delivering at least 200 SS-19 and SS-24 ICBMs to Russia for dismantling. The United States agreed to loan Russia \$60 million as seed money to begin the project.³⁶² Ukraine announced its intentions to use the fruits of this bargain to start supplying its five

³⁵⁸ RFE/RL Newswire, "Aspin, Grachev Discuss Ukrainian Nuclear Weapons," June 7, 1993.

³⁵⁹ This was announced under the Agreement Between the United States of America and Ukraine on the Elimination of Strategic Nuclear Arms, and the Prevention of Proliferation of Weapons of Mass Destruction of October 25, 1993. See Nash (Leich) 1994, 763 for the announcement.

³⁶⁰ "Nunn-Lugar" refers to the Soviet Nuclear Reduction Act of 1991, Pub. L. No. 102-228, tit. II, 105 Stat. 1691, 1693 as amended by Former Soviet Union Demilitarization Act of 1992, Pub. L. No 102-484, National Defense Authorization Act for FY 1993, div. A, tit. XIV, 106 Stat. 2315, 2563 (1992).

³⁶¹ RFE/RL Newswire, "START-I: Ukraine Ratifies With Conditions," Nov. 19, 1993.

³⁶² Nash (Leich) 1994, 759-61.

nuclear power plants with fuel rods in 2001.³⁶³ Thus, Ukraine's strategy of selling its nuclear assets for cash and other benefits was paying off.³⁶⁴

Ukraine also succeeded in selling to Russia basing rights in Crimea. However, this sale was substantively different from the nuclear sale as it involved selling some sovereignty. Ukraine essentially bargained away sovereignty for economic benefits. My model suggests that if the weak state requires immediate economic and/or military benefits, it may be willing to swap some sovereignty for those benefits. If relation specificity is high, by definition the assets are of little value outside of the relationship. In that case, the weak state must bargain with the strong state, as there are no other partners. The Black Sea Fleet is such a case.

The Black Sea Fleet issue had several factors that made hierarchy relatively likely, unlike in the case of the nuclear weapons. Many, though not all, of these are related to its relation specificity. First, there were no international agreements that affected the Black Sea Fleet and no international pressure on Russia to dismantle the fleet. Second, Russia's costs of implementing hierarchy were relatively low. The fleet already existed and had a base to support it. Russia would not have to construct or transfer ships from another body of water. It would not need to build the infrastructure to support the fleet. These things were already in place. Third, there were very high costs to using the fleet elsewhere. Russia had only one port headquarters and required the Fleet for its warm water adventures. In transaction cost economic terms, the second best use was of low value. Fourth, Ukraine had no other interested partners with which it could bargain. The other states bordering on the Black Sea—Georgia, Turkey, Romania, and Bulgaria—lacked the interest and/or the cash to purchase an old

³⁶³ RFE/RL Newline, "Ukraine To Produce Nuclear Fuel," Feb. 25, 1997.

³⁶⁴ In January 1995, Ukraine's Ministry of Defense announced that Ukraine had fulfilled its START-I obligation to remove ICBMs from Ukrainian territory. RFE/RL Newline, "Ukraine Fulfilling Start-I Obligations," Jan. 25, 1995. In addition to selling nuclear weapons and the Black Sea Fleet, Ukraine has sold or bargained away conventional weapons systems and even some services. In 1995, Ukraine and Russia agreed that Ukraine's \$192.6 million natural gas debt to Russia would be written off in return for 44 ex-Soviet strategic bombers. Without an immediate security threat and with little money to spare for maintaining a large stock of equipment, Ukraine has been selling arms. It has advertised a wide array of equipment, including Su-27 and Su-25 fighter aircraft, diesel powered submarines, and a giant aircraft carrier. Furthermore, partial payment for the \$1.4 billion of gas that Gazprom supplied Ukraine in 1995 consisted of \$10.2 million for the construction of housing for Gazprom workers, \$46.7 million worth of goods, and \$377.2 million in services. RFE/RL Newline, "Ukraine, Russia Agree On Bomber Price." Mar. 28, 1995; OMRI Daily Digest, July 27, 1995; and Potter 1995, 8-10.

Soviet fleet. While Russian officials sometimes said that Georgia should also get a few of the Black Sea ships, it seemed unlikely that Georgia could create the "required infrastructure, including piers, control systems, and other vitally important installations" that the Russians suggested would be required.³⁶⁵ While the United States was willing to compensate Ukraine for its nuclear weapons, it did not place as high a priority on the Fleet. The United States did, however, enforce Russia's position by encouraging Ukraine and Russia to come to an amicable settlement on the Black Sea Fleet. In a Lexis-Nexis search for Congressional testimony on the Black Sea Fleet, 34 pieces of testimony were found. None of these indicated that the United States considered giving Ukraine economic or military benefits for the Fleet, as it had done with nuclear weapons. Nevertheless, congressional testimony indicated that the U.S. administration was concerned about the Fleet as a hot spot that could erupt between Russia and Ukraine. The U.S. Administration argued that it was in Ukraine's best interest to have a positive relationship with Russia. Testifying before Congress, Ambassador-at-Large Strobe Talbott said, "[L]et me say that this administration remains convinced that the best guarantee for Ukraine's security is a good, solid relationship of mutual respect with a reforming democratic Russia. That is why we are so encouraged by the results of the June 17th summit meeting in Moscow between Presidents Yeltsin and Kravchuk. They agreed on the principles for division of the Black Sea Fleet."³⁶⁶ A State Department official testified that the United States had worked behind the scenes to help reduce tensions between Russia and Ukraine, including over Crimea and the Black Sea Fleet; it did not specify how it did this.³⁶⁷ While the U.S. did not give Ukraine funds for the Fleet, it apparently did facilitate the final agreement which included Russian payments to Ukraine.

Thus, while Russia was dependent on Ukraine to "supply" the fleet, Ukraine was dependent on Russia to "demand" the fleet. The fleet had little value to Ukraine outside of its relationship with

³⁶⁵ RFE/RL Newline, "Grachev: Georgia Entitled To Some Black Sea Fleet Warships," Apr. 2, 1996. The quote is from then-Russian Defense Minister Pavel Grachev.

³⁶⁶ Testimony before the European Affairs Subcommittee of the Senate Foreign Relations Committee, *Security Of Ukrainian Weapons*, June 24, 1993.

³⁶⁷ James F. Collins, Department of State, Senate Appropriations, Foreign Operations. *U.S. Policy Toward Russia*, February 22, 1995, and Prepared Statement of R. James Woolsey, Central Intelligence Agency before The Senate Select Committee On Intelligence, *World Threat Assessment Brief*, January 10, 1995; William

Russia. With its economic crisis, dependency on imported fuel, and lack of experience running a fleet, Ukraine was ill equipped to use the fleet for military purposes. Its immediate value was as a bargaining chip with Russia. Ukraine used this valued chip to gain some economic benefits, and in the process ended up surrendering some sovereignty.

In January 1992, Ukrainian officials began referring to the Black Sea Fleet as their property. They announced that they would agree to make it a CIS-controlled force only until the nuclear weapons on board were removed. There apparently were no nuclear weapons on board, leaving Ukraine to immediately claim the entire fleet. Yeltsin, who had earlier suggested that although the fleet was historically Russian, some of it probably should go to Ukraine, shifted course in response to Ukrainian President Kravchuk's uncompromising views.³⁶⁸ Ukraine's defense minister then announced that Ukraine was requiring Black Sea Fleet personnel to take oaths of allegiance to Ukraine. Anyone refusing to do so would be transferred to CIS forces.³⁶⁹ This explicitly raised the issue of the number of ethnic Russians in Crimea and stationed with the Black Sea Fleet. Only about 30 percent of the Fleet personnel were ethnic Ukrainians.³⁷⁰

After haggling for years over how to divide up the fleet and where it would be based, in 1995, the two states made the first of several agreements.³⁷¹ In June 1995, Russia agreed to buy out the majority of Ukraine's share of the Fleet, leaving Kyiv with less than 20 percent of the fleet's vessels.³⁷² Later that year, the two governments signed an agreement in which Ukraine would obtain—or retain,

Grundmann, Defense Intelligence Agency before Joint Economic Committee, *Economic Conditions In Eastern And Central Europe*, July 15, 1994.

³⁶⁸ RFE/RL Newline, "Ukrainian Defense Plans Criticized," Jan. 16, 1992; "Comments By Ukraine's UN Ambassador," Jan. 10, 1992; "Yeltsin Hardens Stance On Fleet," Jan. 10, 1992; "Bargain In The Making Over Black Sea Fleet," Jan. 9, 1992.

³⁶⁹ "Ukraine Footing The Military Bill," Jan. 14, 1992.

³⁷⁰ Ibid.

³⁷¹ Claims of deals struck were frequently reported in the press. Announcements that the basing and equipment division decisions had been determined were often retracted later, either because the decision had not been made or because it had been reversed. For example, on June 9, 1994, it was reported that the Russian Black Sea Fleet would be based in Sevastopol. Later, however, this became subject to negotiations. See RFE/RL Newline, "Black Sea Fleet Talks," June 9, 1994 and "Grachev And Morozov Also Disagree," Sept. 6, 1993 for an example of this. For earlier reports on the talks, See "Impromptu Meeting On Black Sea Fleet," May 13, 1992; "Wrangling Over Black Sea Fleet Continues," Mar. 25, 1992; "Bargain In The Making Over Black Sea Fleet," Jan. 9, 1992.

³⁷² RFE/RL Newline, "Russia Financing Black Sea Fleet Alone," June 2, 1995.

depending on your point of view—150 Black Sea Fleet naval installations, including all of the resident equipment.³⁷³ Throughout 1996 and part of 1997, the two sides continued to debate the terms of the agreement. The critical factor was where Russia would base its portion of the Fleet. Wanting the Crimean peninsula to be dominated by Ukrainian rather than Russian forces, Ukrainian officials said Russia could not base its fleet in Sevastopol. The Russians argued the opposite.³⁷⁴ In May 1997, Presidents Kuchma and Yeltsin signed an agreement into force. Russia would keep 460 ships while Ukraine would retain 162 vessels (about 25 percent of the fleet) plus \$526 million compensation from Russia. The Russian part of the fleet would be based in Sevastopol for 20 years, until 2017. In 1999, the accord was ratified by the Russian parliament.³⁷⁵ In this respect, then, Ukraine did agree to a security hierarchy in which Russian naval forces are based on its territory.

Interdependence in Action

In the theory chapter, I argued that states use RSAs as bargaining leverage against each other. The strong state may use these assets as bargaining chips to gain hierarchy over the weaker state. If, however, the weaker state controls important RSAs, it can resist the strong state's unwelcome advances. This mutual hostage-taking leads to a relationship based on autonomy rather than hierarchy. In this section, I demonstrate how over time Ukraine and Russia have used their mutual reliance against the other. The Russian leadership has repeatedly tried to convince the Ukrainian leadership to join in hierarchical arrangements. Ukraine has successfully resisted this unwanted attention, often using Russia's reliance on Ukraine's pipelines for leverage. Russia has also threatened to build pipelines that by-pass Ukraine as a way of reducing its vulnerability and/or of getting Ukraine to act less

³⁷³OMRI Daily Digest, "Ukrainian Minister Welcomes Accords," Nov. 28, 1995.

³⁷⁴RFE/RL Newline, "Talks On Black Sea Fleet Make No Progress," Aug. 2, 1996; "More Talks On Russian-Ukrainian Black Sea Fleet," Apr. 23, 1997; "Ukraine Says Its Position On Black Sea Fleet To Be Based On Constitution," July 31, 1996; "Black Sea Fleet Update," July 30, 1996; "Black Sea Fleet Update," Apr. 11, 1996; "Black Sea Fleet Talks End Without Resolution," June 10, 1996.

³⁷⁵RFE/RL Newline, "...Ratifies Black Sea Fleet Agreements With Russia," Mar. 25, 1999.

opportunistically in the current relationship. I will discuss this threat in greater detail under the white knights section.

The tenure of Ukraine's first two presidents—Kravchuk and Kuchma—has been marked by aggressive bargaining with Russia combined with slow progress toward market reform. The reforms have in turn secured some IMF funding for Ukraine. Almost as soon as Ukraine proclaimed its independence, the Russian government began challenging Ukraine. It announced that Russia may have to reconsider its borders with those states that declared independence from the Soviet Union. Some Russian Duma members were particularly vocal in their views that the Crimean peninsula should be returned to Russia. The Ukrainian Supreme Soviet responded quickly by pointing to the November 1990 Russo-Ukrainian Treaty which guaranteed the existing borders. The first cries of tensions between the new states were subsequently muted after a Russian delegation visited Ukraine. The two states signed a package of agreements, including one that acknowledged the current borders between Russia and Ukraine.³⁷⁶ As already discussed, Ukraine challenged Russia on claims regarding nuclear weapons, the Black Sea Fleet, and ownership of military assets and personnel. In addition, Ukraine was one of the first FSU states to escape the ruble zone. Under the zone, only the Russian Central Bank was allowed to print rubles, giving Russia control over monetary policy for all the other ruble states—a form of hierarchy. In 1992, Ukraine introduced a temporary currency, *karbovanets*, to replace the Russian ruble.³⁷⁷ Further defending its independence, Ukraine has resisted Russian pressure to join the hierarchical customs union, as discussed above.

Ukraine's most important weapon against Russian pressure is the network of pipelines. As discussed earlier, these are highly RSAs. Since independence, Ukraine has used the leverage of its transit pipelines to reduce its gas and oil debts to Russia. Ukraine's monopoly gives it the ability to raise transit fees against Gazprom in retaliation for Gazprom's demands that Ukraine pay its debt. Ukraine has frequently demonstrated its willingness to exploit this advantage by unilaterally raising the

³⁷⁶ It is unclear what Ukraine might have offered Russia in exchange for the agreement on the borders. As with many developments in the former Soviet region, it is not always clear what deals were made. Shaw and Bradshaw, 10; RFE/RL Newline "Ukraine On Integrity Of State Borders." Jan. 31, 1992.

transit fees that Russian companies must pay. For example, in January 1996, the Ukrainian state-owned Druzhba Pipeline enterprise raised the transit fees. After watching its oil and gas debts to Russia mount, Ukraine announced that it was increasing by 10 percent the price for pumping one ton of oil through 100 kilometers of its territory. Ukraine began negotiating with Russian oil suppliers on transmitting oil at the new price of \$5.20. This move violated a 1994 understanding in which the Russian and Ukrainian governments agreed that they, rather than separate suppliers, would negotiate any transit fee increases.³⁷⁸

In another case of using the pipelines against Russia, Ukraine suspended Russian oil shipments to Hungary, for several weeks in spring 1996. While Ukrainian officials said the hiatus was due to surpluses at Hungarian refineries, Russia claimed that the disruptions were a result of the transit fee hikes. At around the same time, Russian oil companies announced that they were planning to increase the quantity of oil shipped through the Druzhba pipeline to Slovakia and Hungary. Ukraine threatened to halt oil flows for the Russian companies that were refusing to pay the higher transit fees. With no other viable transit lines, most of the Russian companies were quietly paying the higher fees.³⁷⁹

In addition, Ukraine can simply siphon off gas meant for export if Gazprom chooses to press for payments. Further demonstrating opportunism, Ukraine has been repeatedly accused of—and recently admitted to—stealing Russian natural gas from the pipelines. In 1998, Gazprom accused Kyiv of siphoning off gas meant for export to Europe. A company spokesman claimed that Ukraine had taken more than 2.2 billion cubic meters (cuM) of gas worth \$180 million out of the main export pipeline in the first two months of the year.³⁸⁰ In April 2000, President Kuchma officially admitted for the first time that Ukraine was guilty of siphoning gas meant for European export.³⁸¹ In June, a Gazprom board member accused Ukraine of stealing 10 billion cuM of fuel, selling part of this to

³⁷⁷ Ukraine subsequently introduced the hryvna as its official currency.

³⁷⁸ OMRI Daily Digest, Jan. 10 and 11, 1996; July 1996.

³⁷⁹ Pipeline News, "Oil Shipments To Hungary Through Druzhba Resume," May 1996; "Oil supplies through Druzhba will increase; Moscow, Kyiv still at odds," May 1996.

³⁸⁰ RFE/RL Newslines, "Ukrainian, Russian Premiers Meet To Discuss Gas Debts." Mar. 10, 1998.

³⁸¹ RFE/RL Newslines, "Ukrainian, Russian Presidents Accomplish Little." Apr. 19, 2000.

Hungary, Poland, and Romania, and keeping the rest to meet Ukraine's demands.³⁸² Ukraine's president Kuchma subsequently admitted that Ukraine had illegally siphoned off 13 billion cuM of Russian gas. He rather oddly added that Russia had a right to sue Ukraine in an international court of law.³⁸³

While the pipelines have helped stave off unwanted advances from Russia, Ukraine also needed alternative sources of economic benefits. While Belarus, for example, has turned to Russia as a source, Ukraine instead sought IMF loans. These have been critical for enabling Ukraine to pay its debts to Russia. In addition, when the IMF has approved funds, the World Bank has followed suit, opening the door to additional aid. Because of its sluggish movement toward market reforms, Ukraine and the IMF have had an on-again, off-again relationship. Although Ukraine first applied for IMF funding in January 1992, immediately after independence, it was not until late 1994 that it received its first installment. In October 1994, Ukraine was finally about to receive its first IMF credit worth \$371 million. But when the parliament failed to lift a 3-month ban on privatization, the IMF delayed the loan. In November, having passed Kuchma's economic plan, the Rada paved the way for the first installment.³⁸⁴

In early 1995, Kuchma hesitated over signing an IMF agreement that would release \$1.3 billion (later increased to \$1.5 billion) in standby credits, to be delivered in four tranches. The credits were to assist Ukraine in financing its balance of payments deficit which was estimated at between \$5 and \$6 billion for 1995. A substantial portion of the funds were targeted for paying off fuel debts to Russia. Kuchma was reportedly concerned about two IMF demands. First, the IMF required that the budget deficit be cut to 5 percent of GDP. To make this cut, Ukraine would have to reduce State subsidies to unprofitable enterprises and the agricultural sector. The politically powerful industrial lobby strongly opposed such a cut and was supported by the former Communist block in the Rada. The

³⁸² RFE/RL Newswire, "Gazprom Says Ukraine Selling Stolen Russian Gas." July 3, 2000.

³⁸³ RFE/RL Newswire Poland, Ukraine, Belarus Report, "Tymoshenko Takes Stand Against Oligarchs," June 20, 2000.

³⁸⁴ RFE/RL Newswire, "Ukrainian Parliament Fails to Lift Ban on Privatization," 10/17, 1994; "IMF Approves Loan for Ukraine," 10/27, 1994; and "Price Liberalization in Ukraine." Nov. 4, 1994;

second IMF condition was that Ukraine liberalize its foreign trade. Eventually, Kuchma succeeded in passing a budget through the Rada that would meet the IMF's requirements. The IMF approval paved the way for the release of \$500 million from the Export-Import Bank and \$150 million from Japan.³⁸⁵ Having deemed that Ukraine was substantially meeting its targets, the IMF released the first three of four tranches to Ukraine in 1995. The fourth tranche, however, was held up, due to the Rada's failure to pass legislation on budget revenues. The delay resulted in the loan expiring, thus requiring new negotiations. Ukraine used only \$700 million of the \$1.6 billion loan. In spring 1996, IMF approved a new loan worth about \$900 million.³⁸⁶

In 1997 and 1998, the IMF and Ukraine continued their dance. The IMF offered Ukraine another \$2.5 to \$3 billion stand-by loan in exchange for reforms and meeting specific economic targets. Kuchma urged the IMF to relax its requirements. The IMF subsequently agreed to a \$542 million stand-by loan. In September 1998, the IMF approved a \$2.2 billion loan. The World Bank followed with an announcement that it would release a \$900 million loan. The IMF's first and second tranche were released in October and November. By the end of the year, the IMF had again delayed releasing further tranches.³⁸⁷

While Ukraine did not receive the level of funding that it had hoped for, the IMF loans allowed it to pay off energy debts to Russia. As long as it had other sources of revenue, Ukraine would not have to sell its sovereignty. In addition to the IMF and World Bank loans, Kuchma attempted to pay the natural gas debt with goods and services. In 1995, these barter agreements included \$10 million in housing construction for Gazprom workers, \$47 million worth of goods, \$377 million in services, and

³⁸⁵OMRI Daily Digest, "Ukraine Hesitates over IMF Demands," Feb. 22, 1995; and "IMF Approves Credits to Ukraine," Apr. 10, 1995.

³⁸⁶RFE/RL Newline, "IMF Withholds Fourth Tranche of Stand-By Loan from Ukraine," Jan. 19, 1996; "IMF in Ukraine and Belarus," Jan. 30, 1996; "IMF, Ukraine Negotiate New Credit," Apr. 10, 1996; "IMF Loan to Pay Back Wages in Ukraine," May 24, 1996; "IMF Grants Fourth Stand-by Tranche to Ukraine," Aug. 2, 1996.

³⁸⁷RFE/RL Newline, "Foreign Loans Keep Ukrainian Economy Afloat," Feb. 12, 1997; "Ukraine and IMF, World Bank," Mar. 19, 1997; "Senior IMF Official in Kyiv," June 20, 1997; "World Bank Wants Ukraine to Sign Agreement with IMF," July 2, 1997; "Ukrainian President Proposes Council on Economic Reforms," July 10, 1997; "...But IMF decides Against Loan," July 11, 1997; "IMF Approves Stand-By Loan for Ukraine," Aug. 26, 1997; "IMF Mission to Recommend \$2.2 Billion Loan to Ukraine," Aug. 3, 1998; "IMF Approves \$2.2 Billion Loan to Ukraine," Sept. 7, 1998; "World Bank to Consider \$900 million loan to Ukraine," Sept. 8, 1998; "IMF Puts Off Decision on Loan Tranche to Ukraine," 10/27, 1998; "IMF Approves Loan Tranche to Ukraine," Nov. 2, 1998.

\$193 million for military assets. Ukraine agreed to sell Russia the strategic bombers it inherited from the Soviet Air Force for \$75 million, the sum offered by the Russians. Ukraine had originally demanded \$800 million for the 19 *Blackjack* supersonic jets and the 25 *Bear* missile-carrying aircraft sitting within its borders. With no other interested buyers, Ukraine settled for the Russian offer. At the conclusion of the deal, however, rather than paying with cash, Russia agreed to eliminate Ukraine's \$193 million natural gas debt in exchange for the aircraft.³⁸⁸

Ukraine's hostage-taking has successfully kept Russia at arms length. However, raising transit fees, siphoning gas, using IMF funds, and bartering are only short-term solutions. To change its dependence, Ukraine must change the nature of the assets. For this, it requires *white knights*.

White knight options: Reducing relation specificity

Ukraine and Russia are each actively trying to reduce their economic vulnerability by building new assets that reduce relation specificity. Russia appears to be closer to realizing this goal than does Ukraine. Despite Kuchma's stated desire to encourage foreign direct investment, investment levels and the requisite legislation remain far from adequate for serious restructuring. Russia, on the other hand, may soon succeed in drastically reducing its dependency on Ukrainian pipelines.

To reduce its dependence on low-cost Russian oil and gas, Ukraine has tried to build the infrastructure for importing fuel from other sources and increasing its domestic capacity. Ukraine has sought white knights to modernize its oil terminal near Odessa on the Black Sea. At a cost of approximately \$1.3 billion, Ukraine will require significant outside assistance. The terminal is expected to be capable of supplying all six of Ukraine's refineries and handling oil supplies from Kazakhstan, Azerbaijan, and the Middle East. The terminal also would transfer crude oil into Druzhba pipeline for

³⁸⁸ In 1997, Russia reneged on the deal. As a result, Ukraine was not able to gain as many benefits as it had hoped. Nonetheless, the example demonstrates the way in which Ukraine tried to use military assets to bring in financial assistance. OMRI Daily Digest, "Ukraine To Sell Bombers To Russia," March 16, 1995; and "Ukraine, Russia Agree On Bomber Price," March 28, 1995. "Ukraine Considers Peaceful Use Of Strategic Bombers," September 19, 1997.

export to Western markets. In several delays, the Ukrainian parliament appropriated land for the terminal in 1995. However, as of early 2000, the project remained stalled due to a lack of funding.³⁸⁹

Ukraine has also explored bolstering its domestic production by searching for new oil fields and by seeking funding for nuclear power plants and alternative fuels. None of these options has been particularly successful in meeting the high demands. In November 1995, the Kuchma government announced its decision to substantially increase oil drilling off its southern coast. The proposal permits the drilling of almost 800,000 wells over the next 15 years in the Azov and Black Seas. While this venture might help Ukraine increase its domestic resources, it will not free Ukraine from Russian influence: the financing will come from a Russian-Ukrainian joint venture. In 1998, Ukraine's Chornomornaftohaz oil and gas company signed a deal with Gazprom on creating a joint venture. "The deal provides for the equal role of the two companies in the undertaking and the joint use of gas fields around Crimea."³⁹⁰

More broadly, Ukraine has sought foreign direct investment to help restructure its industrial base to make it more competitive. This would free Ukraine from its sectoral ties to Russia as well as ameliorating its dependency on high quantities of fuel which in turn should lower its debts to Russia. According to the Organization on European Cooperation and Development, the estimated financial need for this restructuring is about \$40 billion. As of July 1997, Ukraine was a long way from this goal, having received only \$1.66 billion since independence (1991 to July 1997). Table 5.3 shows a breakdown by state of origin. The relatively low (although growing) FDI levels have generally been blamed on Ukraine's laws, which have failed to provide a sufficiently safe environment for investors.

³⁸⁹ The terminal was delayed in 1994 when local officials vetoed the project on the basis of environmental concerns. The parliament apparently overrode the veto. There was also a barter agreement in which Ukraine offered Iraq iron and other goods in exchange for 4 million tons of crude oil. Apparently nothing came of this deal. IEA, 93; RFE/RL NewsLine, "Ukraine, Iran Reach Agreement On Oil Supplies," Apr. 30, 1992; "East-Central Europe Ukrainian Parliament Backs Odessa Oil Terminal," Jan. 20, 1995; "Ukraine, Iran Sign Economic Agreement," June 10, 1997. For information on the Iraqi deal that fell through, see Pipeline News, "Ukraine Prepares Oil Barter Deal With Iraq," reported by Ustina Markus in OMRI Daily Digest Part II, No. 129, July 3, 1996; and OMRI Daily Digest, "Ukrainian President Meets With Gazprom Delegation," Lapychak, July 16, 1996. Information on Ukraine's modernization plan is from the Department of Energy's Energy Information Administration web site: <http://www.eia.doe.gov/emeu/cabs/ukraine.html>, accessed in July 2000, updated in June 1999. Henceforth referred to as EIA-Ukraine.

“...typically, the legislation is marked by declaratory statements that lack the conceptual coherence and detail necessary to create a concise framework for commercial activity. The result is uncertainty, which makes it difficult for the players to understand the ‘rules of the game.’”³⁹¹

Table 5.3: Foreign Direct Investment in Ukraine, 1991- 1997

State of Origin	\$US Millions	Percent of Total
United States	315	19
Germany	166	10
The Netherlands	160	10
The United Kingdom	131	8
Cyprus	116	7
Russia	114	7
Liechtenstein	103	6
Other	552	33
Total	1,657	100

Source: Official Ukrainian government statistics, as reported in Organization for European Cooperation and Development, 1997, 8. Amounts include only the first 6 months of 1997.

Meanwhile, Russia has its own dependency problems to overcome. To reduce its dependence on Ukraine, Russia must find other outlets to move its oil and gas to Europe and other lucrative markets. There are two mechanisms for doing this, both of which Russia is pursuing: build pipelines through other states and expand the use of tankers leaving non-Ukrainian ports. To break Ukraine’s grip, Russia’s most significant project is a new gas pipeline connecting its Siberian fields with Germany. The 4,000 kilometer pipeline network will stretch from Russia’s Yamal gas fields near the Arctic through Belarus and Poland to the Polish-German border. It will then connect into the West European gas transportation system at several points. The Belarusian section of the pipeline will be capable of carrying about 68 billion cuM a year. The entire system will have an initial capacity of 83 billion cuM per year, including around 52 billion cuM to Western Europe. The Yamal field contains about 20 percent of Russia’s natural gas reserves, or 10.4 trillion cuM, making this a critical pipeline. Originally expected to cost \$12 billion, the pipeline’s estimated construction costs have jumped to \$40

³⁹⁰OMRI Daily Digest, "Ukraine's Energy Debt", July 27, 1995; "Ukraine To Expand Oil, Gas Industries," Nov. 15, 1995; "Ukraine, Gazprom Set Up Oil, Gas Exploration Company," June 1, 1998.

³⁹¹OECD 1997, 11.

billion. After many delays, the current projected completion year is 2010.³⁹² In addition to the Belarusian gas pipeline, Russia has pursued other gas pipelines, including one that will head north into the Nordic states, passing through Finland and Sweden, and one through the northern Caucasus, into Georgia, and terminating in Turkey.³⁹³ These moves will effectively eliminate Ukraine's near monopoly on Russian export gas pipelines to Europe, thus weakening Ukraine's bargaining position. The result could well be a future economic hierarchy with Russia.

"Belarus: Back in the USSR?"³⁹⁴

The RSAs in the Belarus-Russia dyad closely mirror those in the Ukraine-Russia dyad, indicating that, like Ukraine, Belarus should have tended toward a economic and security autonomy. However, the expectation of autonomy changed when Belarus's leader opted for an authoritarian regime and a state-run economy. This choice precluded white knights that require reforms as a quid pro quo: the IMF, the World Bank, and many Western foreign direct investors. Without Ukraine's Black Sea Fleet or Kazakhstan's testing sites and spaceport, Belarus had little to offer Russia in exchange for financial benefits. Without these options, the value of Russia's financial assistance increased dramatically and correspondingly ameliorated what bargaining power Belarus might have had. Even if hierarchy was part of the bargain, Lukashenka had few other options. This change to high benefits tipped the balance toward hierarchy. Furthermore, Lukashenka's constituency had little opposition to close relations with Russia, thus removing a potential cost of hierarchy: domestic political attacks for surrendering sovereignty. According to one "comprehensive survey, 55% of Belarusian residents

³⁹²For information on the Yamal pipeline, see Pipeline News, "Belarus Chooses Firms To Construct Yamal Gas Pipeline," June, 1996; "Work To Start Soon On Belarussian Section Of Yamal Gas Pipeline," Sept. 1996; "Gazprom Chief Launches Part Of Yamal Gas Link In Belarus," Oct. 1996; "Belarus To Start Building Its Section Of Yamal Gas Pipeline," Oct. 1996. OMRI Analytical Brief, 10/3, 1996; OMRI Daily Digest, "Construction Of Yamal Gas Pipeline Started In Belarus," Sergei Solodovnikov, Oct. 24, 1996. RFE/RL Newswire, Feb. 20, 1995; Nov. 5, 1997; "Bilateral Commission To Tackle Ukraine's Gas Debt to Russia," July 20, 2000. New Europe, p.17, Oct. 20-26, 1996; Dec. 8-14, 1996.

³⁹³Pipeline News, June 1996, "Turkey, Georgia Negotiate Gas Pipeline Construction," original source is Interfax Business Report, June 10 '96; and Sept. 2, 1997.

³⁹⁴This subtitle comes from a U.S. House of Representatives hearing, 1999.

wanted to see the restoration of the Soviet Union or some sort of Slavic Union, in which Belarus would be more closely integrated with Russia. An even higher proportion—63%—preferred a simple union with Russia. Some 45% also expressed a preference for a socialist system.”³⁹⁵ Thus, while the claim that 90 percent of the population supported unification is probably overstated,³⁹⁶ a majority most likely did support a union. Belarus’s pro-Russia policy further exacerbated the tendency toward hierarchy by lowering Russia’s financial and domestic costs of imposing and maintaining hierarchy. If Belarus was a willing subordinate, then Russia had to expend less to win the hierarchy.

Factors Leading to Hierarchy

Several significant RSAs can be found in the Belarus-Russia dyad. First, like Ukraine, Belarus has long been heavily reliant on fuel imported from Russia. In 1993, for example, Belarus imported from Russia 100 percent of the natural gas and 91 percent of the crude oil that it consumed.³⁹⁷ In 2000, Belarus produced 41,600 barrels per day (bbl/d) of oil; to meet its demand of 180,000 bbl/d, it imported most of the short-fall from Russia. As in Ukraine, Belarus’s oil refineries depend on Russian crude oil. Refined products are then channeled back to Russia for its domestic consumption. Belarus has two refineries: Naftan in Navapolatsk Vitsebsk Region and Mazyr in the Homel Region. In 2000, the two enterprises had a capacity of 493,000 bbl/d, more than double Belarus’s consumption of 188,000 bbl/d. These refined products are an important export for Belarus, but its dependence on Russia for the crude oil ties it to Russia. Belarus also relies on Russian natural gas to meet its domestic needs. In 1998, Belarus’s domestic production totaled .28 billion cubic meters (cuM), while consumption was 55 times higher, at 15.4 billion cuM. Belarus closed the gap with Russian supplies, just as it had done during the Soviet period.³⁹⁸

³⁹⁵ Marples 1999, 109-110.

³⁹⁶ *RFE/RL Newsline*, Jan. 30, 1996, “Russian-Belarusian Integration.”

³⁹⁷ Dawisha and Parrott 1994, 175. Ukraine imported from Russia 56 percent of its natural gas (most of the rest came from Turkmenistan) and 89 percent of its crude oil.

³⁹⁸ U.S. Department of Energy, Belarus, 2000.

The oil and gas pipelines that transport Russian fuel to Belarus also serve as conduits to Europe. The northern branch of the Druzhba pipeline passes through Belarus, delivering crude oil to the Baltic seaport of Ventspils, Latvia, as well as Germany and Poland. Russia is Germany's number one supplier of oil, accounting for about one-third of Germany's imported oil. Poland relies on Russian oil for about one-half of its imports. Although Poland originally sought to reduce its dependence on Russian fuel, the latter's low prices have resulted in an increase in Poland's imports since 1989.³⁹⁹ While the pipelines offer Belarus the opportunity of transit fees, they also further bound Belarus to Russia, given that Russia is the only exporter using the pipelines. In addition, Russia is relatively less dependent given its export routes through Ukraine. This gives Russia greater leverage, as it can play the two smaller Slavic states off each other.

³⁹⁹ U.S. Department of Energy, Belarus, Germany, Latvia, and Poland, 2001.

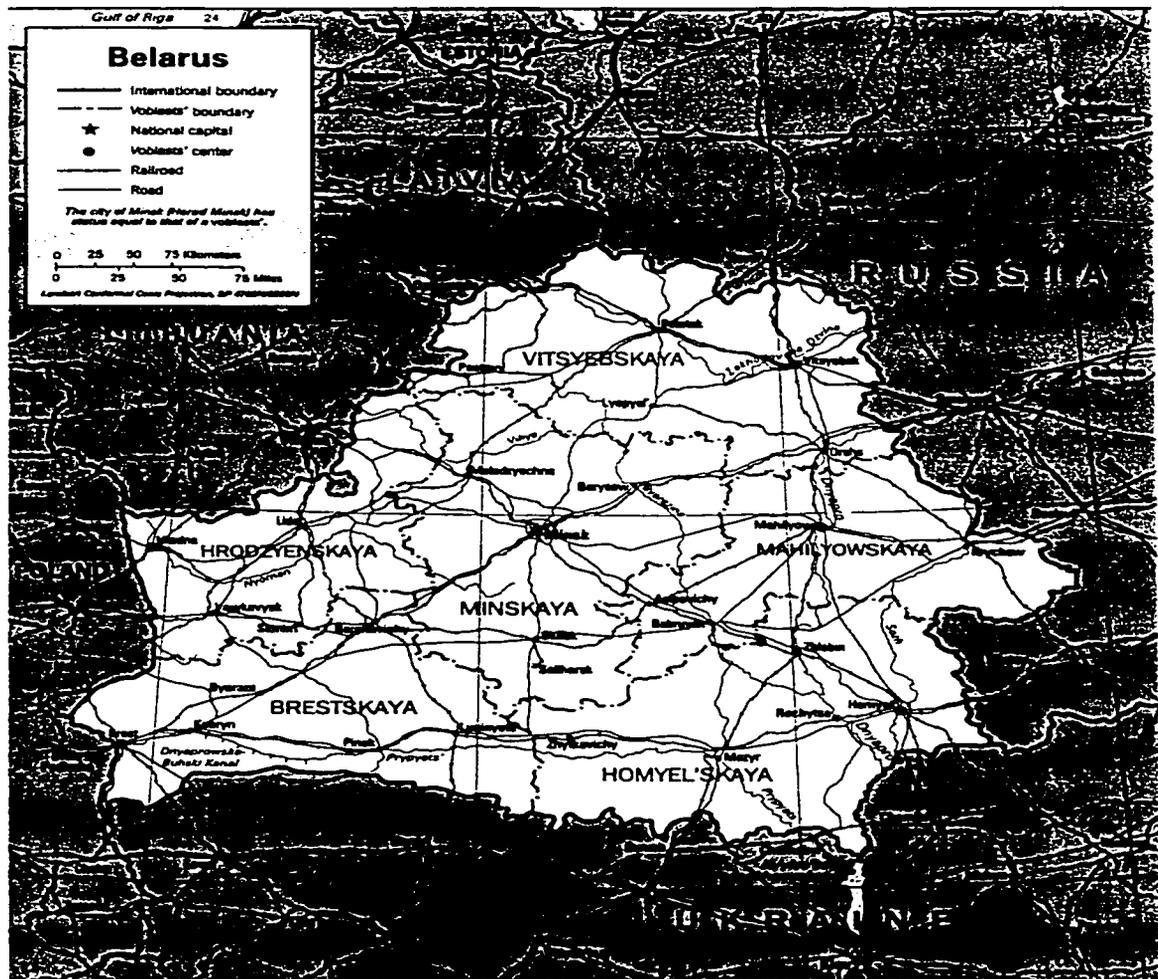


Figure 5.2: Map of Belarus

In addition to its energy dependency, Belarus relied on Russia's military-industrial complex. During the Soviet period, the Belarusian economy was responsible for a significant portion of the military-industrial complex outside Russia. Like Ukraine (and Armenia), Belarus developed components, which were then assembled in Russia. Belarus's primary subsectors were electronics and trucks. Minsk provided heavy-duty chassis for ballistic missile and air defense missile support equipment, including those for the Russian-produced SS-25 Topol (what NATO dubbed "Sickle")

ICBM and the SA-10 surface-to-air missile. Belarusian enterprises also designed and produced computers and computer-based command and control systems.⁴⁰⁰

Belarus's dependencies on Russia meant that potential economic benefits of hierarchy were high. On the other hand, the cost of incompatible policy choices was also high. If Belarus allowed Russia to set policies, given Belarus's poor leverage, it would fear Russian opportunistic behavior. In determining whether to pursue hierarchy in exchange for benefits, the Belarusian leader would have to evaluate the other options available and the degree of hierarchy those options might demand. The primary white knight options, as discussed in chapter 3, are economic alliances with other weak states, international organizations, foreign direct investment, and other strong states. After gaining independence, only international organizations demonstrated an interest in Belarus. As with most of the other FSU states, the IMF and World Bank promptly opened local offices in Belarus. These organizations required that the Belarusian leader, like others in the former Communist states, enact market reforms that would inevitably require breaking the backs of those with a vested interest in the command economy while building a new coalition that would support the reforms. The president's willingness to take this difficult step would determine whether white knights could substitute for a Russian hierarchy.

From Russia's perspective, Ukraine and Belarus offer the security RSA of neighboring strategically important Poland. However, Russia has expressed little interest in forward-basing options in the Western states. Russian forces are instead focused on immediate conflicts in Chechnya, Azerbaijan, Georgia, Moldova, and Tajikistan. This may change if Russia feels militarily threatened by the NATO expansion. On the security dimension, then, the benefits of hierarchy are low for both Russia and Belarus, with the exception of the early warning radar.

Like Ukraine, Belarus was heavily militarized during and after the Soviet period. Ukraine and Belarus would have been the frontline in a NATO-Warsaw Pact conflict. Unsurprisingly, then, both states had significant numbers of tactical and strategic nuclear and conventional weapons at the time of

⁴⁰⁰ U.S. Central Intelligence Agency 1993, 9.

the Soviet collapse. Nearly 10 percent of Belarus's territory "was occupied by military installations, in contrast to about two percent for the Soviet Union as a whole."⁴⁰¹ At the time of the collapse, it had 23 rocket bases and 42 military airfields. In 1990, according to the START I Memorandum of Understanding, the Belarusian Republic had 54 single-warhead SS-25 ICBMs. An additional 27 SS-25's were subsequently deployed. The SS-25s are road-mobile missiles, which also have fixed launch structures. Supplementing the strategic forces were about 1,000 tactical nuclear weapons, spread throughout the force.⁴⁰² Belarus's vast conventional weapons force included about 3,000 main battle tanks; 3,700 armored combat vehicles; 1,600 artillery pieces; 100 surface-to-surface missiles; 250 helicopters; 130 bombers; 290 combat aircraft; and 650 surface-to-air missiles; among other equipment. (See appendix 2 for details on the states' equipment levels.) To complement these vast holdings, Belarus had 102,600 military personnel. Ukraine had higher levels of equipment in almost every category, and more than twice the number of troops.⁴⁰³ However, given Ukraine's larger size—603,700 sq. km compared to Belarus's 207,600 sq. km—relative to the other republics, the two states were comparable in terms of levels of militarization at the time of the Soviet collapse.⁴⁰⁴ With heavily militarized states and no immediate security concerns, neither state has had much need for Russian or any other direct security assistance. As such, the benefits of military assistance from Russia were low. Furthermore, like Ukraine, Belarus lacked the necessary facilities for its own nuclear weapons and missile delivery program. It had no missile production facilities, nuclear weapons testing site, or missile flight-test range. Furthermore, it has no indigenous uranium ore reserves and no significant production capability for heavy water or other key nuclear weapons-related components. As a result, its nuclear weapons were useful primarily as bargaining tools to gain economic benefits.

The one military function that Belarus could not fulfill on its own, and for which there were no other likely purchasers, was an early warning system. In 1985, the Soviets began constructing a large

⁴⁰¹ Potter 1995, 2.

⁴⁰² Zaprudnik and Urban 1997, 294; Potter 1995, 2. For more information on the tactical weapons, see Robert S. Norris and William M. Arkin, "Where the Weapons Are," *Bulletin of Atomic Scientists*, Nov. 1991: 48-49.

⁴⁰³ International Institute for Strategic Studies 1992-93 and 1993-94.

⁴⁰⁴ U.S. Central Intelligence Agency website.

phased-array radar of a type known as Pechora. The radar was designed to detect missiles in Western Europe, north and central Atlantic, and the Mediterranean as well as for space surveillance. The Belarusian site is designed to replace the capabilities of a radar based in Latvia that was eventually shut down in 1998. The Russians had been renting the Latvian site, located in Skrunda, for \$5million per year.⁴⁰⁵ In April 1998, Lukashenka argued that Russia should pay \$1 billion per year for the new site in Belarus.⁴⁰⁶

The Political Landscape Before and Since Independence: Bargaining toward Hierarchy

While Belarus is not known for a history of strong independence movements, an opposition movement—the Belarusian Popular Front (BPF)—did form shortly before the Soviet collapse. Two events led to the BPF’s formation in 1988. First, Belarus was a primary victim of the 1986 Chernobyl nuclear accident. Because of the direction of the prevailing winds that day, Belarus was more severely affected by radiation than Ukraine or Russia. Belarusians subsequently criticized the Soviet government for its long silence in acknowledging the accident and slow response in addressing the crisis, as mentioned earlier. Two years later, in the Belarusian Kurapaty Forest, a reported 500 mass graves filled with 250,000 of Stalin’s victims was discovered. Although some Belarusians, including two on a panel that investigated the graves, argued that German forces were responsible for the slayings, a group of citizens were sufficiently persuaded and angered by the evidence pointing toward the Soviet government to form a new organization dubbed the “Martyrology of Belarus.” The group’s mission was to investigate and publicize crimes carried out in Belarus during Stalin’s reign. At the group’s founding meeting, the BPF was also formed. The archeologist who unearthed the graves, Zyanon Paznyak, was chosen president of the BPF as well as the Martyrology organization. Due to the

⁴⁰⁵ David C. Isby, *Jane’s Defence Upgrades*, Mar. 1, 2001; Anatoly Yarkin, *Tass*, Sept. 21, 2000; United Press International, Jan. 27, 2001.

⁴⁰⁶ Vera Rich, *Jane’s Intelligence Review—Pointer*, vol. 5, no. 4, p. 3.

timing of the groups' founding, the Belarusian population came to associate opposition groups in general with destalinization.⁴⁰⁷

Although clearly not in the forefront of the independence movements in the soon-to-be ex-Soviet Union, the Belarusian Supreme Soviet did make some gestures toward independence and nationalism. In March 1990, the BPF succeeded in securing 35 of the 260 Supreme Soviet seats. An additional 65 to 70 deputies were considered sympathetic to the BPF and during their tenure voted intermittently for BPF initiatives.⁴⁰⁸ Although the Communist Party clearly continued to dominate the body, the election was a victory for the BPF given that only the Communist Party was legally registered. The new Supreme Soviet took some steps toward independence. In July 1990, it adopted a declaration of State Sovereignty by a vote of 230-0, and declared Belarusian the official language. In April 1991, citizens demonstrated in several Belarusian cities, calling for political and economic reforms. In August, following the lead of Estonia, Latvia, and Ukraine, the Supreme Soviet of Belarus declared independence and temporarily suspended the Communist Party. On September 18, the Supreme Soviet dismissed its chairman, Mikalay Szveymyantsyey, for failing to condemn the organizers of the Russian putsch. On September 19, 1991, the parliament elected Stanislau Shushkevich, a former Vice-Rector of Minsk State University, as its chairman; changed the country's name to the Republic of Belarus; and adopted a new national flag—the white-red-white flag of 1918—and the knight-on-horseback coat of arms.⁴⁰⁹ As with the other FSU states, Belarus officially gained its independence in December 1991.

Taking advantage of the pro-independence mood, the democratic opposition pushed further, calling for a referendum to dissolve the largely conservative Supreme Soviet and to hold new, open elections. The opposition was able to garner more than 442,000 signatures, a sufficient number to bring the referendum to the public. However, in October 1992, the majority in the Supreme Soviet

⁴⁰⁷ For an extensive account of the graves found in Belarus and the controversy over the evidence, see Marples 1999, 54-58. Fedor 1995 and Zaprunik and Urban 1997, 287-288 also discuss the findings, though in less detail.

⁴⁰⁸ Dawisha and Parrott 1994, 140.

⁴⁰⁹ Fedor 1995; Marples 1999, 58-60.

fought back by rejecting the call for a referendum: 202 deputies voted against the referendum, 35 in favor, and 35 abstained. The deputies opposing the referendum claimed that procedural violations occurred during the signature collection. As a concession, the deputies agreed to schedule elections for March 1994, one year earlier than previously planned. Supporting the conservative parliament was Prime Minister Vyachaslau Kebich and his primarily Communist Party executive.⁴¹⁰

Although politics in Belarus appeared calm compared to Ukraine, clear divisions were emerging, with Shushkevich, the dominant government spokesman, leaning toward neutrality in his foreign policy and economic and political reform at home. Shushkevich had announced in mid-1992, that “we have decided in principle that we are moving toward a market economy, but we are not doing it in the way our western and eastern, or northern and southern, neighbors do.”⁴¹¹ He held out the South Korean “economic miracle” as a model. In terms of foreign policy, Shushkevich argued that “political sovereignty, military sovereignty, and independence of Belarus do not contradict our aim of having close relations with Russia.”⁴¹² Despite Shushkevich’s efforts to reform the economy, there was little progress. In July 1993, the parliament passed a major privatization law but allowed state and collective farms to continue.⁴¹³ Between 1991 and 1993, only 308 enterprises were privatized, covering only 2.1 percent of the workforce. In 1994, state-owned factories still accounted for 33 percent of all factories, accounting for over 70 percent of total output. Even fewer of Belarus’s dominant sectors were transferred to private hands. Nearly all electricity output was state-owned, as was 65 percent of all fuel production, 99 percent of ferrous metallurgy, 93 percent of chemicals, 77 percent of machine building, and 74 percent of the food industry. Many of the pro-reform laws promulgated during this period remained unenforced.⁴¹⁴ While Shushkevich favored continued close economic relations with

⁴¹⁰Fedor 1995. Dawisha and Parrott 1994, 140.

⁴¹¹ ITAR-TASS, July 24, 1992, as reported in Dawisha and Parrott 1994, 181.

⁴¹² Dawisha and Parrott 1994, 214.

⁴¹³ Dawisha and Parrott 1994, 214; Marples 1999, 62-63.

⁴¹⁴ Marples 1999, 33.

Russia, he remained steadfastly opposed to a military alliance with Russia. He argued that this would compromise Belarus's neutrality and non-nuclear status.⁴¹⁵

Leading the charge against Shushkevich's foreign policy prescriptions was Prime Minister Kebich, who argued that an economic and security confederation with Russia should be the primary objective of Belarus's foreign policy. In spring 1993, Kebich proposed to the Supreme Soviet that Belarus should join a customs union with Russia and Kazakhstan and militarily link itself to the Russian Federation.⁴¹⁶ The primary argument for allying with Russia was to receive "better access to raw material and energy resources at privileged prices, and the numerous enterprises in Belarus directed toward the military industries would receive financing."⁴¹⁷ On April 9, 1993, Kebich successfully won Supreme Soviet backing of his proposal, which by then included a Shushkevich proviso that Belarusian soldiers would not fight outside their state.⁴¹⁸

The one area in which the two politicians agreed was on removing Russian strategic forces from Belarus. The two states had earlier agreed—on July 20, 1992—that the strategic forces would be withdrawn. The precise schedule was agreed to in the Treaty on the Status of Military Units of the Russian Strategic Nuclear Forces Temporarily Stationed in Belarus and the Agreement on the Procedure for the Withdrawal of Military Formations of the Russian Strategic Forces. The two agreements were signed on September 24, 1993 and ratified by the Belarusian parliament on November 25, 1993. Under these agreements, Russian forces would be withdrawn by the end of 1997.⁴¹⁹

Following Ukraine's lead, Belarus would capitalize on Russia and the West's strong desire to see Belarus denuclearized. On Feb. 4, 1993, the Supreme Soviet recommended accession to START I

⁴¹⁵ Marples 1999, 63.

⁴¹⁶ Dawisha and Parrott 1994, 214; Marples 1999, 62-63.

⁴¹⁷ Marples 1999, 62-63.

⁴¹⁸ Marples 1999, 63.

⁴¹⁹ Paznyak 1998, 164. The Russian Duma, however, never ratified the agreement. In a May 22, 1998 vote, the Duma rejected the treaty by 209 to 51. The chairman of the Duma Committee for CIS Affairs, Georgii Tikhonov, "said the pullout was illegal without the Duma's ratification of the agreement." Duma deputies then called for an investigation into the "illegitimate pullout of Russian troops from the territory of Belarus's" (*RFE/RL Newslines*, May 25, 1998).

and the NPT, making Belarus the first of the three FSU states to do so.⁴²⁰ By early 1994, the United States had begun to “reward Belarus for its forthcoming behavior.” About \$76 million of the Nunn-Lugar program was earmarked for Belarus. Of this total, the largest sums were for environmental restoration (\$25 million), defense conversion (\$20 million), and nuclear export controls (\$16.25 million). The Nunn-Lugar money was for dismantling and shipping the nuclear warheads to Russia and for fixing some of the environmental damage from the weapons. At the time, Ukraine was being obstinate regarding returning the weapons. The U.S. government hoped that their reward to Belarus would send a positive signal to Ukraine to follow suit.⁴²¹ Belarus asked for an additional \$210 million to help with housing for displaced military personnel and customs controls. In a 1994 report, the U.S. Office of Technology Assessment (OTA) expressed concern about the “porosity” of the Belarusian border and argued that it was most likely in the U.S. interest to support Belarus’s efforts to tighten their borders.⁴²² OTA further argued that “improving Belarus’s economic performance, in part through successful defense conversion, would reduce economic stress and lessen the risk of widespread corruption that could threaten nuclear safety and safeguards.”⁴²³ As of July 1996, \$9.15 million had been disbursed to Belarus for several joint venture defense-conversion projects. The U.S. allocated another \$10 million for Belarus to build housing for the 9,300 servicemen who found themselves homeless after the Soviet collapse.⁴²⁴

Aside from their decision to exchange nuclear weapons for financial assistance, Kebich and Shushkevich agreed on little else. Their relationship had developed into a bitter and public animosity which eventually led to Shushkevich’s ouster. In January 1994, Kebich brought trumped-up corruption charges against his nemesis. Having antagonized the Supreme Soviet on numerous occasions, Shushkevich was vulnerable. The Supreme Soviet ousted him in a vote of 209 to 36 and replaced him

⁴²⁰ OTA 1994b, 41

⁴²¹ *Ibid.*

⁴²² *Ibid.*, 42.

⁴²³ *Ibid.*, 43.

⁴²⁴ Paznyak 1997, 181-83.

with a Kebich crony, Myeshyslau Hyrb.⁴²⁵ Although Shushkevich proved to lack sufficient backing in the Supreme Soviet, many Belarusian citizens supported him. "...[E]ach time any sort of sociological survey was conducted on the popularity of republican leaders in 1992-1993, Shushkevich was invariably well ahead of his rivals, Kebich, and the leader of the BPF, Paznyak."⁴²⁶ As Marples (1999) points out, however, this may, at least in part, have been due to his position as speaker of the Supreme Soviet, a political position with which the populace was familiar. Kebich, meanwhile, had survived the no-confidence vote that ousted his chief political opponent.

After removing Shushkevich, the parliament passed a new constitution under which a president would be the head of state and the executive. The president could serve a maximum of two 5-year terms. The president's appointed ministers would be subject to parliamentary approval, but could be dismissed at the president's discretion. While the reformers and nationalists were outvoted on several constitutional provisions, they did secure Article 17 which reconfirmed the official status of the Belarusian language.⁴²⁷ The constitution went into effect on March 30, 1994.

Shortly after, on April 12, Russia and Belarus agreed to form a monetary union. Belarus would sacrifice some sovereignty in exchange for economic benefits from Russia. Russia would gain control over Belarus's monetary policy. The treaty had three components: (1) On May 1, 1994, customs fees between the two states would be eliminated. At the same time, the price of Russian oil would decrease to \$40 per ton. (2) As of July or August 1994, the two states would agree to a fixed exchange rate between the Belarusian and Russian rubles. (3) Belarus would receive Russian credits to meet its balance of payments.⁴²⁸ Like Ukraine, Belarus had to find some way of either paying off its oil and gas debts to Russia, or finding a means of repaying Russia in-kind. The monetary union would help solve this problem for Belarus. As part of the arrangement, Belarus agreed not to charge transit fees for "raw materials"—gas and oil—moving from Russia through Belarus. In 1994, transit fees were

⁴²⁵ Marples 1999, 63; Zaprudnik and Urban 1997, 295.

⁴²⁶ Marples 1999, 62.

⁴²⁷ Zaprudnik and Urban 1997, 300.

⁴²⁸ Marples 1999, 110. Marples does not explain why the timeline for the fixed exchange rate was not fixed on July or August.

estimated to be worth \$200 million.⁴²⁹ While this was a valuable concession, Belarus lacked the bargaining power of Ukraine; 95 percent of Russian gas exported to the West passes through Ukrainian-held pipelines.⁴³⁰

The presidential election was scheduled for June 23, 1994. Of the 19 candidates that emerged, five were considered serious contenders. Along with Kebich on the left, was the secretary of the Party of Communists of Belarus (Vasil Novikau), the chairman of the Agrarian Union (Alyaksandr Dubka), and Alyaksandr Lukashenka, a little known government official who was then head of a government-sponsored anti-corruption commission. The reform candidates were Shushkevich and BPF leader Paznyak. Under the election rules, if no candidate garnered more than 50 percent of the vote, the two highest vote winners would participate in a run-off election. To the surprise of nearly all observers, Lukashenka won an impressive 45 percent of the vote. Kebich, with 17 percent of the vote, would face Lukashenka in the run-off. The two reform candidates had earned a combined 23 percent of the vote: Paznyak with 13 percent and Shushkevich with 10 percent. In the July run-off election, Lukashenka trounced the former prime minister, winning 80 percent of the vote.⁴³¹

Lukashenka's election would prove to be a serious turning point in the state's future—one that few had anticipated when he was elected. Polls indicated that Belarusians did not believe that their government would become a dictatorship. In a 1993 European Community Commission survey, only 18 percent of Belarusians expressed this concern. This is particularly notable when compared to other FSU states in the West, such as in Latvia, where 34 percent expressed this concern; European Russia, 33 percent; and Ukraine, 23 percent.⁴³²

⁴²⁹ Grigory Selyaninov and Konstantin Smirnov, *Kommersant*, Apr. 15, 1994, as reported in *Current Digest of the Post-soviet Press*, May 11, 1994.

⁴³⁰ Matthew Kaminski, *Financial Times* (London), Mar. 15, 1996.

⁴³¹ Fedor 1995, Marples 1999, 60-61, 69-71.

⁴³² The survey included 18,500 respondents. Other states included Moldova, 40 percent; Armenia, 39 percent; Georgia, 27 percent; Lithuania, 19 percent; and Estonia, 18 percent. The results were reported in *New Times* (Moscow), no. 14 (April 1993), 8, according to Dawisha and Parrott 1994, 385, fn. 113.

The election turned on Lukashenka's promise to rid the government of corruption, with voters choosing to reject the old Soviet leadership for an unknown personality.⁴³³ During the campaign, Lukashenka had communicated disgust for corrupt officials, a desire for a close friendship with Russia, and a promise to attend to the citizens' needs. As a Supreme Soviet deputy, he had "close links with hard-line Leftist factions in the legislature...and it is thought that he had connections with similar groups in Russia, including the Liberal-Democratic Party of Vladimir Zhirinovskiy."⁴³⁴ He was reportedly the only deputy to oppose the agreement that disbanded the Soviet Union, the so-called Belavezha agreement of December 1991.⁴³⁵

Lukashenka's inaugural address was a poor indicator of the direction in which he would soon take the country. He indicated few changes from the previous administration. If anything, he appeared to be advocating more reform. He pledged to run a sharply disciplined regime, to not return to a command economy, to protect private property, and to collaborate with the IMF.⁴³⁶ His ministerial choices connoted a similar path. He retained some of Kebich's appointees, including the pro-reform National Bank chairman (Stanislau Bahdankevich), and added a prime minister with few ties to the Communist hierarchy (Mikhail Chyhir) and a foreign minister known for his pro-Western views (Uladzimir Senka).⁴³⁷ Lukashenka's first summit with the Russians was unfavorable. In the August 1994 meeting with President Yeltsin and Prime Minister Viktor Chernomyrdin, Lukashenka found himself under heavy pressure to make concessions to the Russians. In September, Chernomyrdin announced that there would be no monetary union until Belarus privatized and reformed its economy.⁴³⁸ National Bank chairman Bahdankevich later revealed that Moscow had asked that Belarus abolish its National Bank and unify its state budget with Russia's, in essence forsaking its monetary

⁴³³ Fedor 1995.

⁴³⁴ Marples 1999, 71.

⁴³⁵ Marples 1999, 71.

⁴³⁶ Zaprudnik and Urban 1997, 300.

⁴³⁷ Marples 1999, 70-72.

⁴³⁸ Olcott, Åslund, and Garnett 1999, 173; Marples 1999, 110.

authority.⁴³⁹ Despite this initial set-back, Lukashenka moved forward with his pro-Russian economic plan. In January 1995, he negotiated a hierarchic customs union with Russia. Although both the proposed monetary and customs union were hierarchic, the customs union required less of a sacrifice of sovereignty than the monetary union would have. With the customs union, there was no expectation of domestic economic changes. In chapter 4, I asserted that hierarchy can be measured by giving a dyad one point if the dominant state controls the monetary policy, one if it controls external tariffs, and one if it controls domestic economic decisions. The hierarchy that Russia was proposing would have scored a 2, while the customs union scores only 1 point. The Russian-proposed hierarchy simply demanded too much. The customs union was more palatable. (See chapter 4 for details on the customs union.) Later, in a September 1995 meeting, Lukashenka and Russian Prime Minister Chernomyrdin discussed both the customs union and “arrangements for continuing the supply of Russian natural gas to Belarus.”⁴⁴⁰ While the two states did not explicitly state that a deal was made in which Belarus would receive a break on its fuel debts if it joined the economic hierarchy, it seems logical that this deal would have been struck.

By the end of his first 100 days in office, Lukashenka’s authoritarian nature was emerging. On a live TV appearance in November 1994, Lukashenka threatened to remove and arrest officials who opposed his policies, including the prime minister and National Bank chairman. He vowed to take personal control of the KGB, and chastised the media for not being more positive in their coverage of his policies. By the end of the year, the government had replaced most of the major newspapers’ editors.⁴⁴¹ In the Freedom House’s ratings on political and civil rights and press freedoms, Belarus went from a rating of “partly free” to “not free.”⁴⁴² In the spring of 1995, the president hinted at eliminating the parliament altogether, calling the body “obstructive” and “dishonest.”⁴⁴³

⁴³⁹ John Lloyd, *Financial Times* (London), Jan. 6, 1995.

⁴⁴⁰ *RFE/RL Newsline*, Sept. 20, 1995, “Chernomyrdin, Lukashenka Discuss Economic Cooperation.”

⁴⁴¹ Marples 1999, 72.

⁴⁴² Freedom House web site, last accessed in May 2001. The Press Freedom rating is for 1999, the earliest year of the ratings.

⁴⁴³ As quoted in Marples 1999, 73.

As the parliament's session came to an end, Lukashenka announced that he would hold a referendum on four questions: "(1) Do you agree that the Russian language should have an equal status with Belarusian? (2) Do you support the proposal about the establishment of a new state flag and state symbols of the Republic of Belarus? (3) Do you support the actions of the president directed toward economic integration with Russia? (4) Do you agree with the need to introduce changes to the Constitution of Belarus anticipating the pre-term dissolution of the Supreme Soviet by the president of Belarus in cases of systematic or gross violations of the Constitution?"⁴⁴⁴ The flag proposal sought to replace the striped red-white-red flag of Belarus's brief independence in 1918 with the flag from the Soviet period, minus the hammer and sickle.⁴⁴⁵ The first three questions were intended to dilute Belarusian nationalism while heralding closer relations with Russia. Lukashenka announced that the referendum would be held the same day as parliamentary elections.

In opposition to these highly controversial referendum questions, a group of parliamentarians, led by BPF leader Paznyak, began a hunger strike on April 10. The parliament subsequently rejected three of the referendum questions, leaving only the question on economic integration with Russia. Lukashenka countered that the referendum would be held regardless of the parliament's vote and that he would use force to disband the parliament if necessary. The impasse continued into the next night. At 3 a.m., 200 special force officers raided the parliament building, beat and then removed the 14 striking deputies. The parliament subsequently acquiesced on a number of issues, including the four referendum questions.

On May 14, 1995, 65 percent of the population turned out for the referendum and the parliamentary election.⁴⁴⁶ The citizens approved all four referendum questions, with support ranging from 75 to 83 percent.⁴⁴⁷ The parliamentary elections, by contrast, suffered from insufficient turnout. Under Belarus's electoral laws, in order for a particular candidate's election to be valid, 50 percent of

⁴⁴⁴ As translated by Marples 1999, 72-74.

⁴⁴⁵ Marples 1999, 75.

⁴⁴⁶ Lukashenka had earlier postponed the parliamentary elections until May 1995, giving the deputies one more year without an election (Fedor 1995).

⁴⁴⁷ Fedor 1995, 69; Marples 1999, 74-75.

the electorate had to vote and the candidate had to receive over 50 percent of those votes. In the first round, only 18 deputies were elected. On May 28, a second round of elections resulted in 101 more deputies joining the parliament. This round left the parliament 54 short of a quorum. In late November, by-elections were held, but a quorum still was not reached. Finally, a December 10 runoff gave the parliament a quorum of 198 deputies; 62 seats remained vacant. The new parliament constituted 42 Communists, 33 Agrarians, and 96 unaffiliated deputies. While the BPF was no longer a presence, several well-known reform candidates won election, including Shushkevich, National Bank president Bahdankevich, and former foreign minister Krauchanka.⁴⁴⁸

Despite the presence of these pro-democracy and reform elites, the 1994 referendum and parliamentary election marked a turn away from democracy, market reforms, and Belarusian cultural development. Lukashenka became increasingly authoritarian and anti-Western. This became poignantly clear to the West when, on September 12, 1995, Belarus shot down an American hot-air balloon taking part in an international balloon race. The two pilots were killed.⁴⁴⁹ During 1995, Lukashenka issued a series of decrees, many of which were ruled unconstitutional by Belarus's Constitutional Court. In response, the president announced that he would ignore the Court's rulings.⁴⁵⁰ Further evidence of the president's authoritarian rule was his continuous harassment of the media. Several opposition papers were denied printing facilities, forcing them to operate outside the state; several moved to Lithuania. The government suddenly revoked the BPF newspaper's lease, removed the parliamentary newspaper's editor for criticizing the president's policies, and required all papers to reregister with the government, a procedure that 200 papers found prohibitively expensive, resulting in their closure.⁴⁵¹

In January 1995, Belarus agreed to grant Russia access to the Vileika and Baranovich military facilities for 25 years, at no cost to Russia. Vileika is a low-frequency communications site

⁴⁴⁸ Marples 1999, 76-77.

⁴⁴⁹ The balloon had strayed into Belarusian air space, coming close to a military airfield manned by Russians. Lukashenka blamed the race organizers for not providing sufficient information about the race. Lukashenka eventually apologized, but not until 3 weeks had passed. Marples 1999, 78.

⁴⁵⁰ Marples 1999, 79.

that allows Russia to send radio signals to Russian surface ships and submarines in the Atlantic and Mediterranean. Baranovichi is a strategic early-warning radar facility.⁴⁵² Lukashenka made a weak attempt to evade Belarus's "no foreign troops" policy by explicitly stating in the agreements that the sites are not to be considered military bases.⁴⁵³ This statement cannot be taken seriously. The sites are strictly for military purposes and only Russia uses them. By providing the sites for Russia's sole use, Belarus agreed to a security hierarchy in which Russia is responsible for Belarus's air defense. Russia explicitly linked lower fuel prices with access to the two bases, again connecting economic benefits with hierarchy. In May 1995, the Russian Minister for Cooperation with CIS Countries announced that Russia might lower the natural gas price it charges Belarus, noting that Minsk is not charging Russia for leasing the facilities, saving Russia about \$340 million annually.⁴⁵⁴ Thus, lower fuel prices would compensate Belarus for the bases.

In February 1996, Prime Minister Chyhir gave a "state of the economy" address to the parliament. Among the points he highlighted was the increasing cost of Russian-supplied fuel. In 1993, he noted, Belarus paid \$21.70 for a ton of Russian oil and \$35.70 for 1,000 cuM of natural gas. The following year, prices rose to \$57 and \$50 respectively, and increased even further to \$80 and \$53 in 1995.⁴⁵⁵ Although Chyhir was citing the figures as an example of Belarus's hardship, the prices were markedly below Russia's prices for other states. "Lithuania and Ukraine, for example, were paying \$80 per 1,000 cuM of natural gas, Belarus pays only \$50."⁴⁵⁶ These low prices amounted to an indirect Russian annual subsidy of about \$400-450 million, according to an advisor to the Supreme Soviet of Belarus and the World Bank.⁴⁵⁷ About two weeks after the prime minister's address, Lukashenka arrived in Moscow for a summit with Yeltsin to discuss mutual debts. Russia claimed that

⁴⁵¹ Marples 1999, 80-81.

⁴⁵² Zaprudnik and Urban 1997, 296; Olcott, Åslund, and Garnett 1999, 92.

⁴⁵³ Olcott, Åslund, and Garnett 1999, 100.

⁴⁵⁴ *RFE/RL Newslines*, May 25, 1995.

⁴⁵⁵ *RFE/RL Newslines*, Feb. 12, 1996.

⁴⁵⁶ Zlotnikau 1998.

⁴⁵⁷ Zlotnikau 1998.

Belarus owed between \$800 million and \$1.3 billion⁴⁵⁸ for energy supplies and \$470 million in loans. Belarus countered that Moscow owed it \$800 million in compensation for ecological damage caused by Russia's strategic missiles and \$114 million for Russian troops stationed in Belarus. In what became known as the "zero" option, the two leaders agreed to forgive each other's debts.⁴⁵⁹ After Belarus agreed to the hierarchic customs union and to Russian military bases, Russian natural gas prices fell further. In 1998, Russia was charging Belarus \$30 per cuM, while Ukraine was charged \$50 and Lithuania, \$76.

In 1995, the parliament was once again on a collision course with the president, one that would again be resolved in the president's favor. In 1995, the new Supreme Soviet elected Syamen Sharetski as its speaker. Sharetski was the head of the Agrarian party, which had become more centrist under his leadership. Sharetski was a firm supporter of the constitution and Belarusian sovereignty. The Speaker's policy positions quickly clashed with Lukashenka's, leading to a protracted conflict between the executive and the parliament, as well as between the opposition and the government. On March 24, in the largest demonstration in Belarus since 1991, tens of thousands of Belarusians marched in Minsk. The rally was initially called to mark the anniversary of Belarus's 1918 independence, but evolved into a protest against Lukashenka and his proposal for a "union" with Russia. Riot police broke up the demonstration. On April 2, approximately 20,000 people took to the streets to protest the signing of the Russia-Belarus union agreement.⁴⁶⁰ Belarus's largest civil conflict since 1991 occurred on the 10th anniversary of the Chernobyl disaster, April 26, 1996. An estimated 50-80,000 people participated in an officially sanctioned protest in Minsk. With the BPF in the forefront, the militia attacked the protestors. Over 200 people were arrested, including 17 members of an ultranationalist group from Ukraine. Additional violent clashes between anti-government forces and riot police occurred in April and May.⁴⁶¹

⁴⁵⁸ According to the *RFE/RL Newslines*, Feb. 12, 1996, the debt was \$800 million. The *RFE/RL Newslines* reported a debt of \$910 million in its Feb. 27, 1996 edition. Zlotkau 1998 reports that the debt was \$1.3 billion.

⁴⁵⁹ *RFE/RL Newslines*, Feb. 27, 1996.

⁴⁶⁰ *RFE/RL Newslines*, Mar. 25, 1996; Apr. 3, 1996.

⁴⁶¹ Marples 1999, 83-86.

Despite these authoritarian actions, the West continued to express promise that their international organizations could aid Belarus in stabilizing its economy. In August 1995, the acting managing director of the IMF, Stanley Fischer, announced that “Belarus had made considerable progress in reforming and stabilizing its economy and that he was confident the IMF board would consider the country’s request for a \$290 million tranche of a stand-by loan next month. Fischer praised Minsk for its efforts to meet IMF conditions, especially in making its international credit payments.”⁴⁶²

Fischer’s praise would prove misplaced. Although Belarus and Ukraine both started out courting assistance from Western white knights, Belarus’s parliament later blocked reforms, leading to a significant decline in Western support. In 1992 and 1993, neither Ukraine nor Belarus received any concessional flows from the IMF, World Bank (IBRD and IDA), or regional development banks. (By contrast, in 1993, Estonia, Kyrgyzstan, Latvia, Lithuania, and Moldova received between \$19 and \$42 million each; Russia obtained \$371 million.) In 1994, Belarus received \$100 million and Ukraine, \$102 million. This is particularly notable when considering that Ukraine’s population is more than five times the size of Belarus’s: compare Belarus’s 10 million to Ukraine’s 52 million. Between 1992 and 1994, nonconcessional net flows (IBRD and regional development banks) totaled \$108 million for Belarus and \$361 million for Ukraine.⁴⁶³ While Ukraine had significantly higher levels of foreign direct investment in 1994—\$159 million compared to only \$15 million for Belarus—when evaluated as a percent of GDP and on a per capita basis, the difference between the two states is less striking. Table 5.4 depicts these financial flows.

⁴⁶² *RFE/RL Newswire*, Aug. 25, 1995

⁴⁶³ World Bank, *World Development Indicators 2000*.

Table 5.4: Net Financial Flows for Belarus and Ukraine, 1992-1994

Financial Flows		1992	1993	1994	Total
Aid per capita (current US\$)	Belarus	26	18	11	55
	Ukraine	11	6	6	23
Foreign direct investment (millions)	Belarus	N/A	10	15	25
	Ukraine	0	0	159	159
Foreign direct investment, as a percentage of GDP	Belarus	N/A	0	0	..
	Ukraine	0	0	0	..
Foreign direct investment, per capita	Belarus	0	1	1	2
	Ukraine	0	0	3	3
Concessional net financial flows (millions) ^a	Belarus	0	0	100	100
	Ukraine	0	0	102	102
Nonconcessional net financial flows (millions) ^b	Belarus	0	102	6	108
	Ukraine	0	0	361	361

Notes:
^aConcessional net financial flows are from the World Bank's International Bank for Reconstruction and Development (IBRD) and the IDA; International Monetary Fund (IMF); and Regional Development Banks.
^bNonconcessional net financial flows include funds from IMF and Regional Development Banks.

Source: World Bank, World Development Indicators 2000.

The two states began to diverge in 1995. In March, the IMF announced that it was postponing a \$250 million stand-by loan because of the state's failure to pass necessary reforms. The IMF complained that "inflation has been running at 33.7%, not 10%, as foreseen by the [stabilization] program. None of the 371 enterprises slated for privatization by the end of March has been privatized. And inefficient and insolvent enterprises have not been declared bankrupt by the government."⁴⁶⁴ Earlier IMF credits had been consumed paying off Belarus's debt for Russian fuel.⁴⁶⁵ Throughout 1995, the IMF and Belarus flirted with each other, moving closer and then pulling apart again.⁴⁶⁶ By the end of 1995, however, it was clear that Ukraine would continue receiving concessional and nonconcessional financial flows from Western international organizations, while Belarus's would drop off dramatically. In 1995, the IMF halted the disbursement of a \$300 million standby credit to Belarus because of the lack of market reforms.⁴⁶⁷ The following year, Basil Kowalski, a World Bank official, said Belarus had been "going in a counterreform direction over the last nine months, and that the World

⁴⁶⁴ RFE/RL Newsline, "IMF Criticizes Belarusian Economic Reforms." Mar. 28, 1995.

⁴⁶⁵ RFE/RL Newsline, "IMF Releases Credit To Belarus," Feb. 3, 1995.

⁴⁶⁶ RFE/RL Newsline, "Belarus Still Hasn't Signed IMF Letter, July 21, 1995; "Belarus To Meet IMF Target By Mid-August," Aug. 11, 1995; "IMF May Release Credit To Belarus," Aug. 25, 1995; "IMF Approves Credit To Belarus," Sept. 14, 1995; "IMF Asks Belarus To Stop Intervening In Currency Market," Nov. 2, 1995; "IMF Critical Of Belarusian Reforms," Dec. 19, 1995.

Bank had shelved its plans to lend the country \$170 million until it sees real commitment to market reforms."⁴⁶⁸

Table 5.5: Net Financial Flows for Belarus and Ukraine, 1995-1998

Financial Flows		1995	1996	1997	1998	Total
Aid per capita (current US\$)	Belarus	22	7	4	3	55
	Ukraine	6	8	4	8	26
Foreign direct investment (millions)	Belarus	20	73	200	149	442
	Ukraine	267	521	623	743	2,154
Foreign direct investment, as a percentage of GDP	Belarus	0	0	1	1	..
	Ukraine	1	1	1	2	..
Foreign direct investment, per capita	Belarus	2	7	19	15	43
	Ukraine	5	10	12	15	42
Concessional net financial flows (millions) ^a	Belarus	11	14	13	4	42
	Ukraine	401	406	306	385	1,498
Nonconcessional net financial flows (millions) ^b	Belarus	205	29	43	24	361
	Ukraine	1,208	797	318	277	2,961

Notes:
^aConcessional net financial flows are from the World Bank's International Bank for Reconstruction and Development (IBRD) and the IDA; International Monetary Fund (IMF); and Regional Development Banks.
^bNonconcessional net financial flows include funds from IMF and Regional Development Banks.

Source: World Bank, World Development Indicators 2000.

Even accounting for Ukraine's larger population and GDP, Belarus was far behind. Between 1995 and 1998, Belarus received only \$42 million in concessional net financial flows compared to Ukraine's nearly \$1.5 billion. Nonconcessional flows were similarly heavily tilted toward Ukraine, giving it a total of nearly \$4.5 billion in combined concessional and nonconcessional net financial flows from the World Bank's IBRD and IDA, the IMF, and regional development banks. Belarus's comparative total was \$403 million. As reported in the Ukraine section above, much of Belarus's borrowing went toward paying off Russian energy debts. As its foreign aid and financial flow from international organizations slowed to a trickle, Belarus looked for other ways to earn hard currency. As a heavily militarized state, one obvious option was to sell its excess military equipment. To comply with the CFE Treaty, Belarus needed to dispose of about 2,000 main battle tanks. It could do this by either selling (or giving away) tanks to third parties or by destroying them. To the extent that it could find customers, Belarus was intent of earning rather than spending money to meet its obligations. In

⁴⁶⁷ *RFE/RL Newslines*, "Belarusian President Advocates State-Run Economy," Markus, May 8, 1996.

April 1996, for example, Belarus agreed to sell to Hungary 100 T-72 tanks. In 1997, Belarus sold Peru 16 MiG aircraft for a reported \$350 million. In 1998, there were reports that Belarus was planning to sell tank parts to Iran. Lukashenka has also visited Syria and Algeria trying to secure arms sales.⁴⁶⁹ In justifying these sales, the president said, "If we want to sell, then we have the right to do so. We will sell the extra things that we have left over and the things we produce: optical equipment and electronics. This will be profitable for us."⁴⁷⁰ In 1995 and 1996, Belarus reported that arms exports accounted for about 3.5 percent of its GDP; this percentage increased to 6.7 percent in 1997.⁴⁷¹

In 1996, Lukashenka moved to consolidate his power vis-à-vis the parliament. He proposed in July to amend the constitution via a public referendum. Under his proposal, the parliament would become bicameral. Citizens would elect 110 deputies to the new House of Representatives. The 64-member Council of the Republic would consist of representatives from each of the 7 *oblasts* and Minsk, to be selected by the local Soviets, plus 8 deputies chosen by the president.⁴⁷² The proposed constitution would enhance the president's powers while diminishing those of the parliament. The president would have the right to dissolve the parliament if the body twice failed to approve his prime minister. Parliament would lose the right to veto cabinet appointments. The president would appoint judges, half of the Constitutional Court, and Central Electoral Committee members, and set election dates for the parliament. This last provision would give him the right to dissolve the parliament at any

⁴⁶⁸ *RFE/RL Newslines*, "World Bank Assesses Ukraine, Belarus," Markus, Sept. 30, 1996.

⁴⁶⁹ Defense & Foreign Affairs' Strategic Policy, Apr. 1997, "Arms Transfer Tables; Significant Recent International Transfers of Defence Goods and Services in the Past Six Months," p. 43; *RFE/RL Newslines*, Apr. 9, 1996, "Belarus to Sell Tanks to Hungary"; Stacy Evers, *Jane's Defence Weekly* Dec. 18, 1996, The Americas, Vol. 26; No. 25; p. 9, "Peru adds 'Frogfoot' to MiG-29 buy from Belarus"; *RFE/RL Newslines*, Feb. 20, 1998; *Jane's Defence Industry Report*, Mar. 1, 1998, "Russian Exports Hit by Crises"; Vera Rich, *Jane's Intelligence Review*, May 1, 1998, Europe/CIS; Vol. 5; No. 5; p. 4, "Belarus Targets Syria and Iran"; and *Foreign Report*, Dec. 10, 1998, "Algerian Gun-Hunters."

⁴⁷⁰ Vera Rich, *Jane's Intelligence Review*, May 1, 1998, Europe/CIS; Vol. 5; No. 5; p. 4, "Belarus Targets Syria and Iran."

⁴⁷¹ In 1994, Belarus reported that arms exports accounted for .2 percent of its GDP; prior to that it was less than one tenth of a percent. Figures for 1998 and later were not available for the World Bank's 2000 database. World Bank, World Development Indicators 2000.

⁴⁷² There is an inconsistency in Marples' (1999) account of the Council's size. On page 89, he indicates that the Council would consist of 16 members. Later, on page 97, he states that the upper house would consist of 60 senators. According to the U.S. Central Intelligence Agency web site, accessed in May 2001, there are 64 members of whom 8 are appointed by the president and 56 are indirectly elected by the local Soviets. There is no indication that Lukashenka changed his proposal.

time. The parliament continued to support a Constitutional proposal that would eliminate the presidency, replacing it with a parliamentary system. Days later, about 15,000 protestors marched in Minsk to commemorate the anniversary of Belarus's 1990 declaration of sovereignty. At the march, centrist and reform deputies began collecting signatures to impeach the president. Whether parliament could successfully remove the president was uncertain, as the body was divided in its support of Lukashenka. For example, on September 5, parliament supported by 111 to 43 a presidential opponent for chairman of the Central Election Commission; and, on October 11, the parliament voted 88 to 84 in favor of abolishing the presidency and forming a parliamentary government. On the other hand, Lukashenka had obtained 110 deputies' signatures in favor of his revised Constitution. Presumably because of this divide, Lukashenka agreed to delay the referendum until November 24.⁴⁷³

As the date of the referendum vote neared, the conflict between the two branches of government heated up. By this time, Lukashenka controlled the only Belarusian television station, had threatened to expel correspondents from the other two stations—both of which were Russian—for criticizing the president, and had prohibited the Supreme Soviet Speaker from appearing on any of the three stations. Lukashenka dismissed the chairman of the Central Election Commission, evicting him from the parliamentary building. Protestors, including some deputies, were attacked and beaten by the militia. On November 18, the prime minister resigned in protest. Two days later, a high-level Russian delegation arrived in Minsk with the intention of mediating an end to the crisis. Prime Minister Chernomyrdin led negotiations between Lukashenka and Sharetski. At the end of a 10-hour session, the parties agreed that the referendum would be non-binding, the parliament would withdraw from the Constitutional Court its complaints about Lukashenka, and a constituent assembly would be formed to draft a new constitution. However, the Belarus parliament refused to ratify the agreement, leaving Lukashenka free to resume his referendum effort.⁴⁷⁴

On November 24, in an election marked by numerous irregularities, over 84 percent of the Belarusian electorate turned out for the referendum. Lukashenka won support for all of his questions,

⁴⁷³ Marples 1999, 89-92, 97.

with 71 percent supporting his version of a new constitution.⁴⁷⁵ Moving quickly to implement the constitution, Lukashenka appointed 110 of the existing Supreme Soviet deputies to serve in the newly created House of Representatives and established the new 64-member Council of the Republic. The Supreme Soviet deputies not selected for the new parliament were dismissed.⁴⁷⁶

The following year—1997—Lukashenka began cracking down on charitable organizations, accusing them of corruption and demanding high taxes, and continuing to violently quell public protests. The Belarusian Soros Foundation, which had donated \$10 million to Belarus in 1995-96, was accused of conspiring with the opposition. The government subsequently seized its bank account. The Children of Chernobyl Fund was investigated by the KGB for political activism and for financial misdeeds. The Citihope International organization, which had supplied Belarus over \$130 million in humanitarian aid, was forced to pay heavy taxes eventually resulting in its suspension of activities in Belarus. Several protests in March and April were violently put down. Lukashenka increasingly became known for his authoritarian methods, “moods, and possible medical conditions.”⁴⁷⁷

While Lukashenka has alienated many in the West, he has upheld the arms control agreements agreed to at the beginning of Belarus’s independence. With some vacillations, Belarus has shown a commitment to arms control. Belarus began its independence as a neutral state, joining the nuclear and conventional arms control regime that the USSR had helped create before its collapse. Along with Ukraine, Kazakhstan, and Russia, Belarus signed in 1992 the protocol to the START agreement. The parliament ratified the treaty in February 1993 and voted to join the NPT as a non-nuclear state.⁴⁷⁸ While Belarus was moving toward becoming a non-nuclear state, Ukraine was delaying returning its

⁴⁷⁴ Marples 1999, 93-96.

⁴⁷⁵ The referendum included seven questions, some of them drafted by the parliament: (1) Should the national holiday be changed from July 27 to July 3, when Belarus was liberated from Nazi Germany? (2) Do you support the President’s proposed Constitutional changes? (3) Do you support the unrestricted buying and selling of land? (4) Should the death penalty be abolished? (5) Do you support the Parliament’s proposed Constitutional changes? (6) Do you support the election of regional leaders [appointed by the president]? (7) Do you approve of funding for state institutions directly from the budget? Lukashenka’s position was supported on all seven questions: “yes” for questions 1-2 and 6-7; “no” for 3-5. See Marples 1999, 97.

⁴⁷⁶ Marples 1999, 98.

⁴⁷⁷ Marples 1999, 99-104. The quote is from a statement issued by the Belarusian Popular Front in March 1997 (Marples, 104).

weapons to Russia and ratifying the START agreement. Belarus joined the NATO Partnership for Peace in January 1995. Belarus signed the CFE treaty in October 1992. In 1996, Belarus agreed that Russian strategic rocket troops would return to Russia, following the removal of nuclear weapons on Belarusian territory. The U.S. increased Belarus's share of Nunn-Lugar funds for dismantling its weapons. Though it had been slow to comply, Belarus began implementing the CFE provisions in early 1996. By April 1996, Belarus had met its CFE limits of 1,000 main battle tanks (down from 3,000), 1,615 artillery pieces (1,600), 2,600 armored combat vehicles (3,700), 260 combat aircraft (290) and 80 attack helicopters (80).⁴⁷⁹ By the end of that year, all nuclear weapons had been moved to Russia.⁴⁸⁰

The above narrative demonstrates that Belarus has pursued an economic hierarchy with Russia in exchange for economic benefits. RSAs have both aided and constrained Belarus. Like Ukraine, Belarus has used transit fees to offset its fuel debts with Russia. While it did not pursue a security hierarchy, Russia

The Russian troop withdrawal from Belarus is harder for the theory to explain. The theory suggests several possibilities: first, Russian political benefits of hierarchy decreased; and second, the financial cost of maintaining the troops in Belarus increased. There is no evidence to suggest the first reason as a cause. If anything, Ukraine and the Baltic states' continued resistance to Russian pressures should have behooved Russian leaders to pursue the one hierarchy with a Western state that was welcome. There is more evidence to support the second reason—rising financial costs of maintaining the hierarchy. Since much of Belarus's bargaining was contingent on receiving economic benefits in exchange for the hierarchy, the weak state may have driven up the costs of hierarchy to an unsustainable level. Unfortunately, I was unable to find direct evidence for this.

⁴⁷⁸ Marples 1999, 108-109.

⁴⁷⁹ Paznyak 1998, 161.

⁴⁸⁰ Marples 1999, 108-109.

Conclusion

Ukraine has long been an object of Russia's desire. Strategically located between Russia and the rest of Europe, Ukraine has played an important role in Russian foreign policy for centuries. Fighting economic collapse and Russian pressures for hierarchy, Ukraine has managed to retain its autonomy in the economic arena. This is due to three factors. First, the two states are mutually dependent. Ukraine has used this feature to engage in mutual hostage-taking, thus raising the cost of hierarchy to Russia. Second, Ukraine has been able to sell or gain credits for assets, most notably nuclear weapons, the Black Sea Fleet, and other military equipment. This has helped it stave off pressures from Russia and reduced the desirability of benefits that Russia can offer. Third, Ukrainian presidents have been able to push through enough economic reforms to earn significant economic assistance from international organizations. This has not been a smooth path, but Ukraine has earned a reputation as a reforming state, albeit on a path of *gradualism* rather than *shock-therapy*. In the long run, however, Ukraine has few white knight options for reducing its vulnerability due to relation specificity. The massive loans for international organizations, averaging \$1.12 billion per year, between 1995 and 1998, have not changed Ukraine's heavy dependence on Russian fuel or on its need for Russian transit fees to off-set its energy debts to Russia. This is a potentially serious problem for Ukraine, particularly since Russia is actively seeking ways of reducing its reliance on Ukraine's gas pipelines. By building a pipeline through Belarus, which is eager to oblige, Russia will reduce its dependence on Ukraine. The alternate pipeline might also have excess capacity, enabling Russia to play its two Slavic neighbors off each other. It is no accident that the pipeline will run through the state that has agreed to hierarchy. Without its most valuable retaliation weapon against Russia—higher transit fees—Ukraine may have to succumb to pressures from Russia.

The story of the divergent paths of Ukraine and Belarus has often been told as the difference between a strongly nationalist Ukraine and a "de-nationalized" Belarus.⁴⁸¹ The nationalist movement in Belarus is unquestionably weaker than that in Ukraine. This is not to say that the Belarusians are lambs

⁴⁸¹ The term is from Marples.

destined to follow their Russian shepherd. National leaders envisioning a close, but non-hierarchical relationship with Russia have emerged. At various times, these leaders have had significant support among the population and, to a lesser extent, political leaders. Large numbers of Belarusians have, at considerable personal risk, attended anti-government rallies. Nevertheless, President Lukashenka entered office with a clear mandate to form a union with Russia. Subsequent referenda confirmed the population's support for a new union. Thus, Lukashenka faced virtually no domestic political costs from joining a Russian hierarchy. This contrasts with Ukraine, where reformers and nationalist movements are better organized and more influential. What the nationalism argument cannot explain, however, is why Belarus has not gone further in its hierarchy with Russia. Rhetoric aside, Russia and Belarus have taken only a few steps toward unifying their economies. When Russia laid out the requirements for deeper integration—eliminating the Belarusian ruble—Lukashenka balked. Favoring a union with Russia was one thing; surrendering all monetary authority was another. Belarus's unique position as a friendly western state (in contrast to the Baltic states and Ukraine), its pipelines, and its military sites have given Lukashenka some leverage against Russia. Ironically, Russia's new gas pipeline will give Belarus additional power in its relationship with Russia.

Chapter 6: Central Asia: Kazakhstan

Kazakhstan's economic connections with Russia involve several significant relation specific assets (RSAs), the most important being the energy pipelines. Since Russia controls Kazakhstan's export routes, only Kazakhstan is vulnerable in the relationship. With much of its economic future riding on access to international markets, Kazakhstan can ill afford to ignore Russian pressure. Evaluating RSAs only, the theory predicts that Kazakhstan would enter into a hierarchy with Russia. This has been the case. Kazakhstan joined the Russian-dominated customs union in 1995.

Important security RSAs also define Kazakhstan's relationship with Russia: Kazakhstan has several conventional weapons testing sites and a rocket launching site that Russia requires for its military and space program. There are no realistic optional partners for these sites. This gives Kazakhstan's leadership a few options: First, they could allow the sites to sit idle. Second, they could agree to give Russia control of the sites—allowing a minor hierarchy—in exchange for military or economic benefits (hypothesis 2). Kazakhstan could also agree to a hierarchy without requiring any payments from Russia. This last option is not predicted by the theory. It is difficult to imagine a political leader giving access to a valuable site without compensation, essentially accepting the costs of hierarchy without any of the benefits. The leadership would be wiser to allow the site to sit idle rather than worry about possible policy incompatibilities under hierarchy.

The push toward hierarchy should decline if Kazakhstan can build its economy through non-hierarchical, or at least less hierarchical, options and reduce its vulnerability to Russia by building pipelines that bypass Russia. With more options for export routes, Kazakhstan would be less vulnerable to Russian actions. The white knights that can make this possible have been signing deals with Kazakhstan. When the pipelines come on line, *ceteris paribus*, we would expect to see Kazakhstan withdrawing from the hierarchies.

Russia's interests in having Kazakhstan join its hierarchical customs union are similar to those discussed in the Ukraine chapter. Under political pressure to demonstrate that Russia was still a major power, the Yeltsin administration sought various mechanisms for exerting control over the FSU states. Kazakhstan's size and long border with Russia made it a likely target for Russian pressure.

Furthermore, Kazakhstan's willingness to join the hierarchy—it had volunteered at one point—lowered Russia's costs of imposing and maintaining the hierarchy.



Figure 6.1: Map of Kazakhstan

History and Culture of Kazakhstan

Kazakhstan's lands, which have been inhabited "since the earliest Stone Age," are considered best suited for nomadic pastoralism.⁴⁸² Beginning in the sixth century AD, a confederation of Turkic tribes formed, apparently the first sophisticated political organization on Kazakhstan's territory. Arabs conquered some parts of Kazakhstan bringing Islam with them. Other Turkic groups occupied lands

⁴⁸² This quote as well as my summary of the early history of Kazakhstan is drawn from Curtis 1996, electronic version.

reaching into present day China. The Turkic and Arab groups fought intermittently among themselves, repeatedly dividing up modern Kazakhstan's lands. Under Genghis Khan, the expanding Mongol empire invaded the region in the 1200s. Genghis became the first in a long series of Mongol rulers that controlled the region. By the early fifteenth century, the Mongols had split into several large groups known as khanates. From this pool, the Kazakhs emerged as a distinct ethnic group, branching off from the Uzbeks. The Kazakhs later divided into three hordes, or clans—the Great, Middle, and Lesser Hordes—each occupying different regions of modern Kazakhstan.

While the Kazakhs were defending their lands from Mongol raids in the east, Russian soldiers moved in from the northwest. The Kazakhs became squeezed between the Russians and the Mongols—a rock and a hard place. As had happened to Cossaks in Ukraine, the Kazakhs turned to Russia for protection against a seemingly greater menace: the Mongols, in this case. The Lesser Horde's leader sought and obtained Russian protection. With their expanded influence, the Russians moved on to conquer the Middle Horde. The Great Horde remained independent for about another century when they, too, accepted Russian protection against an immediate threat from the south, the Kokand (Quqon) Khanate. As often happens, the ruled began to resist the ruler. The Middle Horde actively fought their Russian rulers during the mid-1800's but without success. This rebellion roughly coincided with a new Russian imperial policy to “annex ‘troublesome’ areas on the empire's borders.”⁴⁸³ The Russian empire soon conquered the rest of Central Asia.

The Russia and then Soviet empire nearly destroyed the Kazakh way of life. Russian forts built in Central Asia limited the lands over which the herds and flocks could roam. In the late 1800's, Russian settlers arrived to farm the fertile land, further destroying the nomadic life. Starving and displaced from their land, many Kazakhs actively opposed Russian conscription to fight in World War I. The Russians brutally suppressed Kazakh armed resistance to conscription and land seizures, killing thousands of Kazakhs. In addition, thousands fled to China and Mongolia.⁴⁸⁴

During the Soviet period, the Kazakhs became the only republic in which the titular nationality was not the majority group. While the numbers have changed somewhat, 1996 statistics are

⁴⁸³ Ibid.

representative: 46 percent Kazakh and 35 percent Russian; the next two largest groups are Ukrainian (5 percent) and German (3 percent).⁴⁸⁵ This minority status resulted from Kazakhs starving to death or fleeing the Soviet system combined with massive in-migrations of non-Kazakhs. During the Russian civil war, soldiers trampled the grazing lands, rendering them useless for grazing. In addition, with war raging, there was little demand for the Kazakhs' animals and seeds. As a result of these two factors, an estimated 750,000 people died of hunger in the steppe.⁴⁸⁶ The number of hunger-deaths doubled when Stalin forced agricultural collectivization on the Kazakhs, as he had done on the Ukrainians. In protest to this forced economic and cultural change, Kazakhstan's peasants slaughtered their livestock. An estimated 1.5 million Kazakhs and 80 percent of the republic's livestock died. Thousands more Kazakhs tried to escape to China, but most starved before they arrived. In another misguided attempt to turn Kazakhstan into a grain-growing region, Khrushchev sent Russian and other settlers to the steppes to grow wheat and cereal grains.⁴⁸⁷ This significantly lowered the percentage of Kazakhs and increased that of Russians in the republic. During World War II, Stalin further reduced the Kazakh percentages when he forced approximately 400,000 European Soviet citizens to migrate to Kazakhstan, and relocated Soviet factories and their workers to Central Asia to protect them from German invasion and destruction.⁴⁸⁸ Finally, ethnically European Soviet workers were encouraged to move to Kazakhstan in the 1960's and 1970's to mine Central Asia's rich natural resources—coal, oil, gas, and gold, among others. As a consequence of the reasons for the large European population—industrialization—the Russians are generally concentrated in the northern part of the country and are employed in industrial, scientific, and administrative occupations. Kazakhs are more highly concentrated in the south and in agricultural sectors.⁴⁸⁹

Since independence, Kazakhstan has undergone significant population shifts. According to Kazakhstan's 1999 census poll, the state now has a majority Kazakh population, accounting for 53.4 percent. The total population declined by one million, going from 16.2 million in 1989 to 14.95

⁴⁸⁴ Ibid.

⁴⁸⁵ CIA, *The World Factbook 1999*. Web site <http://www.odci.gov/cia/publications/factbook/>. Accessed in August 2000.

⁴⁸⁶ Olcott 1995, 158.

⁴⁸⁷ This was known as the Virgin Land campaign.

⁴⁸⁸ Olcott 1995, 189.

million in 1999. This decrease as well as the increase in percentages of Kazakhs is explained by an out-migration of Russians, Germans, and Ukrainians.⁴⁹⁰

This brief historical summary demonstrates two things: the Kazakhs have plenty of reasons to hate and distrust the Russians and have at least some historical examples of defiance against the Russians. Given this, ethnic and historical factors alone cannot easily explain Kazakhstan's close relationship with Russia nor its economic hierarchy.

The Political Landscape Before and Since Independence

Kazakhstan's current ruler is President Nursultan Nazarbayev, an ethnic Kazakh. The ruler before him was a Russian named Gennadiy Kolbin. Kolbin's tenure was a rocky one. He had been put in office to turn around Kazakhstan's faltering economy. When his ethnically Kazakh predecessor had been removed and Kolbin put in his place, students and others rioted in protest. The authorities responded quickly and harshly. At least 200 people died during the two days of rioting or were executed shortly thereafter; casualties were as high as 1,000. Kolbin attempted to placate the nationalists with some minor measures. He then purged the Communist party of hundreds of officials he believed were insufficiently loyal to him. Still, the economy did not improve. The pressure from Moscow increased. In particular, Kolbin came under attack for Kazakhstan's failure to meet its meat quotas. Demonstrating his level of desperation, Kolbin went so far as to suggest slaughtering migrating wild ducks. Although Kolbin was soon due back to Moscow for a regular rotation, with the economy still faltering and Gorbachev calling for a new nationalities policy, Kolbin's departure was hastened.

In June 1989, Nazarbayev replaced Kolbin. Nazarbayev was immediately praised for skillfully balancing interests, pleasing both the Kazakhs in his home land and Gorbachev. He would continue to use these balancing skills in the post-Soviet period. The balancing act meant "finding a way to make Kazakhstan more Kazakh without alienating the republic's large and economically

⁴⁸⁹ OTA, Fueling Reform, 137.

⁴⁹⁰ RFE/RL Newswire, "Demographic Shifts Emerge in Kazakhstan," May 14, 1999.

significant Russian and European populations.”⁴⁹¹ To make the republic “more Kazakh,” he sponsored legislation making Kazakh the official language and allowed scholars and others to critically examine forced collectivization and other Soviet policies. Nazarbayev relaxed religious restrictions, which encouraged a resurgence of Islam. He also argued that Moscow should increase Kazakhstan’s income from resources supplied to the center.⁴⁹² This became a particularly hot political subject when it was discovered that Gorbachev had negotiated a deal with Chevron oil company over the exploration of Kazakhstan’s Tengiz field without consulting with Nazarbayev.⁴⁹³

Balancing these nationalist positions, Nazarbayev remained a Gorbachev advocate. He was a vocal supporter of the Soviet leader’s reform program. Throughout the spring and summer of 1991, Nazarbayev championed Gorbachev’s ideas for a new type of union. Even as Gorbachev’s popularity plummeted and other republics advocated complete independence, Nazarbayev argued that the Union should stay together as the various republics were not economically strong enough to survive complete independence. In a May 1991 speech, he said “Kazakhstan declares for a renewed federation. Peoples should decide together how it should be named. But it is clear that it should be a union of sovereign national states with a common economic space.”⁴⁹⁴

In December 1991, on the cusp of the Soviet collapse, Nazarbayev won Kazakhstan’s presidential election. About 87 percent of the electorate voted, with nearly 99 percent supporting Nazarbayev, the only registered candidate.⁴⁹⁵ The following week, the Soviet Union ceased to exist. On December 8, Russia, Belarus, and Ukraine announced their independence from the Soviet Union and decision to form their own Commonwealth of Independent States. Without the three Slavic states,

⁴⁹¹ Curtis 1996.

⁴⁹² In one speech, Nazarbayev gave an example of copper being sold to Moscow at well-below market rates, only to be sold by Moscow on the international market. “Practices such as this resulted in Kazakhstan delivering nearly \$2 billion worth of raw materials to Moscow for which it had received nothing in return” (Olcott, 265). The speech was at the Fourth Congress of the U.S.S.R. People’s Deputies, as translated in FBIS Daily Report, Central Eurasia 91-007-S, January 10, 1991, 27-28.

⁴⁹³ Gorbachev eventually turned the deal over to Nazarbayev. Tengiz continues to be an important source of foreign direct investment.

⁴⁹⁴ Official Kremlin International News Broadcast, May 31, 1991. Speech By Kazakhstan’s President Nursultan Nazarbayev During Mikhail Gorbachev’s Meeting With Kazakhstan’s Public In Alma Ata On May 30, 1991 (Central Television Of The U.S.S.R., May 30, 1991).

⁴⁹⁵ RFE/RL Newswire, “Nazarbayev Elected,” Dec. 2, 1991; “Nazarbayev Threatens to Take Tough Measures,” Dec. 3, 1991.

the U.S.S.R. was de facto dissolved.⁴⁹⁶ At Nazarbayev's initiative, most of the other Soviet republics joined the CIS under what came to be called the Alma-Ata Declaration. Days before the Declaration, Kazakhstan became the last republic to declare its independence.⁴⁹⁷

Since Kazakhstan's independence, Nazarbayev has been at the helm of a regime that is more authoritarian than democratic. Like other new states, Kazakhstan has held elections giving it the trappings of a democracy. However, he has been widely accused of repressing his political opponents and the press. In December 1993, two years after the CIS was established, the Soviet-era parliament dissolved itself and set elections for March 1994. Deputies had been resigning from the Supreme Soviet, protesting that it was blocking reform. By the time it fully dissolved, nearly 200 of the 350 deputies had already resigned their positions.⁴⁹⁸ Elections to the new parliament, called the Majlis, were held in March as planned. Of the 177 deputies to be elected, 105 seats (60 percent) were reserved for Kazakhs, 49 (28 percent) for Russians, 17 for Europeans, and 6 for Asians. Nazarbayev hand-selected 42 of the deputies; the rest were elected in single-member districts.⁴⁹⁹ Two hundred candidates had been refused registration on the basis of not following the rules. The Organization for Security and Cooperation in Europe (OSCE) which had sent observers to the elections declared the election invalid, citing press harassment, arbitrary candidate disqualifications, and Nazarbayev's hand-selected list.⁵⁰⁰ The rules were considered too complicated for a population unfamiliar with competitive elections to comprehend. In March 1995, the constitutional court declared the elections unconstitutional, stating that the districts were badly flawed in their design. Nazarbayev upheld the decision and dismissed the parliament.⁵⁰¹ Ironically, the constitutional court's seemingly pro-democracy decision played into the hands of the president, making the state more authoritarian than

⁴⁹⁶ For more details on the dissolution, see chapter 4.

⁴⁹⁷ RFE/RL Newline, "Kazakhstan Declares Independence," Dec. 17, 1991.

⁴⁹⁸ RFE/RL Newline, "Election Date Set in Kazakhstan," Dec. Sept. 93.

⁴⁹⁹ RFE/RL Newline, "Nazarbayev in Parliament," Dec. 10, 1993.

⁵⁰⁰ RFE/RL Newline, "Kazakhstan Election Procedures Criticized," Mar. 7, 1994; "Kazakhstan Election Censured," Mar. 10, 1994; "Kazakhstan Election Results," Mar. 18, 1994.

⁵⁰¹ OMRI Daily Digest, "Kazakh President Dissolves Parliament," Mar. 13, 1995; Olcott, 278.

democratic. Nazarbayev started ruling by presidential decree. By dismissing parliament, Nazarbayev significantly enhanced what was already a powerful position.⁵⁰²

After dismissing parliament, Nazarbayev moved to solidify his increased dominance. In April 1995, he held a referendum in which citizens were asked whether they supported extending the president's rule until December 2000. In a vote reminiscent of the Soviet era, 91 percent of the nearly 9 million registered voters turned out for the vote; 95 percent supported the extension. Nazarbayev called claims that his rule was increasingly dictatorial, "baseless and irresponsible."⁵⁰³ In 1999, Nazarbayev won re-election, almost two years before the referendum required him to run. The presidential election, like the parliamentary one, was strongly criticized from inside and outside Kazakhstan as being unfair. On a legal technicality, the key challenger was disqualified from running. The OSCE said the elections fell "far short" of being democratic and did not recognize them as valid.⁵⁰⁴

The Kazakhstani press has frequently been harassed by the government, further squelching potential opposition. Freedom House's analysis of press freedom designated Kazakhstan *not free*.⁵⁰⁵ A reported harassment technique during the 1994 elections was "for the fire department to close down printing facilities on days independent publications are to be printed."⁵⁰⁶ "The constitution provides for freedom of the press, but the government has closed or otherwise harassed many of the independent media. The potential for government control and harassment results in widespread self-censorship among the media" (Freedom House, 2000). In sum, Nazarbayev has quelled vocal opposition to his rule and moved closer to an authoritarian regime than a democratic one. This gives him greater leeway in determining the character of the relationship between Russia and Kazakhstan.

⁵⁰² Even before Nazarbayev dismissed the parliament, his power was considerable. "The political relations between the president and the opposition in parliament are relatively calm, certainly in comparison with Russia and Ukraine," reported the U.S. Congress' Office of Technology Assessment, in what appeared to be a compliment. "In fact, unlike the case of those two countries, the president dominates the parliament" (OTA 1994b, 49).

⁵⁰³ OMR Daily Digest, "Referendum Results in Kazakhstan," May 2, 1995.

⁵⁰⁴ Freedom House, *Freedom in the World, 1999-2000*.

⁵⁰⁵ Freedom House's *Press Freedom Survey* scores states on four criteria: regulations that influence media content; economic influences over media content; political pressures and controls on media content; and repressive actions (killing journalists, physical violence, censorship, self-censorship, arrests, etc.). States scoring 0-30 are considered free; partly free is 31-60; and not free is 61-100. Kazakhstan scored a 68 in the 2000 survey.

⁵⁰⁶ RFE/RL Newsline, "Press Dispute in Kazakhstan," Feb. 21, 1994. Bishkek is the capital of Kyrgyzstan.

Continuing his skillful balancing act, the post-Soviet Nazarbayev balanced not only pro-Russian and pro-Kazakh concerns, but also Russian, Western, and Eastern foreign policy. Nazarbayev was reportedly flexible, rather than ideological, about sources of assistance. That is, he was willing to take whatever assistance he could obtain, whether it be from Russia, the West, or the East (China and Japan). Nazarbayev was reportedly using one top official to woo Russia and another to woo the West. The high-level official working with Western organizations and states repeatedly told these officials in 1997 that Kazakhstan saw its future with the International Monetary Fund (IMF), the World Bank, the World Trade Organization, and Western companies.⁵⁰⁷ Presumably the other official was giving a Russia-oriented version of this claim to Russian officials.

Economic Overview of Kazakhstan

As with Ukraine, Kazakhstan had a relatively even mix of industry and agriculture when the Soviet Union collapsed. Industry accounted for about 40 percent of Kazakhstan's GDP while agriculture was responsible for 34 percent. Kazakhstan is rich in natural resources. Its industry during the Soviet era was dominated by mining and processing of iron ore, manganese, coal, gold, copper, nickel, titanium, chrome, tungsten, and zinc, among others. In 1989, Kazakhstan mined 23.8 million tons of iron ore and over 150,000 tons of manganese. With a large coal basin in the north, it produced 140 million tons of coal in 1991. It has proven in-the-ground reserves of at least 100 tons of gold. Kazakhstan's manufacturing and processing industrial sector was decaying but still powerful. At the time of the collapse, it produced about 6.8 million tons of steel. The Karaganda Metallurgical Combine which operated blast furnaces and steel mills, was the largest industrial enterprise with output valued at about \$2 billion in 1989. The Pavlodar Tractor Works, the largest enterprise in the machinery and equipment subsector, had output valued at \$1 billion in 1989. During the Soviet era, Kazakhstan supplied about 11 percent of the Union's total military production. In this sector, it produced beryllium, nuclear reactor fuel, uranium ore, heavy machine guns, anti-ship missiles,

⁵⁰⁷ The discussion on how Nazarbayev played difference interests off each other is from personal interviews in 1997 with IMF, World Bank, and U.S. Embassy officials in Almaty, Kazakhstan.

torpedoes, chemical and biologic weapons, ICBM support equipment, tactical missile launcher equipment, artillery, and armored vehicles.⁵⁰⁸

While the above sectors continue to play a role in the Kazakhstani economy, it is the oil and gas sectors that have dominated the scene since independence. The Caspian shelf's rich oil and gas reserves have made the fuel sector Kazakhstan's most exciting economic sector, bringing in billions of dollars in foreign direct investment. The Tengiz oil field alone is estimated to contain 6 to 9 billion barrels of oil reserves.⁵⁰⁹

Relation Specific Assets in the Dyad

As with Ukraine, Russia and Kazakhstan have several important RSAs. In the economic arena, by far the most important of these assets are the crude oil pipelines owned by Russia and necessary for Kazakhstan to move its oil to foreign markets. This leaves Kazakhstan highly vulnerable to Russian opportunism and strengthens Russia's bargaining position, making hierarchy more likely. Kazakhstan is also dependent on Russia to supply components for military equipment, again pushing the relationship toward hierarchy. There has also been some relation specificity with oil refineries, in the electricity subsector, and with the Baikonur spaceport, but these involved mutual vulnerability, making mutual reliance retaliation possible and, therefore, autonomy with close relations the predicted outcome.

Oil and gas pipelines are the most important RSAs in the dyad. While much of Kazakhstan's oil is low quality, due to high sulfur content, oil is unquestionably Kazakhstan's best hard currency source. After Russia, Kazakhstan is the largest oil producer in the FSU, producing over half a million barrels per day, with an estimated potential of over 3 million barrels per day. The head of Kazakhoil estimated that Kazakhstan could earn \$700 billion in revenues (including taxes) from offshore oil and

⁵⁰⁸ For these and more details on Kazakhstan's economic make up at the time of the Soviet collapse, see World Bank 1993 *Kazakhstan*, 7-21; and Olcott 1996, 272.

⁵⁰⁹ EIA web site, *Kazakhstan*, April 2000.

gas fields over the next 40 years.⁵¹⁰ Given the source, one might expect this to be an overly optimistic estimate; nevertheless, it is an important indication of Kazakhstan's expectations for the industry.

Almost half of Kazakhstan's oil production comes from three large fields: Tengiz, Uzen, and Karachaganak. The Tengiz and Uzen fields are near the Caspian Sea; Karachaganak is in the northwest, near the Russian border. In April 1993, the U.S. oil company Chevron and Kazakhstan concluded a \$20 billion joint venture, called TengizChevroil, to develop the field. In 1999, the joint venture produced 190,000 barrels per day; production is expected to increase.⁵¹¹ The Tengiz field, discovered in 1979, is one of the largest fields in the world and the largest discovered in the last 20 years. Tengiz is estimated to contain over 24 billion barrels of oil.⁵¹² The Uzen field was discovered in 1959 and has been producing since 1965. With estimated reserves of 8.03 billion barrels, it is the second largest field (after Tengiz) in Kazakhstan. The Uzen field has received extensive support from the World Bank.⁵¹³ The Karachaganak field has oil reserves, but is mostly valued for its natural gas. More than 40 percent of Kazakhstan's natural gas reserves are located in this giant field. Located in the northwest, Karachaganak is an extension of Russia's Orenburg field.

Kazakhstan has two major export routes outside of the FSU: the Ventspils port in Latvia and Russia's Novorossiysk port in the Black Sea. Both of these routes require pipelines through Russia. Kazakhstani crude oil destined for export flows first to Atyrau located in the northern Caspian region where it is blended with other Kazakhstani crude oil. It then flows northward to Samara in Russia where it is blended with crude from Russian fields. This blend, called Ural Export Blend, then flows either south again to Russia's Novorossiysk or west to Latvia.⁵¹⁴

⁵¹⁰ The head of Kazakhoil, as of August 2000, is Nurlan Balgimbayev. At the time that he made the statement, he was Kazakhstan's Prime Minister. See EIA web site: <http://www.eia.doe.gov/emeu/cabs/kazak.html>, dated April 2000, last accessed on August 16, 2000.

⁵¹¹ This was the same deal that Gorbachev had begun negotiating without Nazarbayev's knowledge. When Nazarbayev called him on it, Gorbachev turned the deal over to the Kazakh leader.

⁵¹² Details on the Tengiz field are from a Apr. 12, 1996 information sheet by Tengizchevroil and obtained by the author during a 1997 interview with Robert Williams, TengizChevroil, Manager, Federal Relations.

⁵¹³ Due to operational problems associated with the field's oil reservoirs and properties of the oil (such as high paraffin content), the Uzen field has not attracted commercial interest. The World Bank's goal in the project is to make it a commercially viable field. World Bank 1996a, 23.

⁵¹⁴ Information on the Ural Export Blend is from the World Bank's feasibility study on the Uzen project. See page 67.

Russia's ownership of the pipelines allows Russia to control Kazakhstan's export volume and allows Russia to charge transit fees as it sees fit. If Russia relied on the income from transit fees, it would share vulnerability with Kazakhstan. However, this is not the case. Kazakhstan has to compete with Russia's own oil and gas industries which are desperately in need of hard currency themselves. When pipeline demand exceeds capacity, Russia—not surprisingly—gives precedence to its own companies. Kazakhstan must endure temporary shut outs or reductions in exports. These shut-downs or reductions can also result for numerous other reasons, including political pressure for some unrelated issue, unpaid bills, and sabotaged pipelines that must be repaired. Russia often argues that unpaid bills are the reason for reduced or eliminated access to the pipelines. But since all states are in debt at most times, it seems likely that there are other pressures at work. Since Russia has its own oil that it needs to move through the pipelines, it values oil exports more than transit fees from Kazakhstan. Thus, Kazakhstan is vulnerable both to high transit fees as well as reduced volumes for export. Recognizing this dependence on Russian pipelines, in 1996, Kazakhstani Oil and Gas Minister Nuralyn Balgimbayev said in a letter to the U.S. Embassy that quotas imposed by Moscow have compelled Kazakhstan to constrain oil extraction from most fields, including the Tengiz field.⁵¹⁵ Oil refineries and gas processing plants are another type of RSA in the Kazakhstan-Russia dyad. The oil and gas refineries are specific assets in three ways: they are site specific, physically specific, and dedicated assets. These large structures cannot cheaply be moved from one location to another. In addition, there is no obvious alternative use for them. Refineries are expensive to build. Without Russia as a customer, there is no customer. If Russia chooses not to send the oil to Kazakhstani refineries, the refineries will have to find alternative sources and build pipelines to those alternative sources, or close down. Given its geographic position, finding alternative partners is unlikely in the short-run, if not also in the long-run. In order to refine crude oil from a Kazakhstani field, new pipelines would have to be built to connect the field to the refinery. It is highly unlikely that that kind of expensive investment would be made by Kazakhstan or any other state or private enterprise. Indeed while Kazakhstani officials have been lobbying for a pipeline to connect fields in the west with

⁵¹⁵Reported in Pipeline News, from New Europe, October 6-12, 1996, p. 42.

refineries in the east, potential investors, including the World Bank, have deemed the project uneconomical.

While it would then seem that Kazakhstan's refineries made it vulnerable to Russian opportunistic behavior, the possibility of mutual retaliation reduces the likelihood of Russia acting opportunistically. An odd left-over of the former Soviet Union's economic structure leaves two of Kazakhstan's largest refineries—Pavlodar and Shymkent—reliant on Siberian crude oil.⁵¹⁶ Pavlodar is located in northeastern Kazakhstan, close to the Russian border and far from major Kazakhstani population centers. Shymkent, on the other hand, is in the south, close to Tashkent, Uzbekistan. The refineries are simply too far away from Kazakhstan's own oil fields to make it economical to refine Kazakhstani oil. On the other hand, Pavlodar is close to Russia's Siberian fields and Shymkent is on the pipeline route from the Siberian fields. The refineries' reliance on Russian oil is matched in two ways by Russia's own reliance on Kazakhstan's oil industry. The Russians rely on the refineries in Pavlodar and Shymkent to refine the Siberian oil. Without the Kazakhstani refineries, the Russians would have to build a refinery that connects to the Siberian pipeline. The second way in which Kazakhstan has leverage is that Russia's Samara refinery in western Kazakhstan refines Kazakhstani oil.⁵¹⁷ Presumably, Russian threats to withhold oil in Siberia could be matched by Kazakhstani threats to withhold oil in its western region. Or, visa-versa, Russian threats to not process Kazakhstani oil could be matched by Kazakhstani threats to stop processing Russian oil. In this way, the vulnerability is mutual and, thus, does not contribute to the prediction of hierarchy.

In the gas subsector, Kazakhstan is largely reliant on a Russian processing plant. As mentioned above, the vast Karachaganak field is located near the Russian Orenburg plant, which is where the gas was processed during the Soviet period. Kazakhstan lacks proximal processing plants. With Russia's Gazprom competing with Kazakhstan for processing capacity, the smaller state is bound to lose out when there is an abundant supply. Orenburg has reportedly accepted "only a fraction of

⁵¹⁶ Kazakhstan's third large refinery is at Atyrau. It is fully supplied by Kazakhstani oil from the Caspian Sea region. Also, Shymkent is variously transliterated as Chimkent and Chymkent.

⁵¹⁷ Orsk, Russia also has a refinery near the Kazakhstani-Russian border. A low-capacity refinery, it refines only Russian oil for the immediate area. Personal interview with Burnett and Goodner, the President and Vice President of Mobil Oil Kazakhstan.

Karachaganak's potential output."⁵¹⁸ This lack of access to its own processing plant has hampered Kazakhstan's ability to use fully the Karachaganak field. In 1997, an international consortium signed a \$7 to \$8 billion production sharing agreement to develop the field for 40 years, with a planned investment of \$4 billion by 2006. Russia's Gazprom had originally agreed to take a 15 percent stake in the consortium in exchange for processing and exporting the gas. Gazprom later left the project, making processing again uncertain and therefore risky for the consortium. It is unclear whether the project will go forward.⁵¹⁹ Without this project, Kazakhstan remains vulnerable to Russia.

Electricity grids are another important RSA for the Kazakhstan-Russia dyad.⁵²⁰ The two states have been mutually reliant until recently. An electricity system requires a means to generate electricity, a network to transmit the electricity to industrial and other users, and a central dispatch to regulate transmission. To minimize energy losses, electricity is transmitted at the highest voltages possible. Modern technology makes it relatively simple to convert electricity down to low enough voltages for industrial and domestic users. Electric utilities producing power are tied together by transmission lines into vast systems called power grids. Utilities are then able to exchange power, so that a utility with low power demand can assist another with a high demand. The dispatchers along the grid must coordinate with each other to avoid serious power outages and surges. When the power grids cross international borders, the participating states must make and enforce agreements with one another to ship a certain amount of energy through the grid. If one side fails to transmit the requisite amount of electrons, the electrical flow ceases and may then surge. When electricity suddenly stops flowing and/or surges, it causes crippling, often irreparable, damage to the machines relying on the flow.

The power to affect another state's electricity derives from the position of both the generators and the central dispatch. If a state is purchasing electricity from another state, then it is vulnerable to that state simply refusing to supply electricity, for political or other reasons. In times of short energy

⁵¹⁸ EIA web site, *Kazakhstan*.

⁵¹⁹ The consortium members are Agip (Italy) 32.5 percent; BG (UK) 32.5 percent; Texaco (U.S.) 20.0 percent; and LUKoil (Russia) 15 percent. See EIA web site, *Kazakhstan*.

⁵²⁰ The discussion on electricity grids in general as well as on the particular features of the Kazakhstani grids is based on personal interviews with Mamishev, Hanson and Hardin, and Biddison. Other sources include reports

supply, the purchasing state might well find itself having to endure blackouts. The state that controls the Central Dispatch can also cut off electricity to some parts of the grid. It is highly unlikely that a state would ever shut down the main grid as it would lose electricity itself, but depending on the configuration, it may well be able to cut off dead-end circuits—those smaller circuits that branch off from the main grid. Hence, relying on other states to supply electricity flows is risky. If the producing state has increased domestic demand but has no means of quickly increasing supply, it seems likely that it will reduce or cut entirely its supply to foreign customers rather than to its domestic customers. For the latter, there is a much higher political price to pay.⁵²¹

Kazakhstan's regions are connected to two different electricity grids, as noted in chapter 4, one of which connects to Russia's grid (the other regions connect to the Central Asian grid). Northern Kazakhstan's grid is connected to southern Russia's grid, where the central dispatch is located.⁵²² An important electricity generator for this part of the grid is in the Omsk Oblast. The Omsk generator depends on coal deliveries from Kazakhstan's Ekibastuz mine, located near the border. In Kazakhstan, coal is cheap—about \$5 per ton—and therefore a vital fuel source for electricity generation.⁵²³ The dependency was mutual, however, as northern Kazakhstan needed the electricity from Russia.⁵²⁴ With Russia reliant on Kazakhstani coal and Kazakhstan dependent on Russian generated electricity, the states were mutually vulnerable.⁵²⁵

Military-Industrial Complex

Kazakhstan had the largest military-industrial sector of the non-Slavic states, although this amounted to only 3 percent of the Soviet Union's industry. Kazakhstani plants produced SS-21 short-

by the Energy Policy Committee of the U.S.-Russia Joint Commission on Economic and Technological Cooperation and the World Bank 1996b.

⁵²¹ This may not always be the case. If the supplying state can cut electricity to its own disenfranchised or politically low-value voters, it may opt to do so. This would especially be the case if cutting electricity to a foreign client carried significant international costs, such as rupturing an already fragile but important relationship.

⁵²² Energy Policy Committee of the U.S.-Russia Joint Commission on Economic and Technological Cooperation 1995, and interview with Biddison 1997.

⁵²³ Interview with Hanson and Hardin 1997. Coal is so inexpensive, the Kazakhstanis considered mining coal from the eastern part of the country until U.S. contractors pointed out that the coal there was radioactive.

⁵²⁴ Energy Policy Committee of the U.S.-Russia Joint Commission on Economic and Technological Cooperation 1995, and interview with Biddison 1997.

⁵²⁵ This mutual reliance was recently eliminated, however. Russia bought the coal mine, vertically integrating the electricity subsector in this region. See the section below on the Ekibastuz mine.

range ballistic missiles, ballistic missile support equipment, torpedoes, and naval communications equipment, all of which were produced in Petropavlovsk in central-north Kazakhstan near the Russian border. Near Almaty was a torpedo producer. After its independence, Kazakhstan stopped producing the SS-21 missiles.⁵²⁶ All of these plants relied on components from other former Soviet republics, but most notably Russia. Russia, on the other hand, did not require these facilities, particularly at a time when demand for Soviet equipment was declining, as discussed in the Ukraine chapter.⁵²⁷ Thus, Kazakhstan was dependent on Russia.

Kazakhstan had other important military-industrial plants, but these were no longer relationship specific after the Soviet collapse. While they had been reliant on Russia during the Soviet period, independence resulted in an international market for these products. There are two important plants in this category: an enterprise in Pavlodar that was a major producer of alumina, and the Ulba Metallurgy Plant in the northeastern corner of the state. The Ulba plant was a unique facility in the U.S.S.R. It fabricated nearly all fuel for civilian nuclear reactors Ulba also produced beryllium, which is used in nuclear warheads and reactors. During the Soviet period, Russia supplied low-enriched uranium to the plant, which then fabricated pellets used in nuclear fuel rods. Considerable amount of low-enriched uranium were stored here. Since independence, Kazakhstan has successfully located outside purchasers for the alumina and the beryllium and pellets. The latter items are considered dual-use: appropriate for both weapon and peaceful nuclear uses. When Kazakhstan signed the Non-Proliferation Treaty (NPT) as a non-nuclear state (discussed below), it agreed to accept the International Atomic Energy Agency (IAEA) safeguards on dual-use materials. As part of these provisions, Kazakhstan agreed not to sell these materials to rogue states. A significant market remained, however. Indeed, Kazakhstan reportedly worked closely with the IAEA in creating its system for controlling nuclear materials in part so that it could “establish its credentials as a responsible nuclear trading partner” which would allow it to continue exporting uranium and beryllium.⁵²⁸ Kazakhstan was so successful in exporting uranium, the United States investigated it for

⁵²⁶ RFE/RL Newswire. “Kazakhstan Denies Sending Missiles To Iran,” Jan. 29, 1998.

⁵²⁷ CIA, I-5, 13.

⁵²⁸ National Research Council 1997, 60. Despite its cooperation with the IAEA, Kazakhstan ran into consider criticism for losing control of its uranium. In May 1996, two men from near Ulba were found with 100

dumping uranium on the U.S. market at 15 percent below market prices.⁵²⁹ Kazakhstan also had chemical and biological weapons production and testing facilities. If used as intended, they may have bound Kazakhstan to Russia. However, Kazakhstan closed these facilities or diverted them to civilian uses.⁵³⁰

Military and Space Relation Specific Assets: Nuclear Weapons and the Baikonur Spaceport

Like the three Slavic states, Kazakhstan was born with nuclear weapons. Kazakhstan had 104 SS-18 *Satan* ICBMs, each carrying 10 warheads, located at two sites. In addition, there were 40 nuclear-armed Tu-95 *Bear* bombers located at Semipalatinsk, near the Russian border and under 300 miles from the Chinese border. The bombers carried a total of 370 air-launched cruise missiles.⁵³¹ As military equipment, Kazakhstan's nuclear weapons were RSAs. Since Russia controlled the launch codes and Russian military personnel maintained the weapons, the nuclear weapons were of no immediate military use to Kazakhstan outside of its relationship with Russia. Nuclear weapons maintenance requires highly skilled personnel, a type of specific asset. The dependence was mutual, however, as the Russian codes were of no use without Kazakhstan's ICBMs and bombers. If Kazakhstan chose to sell the weapons or destroy them, for example, Russia's codes would be meaningless. As such, the nuclear assets were relation specific as long as they were used for military purposes.⁵³² However, again like Ukraine, Kazakhstan changed the nature of the assets by using them not as military weapons but as bargaining chips. Once it did that, the weapons were no longer specific to the Kazakhstan-Russia dyad. As bargaining chips for economic and other support, the nuclear weapons proved to be of high value, both for immediate financial reasons and long-term political goals

kg of low-enriched uranium (LEU). Prior to that, authorities had stopped two men as they were leaving Ulba and found 4 kg. of LEU in their car. In November and December 1995, a total of 250 kg. of LEU was stolen from Ulba. In addition, in 1995, Kazakhstan was reportedly planning to sell LEU to Libya. Kazakhstan denied the allegation. OMRI Daily Digest, "Kazakhstan To Sell Uranium To Libya," Aug. 10, 1995; "Kazakhstan Denies Sale Of Uranium To Libya," Aug. 11, 1995; "Alarming Number Of Uranium Thefts In Kazakhstan," Apr. 9, 1996; "Uranium Smugglers Apprehended In Kazakhstan," May 7, 1996.

⁵²⁹ See RFE/RL Newline. "U.S. Investigates Kazakhstan's Uranium Sales," June 15, 1999; "Kazakhstan Increases Uranium Production," Aug. 2, 1999.

⁵³⁰ National Research Council, 45.

⁵³¹ For an excellent report on the entire nuclear complex in the former Soviet Union, see Potter 1995. He covers the Soviet nuclear legacy, renunciation, and the politics of nonproliferation for Belarus, Kazakhstan and Ukraine.

⁵³² See the Ukraine chapter for a more detailed explanation of nuclear weapons in the former Soviet states.

that could result in further economic assistance. I discuss how this happened under the section below on *Avoiding Hierarchy*.

Beyond the nuclear weapons, Kazakhstan was home to several significant components of the nuclear complex. Kazakhstan's vast lands, low population density, and eastern location made it an obvious Soviet choice for missile testing ranges. Semipalatinsk, the primary nuclear test site, is where the Soviets exploded their first atom bomb, detonated their first hydrogen bomb, and conducted more than 450 other nuclear tests, over 100 of which were above ground.⁵³³ In addition to the testing range, the rambling complex was part of a major nuclear research program. The Soviets tested rocket engines, space-based nuclear power propulsion systems, and related components at the complex. Two research nuclear reactor complexes—Baikal-1 and IGR Reactor—are associated with the site.⁵³⁴ In addition to Semipalatinsk, Kazakhstan inherited four other test ranges: Vladimirovka, Sary-Shagan, Emba, and Baikonur. Vladimirovka was used for integrating aircraft with airborne weapons systems. Sary-Shagan was used for developing and testing strategic air defense missile systems, while Emba performed the same role for tactical air defense systems. Baikonur was used to test liquid-propellant ICBMs and for space launches, which I discuss in greater detail below.⁵³⁵

Each of these test sites contains sophisticated equipment for specific types of testing. The sites are of virtually no value to Kazakhstan alone given that it does not have the military-industrial infrastructure and know-how to make use of the sites. Without the ability to manufacture the sophisticated weapons tested at these facilities and lacking the funds to purchase the equipment, Kazakhstan was reliant on customers who might want to rent the testing facilities. The testing facilities were specifically designed for Soviet weapons and were therefore unlikely to be useful to other states. Furthermore, it is difficult to imagine a state that would be interested in testing its top-secret military equipment on foreign soil—except for Russia. With Russia's knowledge of the facilities and weapons for which the testing equipment was designed, Russia was indeed the only interested customer. As such, these facilities were RSAs.

⁵³³ Potter 1995, 5; Rob Edwards, "The Day The Sky Caught Fire." *New Scientist*, May 13, 1995: 14; and "Blast Wakes Ghosts of Nuclear Past," *New Scientist*, June 10, 1995: 4.

⁵³⁴ Information on the Semipalatinsk complex is from Potter 1995, 5-6.

⁵³⁵ CIA 1993, 13.

Although Baikonur was part of the nuclear testing complex, its most visible role since Kazakhstan's independence has been as a spaceport. The Baikonur spaceport, or cosmodrome, has moderate relation specificity within the Russia-Kazakhstan dyad, with Russia being more dependent than Kazakhstan. After the Soviet collapse, Nazarbayev claimed the spaceport as Kazakhstan's property, much to Russia's consternation. Russia required access to the launch site for its commercially viable unmanned space flights, as well as for manned space flight, a status symbol for great powers.

The space launch business is big business.⁵³⁶ The Soviet Union had already begun commercializing the space industry, making clear that there was money to be made using the cosmodrome.⁵³⁷ Although the commercial space launch business was dominated by Europe, the newly independent Russia was expected to be a tough competitor given its long experience and low costs. "Space technology is one thing Russia has always done very well," said an aerospace engineer. "Their launch vehicles are reliable, on time, and cheaper."⁵³⁸

Baikonur was the Soviet Union's launch site for geostationary orbits. Most satellites are placed into geostationary orbit. When the satellite's period of revolution matches the Earth's rotation period, the satellite maintains a continuous position above the same spot on Earth, making it appear stationary. After launching, the satellite's orbit must be adjusted to put into the Equator's plane. To make the adjustments, several rocket stages are needed. The first rocket stage propels the satellite out of the atmosphere. When this stage burns out, it separates and falls to the Earth. The second stage then fires, putting the satellite into a low-Earth orbit. The satellite may remain at this orbit for some time. The next stage sends the satellite into an elliptical orbit called the transfer orbit. The final stage sends the satellite into a circular orbit in the plane of the Equator. Rockets are launched to the east, allowing the rocket to take advantage of the Earth's eastward surface velocity. The closer the launch

⁵³⁶ In 1996, the business was estimated to be worth \$1.5 billion annually. Patricia Kranz, with Stan Crock and John Carey. "Blasting Off Into A New Space Race." *Business Week*, March 4, 1996: 54.

⁵³⁷ "The list of Soviet space products and services offered on the open market included: space launch services; remote sensing data; long-haul communications satellites and transponder leases; microgravity materials processing; and space flight opportunities for foreign astronauts on short-duration visits to the Mir space station." Marc J Berkowitz. "Space Fallout From Soviet Disintegration." *Jane's Intelligence Review*, 4, no. 3 (March 1, 1992): 124.

site is to the Equator, the greater the surface velocity. For example, at the Equator, surface velocity is about 450 meters per second compared to 400 at Cape Canaveral's latitude, for example. Launching satellites is obviously a high-specialized, steep-learning curve endeavor; it is not something a state can quickly learn.

Kazakhstan did not have a space industry during the Soviet period and therefore, upon independence, needed a client to launch rockets and to fund the upkeep of the site. The site would not be of much use without rockets. In 1992, after taking control of the cosmodrome, Kazakhstan's first deputy Prime Minister acknowledged that Kazakhstan was "not in a position to operate the facility on its own."⁵³⁹ Rockets are expensive to build and to move between launch locations: they are site specific. Without launchers, Kazakhstan did not have a viable spaceport.

In addition, the city infrastructure that supported Baikonur was significantly deteriorating, leaving Kazakhstan in need of immediate economic assistance to keep the site viable. In late 1994, an analyst reported that "food supplies are uncertain and last winter, despite temperatures of -20 C and below, there was frequently no fuel for the communal heating system....The local militia (Kazakhs have now taken over from Russian units) is hopelessly understaffed and unable to cope with the rising rate of crime."⁵⁴⁰ The highly skilled scientists and senior military officers were evacuating the site. By December 1994, the officer corps already had a 45 percent shortfall. Without Russia to supply the launch vehicles, expertise, and financial backing, Baikonur was not of much value as a spaceport to Kazakhstan.

As much as Kazakhstan needed Russia, Russia needed Kazakhstan. Despite having the physical assets and the technical expertise, Russia's space program—particularly the commercial launch program—was severely hampered without access to Baikonur. Russia did have access to its own spaceport, Plesetsk, which is located near the arctic circle and was the world's busiest spaceport.⁵⁴¹

⁵³⁸ Quoted in Patricia Kranz, with Stan Crock and John Carey. "Blasting Off Into A New Space Race." *Business Week*, March 4, 1996: 54.

⁵³⁹ "State Space Activities." *Jane's Intelligence Review*, 4, no. 3, March 1, 1992.

⁵⁴⁰ Shirin Akiner, "Soviet Military Legacy in Kazakhstan." *Jane's Intelligence Review*, 6, no. 12 (December 1, 1994): 552.

⁵⁴¹ As of 1991, Plesetsk had launched more than 1,300 space flights, more than the combined total of all non-Soviet space launches "during the 34 years of the space age," according to Craig Covault, "Plesetsk Cosmodrome

However, because of its extreme northern location, Plesetsk had greater payload weight limitations than Baikonur and could not launch satellites into a geostationary orbit. Plesetsk could launch 15,000-lb. satellites into polar orbit. From Baikonur, launchers could boost 30,000-lb. payloads.⁵⁴² When satellites are launched from sites in the far south or north, such as Plesetsk, they are put into polar orbits. The advantage of using the Earth's surface velocity as well as the advantages of a geostationary orbit are lost. While there are advantages to polar orbits, Plesetsk and Baikonur were clearly not interchangeable.⁵⁴³ Aside from Baikonur, only three other launch sites in the world are used for geostationary orbits; these are in the United States (Florida), Japan, and Guyana.⁵⁴⁴ The Kazakhstani site was economically, physically, and geographically superior for the Russian space program. Thus, to fully benefit from commercial launches, Russia required access to Baikonur. Its dependence on the spaceport made it vulnerable to Kazakhstan. However, as already discussed, the vulnerability was mutual

Avoiding Hierarchy: Selling Assets for Economic Benefits

Kazakhstan followed a similar path to Ukraine's, in that it came to see its nuclear weapons as valuable bargaining chips that it could exchange for economic benefits. Furthermore, if some of the nuclear and conventional military sites and concerns could be converted to commercial civilian uses, they would lose much of their relation specificity. Converted nuclear testing sites, for example, could attract any number of outside partners, not just Russia. Despite Nazarbayev's attempts at and U.S. assistance in defense conversion, success has been minimal.⁵⁴⁵ Furthermore, Kazakhstan was able to earn millions of dollars by renting the Baikonur spaceport and other testing sites to Russia.

As the Soviet collapse approached, Nazarbayev indicated that his republic would be a non-nuclear one. Kazakhstan's October 1990 declaration of sovereignty included a prohibition on nuclear

Gearing for New Heavy Booster Role." *Aviation Week & Space Technology* 135, no. 11 (September 16, 1991): 46. See Covault's article for an interesting "tour" of Plesetsk shortly before the Soviet collapse.

⁵⁴² Covault.

⁵⁴³ The most notable advantage of a polar orbit is that the satellite travels over all parts of the globe every few revolutions, rather than apparently hovering over one spot. For a concise discussion of the differences in orbits, see the Encyclopedia Britannica On-line's articles on satellite communication and space exploration: earth orbit.

⁵⁴⁴ "Papua New Guinea launch site studied." *Flight International*, June 9, 1993; and Jeffrey M. Lenorovitz. "Control Of Kazakh Launch Base Disputed." *Aviation Week & Space Technology* 139, no. 4 (July 26, 1993): 26.

testing.⁵⁴⁶ When the Soviet military stated that it would conduct just three more tests, Nazarbayev protested. The republic appeared united on this point. Several public protests against the test followed. The Kazakhstani Politburo announced its support for the nuclear testing ban. In response, the Soviet leadership offered to pay the republic for the three tests. Nazarbayev refused the money stating that it was an insult to his people. On August 29, 1991, Nazarbayev issued a presidential decree closing the facility.⁵⁴⁷

Anyone who thought Nazarbayev's position on testing would portend his views on retaining nuclear weapons was soon disabused of that idea. Indeed to the surprise and dismay of the West and Russia, in December 1991, after declaring independence, Nazarbayev announced that his republic would not give up its nuclear weapons until Russia gave up its nuclear weapons. U.S. Secretary of State James Baker claimed that Nazarbayev had assured him that Kazakhstan would sign the Non-Proliferation Treaty (NPT) as a non-nuclear state, but Nazarbayev himself was silent on the matter.⁵⁴⁸ The December 1991 agreements signed by the four former Soviet nuclear states indicated that Belarus and Ukraine would give up their nuclear weapons but there was no mention of what would happen to Kazakhstan's weapons. Furthermore, the documents were silent on whether Kazakhstan would sign the NPT.⁵⁴⁹

Although January 1992 reports said that Kazakhstan was ready to sign the NPT, an agreement among the new nuclear states was again silent on Kazakhstan's intentions.⁵⁵⁰ In February and March, Nazarbayev remained recalcitrant. He announced that Kazakhstan would destroy all of its nuclear weapons *if* the United States, Russia, and China destroyed theirs. He later added Pakistan and India to the list, stating that it would take 15 years to destroy Kazakhstan's weapons, which was plenty of time

⁵⁴⁵ Adelman and Augustine (1992) would not be surprised: "the record of massive defense conversion is one unblemished by success...." (26).

⁵⁴⁶ Potter 1995, 5.

⁵⁴⁷ RFE/RL Newswire, "Kazakhstan Rejects Payment for Use of Semipalatinsk," Feb. 8, 1991; "Three More Tests Prepared at Semipalatinsk, June 6, 1991; "More Tests At Semipalatinsk Before Closing in 1992," July 9, 1991; "Kazakhstan Politburo Backs Anti-Nuclear Demands," Aug. 7, 1991. Also Potter 1995, 5.

⁵⁴⁸ RFE/RL Newswire, "Latest on Nukes," Dec. 20, 1991.

⁵⁴⁹ RFE/RL Newswire, "Kazakhstan Wants to Keep Its Nukes," Dec. 18, 1991; "Western Concern About Kazakhstan's Nuclear Weapons," Dec. 19, 1991; "Alma-Ata Agreement on Nuclear Weapons," Dec. 23, 1991.

⁵⁵⁰ RFE/RL Newswire, "Minsk Agreement on Strategic Forces," Jan. 2, 1992; "Kazakhstan Ready to Sign NPT," Jan. 20, 1992.

for Pakistan and India to destroy theirs as well.⁵⁵¹ In April, Baker told Nazarbayev that the U.S. would not offer a security guarantee to Kazakhstan; indeed it would not even provide political support unless Kazakhstan ratified the NPT.⁵⁵²

By May 1992, Nazarbayev's attitude had changed. Apparently under pressure from the United States and Russia and with promises of assistance from both states, Nazarbayev again began talking about dismantling the nuclear weapons and becoming a non-nuclear state. Before departing for a May meeting with President George Bush, Nazarbayev held a press conference in Moscow in which he said Kazakhstan would sign the NPT as a non-nuclear state now that it had a security guarantee from the CIS.⁵⁵³ During and subsequent to the Bush meeting, Nazarbayev said he would abide by the START treaty and sign the NPT. At the same meeting, the two leaders signed various trade and investment agreements, including one giving Kazakhstan most-favored nation status and another providing insurance for American companies operating in the former Soviet republic.⁵⁵⁴

On May 24, along with the FSU's three other nuclear states, Kazakhstan signed the START protocol with the United States and agreed to adhere to the NPT.⁵⁵⁵ In August, General Viktor Dubinin, Chief of the Russian General Staff, announced that Russia and Kazakhstan had agreed that the "Russian" strategic weapons would remain in Kazakhstan for seven more years. The two sides also agreed that Russia would continue using the Emba and Sary-Shagan test sites. Dubinin "was quoted as saying 'our armed forces cannot do without Kazakh test sites and it would cost billions of rubles to construct similar sites in Russia.'"⁵⁵⁶ Despite the general agreement regarding leasing the test sites, it was three more years before the details of the agreement were worked out.

In 1993, Nazarbayev again dragged his feet, bargaining for more assistance before giving up his valued chips. He remained silent on the issue throughout most of the year. By October, despite

⁵⁵¹ RFE/RL Newline, "Nazarbayev: Kazakhstan A Nuclear State," Feb. 17, 1992; Nazarbayev on Nuclear Weapons," Feb. 24, 1992; "Kazakhstan Official on Nuclear Weapons," Feb. 28, 1992; and "Nazarbayev on Nuclear Weapons," Mar. 23, 1992.

⁵⁵² "Baker: No U.S. Military Commitment to Ukraine, Kazakhstan," Apr. 30, 1992.

⁵⁵³ RFE/RL Newline, "Nazarbayev Arrives in U.S.," May 19, 1992; "Nazarbayev to U.S.," May 19, 1992.

⁵⁵⁴ RFE/RL Newline, "Nazarbayev Vows to Comply with START," May 20, 1992; "Grachev on Nuclear Arms," May 26, 1992; and "Russian Military In Kazakhstan for Nuclear Talks," Aug. 18, 1992. Also, John D. Morocco, "Kazakhstan to Sign Treaty, Eliminate Nuclear Arms," *AWST* 136, No. 21 (May 25, 1992): 23.

⁵⁵⁵ RFE/RL Newline, "Four Republics and United States Sign START Protocol," May 25, 1993.

⁵⁵⁶ RFE/RL Newline, "Russian Strategic Weapons To Stay In Kazakhstan," Aug. 24, 1992.

Nazarbayev's earlier promises to do so, Kazakhstan had still not ratified the NPT. He asked United Nations members for \$2 billion in funds for dismantling the nuclear weapons and cleaning up Semipalatinsk, the former nuclear test site. Bringing U.S. attention to Kazakhstan once again, the president promised U.S. Secretary of State Warren Christopher that Kazakhstan would ratify the agreement by the end of the year.⁵⁵⁷ Russia and Kazakhstan were apparently busy negotiating behind the scenes the terms under which Kazakhstan would ratify the NPT. In December, Russia's Deputy Defense Secretary said that Kazakhstan had no nuclear ambitions and that its delay in ratifying the NPT was due to continued negotiations between the two states.

Living up to Nazarbayev's promise to Warren, Kazakhstan's parliament ratified the NPT before the end of the year. On December 13, coinciding with a visit from Vice President Albert Gore, the parliament ratified the treaty, voting 283-1. Gore and Nazarbayev then signed an agreement under which the United States would provide \$70 million to dismantle the nuclear weapons and \$14 million for nuclear safety.⁵⁵⁸ Later in the month, Kazakhstan and Russia reached a tentative agreement on the base leases. It was reported that Russia would lease Baikonur, Semipalatinsk, and Sary-Shagan for up to 99 years. Although they also reportedly discussed how Russia would compensate Kazakhstan for the nuclear material from Kazakhstan's warheads, no specific figures were released.⁵⁵⁹

Nazarbayev's bargaining strategy again paid off, literally, in 1994. While the earlier agreements were to assist Kazakhstan in paying for its denuclearization, in 1994, Kazakhstan won economic benefits unrelated to the cost of denuclearizing. Upon arriving in the United States for an official visit, Nazarbayev gave President Bill Clinton Kazakhstan's NPT accession documents. In return, Clinton promised \$311 million in economic assistance. The two states also signed a protocol to ease Kazakhstan's access to U.S. Export-Import Bank loans.⁵⁶⁰ Furthermore, in a U.S. sponsored program called Project Sapphire, Nazarbayev secured some undisclosed amount of money for the weapons grade uranium that was stored at the Ulba Metallurgy plant. The United States reportedly

⁵⁵⁷ RFE/RL Newswire, "Nazarbayev, Christopher on Nuclear Agreements," Oct. 25, 1993.

⁵⁵⁸ RFE/RL Newswire, "Kazakhstan Ratifies Non-Proliferation Treaty," Dec. 14, 1993.

⁵⁵⁹ RFE/RL Newswire, "Russia-Kazakhstan Agreement on Baikonur," Dec. 28, 1993.

⁵⁶⁰ OMRI Daily Digest, "Nazarbayev in Washington," Feb. 15, 1995.

transformed the 600 kg of weapons grade uranium into low-enriched uranium for nuclear power plants.⁵⁶¹

Following Ukraine's lead, Kazakhstan requested compensation from Russia for the nuclear warheads it transferred to Russia. The value was estimated at \$1 billion.⁵⁶² In May 1995, there was no mention of whether or how Kazakhstan would be compensated for the highly enriched uranium from the warheads.⁵⁶³ In November 1995, it was announced that the compensation would come in the form of Russian military jets. Russia would provide Kazakhstan with 43 jets including 21 MiG-29's by the end of the year plus another 30 modern military jets over the next two years.⁵⁶⁴

In June 1994, the two states bargained further over the leasing terms for the Sary-Shagan test site, with Kazakhstan pressing Russia to clean-up the site as a condition of leasing it.⁵⁶⁵ A January 1995 meeting between Presidents Yeltsin and Nazarbayev resulted in eight agreements dealing specifically with military co-operation. Among these were agreements covering the Emba and Sary-Shagan test ranges.⁵⁶⁶ In 1996, Russia agreed to pay another \$28 million per year for leasing the various test ranges and research facilities.⁵⁶⁷ The Sary-Shagan issue remained unresolved, however, until October 1997, when the deal was finally closed. Russia agreed to clean up the Sary-Shagan site as a condition for leasing it.⁵⁶⁸ Sary-Shagan was in the news again in 1999 when the Russians launched two anti-missile rockets from the site.⁵⁶⁹

⁵⁶¹ The United States was shocked to learn that the high-enriched uranium was sitting in poorly guarded facilities. The material was enough for at least twenty weapons; "a skilled bombmaker would be able to produce fifty," reported John A. Tirkpak, "Project Sapphire," *Air Force Magazine* (August 1995): 50. Tirkpak's report is an extensive discussion of how the United States learned of the uranium and its strategy for dealing with the material, including gaining cooperation from Russia. The report contains an interesting description of officials baking and drying the uranium. See also RFE/RL Newswire, "Uranium From Kazakhstan to U.S.," Nov. 23, 1994; and *New Scientist*, "Kazakhs Trade Uranium For Aid," Dec. 3, 1994.

⁵⁶² RFE/RL Newswire, "Kazakhstan Wants Compensation For Weapons," Jan. 25, 1994.

⁵⁶³ RFE/RL Newswire, "Agreement On Nukes In Kazakhstan," May 4, 1994.

⁵⁶⁴ OMRI Daily Digest, "Kazakhstan To Receive Military Jets From Russia," Nov. 13, 1995.

⁵⁶⁵ RFE/RL Newswire, "Russia Considers Leasing Sary-Shagan Test Site," June 24, 1994.

⁵⁶⁶ "Kazakh-Russian Relations - An Update." *Jane's Intelligence Review*, 7, No. 12 (Dec. 1, 1995): 567.

⁵⁶⁷ "Kazakhstan To Get More Su-27s As Debt Payment," *Jane's Defence Weekly* 28; no. 18 (Nov. 5, 1997): 14.

⁵⁶⁸ "Russia-Kazakh Defense Agreement Signed," Oct. 31, 1997.

⁵⁶⁹ "Russia Test-Fires Anti-Missile Rocket," Nov. 4, 1999; and "Russia Test Fires Second Missile," Nov. 5, 1999. The launches were seen as a protest against U.S. plans to move forward with missile defense systems that would violate the ABM Treaty.

A few months later, Yeltsin and Nazarbayev agreed that Russia would lease the Baikonur spaceport for 20 years at \$115 million a year, with an option for a further 10 years.⁵⁷⁰ The agreement was more favorable to Kazakhstan than early reports indicated. With a 20-year lease, rather than 99 years, Kazakhstan could leave itself the option of building its own space program and then more easily remove the Russians from the site. In addition, unlike the earlier reported agreement, Kazakhstan was to receive substantial rental fees. While Russia has been slow to pay rent and there have been rumors that Russia will pay Kazakhstan with aircraft, Kazakhstan can use the cosmodrome as a bargaining chip in their ongoing relationship.⁵⁷¹

Nazarbayev attempted to find alternative uses for the other test sites. While he could have rented the Semipalatinsk nuclear test site to Russia, Nazarbayev instead kept to his promise to end nuclear testing in his state. In addition, after signing the NPT as a non-nuclear state, Nazarbayev would have had to violate the NPT to continue testing. Keeping the site closed to nuclear tests, Nazarbayev searched for ways of converting the site for other uses. The United States agreed to assist in the conversion process. In September 1994, the United States opened bids for U.S. companies to form joint ventures with a select group of Kazakhstani concerns, including Semipalatinsk. The U.S. government would provide "cost-sharing" contracts as an inducement. It is unclear what came of these agreements, but at least one ended up in U.S. court with two U.S. joint venture partners suing their other two partners.⁵⁷² In October 1995, Nazarbayev succeeded in obtaining U.S. funding to help Kazakhstan seal the nuclear testing tunnels. In December, it was announced that Kurchatov, the city built to house Semipalatinsk workers, would receive a nuclear power plant to alleviate its chronic

⁵⁷⁰ "Deal Reached On Warheads," *Jane's Defence Weekly*, 21, no. 14 (April 9, 1994): 4; and "Kazakhstan To Get More Su-27s As Debt Payment," *Jane's Defence Weekly* 28; no. 18 (November 5, 1997): 14.

⁵⁷¹ RFE/RL Newline, Apr. 9, 1998, Jan. 26, 1999, Jan. 29, 1999.

⁵⁷² *Jane's Defence Weekly*, "Forward Looking; U.S. Defense Nuclear Agency; Management Support Services," Aug. 1, 1994: 4; and Jeffrey M. Lenorovitz, "Kazakh Conversion Opens for U.S. Bids," *Aviation Week and Space Technology*, 141, no. 8 (August 22, 1994): 38.

energy problems.⁵⁷³ In the past several years, widespread reports of radiation contamination on the site make conversion projects unlikely for the near future.⁵⁷⁴

This section demonstrates a weak state leader's—Nazarbayev's—strategy of selling assets to gain economic and military benefits. By changing the nature of the assets from their original intended purpose to bargaining chips for assistance, Kazakhstan also changed some assets from relation specific to non-specific. For example, the nuclear weapons became useful not as military assets but as bargaining chips to secure cash, grants, preferential economic treatment, and promises of security assistance. When the assets had a military purpose, they required Russian participation. As bargaining chips, the nuclear weapons attracted interest from both the West and Russia, giving Kazakhstan a larger pool of resources from which to benefit. Of course, Nazarbayev also had to consider the potentially severe international repercussions of retaining nuclear weapons when the major powers were all urging him to acquiesce. While some might fault Nazarbayev for scaring the West and Russia into making economic concessions, he appears to have skillfully played his hand.

Surrendering Sovereignty: The Path to Hierarchy

Unlike Ukraine, Kazakhstan ended up in a few economic hierarchies with Russia. Kazakhstan is part of the Russian-dominated customs union. After independence, Russia focused on building a CIS-wide economic union. According to Russia's plans, the CIS Economic Union would take over jurisdiction over transnational systems such as power grids, oil and gas pipelines, transport and communications, and of CIS property or jointly-owned assets of members, such as industrial and financial corporations. There would be a customs union and common market with free movement of commodities, capital, and labor. States' voting power would be determined by their financial contribution to the organization. This institutional rule gave Russia 50 percent of the votes. For "strategic decisions," 75 percent of the votes would be required. As happened in so many other arenas,

⁵⁷³ *Jane's Defence Weekly*, "Kazakhstan Agrees to Seal Nuclear Test Site," Oct. 14, 1995, 24, no. 15: 17; *Nuclear News*, "International Bids Invited For Nuclear Power Plant," Dec. 95: 30.

⁵⁷⁴ *Toronto Star*, "Nuclear-Tests Leave Ex-Soviets With Cancer," June 8, 1996: A3; *Newsweek*, "A Half Century of Nuclear Blasts," Sept. 13, 1997: 27; *The Economist*, "Kazakhstan Glowing But Not With Health," July 25, 1998: 39; and *Nuclear Engineering International*, "Japan Funds Kazakh Clean-Up," Nov. 3, 1999: 8.

the CIS Economic Union never materialized. After repeatedly encountering obstacles, Russia's emphasis shifted from the multilateral CIS format to a bilaterally negotiated customs union.⁵⁷⁵

In January 1995, Russian officials announced that Russia would sign a protocol on a customs union and free trade agreement with a subset of the CIS states: Belarus, Kazakhstan, and Ukraine. In the chapter 5, I noted that Ukraine refused to join the customs union on the basis that the agreement did not give all states an equal say. Despite its efforts, Russia has not succeeded in persuading Ukraine to join the customs union. Unlike Ukraine, however, Kazakhstan and Belarus signed onto the agreement and subsequently implemented at least some provisions of the union.⁵⁷⁶ Under the customs union, Russia distinguishes between tariffs that need to be adjusted and those that do not. For example, the Russians reportedly complained that Belarus had "levied fees on only a third of the goods considered by the Russians to be covered by the provision."⁵⁷⁷ It is unclear from public records exactly which tariffs are to be harmonized.

Customs unions, by definition, call for removing internal tariffs between the member states and harmonizing trade policies toward the rest of the world. In most customs unions, the members negotiate and compromise over the external tariff rates. What made the Russian-designed customs union unusual—and hierarchical—was the understanding by all parties that Russia would set the external tariff rates and the other members would match those rates.⁵⁷⁸ While the Russian parliament is technically supposed to take the other members' interests into account, there was no formal mechanism

⁵⁷⁵ For reports on the CIS Economic Union and its governing board, called the Interstate Economic Committee, see RFE/RL Newswire, "CIS Integration Measures," Sept. 9, 1994; "Prime Ministers' Meeting Establishes Supranational Economic Body," Sept. 12, 1994; "Results of the Prime Ministers' Meeting," Sept. 13, 1994; "CIS Summit: Economic Decisions," Oct. 24, 1994; "Interstate Economic Committee Holds First Session," Nov. 21, 1994; and "Caution on Customs Union," Dec. 1, 1994.

⁵⁷⁶ OMRI Daily Digest, Jan. 3, 1995, Jan. 25, 1995, Sept. 15, 1995, Sept. 25, 1995. The Ukrainian government later signed an agreement for a customs union with Moldova. At the press conference for that agreement, the presidents of Ukraine and Moldova said their "customs union will be totally different from that between Russia and Belarus, because it will be based on full equality" (OMRI, March 12, 1997). Uzbekistan, Kyrgyzstan, and Tajikistan expressed interest in joining the union, but did not sign at that time. Later, in September, all three again expressed interest in joining, but only Kyrgyzstan's president Akaev signed the agreement. Tajikistan continued to express interest in joining the customs union, but had not been admitted as of early 1998. Uzbekistan has not joined.

⁵⁷⁷ OMRI Daily Digest, July 27, 1995.

⁵⁷⁸ News reports on Russia's role in setting external tariffs for the customs union are supported by interviews with David Hoelscher, IMF Resident Director; Alexander Katkov and Oxana Grushchak, Commercial Services, U.S. Embassy; Brian O'Shea, consultant with Booz-Allen & Hamilton, U.S. AID, Development, Trade and Investment Project; and Doulatbek Khidirbekughli, a Kazakh analyst at the Kazakhstani Institute for Strategic

for doing so. Indeed, there is little reason to believe that they would. The process would be cumbersome and the other members have little power to force the Duma to implement procedures.⁵⁷⁹

In May 1995, after a CIS meeting that Nazarbayev did not attend for health reasons, Chernomyrdin announced that Kazakhstan would join the customs union which Russia and Belarus had recently formed.⁵⁸⁰ In August 1995, the Kazakhstani and Russian governments held detailed talks on implementing the customs union. In September of that year, Nazarbayev ratified the agreement. Having recently dismissed the parliament, he had full authority to ratify international agreements.⁵⁸¹ Kazakhstan immediately began implementing the agreement by closing customs controls between the two states; Russia, however, refused to do so. According to a high-ranking customs official, Russia was not willing to remove internal customs controls until Kazakhstan harmonized its external tariffs with those of Russia and Belarus.⁵⁸² In January 1996, Russia removed the customs controls between the two states, presumably because Kazakhstan began harmonizing its tariffs.⁵⁸³

While implementation has been far from perfect, by 1996, Kazakhstan had started harmonizing its external tariffs with those of Russia. In some cases, the changes have not been through published tariff rates, but rather through taxes by other names, such as value added taxes (VATs) and excise taxes. Despite the names, Nazarbayev apparently intended these higher taxes to serve the same purpose of protecting the Russian market, as the customs union is designed to do. In return, the president has sometimes criticized Russia for not removing internal barriers to trade, which would provide the expected benefits to Kazakhstan.

The most prominent example of Kazakhstan changing tariffs as part of implementing the customs union was in the automobile sector. Kazakhstan does not have an automobile industry to protect. Russia, on the other hand, had reason to protect manufacturers that had never been fully exposed to the international market, including AvtoVAZ, manufacturer of the Lada, and Kamaz, the

Studies. All interviews took place in Almaty, Kazakhstan in February and March 1997. For news reports that refer to this aspect of the agreement, see OMRI Daily Digest, July 27, 1995; Feb. 24, 1995; Jan. 13, 1996.

⁵⁷⁹OMRI Daily Digest, Aug. 11, 1995

⁵⁸⁰OMRI Daily Digest, "CIS Talks In Minsk," May 29, 1995.

⁵⁸¹OMRI Daily Digest, Aug. 21, 1995 and Sept. 21, 1995. U.S. embassy sources in Almaty confirmed that Nazarbayev had this authority.

⁵⁸²OMRI Daily Digest, "Kazakhstan Lifts Customs Control On Russian Border," Sept. 21, 1995; "Russia Not Ready To Lift Customs Control On Kazakhstani Border," Sept. 27, 1995.

truck manufacturer. In addition, high import tariffs combined with a large market would make Russia an appealing location for foreign direct investment.⁵⁸⁴ These factors gave Russia a strong incentive to make harmonized, and high, automobile tariffs a provision of the customs union. With Kazakhstan and Belarus imposing high tariffs, Russia would increase the market for its own automobiles, as well as making Russia an even more attractive site for foreign automobile assembly plants.

In the summer of 1996, citing its customs union with Russia and Belarus, Kazakhstan increased by six times the import tariffs on automobiles. The tariffs went as high as 30-45 percent. A short time later, Kazakhstan appeared to reverse itself. In January 1997, Kazakhstani officials announced that they would no longer enforce the high tariffs.⁵⁸⁵ At the same time, however, the government announced higher excise taxes. These taxes are a type of trade barrier. By adding an additional fee onto imports, the excise taxes raised the cost of importing automobiles. Since there were no tariffs between Russia and Kazakhstan, Russian imports were favored over other states' imports.⁵⁸⁶ Also related to the customs union, as part of an overall tariff-reduction package in April 1996, Almaty announced that export tariffs on oil and gas would fall by 50 percent. Kazakhstan's move to cut tariffs in this sector came just weeks after a similar reduction in Russian export tariffs.⁵⁸⁷

In addition to the tariffs, customs borders were run in a hierarchical manner. Russian customs guards were the sole control authorities at the Kazakhstani-Russian border.⁵⁸⁸ While the two states were to have eliminated tariffs between them, Russian continued for some time to guard their shared

⁵⁸³ OMRI Daily Digest, Jan. 3, 1996; the harmonizing was confirmed by O'Shea.

⁵⁸⁴ Indeed, Ford and BMW have opened assembly plants in Russia in order to avoid high tariffs as well as to take advantage of low-cost labor. For information on foreign direct investors, see *Detroit Free Press*, "Ford Works on Deal to Start Making Cars in Russia," March 19, 1999. Russia has also recently been successful in building a small, inexpensive car called the Oka. Unfortunately, the engine supply company was bombed during NATO's attacks on Yugoslavia in 1999. *Journal of Commerce*, "NATO bombing puts skids on Russian car output," May 14, 1999: 3A.

⁵⁸⁵ E-mail from the U.S. Embassy in Almaty, Commercial Services Section, dated January 24, 1997; interviews with U.S. embassy officials in Almaty.

⁵⁸⁶ The automobile excise taxes were printed in *Kazakhstanskaya Pravda*, January 9, 1997. I was unable to determine exactly how close to the Russian tariffs these levels would be. It is difficult in both Russia and Kazakhstan to determine exactly what the import fees will be on any given item. While tariff rates are published, they are often changed and then only reported in newspapers. Excise and other taxes often go by different names, but have the same effect as import tariffs. For this reason, a straight forward comparison of tariff tables does not reveal whether or not the tariffs match those of Russia.

⁵⁸⁷ Pipeline News, Apr. 12, 1996.

⁵⁸⁸ OMRI Daily Digest, "Kazakhstan Lifts Customs Control On Russian Border," Sept. 21, 1995; "Russia Not Ready To Lift Customs Control On Kazakhstani Border," Sept. 27, 1995; "Customs Controls On Russo-Kazakhstani Border," Jan. 3, 1996; "Customs Controls," Feb. 5, 1996.

border, opening up the possibility of interference in Kazakhstan's trade regime. If the strong state in the dyad guards the border for products moving across the shared border of the weak and strong state, the strong state has some de facto authority over the trade patterns of the weak state. Guarding these shared customs posts gave Russia control over what products would be let in and which refused, the tariff levels charged for those products, and the ability to retain some of the tariffs collected, legally or otherwise. The customs posts in some FSU states are known to be lucrative positions for the guards. Anxious to move their products, importers are often at the mercy of the customs guards for getting their commodities across the border. The governments reportedly turn a blind eye toward the bribes often required by customs officials, as the practice is seen as a way of boosting the guards' meager salaries.⁵⁸⁹ In August 1997, the Kazakhstani government complained that Russian customs officials were indeed charging tariffs on goods crossing the border via Kazakhstani trucks.⁵⁹⁰ These comments led to speculation that Kazakhstan may withdraw from the union, but it did not formally do so.

While the customs union is often mentioned in the media, few analysts have noted its unique characteristic of being blatantly hierarchical. Kazakhstan's economic interests in joining a customs union with Russia are perhaps obvious: they are neighbors with highly integrated economies marked by RSAs. Relative to other FSU states, Kazakhstan—along with Ukraine and Belarus—has an economy that is competitive with Russia, and has a long history of trade with Russia. All of these are classic reasons for selecting Russia as a customs union partner. However, Kazakhstan could, and has, pursued other economic unions. Like Ukraine, it has looked to its non-Russian contiguous neighbors (Kyrgyzstan and Uzbekistan) for alternative customs unions. These states have reportedly removed

⁵⁸⁹This phenomenon is widely understood in the region. When Kazakhstan did start guarding its own borders, Kazakhstani customs services were reportedly charging as much as \$300 as an escort service fee for passenger cargo. On this point, a Russian official said a customs worker will "immediately recede into unobtrusiveness if he is bribed." (See RFE/RL Newswire, "Kazakhstan Not Adhering To Customs Agreements?" Jan. 30, 1997.) Given the illegal nature of the practice, however, it is difficult to find explicit evidence. A series of personal interviews in March 1997 with the director of a customs house brokerage firm indicated that this practice is widespread. The brokerage firm clears products through customs for importers to Kazakhstan and is, therefore, in a position to be a regular victim of this illegal practice. In addition, an American professor working for a university in Kyrgyzstan confirmed the widespread understanding that this practice occurred. He told me about one of his students whose father had recently taken a position as a customs guard. She told the professor that her family's standard of living had suddenly dramatically improved and exclaimed that until her father took the position, she had no idea how well those jobs paid. The professor did not have the heart to tell her precisely why her father was suddenly making so much money.

⁵⁹⁰OMRI Daily Digest, August 12, 1997.

their customs posts between member states.⁵⁹¹ Unlike the Russian-designed customs union, the Central Asian one is not hierarchic. That is, although the states are coordinating policies, there is no one state that sets the tariff rates or other policies for the other members. Under the Russian-designed system, Nazarbayev cannot choose which of his political constituents to reward. He has less policy control than he would with a typical customs union, including the one with Uzbekistan and Kyrgyzstan, or if he were acting unilaterally. Kazakhstan's benefits from the customs union are not as high as they would be if Kazakhstan could actively negotiate the external rates, as is normal in other customs unions. Given other member options, albeit ones that are less resource rich than Russia, why has Kazakhstan agreed to submit to a hierarchical customs union?

One obvious answer is that Kazakhstan hoped to gain from the free trade zone with Russia. Since Russia was only offering a hierarchical customs union, Kazakhstan was in a position of "take it or leave it." Nazarbayev may have counted on the gains from free trade with Russia being greater than the loss from having to implement tariffs that were inconsistent with his policy interests. As other options, most notably the World Trade Organization, became available, Kazakhstan would pursue these instead. According to David Pearce, Director of the World Bank Mission in Almaty, Kazakhstani leaders have said that the WTO will replace the customs union.⁵⁹² Interviews with U.S. officials working in Almaty support this interpretation.⁵⁹³ In addition, the constituents that would be harmed by the policy choices, such as high automobile tariffs, may not be sufficiently organized to harm Nazarbayev. Automobile purchasers would be a relatively diffuse group with high collection action costs, particularly in a former Communist state where citizens groups could not freely organize.

This may be only part of the answer, however. The rest of the answer may lie in Kazakhstan's lop-sided dependency on Russia. Since Russia determines the quantity of fuel

⁵⁹¹ Like the Russian-designed customs union, this one too has features uncommon to most unions. One of its arrangements involves Kazakhstan bartering coal for Kyrgyzstan's water, and Uzbekistan delivering natural gas for Kyrgyzstan's water. The three members have also discussed adding Tajikistan, but its war-torn economy is not expected to be a boon to the union. OMRI Daily Digest, "Uzbekistan And Kazakhstan To Form Economic Union," Jan. 12, 1994; "First Steps of Central Asian Economic Union," Feb. 2, 1994; "Kazakhstan Ratifies 'Common Economic Space'," Mar. 15, 1994; "Economic Integration Efforts In Central Asia," Apr. 25, 1995; and RFE/RL Newswire, "Tajik Debt To Uzbekistan Rescheduled," Feb. 5, 1998; "Central Asian Customs Union Meets," Mar. 17, 1998; and "Kazakhstan's President Lobbies For Regional Unity," Sept. 30, 1999.

⁵⁹² Personal interview, February 1997.

⁵⁹³ Alexander Katkov and Oxana Grushchak, February 1997.

Kazakhstan can export via the Russian pipelines, it can harm Kazakhstan's economy by forcing it to cut back on production. Indeed, Kazakhstan's Tengiz and other fields have not been producing to their full potential. This leaves Kazakhstan more desperate for an economic boost than if it alone determined its export volume. Desperate to improve the economy, Nazarbayev is more likely to agree to a Russian-led hierarchic customs union, if that is the only one available. Without having to resort to military threats or use of force, Russia can implement the hierarchy at virtually no cost. In turn, the international community is unlikely to balk at an apparently voluntary decision.

Future White Knight Options Reduce Relation Specificity

Not surprisingly, Nazarbayev has expended considerable effort to break or at least reduce Kazakhstan's most serious hierarchy: Russia's control over its export pipelines. With some of the largest oil fields still producing oil, independent Kazakhstan was an immediate target for foreign direct investment. The Kazakhstani government encouraged foreign investors by promising speedy action in contract negotiations and access to the President and other high level officials. Western and other foreign oil companies and states are pumping money into Kazakhstan's oil sector, helping to build new pipelines, some of which will bypass Russia. In addition, Kazakhstan has pursued China and Iran for fuel exports, two state markets that do not require Kazakhstan to move its fuel over Russian territory.

Kazakhstan has successfully funded a new pipeline through the Caspian Pipeline Consortium (CPC). The CPC pipeline investors include the TengizChevroil company; Russian oil companies Rosneft, Transneft, and LUKoil; and Western companies Agip (Italy); Amoco, Atlantic Richfield Company (Arco), Mobil, and Oryx (U.S.); and British Gas. The governments of Russia, Kazakhstan, and Oman are also part owners, with stakes of 24, 19, and 7 percent, respectively.⁵⁹⁴ The pipeline will run from the Tengiz field to Russian Black Sea port, Novorossiisk, and will cost \$2.34 billion.⁵⁹⁵ Since the pipeline will travel through Russia and end at a Russian port, Kazakhstan will remain vulnerable to Russian policy changes. Nevertheless, the increased capacity means that Russia can export its own oil

⁵⁹⁴ The members of the CPC and their shares seem to change on a monthly basis. The partners mentioned here are as of September 1999. For information on the pipeline, see RFE/RL Newline, Mar. 13, 1996, Mar. 29, 1996, Mar. 13, 1997; Zviagelskaia, 27; personal interview with Williams; and International Energy Agency, 1998.

and still have capacity for Kazakhstani oil, making it in Russia's interest to keep capacity full so that it can collect transit fees. This would make the relationship more mutually vulnerable. The pipeline is scheduled for completion in the summer of 2001.⁵⁹⁶

In addition to seeking and obtaining assistance from Western white knights, Kazakhstan has brokered deals with China and Iran as markets that do not require Russian territory or pipelines. In 1996, Kazakhstan announced that it was seriously considering a pipeline route to China and possibly the Pacific Ocean.⁵⁹⁷ In 1997, the two states signed an estimated \$9.5 billion deal on oil field development, shipments, and two pipelines, including the one to China. Under the agreement, the China National Oil Corporation would develop two oil fields in western Kazakhstan and build a 3,000 kilometer pipeline to China's western border and a 250 kilometer pipeline to the Turkmen border.⁵⁹⁸ In the meantime, Kazakhstan would send oil to China using railways. In November 1997, the first oil shipment arrived in China via the Eurasian railroad.⁵⁹⁹ In 1999, however, the China-Kazakhstan pipeline deal appeared "likely to be shelved."⁶⁰⁰ Chinese engineers had likely determined that the 3,000 kilometer pipeline was not feasible. Nevertheless, it seems fair to say that the promise of the pipeline and the continuing exports to China gave Kazakhstan's leadership some confidence that they were slowly escaping their vulnerability to Russia.

In addition to the CPC pipeline, Kazakhstan has pursued other pipeline options. The most promising route is a pipeline that would be designed initially for Azerbaijan but would be available to transport Kazakhstani oil as well. In what some are calling "the deal of the century," a large consortium of Western and Japanese investors have agreed to help finance the pipeline. In 1996, Nazarbayev lobbied for pipelines that would link Kazakhstan, via Azerbaijan and Georgia, to the Black Sea and Turkey. "The transit corridor would minimize the dependence of Central Asia and the Transcaucasus on existing Russian pipelines and export routes by allowing these countries to bypass

⁵⁹⁵ In 1996, cost estimates were only \$1.2 billion.

⁵⁹⁶ RFE/RL Newswire, Sept. 6, 1999; Houston Chronicle, "Chevron-Led Group To Finish Pipeline," July 6, 2000: 2.

⁵⁹⁷ RFE/RL Newswire, May 2, 1996, Sept. 25, 1997.

⁵⁹⁸ RFE/RL Newswire, Aug. 5, 1997; Sept. 25, 1997. The two oil fields are the Uzen and Aktyubinsk fields. The pipelines were to begin operating within five years.

⁵⁹⁹ RFE/RL Newswire, Apr. 4, 1997; Pipeline News, Nov. 7, 1997

⁶⁰⁰ RFE/RL Newswire, Aug. 18, 1999.

Russian territory as they send oil, gas and other products to world markets.”⁶⁰¹ The proposed pipeline from Baku to Turkey’s Mediterranean port of Ceyhan is expected to cost an estimated \$2 billion to construct and to have an annual throughput capacity of 45 million tons. The Baku-Ceyhan line would have the advantage of being the shortest and most economical route to the Mediterranean for Caspian oil and would also increase the export options for Kazakhstan as well as Azerbaijan.⁶⁰²

Progress has been slower on this route than the CPC, but the route offers the potential for a significant pipeline that would bypass Russia and reach lucrative Western markets. Although in late 1996, oil company sources said there had been little progress in developing such a pipeline route, the pipeline plans continued to move forward throughout 1997, 1998, and 1999. Agreements were signed, feasibility studies done, searches for financing completed.⁶⁰³ By 1999, there was clear progress on the route. In November, the presidents of Azerbaijan, Georgia, and Turkey signed agreements constituting the legal framework for the construction and operation of the pipeline. Construction on the approximately 1,070 mile-long pipeline is expected to begin in 2001. Nazarbayev signed a declaration with his Turkish, Azerbaijani, and Georgian counterparts pledging to export oil via the pipeline.⁶⁰⁴

Kazakhstan has thus far unsuccessfully sought funding for a pipeline that would connect its oil fields to its refineries. Kazakhstan’s energy minister argued in 1996 that while the CPC pipeline will not alleviate Kazakhstan’s vulnerability to Russian action as it will pass through Russia and terminate at a Russian port. Therefore, he wrote, construction of the northern Kazakhstan-Kumkol oil pipeline is a priority. “It is hoped that this pipeline will allow Kazakhstan, which produces about 60 million tons of oil per year, to ensure fuel supply to northern refineries and fulfill its own oil needs through domestic production and curtail imports of Russian crude to the northern part of the country.”⁶⁰⁵

Iran has been another export destination that does not require transit through Russia. Kazakoil agreed in 1996 to ship annually 2 to 6 million tons of oil to Iran over a 10-year period. As part of the deal, the company announced in 1997 plans to export more than one million tons of oil to

⁶⁰¹Pipeline News, Oct. 12, 1996.

⁶⁰²Jamestown Monitor, No. 84, May 13 1996.

⁶⁰³Lynnley Browning, Reuters, October 1996.

⁶⁰⁴RFE/RL Newline, Nov. 19, 1999.

Iran.⁶⁰⁶ In late 1999, Kazakhstan hinted that a pipeline route from Kazakhstan through Turkmenistan to Iran is the most likely option for a second pipeline in addition to the CPC line.⁶⁰⁷

Although not all of Kazakhstan's plans to reduce dependence on Russia have been fully realized, the white knights have helped to reduce the expected costs of Russian opportunistic behavior. While still largely beholden to Russia for exporting much of its oil to the hard currency markets of the West, the government is quietly maneuvering to push Russia out of the way, using dollars, influence from the West and Japan, and finding alternative markets. As Kazakhstan has signed more agreements with non-Russian white knights, its confidence in Western options has increased. In turn, Nazarbayev has become more assertive in its dealings with Russia. For example, Kazakhstan is apparently not adjusting as many tariff rates to match those of Russia.⁶⁰⁸ Even if Kazakhstan withdraws from the hierarchy, the RSAs mean that the two states will continue to have interconnected economies.

Lack of Need for Security Cooperation

There are no significant armed conflicts inside Kazakhstan or with other states. Furthermore, Kazakhstan's political leadership and general population apparently do not perceive any immediate security threats to their state. In two opinion polls, taken in 1997 and 1998, more than half of the political elite said that no country had acted in a hostile manner toward Kazakhstan. Ninety percent of the general public said that no state had acted in a hostile manner, or that they did not know. Only a few of both the elite and general public (5 percent) mentioned China as acting in a hostile manner.⁶⁰⁹ While this poll does not precisely get at the question of perceived threats, it does suggest a lack of fear about impending threats. There have been a few skirmishes with Uzbekistan and China, but these have not involved serious military activity. Without any immediate domestic or international security concerns Kazakhstan has not required immediate Russian security assistance, as Tajikistan and

⁶⁰⁵Reported in Pipeline News, from New Europe, October 6-12, 1996, p. 42.

⁶⁰⁶RFE/RL Newline, Apr. 4, 1997.

⁶⁰⁷RFE/RL Newline, Aug. 17, 1999.

⁶⁰⁸E-mail correspondence with David Tarr, the World Bank's Lead Economist for the Development Research Group, Aug. 29, 2000.

⁶⁰⁹USIA. The USIA-commissioned survey team interviewed 103 officials from the national government and 54 heads of regional and local governments. The survey occurred between March 2 and May 8, 1998. USIA also commissioned a survey of the public in 1997. For this nation-wide survey, 1,986 adults were interviewed.

Georgia, for example, did. China's increasing military might, the threat of fundamentalist Muslims migrating from the unstable states of Tajikistan, Afghanistan, Pakistan, and Iran are potential medium-term or even long-term threats. Given this lack of an immediate threat, Kazakhstan does not require Russian forces. After Kazakhstan took control of its own forces a year following independence, Russian forces have not been based in Kazakhstan.⁶¹⁰

Conclusion

Kazakhstan's vast size⁶¹¹ and extensive border with Russia, oil pipelines that pass through Russia, and nuclear weapons and testing sites have made Kazakhstan Russia's main focus in Central Asia. Since independence, the Russia-Kazakhstan dyad has been highly relation specific. While some of the specificity has led to mutual vulnerability, Kazakhstan is more dependent on Russia than the other way around. Mutual reliance in areas such as oil refineries has led to a cooperative relationship based on autonomy rather than hierarchy. A few assets that are marked by mutual vulnerability have led to nominal hierarchies, such. In these cases, the two states have signed cooperative, long-term agreements that give minor decision making power to Russia. In these cases and similar cases, Kazakhstan opted for financial assistance in exchange for giving minimal decision-making power to Russia. Kazakhstan skillfully sold or has rented assets, such as its nuclear weapons, the Baikonur cosmodrome, and its testing sites to Russia in exchange for financial benefits.

Oil pipelines are vital relation specific assets RSAs for Kazakhstan. With crude oil as its primary economic asset for bringing in desperately needed foreign currency and with the pipelines controlled by Russia, Kazakhstan's leadership has understood that it was vulnerable to Russian opportunistic behavior. This leverage appears to be the primary reason for Kazakhstan agreeing to and implementing a Russian-designed hierarchical customs union. Kazakhstan is attempting to eliminate or reduce this vulnerability by bringing in white knights to fund alternate pipelines and other export routes. If Kazakhstan succeeds in obtaining these routes, as it appears that it will, Russia's

⁶¹⁰ I am not including the forces that guard the testing facilities, as I discussed those earlier.

bargaining leverage will be reduced. In turn, Kazakhstan will increasingly be emboldened to ignore the union or at least its hierarchical nature. This is already occurring. In the security arena, Kazakhstan has not faced serious internal or external threats that would call for outside security assistance. With no immediate role for Russia to play, Kazakhstan has not been interested in a security hierarchy with Russia or any other state.

Kazakhstan has been a major focus of Russian pressure to conform to some type of hierarchy. Nazarbayev, in turn, has seemed eager to embrace Russia. Before and after independence, he argued that the states should remain together in a federation, as they could not survive economically on their own. With their economies bound together by numerous significant RSAs, the two states do indeed have an interest in forming a long-term economic relationship. However, this does not mean that Nazarbayev would prefer being a subordinate in a hierarchy over playing an equal role in the relationship. In his early support of a renewed federation, he said "it is clear that it should be a union of sovereign national states with a common economic space."⁶¹² The assumption that political leaders stay in power in order to control policy suggests that Nazarbayev would prefer to join a union based on equality not hierarchy with another state. A type of European Union rather than a Russian-dominated hierarchy is likely what Nazarbayev hoped for. As the new pipelines are completed, increasing Kazakhstan's export capacity and evading Russian land, Russia may find that a non-hierarchic customs union is the only type that Kazakshstan will accept. Without its traditional source of power, Russia will no longer be able to dictate its terms.

⁶¹¹ After Russia, Kazakhstan has the largest land mass in the FSU. It is also one of the most sparsely populated regions in the world. Its land mass is about half that of the United States but its population (about 17 million) is roughly 1/12 of the U.S. population.

⁶¹² Official Kremlin International News Broadcast, May 31, 1991. Speech By Kazakhstan's President Nursultan Nazarbayev During Mikhail Gorbachev's Meeting With Kazakhstan's Public In Alma Ata On May 30, 1991 (Central Television Of The U.S.S.R., May 30, 1991).

Chapter 7: The Battle for Russian Assistance: Azerbaijan and Armenia

"Historically, the Transcaucasus has been a meeting place of great civilizations, of which it still bears the imprint, and a locus of imperial rivalries."⁶¹³

The Caucasian (*Kavkaz*) mountains jut up between the Caspian and Black Seas, dividing the Russian Federation from the southern states of Transcaucasia. Residents of the Northern Caucasus—which includes the northern portion of the mountains along with the steppes going down to the Don and Volga rivers—are mostly mountain-dwellers and encompass numerous small ethnic groups, including the Chechens.⁶¹⁴ The Transcaucasus comprise the new states of Armenia, Azerbaijan, and Georgia. The mountainous region was historically a natural haven for migrants moving from Asia to Europe and to the cultural centers of the Near East. Many of these people were fleeing war and invasion in their home lands. It was here that Turkic nomads from the Eurasian steppes came face-to-face with the sedentary cultures of the east Mediterranean basin. Initially, the area was mainly a transit zone for these nomads. However, over time, the nomadic tribes of the steppes began to interfere in the political life of the sedentary people. The most notorious of these tribal groups were the Mongols. From the 13th to the 15th centuries, the Mongols dominated the region, destroying the Armenian and Georgian great aristocratic houses. It was during this period that the Mongols underwent a mass conversion to Islam. By the middle of the 15th Century, the Ottomans began encroaching on Transcaucasia, eventually replacing the Mongols as the dominant group.⁶¹⁵ Subsequently, for over a century, the Ottoman and Persian empires fought over control of the Transcaucasus, dividing up the region among themselves only to later challenge the divisions.

Over time, the Russian empire moved down from the north to challenge the other two empires. By the end of the 18th Century, Russia had conquered the bulk of the Caucasus.⁶¹⁶ Early Russian administrators ruled from St. Petersburg, inadvertently leaving the local elite to decide which

⁶¹³ Hunter 1994, 6.

⁶¹⁴ Pipes 1997, 15-16.

⁶¹⁵ Golden 1996, 63-67.

⁶¹⁶ Rhineland 1996, 87.

directives to implement and which to amend or even ignore. Around the mid-1800's, the first Russian viceroy was assigned to the Caucasus. Viceroy Mikhail Vorontsov sought to integrate the Muslim, Georgian, and Armenian elite into the local imperial administration. He broke up the region into provinces that roughly matched the historical divisions of eastern Georgia, western Georgia, Armenia, Azerbaijan, and Daghestan, which is now part of Russia. The local elite were given a substantially greater say in ruling their respective provinces. As a result of Vorontsov's policy of utilizing rather than crushing regional economic, religious, and political forces, the ethnic groups were able to retain their distinctness.⁶¹⁷

The three primary ethnic groups residing today in Transcaucasia are the Armenians, Georgians, and Azeris, each of which had its own titular republic under the U.S.S.R., and now has its own state. The three groups each carry a unique blend of concerns and fears, based on religion, historical persecution, and geographic location. The Armenians and Georgians converted to Christianity in the 4th Century. With close ties to the religious center in Byzantium, their political, social, and cultural focus was to the west.⁶¹⁸ Culturally, Azeris have little in common with Georgians and Armenians. They are Islamic, with ethnic brothers and sisters in Iran and Turkey, leading them down a very different ethnic-cultural path than their Christian neighbors.

Common Security Concerns: The Conflict over Nagorno-Karabakh

From Russia's perspective, geography is the primary security relation specific asset (RSA) in the Transcaucasus. Plagued by secessionist battles on its southern border—Chechnya (beginning in 1994), Abkhazia, and Ossetia—the Russian government wanted permanent or semi-permanent basing options in the Transcaucasus. It feared that potential spillover effects from the long-standing conflict in the Nagorno-Karabakh Autonomous Republic would further destabilize the very region the Russians were having the least success controlling. In turn, both Azerbaijan and Armenia sought outside assistance in fighting their battle over the future of Nagorno-Karabakh. Russia was the only state

⁶¹⁷ Prior to Vorontsov's division, the region had been divided into two large provinces, one for Georgia and the other incorporating the Armenian, Azerbaijani, and Daghestani peoples. For the details on how the region was ruled by Vorontsov and his predecessors, see Rhineland 1996.

willing to offer direct military assistance in the form of troops and equipment. This common security concern suggests that both Armenia and Azerbaijan had an incentive to cooperate with Russia in order to gain military benefits. Whether Armenia and Azerbaijan would pursue hierarchy with Russia depended on the relative costs and benefits of being governed by Russia (hypothesis 2). Similarly, whether Russia would benefit from pursuing a hierarchy with one or both states, as opposed to letting Armenia and Azerbaijan resolve the conflict on their own or through indirect assistance, depended on the costs and benefits of governing that hierarchy (hypothesis 1). Before exploring these specific costs and benefits, I summarize the events behind the Nagorno-Karabakh conflict and related political events.

The governments and peoples of Armenia and Azerbaijan each claim Nagorno-Karabakh as a cultural and political center and a part of their respective countries for at least 3,000 years.⁶¹⁹ The current borders were determined between 1918 and 1923, as part of power plays involving the Soviets, the Ottoman empire (and later Turkey), and Britain. For the Bolsheviks, who were dividing the region into republics, the intermingling of ethnic groups in Transcaucasia posed a formidable problem. Moslem and Armenian villagers often used the same areas for grazing their sheep and cattle. The titular republics each claimed these shared grazing lands as their own. In addition, the Azerbaijanis claimed that a large portion—nearly 60 percent of the Transcaucasus and part of the Northern Caucasus—belonged to them.⁶²⁰ The Bolsheviks settled the competing claims through a broader territorial settlement. They made Nagorno-Karabakh an Autonomous Oblast within the Azerbaijan Republic. The government would be led by Armenians, but funding would come from Baku. In addition, the Bolsheviks granted a largely Azeri region, Nakhichevan, to Azerbaijan, but made it non-contiguous by giving Armenia the Zangezur region, which lies between Azerbaijan proper and Nakhichevan.⁶²¹ Despite, or perhaps because of, the Bolshevik decision, tensions between the Armenians and

⁶¹⁸The similarity between the two ethnic groups should not be overstated, however. In the 7th Century, a schism occurred between the two groups and was never repaired. Their versions of Christianity are quite individual.

⁶¹⁹Nagorno means mountainous in Russian and Karabakh is Russian for the Iranian-Turkish Karabagh. *Kara* is Turkish for "black" and *bagh* is Iranian for "garden." According to Lang and Walker, Karabagh probably refers to the fertile earth that is prevalent there.

⁶²⁰ Pipes 1997, 208.

⁶²¹ Altstadt 1997, 119.

Azerbaijanis simmered throughout the Soviet period, occasionally leading to serious clashes. These clashes almost always centered around the status of the Nagorno-Karabakh Autonomous Oblast.⁶²²



Figure 7.1: Map of Azerbaijan

Recent difficulties began in February 1988 when the Karabakh Soviet officially asked the Armenian and Azerbaijani Soviets to transfer to Armenia administrative control of Nagorno-Karabakh,

⁶²² Hunter 1994, 97-99.

which was approximately 75 percent ethnic Armenian and 25 percent Azeri.⁶²³ Armenians gathered in their capital, Yerevan, to demonstrate their support for the proposed change. Although the Yerevan demonstrations were peaceful, violence erupted in other parts of the state. In Sumgait, a depressed industrial city near Baku, protestors rioted for four days. Thirty-two people, mostly Armenians, were killed. Countless Armenian apartments were destroyed, many of them burned to the ground. The rioting marked just the beginning of what would soon turn into an outright war between Azerbaijan and the Armenian state and the Karabakh Armenians.⁶²⁴ In retaliation for the riots, the Armenian government expelled about 200,000 Azeris living in Armenia, who then flooded Baku. A series of strikes and demonstrations in Armenia and Azerbaijan followed. As the situation worsened, Moscow placed Nagorno-Karabakh under its direct control in January 1989, and cracked down on Armenian nationalists. Unable or unwilling to solve the conflict, Moscow returned control of Nagorno-Karabakh to Baku in November 1989.⁶²⁵

In January 1990, Azeris and Armenians again violently clashed in Baku, leading to dozens of Armenians killed.⁶²⁶ On January 15, President Mikhail Gorbachev sent about 17,000 U.S.S.R. Ministry of Interior (MVD) troops to the region and declared martial law.⁶²⁷ Over 100 Azeris, many of them civilians, died during the intervention.⁶²⁸ These deaths resulted in strong anti-Russian attitudes among the Azerbaijani population. Armenians also came under attack. At least twice during the spring 1990, MVD troops used force to suppress unarmed protestors. In the spring and summer 1991, in collaboration with the Azerbaijani government, MVD forces located and deported thousands of Armenians, and arrested and detained hundreds more. Between 22 and 24 Armenian villages in Nagorno-Karabakh and surrounding districts were emptied. As the U.S.S.R. weakened internally,

⁶²³ Human Rights Watch/Helsinki 1994, xiii. These figures are disputed by both Armenians and Azeris, each claiming that their ethnic group represented a larger percentage. See fn 15 in Human Rights Watch/Helsinki 1994.

⁶²⁴ Dudwick 1993, 277; Hunter 1994, 99.

⁶²⁵ Hunter 1994, 99.

⁶²⁶ Altstadt 1997, 122.

⁶²⁷ Human Rights Watch/Helsinki 1994, 3.

⁶²⁸ The figure on numbers dead is controversial. This estimate comes from Swietochowski, pp. 205-6. Some have alleged that Moscow was behind the rioting and used the event as a pretext for taking control. According to Hunter, it is currently impossible to determine the truth of such allegations. Hunter 1997, 445-46.

countless skirmishes broke out between Armenians and Azeris.⁶²⁹ Ayaz Mutalibov, who came to power during the martial law period, ran unopposed for president and was elected in September 1991.⁶³⁰

When the Soviet Union collapsed in December 1991, the MVD troops withdrew from Nagorno-Karabakh and the two states quickly recognized that they were now left to themselves to settle the problem.⁶³¹ Fighting increased dramatically in 1992. Both sides were fueled by large stockpiles of weapons that had belonged to the Soviet 7th Army based in Armenia and the 4th Army in Azerbaijan.⁶³² As a military advisor to the Armenian president said in August 1992, “the supply of weapons will last for years, thank God the former U.S.S.R. produced so many.”⁶³³

February 1992 brought the first dramatic victory for the Armenians. Karabakh Armenians invaded Khodzjali, a predominately Azeri region.⁶³⁴ Between hundreds and over a thousand Azeris were killed, many of them civilians.⁶³⁵ It was widely believed in Azerbaijan that Russia's 366th Regiment had aided the Armenians in the massacre.⁶³⁶ After the massacre, rioting broke out in Baku. In March, the parliament forced President Mutalibov to resign and appointed an interim president—Yakub Mamedov—until elections could be held in June.⁶³⁷ In April, the Azerbaijani government attacked the town of Maraga, reportedly killing 40 civilians and taking dozens of hostages.⁶³⁸ That same month, Azerbaijan's defense minister accused Russian troops of a policy of “terror and violence and military aggression against Azerbaijan” in an attempt to “drive the Azerbaijan Republic into the CIS at all costs.”⁶³⁹ The following month, the Russian defense ministry announced that all CIS joint forces, which were mostly Russian, would be withdrawn from Azerbaijan by the end

⁶²⁹ Human Rights Watch/Helsinki 1994, 3-4.

⁶³⁰ Altstadt 1997, 125.

⁶³¹ Hunter 1993, 253.

⁶³² Human Rights Watch/Helsinki 1994, 86.

⁶³³ Quoted in Human Rights Watch/Helsinki 1994, 85. Originally in an interview with *Nezavisimaya Gazeta*, Moscow, August 26, 1992, p. 8.

⁶³⁴ The town is sometimes transliterated as Khojali or Khodzjali.

⁶³⁵ Altstadt (1997, 125) puts the figure at over a thousand, while Human Rights Watch/Helsinki (1994, 4) estimates hundreds.

⁶³⁶ Fuller 1992, 52; Curtis 1995, 143; Human Rights Watch/Helsinki 1994, 4-5.

⁶³⁷ Altstadt 1997, 125.

⁶³⁸ Human Rights Watch/Helsinki 1994, 5.

of 1993. Azerbaijani fighters had reportedly been constantly harassing the former Soviet Army based there.⁶⁴⁰ As the 366th Regiment departed in the spring, it transferred all its weapons to the Karabakh Armenians.⁶⁴¹

May 1992 would prove a critical month for the Azerbaijani government and military. With Iranian mediators, President Mamedov had been trying to negotiate a settlement with the Armenian leader. On May 8, there was a breakthrough; the leaders signed a cease-fire. The next day, however, the Karabakh Armenians overran Shusha, the last predominately Azeri town in Nagorno-Karabakh.⁶⁴² Again, Russia was complicit. Soldiers from the 147th Motor Rifle Division reportedly played a role in Shusha's fall.⁶⁴³ On May 17, Karabakh Armenian forces broke through to Armenia by capturing the border town of Lachin. The Shusha and Lachin victories gave the Karabakh Armenians control over a thin strategic corridor—called the Lachin corridor—that runs from Nagorno-Karabakh to Armenia.⁶⁴⁴

On May 14, after the fall of Shusha, the Communist-dominated parliament summarily removed Mamedov as president, and reinstated Mutalibov. He immediately cancelled elections, banned opposition parties, and declared a State of Emergency in Baku. He argued vehemently that making peace with Russia and joining the CIS were the answers to Azerbaijan's troubles. The opposition Azerbaijani People's Front (APF) responded by sending an armored column to the parliament building. It then seized both the presidential and parliamentary buildings along with the television station. The parliament resigned. Mutalibov fled to Moscow, where he remained. After three days of armed confrontation, the parliament voted to dissolve itself. An APF leader, Isa Gambar, became the acting president until June elections could be held.⁶⁴⁵

In June, Azerbaijan elected its first post-Soviet president and won its most important military victory in months. On June 7, 1992, Abulfazl Elcibey won the presidency with about 60 percent of the

⁶³⁹ Reported in Twining 1993, 134. Originally in "Russia Accused of Aggression by Azeris," Baku, *Bakinskiy rabochiy*, April 16, 1992.

⁶⁴⁰ Aves 1998, 181.

⁶⁴¹ Human Rights Watch/Helsinki 1994, 86.

⁶⁴² Altstadt 1997, 126; Human Rights Watch/Helsinki 1994, 5.

⁶⁴³ Menon 1998, 129.

⁶⁴⁴ Human Rights Watch/Helsinki 1994, 5 and 74.

⁶⁴⁵ Altstadt 1997, 125-6; Twining 1993, 133.

vote.⁶⁴⁶ Elcibey promised to regain Nagorno-Karabakh for Azerbaijan.⁶⁴⁷ At the time of his election, he was the APF's chairman of the executive board. The APF had formed in response to the rioting in Baku and other areas in the late 1980's. Along with advocating tighter control over Nagorno-Karabakh, the group supported a secular government, and democratic and market reforms.⁶⁴⁸ During the Soviet period, the Communists had ignored the APF, pushing it into a more aggressive stance. As a result, the APF had increasingly become nationalistic and anti-Armenian.⁶⁴⁹ As APF Chairman, Elcibey was noted for being outspoken in his anti-Russian and anti-Iranian rhetoric. He favored looking to Turkey and the West for support and as a model for reform.⁶⁵⁰ His election can be seen as a clear repudiation of Mutalibov's strategy of aligning with Russia in order to regain Nagorno-Karabakh.

The month before Elcibey's election, Azerbaijan had taken possession of hundreds of former Soviet military equipment, arguing that this was allowed under the May 15, 1992 Tashkent Agreement, which was later internationally recognized by the Conventional Forces of Europe Treaty.⁶⁵¹ The Tashkent Agreement allowed Armenia and Azerbaijan 220 tanks, 220 armored personnel carriers, and 285 artillery pieces, each. Given these limits, both states viewed Tashkent as sanctioning their taking possession of the Soviet arsenal on their territory.⁶⁵² Now, armed with Soviet-made heavy weapons and aided by numerous mercenaries, mostly Russians, Azerbaijan scored a major military victory against the Karabakh Armenians. In a large-scale offensive, forces captured nearly 80 percent of the Mardakert province in Nagorno-Karabakh. Nearly 40,000 ethnic Armenians fled the area.⁶⁵³ Azerbaijan's offensive was short-lived, however. By September, Karabakh Armenians were no longer losing ground.

Given his pro-Western and anti-Russian stance, Elcibey has been particularly interested in seeking solutions involving the Conference on Security and Cooperation in Europe (CSCE). The CSCE was based on principles of state territorial integrity, a position that would favor Azerbaijan over

⁶⁴⁶ Altstadt 1997, 127; Elcibey means "envoy of the people." His birth name was Abulfazl Aliyev.

⁶⁴⁷ Hunter 1993, 253-4.

⁶⁴⁸ Altstadt 1997, 122; Dudwick 1993, 277; Fuller 1992, 53; and Hunter 1997, 450.

⁶⁴⁹ Dudwick 1993, 277.

⁶⁵⁰ Herzig 1995, 27; Hunter 1997, 450; Fuller 1992, 53.

⁶⁵¹ See Zagorski 1998, 282-3, for information on other provisions of the Tashkent Agreement..

⁶⁵² Human Rights Watch/Helsinki 1994, 87.

the Karabakh Armenians and their supporters. In addition, the CSCE would allow Elcibey to avoid Russia's veto in the U.N. Security Council. Coincidentally and fortuitously for Elcibey, the CSCE was looking for a unique mission for itself.⁶⁵⁴ As early as January and March 1992, the CSCE had sent missions to Nagorno-Karabakh. They subsequently recommended that the CSCE should play a role in achieving a settlement.⁶⁵⁵ In March, the CSCE's foreign ministers established a permanent group for this purpose, which was to meet in Minsk, Belarus. The conference was never held in Minsk, though the group came to be known as the Minsk Group.⁶⁵⁶ Its eleven members include the United States, Russia, France, Armenia, Azerbaijan, and Sweden; the first three states are the co-chairs.⁶⁵⁷ In July 1992, the CSCE was declared a regional agency under Chapter VIII of the U.N. Charter. This declaration sanctioned the CSCE to act as a peacekeeping force. But first there had to be a cease-fire. Despite their efforts to broker an agreement, the CSCE, along with the United Nations, Iran, and France, failed to bring peace.⁶⁵⁸

Frustrated with the inability of Western organizations and states to broker an agreement, Elcibey turned to the Russians for assistance, despite evidence that the Russians had been involved in aiding the Armenians. Russia pressed Azerbaijan to join the CIS in exchange for aid, a tactic that had worked well with Georgia. President Elcibey agreed to pursue CIS membership, but was unsuccessful. Standing up to Russian pressure, the Azerbaijani National Council—half of which belonged to the APF—stood firm and refused to ratify the CIS agreement. Although Azerbaijan was a signatory of the 1991 CIS declaration, the National Council voted 43 to 1 against CIS membership in October 1992.⁶⁵⁹

In 1993, Azerbaijan suffered a series of losses. In February, the Karabakh Armenians recaptured many of the Mardakert villages they had lost to Azerbaijan in 1992. They also gained control of the Sarsang reservoir and hydroelectric plant and cut off the province of Kelbajar from the rest

⁶⁵³ Human Rights Watch/Helsinki 1994, 5; Aves 1998, 181.

⁶⁵⁴ Furman and Åsenius 1996, 149.

⁶⁵⁵ Switalski and Tersman 1996, 174.

⁶⁵⁶ Switalski and Tersman 1996, 174.

⁶⁵⁷ Human Rights Watch/Helsinki 1994, 17, fn 67; OSCE website <http://www.osce.org>, last accessed in April 2001.

⁶⁵⁸ Hunter 1993, 254.

⁶⁵⁹ After Mutalibov was removed from office in May 1992, the APF interim government gave the National Council additional powers until a new parliament could be elected. Half of the 50 member council

of Azerbaijan. On February 23, following these defeats, the Azerbaijani government accused the commander of the Mardakert region, Surat Husseinov, of inadequately defending the area and removed him from his command. With Husseinov no longer at his post, the Karabakh Armenians began their assault on Kelbajar on March 26 or 27. By April 1, the Armenians were in complete control of Kelbajar.⁶⁶⁰ On April 4, the Karabakh Armenians began an assault on Fizuli, Qubatli, and Zangalen provinces, located to the southeast and southwest of Karabakh. Reeling from these defeats, the Azerbaijani government declared a state of emergency, postponed indefinitely the scheduled April 1993 parliamentary elections, and imprisoned some defense establishment figures.⁶⁶¹ Between April and June 1993, several cease-fire agreements were pursued, but each one was rejected by one or more parties.⁶⁶²

In June 1993, former commander Husseinov turned on the Azerbaijani government, launching his own rebellion. The Elcibey government tried both negotiations with and military action against Husseinov. Both failed. As Husseinov advanced on Baku, the speaker of the parliament and then Elcibey himself resigned. Elcibey fled Baku.⁶⁶³

Husseinov's military strength had in part been a courtesy of the Russian military. Despite their pledge to leave Azerbaijan by the end of 1993, the Russians had demanded in January 1993 that their one remaining force, the 104th Parachute Regiment, be allowed to remain in Azerbaijan as a peacekeeping unit. The Elcibey government insisted that the force remove itself, which it did. However, as the units departed, the Russian commander handed over the Regiment's weapons to Husseinov. Witnesses observed Russian rather than Azerbaijani government markings on the heavy military equipment that Husseinov used in his attack on Baku.⁶⁶⁴

After Elcibey fled the state, Heydar Aliyev, a 70-year old former Communist, took over as speaker of the parliament. With Elcibey ousted, the country faced a constitutional crisis which was

was APF while the other 25 were of various other groups. Apparently, some abstained from voting on the CIS. Curtis 1995, 141; Hunter 1997, 449.

⁶⁶⁰ Human Rights Watch/Helsinki 1994, 5-6 and 9-14; Altstadt 1997, 128.

⁶⁶¹ Human Rights Watch/Helsinki 1994, 15-16.

⁶⁶² Human Rights Watch/Helsinki 1994, 81.

⁶⁶³ Human Rights Watch/Helsinki 1994, 6; Altstadt 1997, 128.

⁶⁶⁴ Altstadt 1997, 128; Aves 1998, 181.

eventually resolved with a referendum. In the August 1993 referendum, Elcibey was officially dismissed from office. Aliyev won the hastily held October elections.⁶⁶⁵

As the conflict raged on, with Armenia gaining ground, newly elected President Aliyev was under pressure to turn the tide. In October 1993, nearly one-fifth of Azeri territory was under Armenian control. By the end of the month, when Aliyev was in power, Armenian forces had taken the last stronghold in southwestern Azerbaijan—the Beilagandski region. With this important defeat, Aliyev looked to Russia for assistance. Anticipating aid, he pushed through CIS membership and supported Russia over the CSCE as the dominant player at the negotiating table. However, Azerbaijan's joining the CIS did not garner the results that Aliyev must have been hoping for. The Russians instead made further demands, asking that Russian troops be based on the Azeri-Iranian border. Aliyev refused this request. In return, Russia failed to support Azerbaijan at the negotiating table. While Azerbaijan argued for Armenian forces withdrawing prior to a cease-fire, the Russians advocated a cease-fire and then troop withdrawals, followed by further negotiations. In addition, the Russians suggested that Armenian forces could remain in Shusha and the Lachin corridor, at least until the final stage of the negotiations. Azerbaijan refused to accept this position and the negotiations ended without an agreement

In December 1993, Yeltsin requested that the OSCE designate Russia as the sole peacekeeper in the former Soviet region. The OSCE denied the request. The OSCE members agreed at the December meeting that third-party military forces in a conflict area should operate under rules that were consistent with CSCE principles and objectives.⁶⁶⁶ Russia's demand to be the sole peacekeeper was inconsistent with these principles.

That same month, Azerbaijan began what would be its last large-scale counter-offensive. It would last until February 1994. During the attack, the number of Afghan mercenaries fighting on behalf of Azerbaijan increased on the battlefield. For the first time since June 1992, the Karabakh Armenians were forced to retreat. On the defensive, Karabakh responded by increasing the maximum conscription age from 43 to 50 years old. Calls went out to the diaspora and to Armenia for

⁶⁶⁵ Altstadt 1997, 129.

volunteers. By mid-February, Karabakh Armenian had retaken most of its lost territory. A Russian brokered cease-fire went into effect but was soon broken. Heavy fighting erupted in April and May 1994, with the Karabakh Armenians again gaining ground.⁶⁶⁷

In May 16, 1994, the parties again agreed to a Russian-mediated cease-fire. While cease-fires between Armenia and Azerbaijan were periodically negotiated, agreed to, and broken, this one has more or less held. Neither side has taken additional territory. Nevertheless, Azerbaijan and Armenia cannot agree on the terms of a settlement and sporadic gunfire continues, with each side variously instigating military action against the other. Most recently, in May 1999, Azerbaijani officials announced that they anticipated a new peace agreement being successfully negotiated. But the following month, Azerbaijani and Karabakh Armenian forces engaged in a four-hour exchange of fire near Nagorno-Karabakh's northeastern border. According to Azerbaijani news services, "300 Armenian troops mounted an offensive using firearms, mortars, and heavy machine guns in a series of unsuccessful attempts to capture Azerbaijani positions, but retreated after sustaining severe casualties." The Armenian leadership painted a different story, claiming that Armenian forces were defending themselves against an Azerbaijani attack.⁶⁶⁸ Regardless of which state was on the offensive, it is clear that although the Nagorno-Karabakh conflict remains relatively quiet, it is an uneasy cease-fire. Armenia has an estimated 8,000 troops in Azerbaijan, while the Karabakh Armenians control around 20,000 to 25,000 troops.⁶⁶⁹ The newly named Organization for Security and Cooperation in Europe's (OSCE) plans to send 3,000 multinational forces to Nagorno-Karabakh were never implemented.⁶⁷⁰

During his tenure, Aliyev has faced several serious political challengers as well as threats on his life. Aliyev faced a military challenge from within his own government. The same Husseinov who helped bring him to power started a military rebellion against Aliyev in October 1994. Aliyev dismissed him from office and declared a state of emergency which lasted into 1995. Aliyev has

⁶⁶⁶ Bluth 1998, 331. At this same meeting, the CSCE changed its name to the Organization for Security and Cooperation in Europe.

⁶⁶⁷ Human Rights Watch/Helsinki 1994, 46-49.

⁶⁶⁸ RFE/RL Newslines, May 5, 1999; June 15, 1999.

⁶⁶⁹ International Institute for Strategic Studies 1998-99.

⁶⁷⁰ Bluth 1998, 331; Switalski and Tersman 1996, 184-5; OSCE website, last accessed in April 2001; Human Rights Watch/Helsinki 1994, vii.

reportedly survived several coup and assassination attempts.⁶⁷¹ Aliyev's response to these threats has been to move toward a more authoritarian regime. He has curtailed the opposition groups' political activity and shut down newspapers. The many parties that had developed after the Soviet collapse became ineffective or simply went out of business. In September 1995, one of the leaders of the APF and foreign minister in Elcibey's administration was arrested on charges of participating in a coup.⁶⁷² In the October 1998 presidential election, which Aliyev won with 76 percent of the votes, the OSCE reported large-scale electoral abuse. According to an OSCE statement, "the overall legal and administrative framework governing the election process fell short of meeting the international standards for a genuine election competition."⁶⁷³

Weighing the Costs and Benefits of Hierarchy and RSAs

Throughout the Nagorno-Karabakh conflict, Azerbaijan has not allowed Russian forces to be based on its territory or agreed to any other type of Russian-dominated hierarchy. Russia offered Azerbaijan's leadership a security hierarchy on at least two occasions—once, in 1992, to place Russian troops on the Iranian border and again in 1994 when the Russians offered military aid in exchange for bases. To understand why this occurred, we need to consider Russia's costs and benefits associated with governing this type of hierarchy, Azerbaijan's costs and benefits of being governed by a Russian hierarchy, and the degree to which each had other options; that is, the degree of relation specificity.

The Russian government stood to benefit in several ways from basing their troops on Azerbaijani territory. First, controlling bases in Azerbaijan and actively intervening in the Nagorno-Karabakh conflict was consistent with Russia's foreign policy trend to be more aggressive in the near abroad, as elaborated in Chapter 4. By demonstrating that it could play a decisive role in the conflict, the Yeltsin administration could vitiate the criticisms of the conservatives. While the new Eurasianist policy generally called for a more assertive stance in the near abroad, the administration placed particular emphasis on the Transcaucasus. As the military developed its new doctrine in 1993, Defense Minister General Pavel Grachev argued that more emphasis should be placed on developing strong

⁶⁷¹ Hunter 1994, 90-91.; Suny 1995, 152.

⁶⁷² RFE/RL Newline, Sept. 20, 1995.

armed forces as a counter-balance to "terrorism, nationalism and religious enmity." According to *The Economist*, he was particularly worried about "the threat from the south."⁶⁷⁴ In 1994, Defense Minister Grachev referred to the Azerbaijan-Iran border as Russia's "strategic border."⁶⁷⁵ Although Iran had supported hundreds of thousands of displaced Azeris on its border with Azerbaijan and had declared its neutrality in the Nagorno-Karabakh conflict, there remained in Russia a fear of the "Islamic factor."⁶⁷⁶ The concern was that Islamic fundamentalism might spread to Russia's 20 million Muslims. Not only the government feared the spread of fundamentalism; many Russian citizens did as well.⁶⁷⁷ Given this fear and Azerbaijan's inability to control the Nagorno-Karabakh conflict, it seems reasonable that Russia would doubt Azerbaijan's ability to protect its own borders. Recall from the principal-agent discussion in chapter 3 that one reason for a direct hierarchy is that it obviates the need to monitor the agent. By doing the job itself, Russia does not have to fear that Azerbaijan will fail to fulfill their mutual policy goal. Given Russia's doubts about Azerbaijan as an agent, it would prefer hierarchy using its own forces.

In addition to Iran, other neighboring states pose a potential Islamic threat. Some Russians have argued that Russia must guard against a threat from Turkey. As Alexei Arbatov argued, "The independence of Nagorno-Karabakh and the security of Armenia...are crucial to Russian efforts to contain potential Turkish economic, political, and military expansion in the Transcaucasus, the Black Sea region, and Central Asia."⁶⁷⁸ Russia's war with Chechnya, which began in 1994, also affects Russia's desire to have a greater say over Azerbaijani policy. While the primarily Islamic Chechens do not border Azerbaijan, Chechnya's neighbor, Daghestan, does. Daghestan, which is also largely Muslim and the historical home to many important spiritual leaders, is the republic directly north of Azerbaijan and east of Chechnya. Russia would presumably want to prevent Chechens from using Azerbaijan (and Georgia) as training or hiding grounds. In addition, Azerbaijan might be tempted to allow fellow Islamic states, such as Iran and Afghanistan, to aid the Chechens. There is some evidence

⁶⁷³ Reported in RFE/RL Newline, Oct. 13, 1998.

⁶⁷⁴ *The Economist*. "The Threat that Was." August 28, 1993. 17.

⁶⁷⁵ Furman and Åsenius 1996, 147.

⁶⁷⁶ Furman and Åsenius 1996, 147.

⁶⁷⁷ Furman and Åsenius 1996, 147.

⁶⁷⁸ Arbatov 1997, 444.

that fundamentalist Muslim states are interested in supporting their Muslim brothers in Chechnya. For example, in August 1994, Chechnya's self-described Foreign Minister said that Afghan Mujahideen leaders had promised as many as 100,000 Muslim soldiers to fight against Russia.⁶⁷⁹ Russia's troops based in Azerbaijan would help deter Afghans and other Muslims from trying to reach Chechnya via Azerbaijan.

Russia's final benefit of governing a security hierarchy has more to do with economics than security. Like Kazakhstan, Azerbaijan is seeking to remove its economic vulnerability to Russia by building pipelines that will skirt Russia. This will remove one of Russia's primary levers of power in the region. In addition, Azerbaijan is actively pursuing an independent policy regarding the Caspian Sea and its oil. I will not go into detail here, as this is covered under the economic section, other than to say that Azerbaijan stands to gain significantly from Caspian oil reserves. Pipelines carrying oil to export markets via Azerbaijan will be of enormous value. If Russia controlled those pipelines, it would be able to collect transit fees and affect the amount of oil being exported. Since Azerbaijan's oil will compete with Russian oil on the international market, Russia has an interest in controlling the quantity of Azerbaijani oil reaching the market. If Azerbaijan were reliant on Russian security forces for peacekeeping, Russia might be better positioned to influence Azerbaijan's energy policy.

While there would be numerous benefits to controlling a security hierarchy over Azerbaijan, there would also be some costs. These costs are related to Azerbaijan's resistance to a Russian hierarchy. Azerbaijan did not want the forces there and therefore could have raised Russia's costs of remaining. As noted earlier, Azeri forces had been harassing the Russian troops. While Azerbaijan eventually agreed to a Russian-brokered peace settlement, it did so only with the understanding that Russia's hands would be tied. This was accomplished by bringing in the OSCE, which in turn insisted on no one state contributing more than 30 percent of the peacekeeping forces.⁶⁸⁰ For this reason, Russia was antagonistic toward OSCE involvement. "Russia had come to see the CSCE's involvement as a potential impediment to its own plans to become the sole peacemaker, peacekeeper,

⁶⁷⁹ "Situation In Chechnya," Aug. 16, 1994, Interfax.

⁶⁸⁰ This case of hand-tying is similar to what occurred during the Persian Gulf war, as described by Lake 1999.

and arbiter of interethnic disputes in the CIS.”⁶⁸¹ Since Azerbaijan was resistant, Russia may have feared the international cost of forcing a hierarchy. Given Azerbaijan’s resistance to the hierarchy, Russia would have had to force the hierarchy. This in turn may have brought retributions from the international community. In particular, as the U.S. and other Western companies gained a stake in Azerbaijan’s oil industry, they may have been more willing to sanction Russia for a forced hierarchy. In sum, Russia could reap several benefits from hierarchy, but the cost of forcing the hierarchy was potentially moderately high. If Russia could find a means to diplomatically pressure Azerbaijan to consent to hierarchy, it would have done so. Failing this, Russia was not prepared to force the hierarchy.

To understand why Azerbaijan was resisting the proposed Russian hierarchy, I now turn to Azerbaijan’s expected costs and benefits of being governed by Russia. The most important expected benefit that a Russian hierarchy would provide Azerbaijan would be retaking Nagorno-Karabakh and other Armenian occupied territory that was taken from Azerbaijan. Such a feat would remove the most serious challenges to the political leadership. The loss of territory, and the vast number of Azerbaijani refugees (now estimated at between 780,000 and one million) that resulted from that loss,⁶⁸² brought down several Azerbaijani Presidents: Mamedov (May 1992), Mutalibov (March 1992 and May 1992), and Elcibey (August 1993). While President Aliyev has retained his position since 1993, he appears in part to have succeed by ruling with an iron fist.

Another benefit of a direct Russian hierarchy is that Russian forces could assist Azerbaijan in protecting its border with Iran. Despite both being Islamic states, Iran and Azerbaijan’s relationship is complicated by several factors. Iran strictly limits the rights of minorities living within its borders. Since approximately 10 to 20 million Azeris live in Iran, these restrictions have caused tension between the two states.⁶⁸³ In addition, historic Azerbaijan includes part of Iran. Some Azeris speak of liberating “southern Azerbaijan” so that it can reunite with “northern Azerbaijan.” In contrast, some Iranian nationalists view the splitting of Azerbaijan as having been forced on the people by Russia in

⁶⁸¹ Hunter 1997, 454.

⁶⁸² The United Nations Commission on Human Rights reportedly puts the number at 780,000 while Aliyev said in a speech that there were one million refugees. Both estimates are reported by Ben Partridge and Liz Fuller, RFE/RL Newsline, July 23, 1998.

the early 19th century. As such, they believe that “northern Azerbaijan” should be reunited with “its historic, cultural and religious home, Iran.”⁶⁸⁴ These conflicting arguments as to how the historic Azerbaijan should be recreated raise concerns in both states. Furthermore, Elcibey’s rhetoric before and during his tenure was clearly anti-Iranian as well as anti-Russian. Since Elcibey’s fall, the Azerbaijani government’s rhetoric has been more conciliatory. Still, Aliyev antagonized Iran when he supported the U.S. policy toward Iran by prohibiting it from participating in Caspian Sea oil deals (which are discussed below). In retaliation, Iran blocked the export of a range of Azerbaijani goods.⁶⁸⁵ Given these tensions with Iran, Azerbaijan might benefit from having Russian troops guard the border with Iran. This would free up troops for the conflict with Armenians. Azerbaijan does not, however, appear to have been overly concerned about Iran. The Iranian policy of neutrality regarding Nagorno-Karabakh and its assistance in treating the Azeri refugees may have calmed any Azerbaijani fears.

While several factors indicate that Azerbaijan would support hierarchy, one major factor worked against hierarchy: misaligned policy preferences. This cost was significant enough to overwhelm the benefits. A weak state leader who fears that he does not share the same policy preferences as the strong state leader will resist hierarchy with that state. Azerbaijani leaders had reason to believe that their interests were not aligned with Russia’s. As discussed in the narrative, there was sufficient evidence that Russia was not neutral. Evidence that Russia was aiding the Karabakh Armenians by providing equipment and training suggested that Russia favored Armenia’s interests over Azerbaijan’s. Even if, as some suspect, the Russians were not providing direct assistance, the belief was wide-spread in Azerbaijan. A leader willing to allow Russian forces into Nagorno-Karabakh would be putting his political position at risk. Bringing Russian troops into Azerbaijan would have been tantamount to inviting the enemy into one’s home territory. In addition, Russia’s interest in restraining Azerbaijan’s access to Caspian oil further suggests of misaligned policy preferences.

In assessing the probability of hierarchy, the final factor to consider is RSAs. Focusing on RSAs brings us back to the question of options, both for Russia and Azerbaijan. Can Russia and Azerbaijan gain the benefits of hierarchy through another state or other means? Russia does have other

⁶⁸³ Herzig 1995, 26.

⁶⁸⁴ *Ibid.*, 27.

options, though they do not provide all of the benefits that Azerbaijan does. Similarly, Azerbaijan has been able to use less direct means than Russia would provide, but with lower costs of hierarchy.

For at least some of the benefits that Russia sought, there were other alternatives. If hierarchy with Azerbaijan proved too costly, these other options would allow Russia to pursue hierarchy elsewhere. The Russian government was able to gain its first benefit, a more aggressive foreign policy in the near abroad, by basing troops in Georgia, Armenia, and Tajikistan. Russian troops in these areas could satisfy the Russian population that Russia was still playing the role of a great power. This in turn would ameliorate the criticisms of the nationalist opposition. Russia's more specific benefit of calming the Transcaucasus and preventing the spread of Islamic fundamentalism could be at least partially met by the bases in Georgia and Armenia. If Russia could quell the Nagorno-Karabakh conflict by siding with Armenia and helping them route the Azeris or at least force a peace settlement in favor of Armenia, this would serve the same purpose of quieting the region. Similarly, Armenia agreed to allow Russian forces on its borders with Turkey and Iran, in turn helping Russia guard against an Iranian inspired invasion or influx of Fundamentalists. Guarding Armenia's border with Iran still left a large gap where Iran and Azerbaijan shared a border, however.

Azerbaijan has had no basing alternatives to Russia's offers. However, it has been able to indirectly gain assistance. Wedged between two seas and with mountains towering to the north, the Transcaucasus are not easily accessible, making it difficult for states outside the immediate region to assist either Armenia or Azerbaijan. The only state that has demonstrated a strong national security interest in the region is Russia. However, Azerbaijani leaders have looked to Turkey and its NATO allies for some assistance. President Elcibey had long been a pan-Turkist, favoring an eventual federation with Turkey. In keeping with his philosophy, Elcibey reportedly planned to use connections with Turkey to get assistance from NATO in the Nagorno-Karabakh battle. Although Turkey did not provide troops, it indirectly assisted Azerbaijan by allowing retired military officers to fight in Azerbaijan and "turned a blind eye" to military equipment being transported across its borders and into Azerbaijan.⁶⁸⁶ Turkey's policies toward Armenia also indirectly aided Azerbaijan. Despite the

⁶⁸⁵ Ibid., 28.

⁶⁸⁶ Aves 1998, 181.

Armenian leadership's attempts to build diplomatic relations with Turkey, the Turkish government refused to do so until the Nagorno-Karabakh situation was resolved. Also, in 1992, Turkey made clear that it would assist Armenia with electricity only when the conflict was settled. More importantly, Turkey joined Azerbaijan in an economic blockade of Armenia, again announcing that it would hold until there was peace in the region. In 1993, Turkey closed the border between Armenia and Turkey to protest the Nagorno-Karabakh seizure of an Azerbaijani province.⁶⁸⁷ In fall 1996, Turkey's Foreign Minister announced that Turkey would open the border between Armenia and Turkey, but then withdrew the commitment after Azerbaijan protested. In addition, Turkey promised to give Azerbaijan's Nakhichevan Autonomous Republic financial and food aid worth \$10 million to counter the effects of the Armenian blockade of the region.⁶⁸⁸

The United States has offered no military assistance to Azerbaijan. In 1996, a U.S. State Department official testified that the U.S. had "very important interests in the Caucasus." But when pressed by Congressman Lee Hamilton to explain more precisely what those interests were, the official cited reasons that Hamilton suggested applied to anywhere in the world: ensuring stability, promoting reform, and keeping the states open to commerce and political communication.⁶⁸⁹ There was no discussion of U.S. military assistance to either Armenia or Azerbaijan. In January 1999, the Azerbaijani Foreign Policy Adviser proposed establishing an American base in Azerbaijan. "If this depended on me," he said, "I would deploy a U.S. Air Force squadron on the Apsheron peninsula within 15 minutes." The U.S. has denied any plans for such bases.⁶⁹⁰ Indeed, NATO Secretary-General Javier Solana made it clear in summer 1999 that he considers the alliance's involvement in resolving the Karabakh conflict unwarranted, adding that "we are not thinking of deploying troops in the region."⁶⁹¹

Even if U.S. officials could articulate a reason for U.S. involvement in Azerbaijan, they could not legally act. For much of the post-Soviet period, the U.S. has been legally prohibited from aiding Azerbaijan. In 1992, the well-organized and motivated Armenian diaspora successfully lobbied the U.S.

⁶⁸⁷ U.S. House 1996b, 43.

⁶⁸⁸ RFE/RL Newswire Sept. 10, 1992; Oct. 24, 1996; Dec. 12, 1996.

⁶⁸⁹ U.S. House 1996b, 10. The official was John E. Herbst, Deputy Coordinator for the Newly Independent States.

⁶⁹⁰ See RFE/RL Iran Report, Feb. 1, 1999.

⁶⁹¹ RFE/RL Caucasus Report, July 1, 1999.

Congress to pass Section 907 of the Freedom Support Act. Section 907 prohibits U.S. governmental assistance to Azerbaijan.⁶⁹² It bans any aid that is not “humanitarian assistance, democracy-building activities, training and exchanges, and most assistance to [non-governmental organizations].”⁶⁹³ The Section requires that the ban remain in place until Azerbaijan lifts the economic blockade against Armenia; the blockade had been put in place as a sanction against Armenia for its support of the Karabakh Armenians.⁶⁹⁴

Another option that Azerbaijan employed was to simply purchase fighters: mercenaries. Azerbaijan hired Afghan Mujahideen—highly trained fighters—as well as Slavic and Central Asian mercenaries to augment its forces.⁶⁹⁵ Although the Azerbaijani denied hiring Mujahideen, informed sources estimate that between 1,500 and 2,000 were fighting for Azerbaijan in 1994. In addition to the Afghans, Azerbaijan hired Russian, Ukrainian, Belarusian, and Kyrgyzstani mercenaries. Most informed observers believe that mercenaries piloted most of Azerbaijan’s air force, according to Human Rights Watch/Helsinki. In August 1992, Karabakh Armenians shot down a Ukrainian pilot who admitted to being paid \$5,000 per month. In February 1994, Armenia shot down an Azerbaijani SU-24; the pilot was a Tatar from Kyrgyzstan.⁶⁹⁶ While the mercenaries failed to make a breakthrough in the conflict, Aliyev’s use of them suggests his continued attempts to find non-Russian sources able to assist him.⁶⁹⁷

Finally, Azerbaijan has allied with other former Soviet states, but it is unlikely they would have a significant affect in Nagorno-Karabakh. In 1997, Azerbaijan helped organize the regional security and economic group now known as GUUAM, in recognition of the member states Georgia,

⁶⁹² The Armenian diaspora’s history and power as a lobby are discussed below under the Armenia section.

⁶⁹³ U.S. House 1998, 60.

⁶⁹⁴ Ibid.

⁶⁹⁵ Interestingly, the Mujahideen were not fighting for Azerbaijan for religious reasons. The Afghans were reportedly “appalled by the Azeris’ lack of religious fervor and slack Islamic ways weakened by seventy years of Soviet secularization.” Human Rights Watch has a specific definition of a mercenary, which the Mujahideen fit. To be classified as a mercenary, the soldier cannot be fighting for religious or ideological reasons; their primary motivation must be financial. See Human Rights Watch/Helsinki 1994, 46 and 66.

⁶⁹⁶ Human Rights Watch/Helsinki 1994, 46 and 63-64.

⁶⁹⁷ Aves 1998, 185.

Ukraine, Uzbekistan, Azerbaijan, and Moldova. Although members assert their support for one other's territorial integrity, the group has not been active in Nagorno-Karabakh.⁶⁹⁸

In sum, Aliyev has had few prospects for substantial military assistance. Indirect aid from Turkey and hiring mercenaries are hardly sufficient for regaining Nagorno-Karabakh. Hierarchy with Russia remains an unattractive option because of seriously misaligned policy preferences. Aliyev does, however, have several lucrative white knights in his future. Since he anticipates that white knights will help Azerbaijan move away from its vulnerable position, Aliyev is able to forestall hierarchy (hypothesis 7). As will be discussed under the section on RSAs in the economic sector, Azerbaijan has been actively pursuing white knights to help it escape its vulnerability to Russian-owned pipelines (hypothesis 6). These white knights, Western oil companies being the most important, will help Azerbaijan by both building new pipelines that by-pass Russia and providing funding for off-shore oil production in the Caspian Sea. In addition, the Caspian Sea reserves are expected to bring in substantial foreign currency. Since the Caspian is expected to have one of the most important oil fields in the world, the Azerbaijani leadership has reason to believe that it will soon be in a better position to build up its own military, which may in turn be sufficient to win back some of the land lost in the war with Armenia. The oil consortium may open another way for Azerbaijan to gain assistance from sources other than Russia. As a result of the large number of American oil companies in the consortium, U.S. officials have repeatedly testified that the U.S. Congress should overturn Section 907. Azerbaijan's resistance to Russian basing, then, is linked to the economic sector. I now turn to that discussion.

High Relation Specific Assets in the Economic Sector

Given its dependence on Russian controlled oil and gas pipelines to Europe, Azerbaijan is and continues to be highly vulnerable to Russian actions. Like Kazakhstan and Turkmenistan, Azerbaijan

⁶⁹⁸ For news on the founding and current activities of the GUUAM alliance, see RFE/RL Newswire, Dec. 1, 1997, Dec. 3, 1997, Aug. 8, 1999, Apr. 2, 1999; Apr. 26, 1999; and May 4, 1999.

is blessed with two highly tradable commodities: oil and natural gas.⁶⁹⁹ The state, however, faces a significant hurdle to realizing the benefits of selling these commodities on the international market: Russian control of the pipelines. The pipelines built during the Soviet period traverse Russia, giving it near monopoly power to raise transit fees and to limit quantities of fuel transferred beyond the FSU region. This control makes Azerbaijan vulnerable vis-a-vis Russia.

Azerbaijan is widely considered to offer among the world's best opportunities for new oil and natural gas fields, in large part because of its littoral border on the Caspian Sea. Long a top-ranked oil producer, Azerbaijan is home to one of the first oil wells drilled in the world. By the early 20th century, Azerbaijan produced nearly 50 percent of the world's crude oil. During World War II, about 70 percent of Soviet oil output came from Azerbaijan's wells.⁷⁰⁰ However, during the latter part of the Soviet period, Azerbaijan's oil fields were underutilized, as resources were poured into exploring the riches of Russia's Volga-Ural region. Between 1940, when production peaked, and 1990, annual output fell from 23 to 12.5 million tons (Mt). Production continued to decline in the post-Soviet period, falling to 9.02 Mt in 1997.⁷⁰¹ The decline in the post-Soviet era was largely due to lack of funding at a time when the old fields were producing less and badly needed upgrading, and new fields were not yet exploited.

Even with this decline in output, oil and gas remain a vital part of Azerbaijan's economy; as of early 1999, oil represented about 65 percent of Azerbaijani exports; the energy sector accounted for about 15 percent of Azerbaijan's GDP.⁷⁰² Furthermore, the sector promises to be fruitful in the future, primarily because of large off-shore oil and natural gas reserves. The U.S. Government estimates Azerbaijan's proven oil reserves at between 3 and 11 billion barrels with about 27 billion more

⁶⁹⁹ Azerbaijan may also be cursed with these assets, as the so-called Dutch disease often accompanies state's with high volumes of oil and natural gas. Under Dutch disease, a state's exchange rate appreciates when it exports oil and natural gas, leaving other economic sectors unable to compete on the international market. The name refers to the Netherlands' loss of relative competitiveness in its traditional industrial sectors when it began exporting natural gas. In addition, political corruption often overwhelms developing states that have a large fuel exporting business, as occurred in Nigeria, for example. As Wyzen put it in his 1/4, 1999 RFE/RL Newsline article, "In countries without transparent and efficient government sectors and with considerable regional or social inequality, revenues flowing into state coffers often benefit only tiny elites. Governments frequently spend oil money before it is earned and make commitments on which they cannot renege when oil prices fall."

⁷⁰⁰ Curtis 1995, 120.

⁷⁰¹ International Energy Agency 1998, 158-59.

⁷⁰² International Energy Agency 1998, 54.

identified as possible recoverables. Of these, over 90 percent are thought to be offshore.⁷⁰³ Current offshore fields account for over 80 percent of Azerbaijan's production. The 14 offshore fields in operation include 8 that produce oil only, three that produce gas and oil, and three that produce oil and gas condensate. These fields are all in the shallow portions of the Caspian Sea, mostly in water depths under 200 meters. Soviet technology in this area was simply not up to the more challenging task of deep sea exploration and exploitation.⁷⁰⁴ With Western technology, production is expected to increase dramatically, as shown in Table 7.1.

Table 7.1: Actual and Estimated Crude Oil Production, Consumption, and Exports for Azerbaijan (in Million Tons)⁷⁰⁵

	1990	1995	2000	2005	2010	2020
Production	12	9	14	25-30	45-70	90-120
Consumption	9	7	10	13	15	22- 26
Net exports	4	2	4	12-17	30-55	68- 94

Note: The projected amounts show the range between low and high case estimates. The consumption estimates are based on GDP growth scenarios. Production minus consumption may not equal net exports due to rounding errors.
Source: International Energy Agency 1998, 50-51.

While natural gas is an important subsector domestically, in the international arena, it does not play a significant role. The estimated recoverable gas reserves of about 300 billion cubic meters (Bcm) are enough only for domestic use. In recent years, Azerbaijan has not only lacked a surplus for export, but has been importing large quantities. Azerbaijan's gas company was able to meet only 45 percent of the demand, relying on Turkmenistan imports for the rest. This has caused significant problems for Azerbaijan, as it often cannot afford to pay for the imports. For example, in early 1997, it was announced that Azerbaijan owed Turkmenistan \$34 million for natural gas supplies delivered before

⁷⁰³ RFE/RL Newline Nov. 18, 1997; Wyzan, Jan. 4, 1999; International Energy Agency 1998, 157-159.

⁷⁰⁴ Sagers 1993, 366; International Energy Agency 1998, 159.

⁷⁰⁵ To convert tons per year to barrels per day, the latter being the usual measurement in the US, multiply tons by .02. The varying projections are based on International Energy Agency 1998 estimates of high and low GDP growth scenarios combined with high and low supply scenarios. International Energy Agency 1998 notes that their calculations are based on numerous sources, including press reports, and therefore may reflect incomplete information. These figures should thus be used as guides not precise amounts.

1994.⁷⁰⁶ Production is expected to increase, however, making it possible that some small amount will be available for export. Most of the gas production is a byproduct of the oil fields. As offshore oil production increases, natural gas production will increase as well.⁷⁰⁷

In addition to its oil and gas production, Azerbaijan has a large oil refining capacity, allowing Azerbaijan to refine about twice as much oil as it produced itself. As such, the State imported significant quantities of Russian and Kazakhstani crude oil. This continues a trend from the Soviet era. While some of the refined products were once exported to other Soviet republics via rail and ships crossing the Caspian, these products are now used domestically, mostly for electricity generation.⁷⁰⁸

In the oil and gas sector, the State is the key actor. It holds monopoly title to the subsoil and the undeveloped resources within it.⁷⁰⁹ As is often the case in developing countries, the State also owns the primary energy producing company, known as SOCAR, the State Oil Company of the Azerbaijan Republic.⁷¹⁰ SOCAR, created in 1992, is responsible for producing most of the oil and gas in the country and for negotiating related matters with foreign investors. The head of the company is Natic Aliyev, President Aliyev's son. A secondary player is Azerigaz. This organization is responsible for transporting, storing, and selling natural gas. Azerigaz was corporatized in 1997 but, as of spring 2000, had yet to be sold off by the State Property Committee.⁷¹¹

Azerbaijan is highly vulnerable to Russia because of its reliance on Russian export routes to reach the international market. The primary pipeline for exporting Azerbaijani oil runs north from Baku through Chechnya and then east to the Russian Black Sea port of Novorossiisk. The pipeline section located in Azerbaijan had originally been used to import Russian crude oil which was to be refined in Azerbaijan and then exported via rail and road into other FSU states. This pipeline section has since been reversed to allow crude oil to flow out of Azerbaijan. Russia's State-owned Transneft, which is

⁷⁰⁶ The Azerbaijani government has since ordered its factories and power-generation facilities to switch from natural gas to mazut, a heavy fuel oil which is produced domestically. Pipeline News, May 15, 1996, Sept. 25, 1997.

⁷⁰⁷ These estimate on recoverables are from the U.S. Government. The Azerbaijani Government's estimates are higher, at around 800 Bcm. International Energy Agency 1998, 166-67.

⁷⁰⁸ International Energy Agency 1998, 160.

⁷⁰⁹ This is commonly the case in OECD countries as well. International Energy Agency 1998, 157.

⁷¹⁰ SOCAR is the successor to Azerbaijan's former Soviet Ministry of Oil and Gas. In older articles and books, it is sometimes referred to as Azerineft.

⁷¹¹ International Energy Agency 1998, 136; U.S. Department of Energy 1999, web site.

the recipient of the transit fees, managed and financed upgrading the Russian portion of the pipeline, which is over 1,400 km long.⁷¹² Russian control of this current primary transit route to foreign markets leaves Azerbaijan vulnerable to Russian threats of exorbitant transit fees and restricted or completely blocked passage. The more Russian oil available, the more at risk Azerbaijan is, as Transneft can opt to substitute Russian oil for Azerbaijani oil. In a bargaining situation with Russia, Azerbaijan is at a disadvantage.

To escape its economic vulnerability to Russia, Azerbaijan needs to build alternate pipelines to international markets beyond the FSU. As the logic of RSAs indicates, with more options available, the state is less vulnerable to one actor. We would expect then to witness Azerbaijan seeking routes that skirt Russian territory. Indeed, Azerbaijan has been actively courting white knights to fund alternative routes.

Theoretically, Azerbaijan has several pipeline options, each of which poses its own obstacles. The three directions in which pipelines could be built are east, west, and south; north takes one into Russia. Heading east, pipelines (or tankers) would cross the Caspian Sea to Turkmenistan and then head south into Iran, Afghanistan, Pakistan, and even India and China. Looking west, pipelines could be built through Georgia to the Black Sea, Turkey, and the rest of southern Europe via the Mediterranean. The route might include a brief detour south into Iran, but then move west to Turkey. Another proposed southern route would go through Azerbaijan, into Armenia and then to Turkey. Finally, a southern route would enter Iran and then head further south of Iran.

The eastern option is the least desirable. Turkmenistan is an oil and natural gas exporter itself and is therefore not in the market for Azerbaijan's competing crude. Turkmenistan exports some oil to Iran, making Azerbaijan an unwelcome competitor in that country as well. As for other markets, Turkmenistan is interested in developing pipelines to Pakistan's Arabian Sea coast, via Afghanistan.⁷¹³ Faced with its own challenges of developing export routes, Turkmenistan seems an unlikely transit partner.

⁷¹²Azerbaijan also moves its crude and oil products along railways. For example, in the first half of 1998, it transported 4.2 million metric tons of crude oil and petroleum products along the railways, mostly to FSU states. While the railways do provide Azerbaijan with an alternative to Russian run pipelines, they are much less efficient and capacity is highly restricted relative to dedicated pipelines. RFE/RL Newsline, Aug. 26, 1998; and International Energy Agency 1998, 163.

The western route is a far more desirable route. To get its resources to Turkey and the lucrative Western markets beyond, Azerbaijani oil must cross over one of several states which stand between Baku and Turkey. The three states situated directly between Azerbaijan and Turkey are Georgia, Armenia, and Iran. The route through Georgia would require transit routes under or over the Black Sea. Routes passing through either Armenia or Iran could continue on land through Turkey, as both adjoin Turkey. In the short-run at least, the Armenian route is politically and possibly physically infeasible given the Nagorno-Karabakh conflict. Even if an Azerbaijani leader were bold enough to suggest such a route, it seems highly unlikely that the leadership could protect the length of the pipeline from sabotage. Furthermore, the Russian troops now based in Armenia make this route an unattractive option for escaping Russian dependence.

Thus, the two more serious contenders for western-focused transit routes are Iran and Georgia. Unfortunately for Azerbaijan, neither of these options are problem free. Iran has its own interests in the Caspian Sea. As a littoral state itself, Iran is interested in exploiting its share of the Sea.⁷¹³ Given these interests, Iran may not be willing to import significant volumes of oil from Azerbaijan or to act as a transit route to markets it may hope to exploit itself. Furthermore, current U.S. policy is a major obstacle to using Iran as a transit path. Based on evidence that Iran supports international terrorism, U.S. law prohibits American companies from trading or investing in Iran.

This leaves the Georgia option—of which there are two variants—as possibly the most attractive. The first is to go through Supsa, Georgia's Black Sea port. From there, Azerbaijani oil would be transported via tankers through the Bosphorus and then Dardanelle Straits and into the Mediterranean Sea. The second option would be to go into Georgia, but then dip south into Turkey and go all the way to Ceyhan, a Mediterranean port. While this route is much longer and therefore more expensive to build, it has the positive aspect of avoiding the already crowded Dardanelle Straits. Both Georgian options face the same hurdle: Georgia's internal stability. Like Azerbaijan and Armenia, Georgia's days of independence have been marked by ethnic-secessionist conflicts. The majority of the fighting has been near the Georgian-Russian border, where Abkhaz and Ossetians have been battling for

⁷¹³ International Energy Agency 1998, 250-251.

⁷¹⁴ RFE/RL Newslines Jan. 1, 1997.

independence from Georgia.⁷¹⁵ The Supsa route would come closest to the conflict-ridden regions. The Ceyhan option would cut south, about half way into Georgia, thus keeping it further away from the secessionist regions.

In addition to pipeline routes, Azerbaijan has explored the option of moving Azerbaijani oil via tankers to Ukraine's new terminal near Odessa. From there, Ukraine would transport the oil via a planned pipeline from Odessa to Brody, a Ukrainian town in the north. This pipeline would connect to the vast pipelines leading to Eastern Europe.⁷¹⁶

The major white knights for Azerbaijan have been focused on the Novorossiisk, Supsa, and Ceyhan options. The oil transport plan is essentially divided into immediate concerns and into long-term concerns, when oil would flow in much greater volumes than is currently possible, given the limitations of existing fields. It is the long-term perspective that is of particular concern to Azerbaijan and the white knights who would benefit from sales. For several years, all three routes were in contention for the so-called Main Export Pipeline, with most of the focus on Supsa and Ceyhan. In 1998, the final decision went to Ceyhan. This brings us to the white knights and their role in helping change the course for Azerbaijan vis-a-vis Russia.

Azerbaijan has successfully pursued Western oil companies to assist it financially and as a counter-weight to Russian power. Between January 1994 and June 1998, the oil and gas sector received \$1.8 billion in Foreign Direct Investment (FDI), accounting for 70 to 80 percent of Azerbaijan's FDI.⁷¹⁷ The trend is likely to continue. Oil and natural gas contracts signed with foreign investors by January 1998 indicate that Azerbaijan should be infused with over \$30 billion in new capital in the coming years.⁷¹⁸ This policy of courting the West has become much more prominent since 1994. In that year, Russia demonstrated its willingness to play hardball with regional energy exporting states by blocking Turkmenistan's access to the former Soviet pipelines. This action served as a not-so-subtle reminder of Azerbaijan's vulnerability to Russian actions. Celebrating the opening of

⁷¹⁵ See chapter 4 for a brief discussion of the conflicts in Georgia.

⁷¹⁶ The terminal and pipeline have suffered funding shortages for years. See the Ukrainian chapter for more information on these delays.

⁷¹⁷ Michael Wyzan, "Oil And Gas No Panacea For Caspian Countries' Economic Woes." RFE/RL, Jan. 4, 1999; International Energy Agency 1998 web site.

⁷¹⁸ International Energy Agency 1998, 174.

a pipeline that by-passes Russia, a senior Azerbaijani official proclaimed that the pipeline means "'the world to us,' giving Baku 'direct access to the West' and thus allowing it to free itself from Russia 'after 200 years.'"⁷¹⁹

In what was labeled "the deal of the century," Azerbaijan signed a \$7.5 billion deal in 1993 with the Azerbaijan International Oil Company (AIOC) consortium. This was the first of numerous consortia and foreign partners that have invested in developing Azerbaijan's oil and gas fields, and funding pipelines and other trade routes. The AIOC comprises 12 oil companies from seven countries: the U.S., Britain, Russia, Norway, Turkey, Japan, and Saudi Arabia. In the original June 1993 agreement, the deal included only Western oil companies from the U.S., Britain, Norway, and Turkey. When Aliyev took office, he negotiated a "signature bonus" for Azerbaijan of \$500 million and increased Azerbaijan's share of profits to 80 percent.⁷²⁰ Under pressure from Russia, Aliyev later awarded LUKoil a 10 percent share of the deal.⁷²¹

In exchange for gaining access to Azerbaijan's fields, the AIOC members agreed to help the government develop export routes. In 1996, AIOC committed to financing two routes for so-called early oil: a northern route that follows the old Soviet path from Baku to Novorossiisk and a western route to Georgia's Black Sea port of Supsa.⁷²² The consortium made clear its interest in pursuing pipelines that avoid Russian soil. "Georgia is critical to our project," AIOC executive Stephen Back said. "If we can't bring our oil to the world market, then it's not a good investment for us."⁷²³

⁷¹⁹ RFE/RL Endnote, Apr. 20, 1999, Paul Goble, "New Moves On The Caucasus Chessboard."

⁷²⁰ Altstadt 1997, 140.

⁷²¹ Altstadt 1997, 140. The exact split for all members is as follows: British Petroleum, 17 percent; U.S. Amoco, 17 percent; SOCAR, U.S. Unocal, and Russia's LUKoil, with 10 percent each; Norway's Statoil, 9 percent; U.S. Exxon, 8 percent; Turkish Petroleum, 7 percent; U.S. Pennzoil, 5 percent; Japan's Itochu, 4 percent; and UK's Ramco Energy and Saudi Arabia's Delta Nimir, with 2 percent each. (Due to rounding, the figures add to more than 100.) These shares are as of January 1, 1998, according to International Energy Agency 1998, 175. The AIOC membership has changed several times since the initial signing date. The most significant change after Russia was added was the addition of Itochu in 1997, with the U.S.'s McDermott selling off all its shares to Itochu. Pipeline News, 1/13, 1997; Nov. 18, 1997; Oct. 20-26, 1996.

⁷²² Early oil refers to pre-peak production. When the fields are fully developed, a much greater capacity will be required. The northern pipeline has been troubled, leading to its closure in June 1999. Transneft had threatened to cease moving oil through the pipeline unless the "Chechen government took effective measures to prevent thieves tapping into it and siphoning off oil." Several days after the threat, an explosion damaged the Chechen portion of the pipeline. As of July 21, 1999, The Chechen government has been trying to repair the damage, while Russia has bypassed the pipeline with railways. RFE/RL Newsline, May 10, 1996; June 16, 1999; July 21, 1999.

⁷²³ Pipeline News, Oct. 1996.

By the time that production peaks, Azerbaijan will require more pipeline capacity than the two early oil routes can handle. As such, the consortium agreed to finance a "main export pipeline" (MEP). For some time, there had been three possible candidates: expanding one of the two early oil routes or building a new third route from Baku to Ceyhan, a Mediterranean port on Turkey's coast. While the U.S. had been somewhat uncertain in its policy position, since Turkey's strenuous lobbying efforts began in 1996, the United States came to favor the Baku-Ceyhan route.⁷²⁴ In October 1998, AIOC announced that it would build the Ceyhan pipeline. Recent U.S. support for this route over the others, coupled with an endorsement signed by the presidents of Turkey, Georgia, Azerbaijan, Kazakhstan, and Uzbekistan, made any other route highly unlikely.⁷²⁵

Since the Nagorno-Karabakh cease-fire in 1994, white knights have blossomed, resulting in numerous production sharing agreements being signed. Each of these consortia will help Azerbaijan escape its dependence on Russia. In October 1996, a consortium dubbed MRT concluded an agreement with the Azerbaijani government. The consortium includes Mobil, Scottish oil company Ramco, and France's Total. MRT will search for oil in offshore fields in Azerbaijan's sector of the Caspian Sea. That same month, the Azerbaijani parliament ratified the contract setting up a multinational consortium to develop the Shah-Deniz offshore fields.⁷²⁶ Japanese companies also are active in Azerbaijan. Tokyo announced in August that it planned to set up a consortium to develop oil fields in the southern part of the Baku archipelago and the eastern part of Azerbaijan's part of the Caspian Sea. Indeed, as of late 1996, Azerbaijan had received about \$5 billion from Japan in various aid projects making Azerbaijan Japan's primary aid recipient among the FSU states, including even Russia.⁷²⁷ Table 7.2 shows the various off-shore production agreements, including the above mentioned consortia.

⁷²⁴Pipeline News, May 24, 1996; Oct. 20, 1996; Nov. 2, 1996; Aug. 16, 1997; and OMRI, "Turkey Lobbies For Baku-Ceyhan Pipeline," May 24, 1996.

⁷²⁵RFE/RL Newline, Oct. 20, 1998; Oct. 30, 1998; Pipeline News, Nov. 18, 1997. There appear to be several reasons why the Ceyhan route won out. The Turkish government focused on the dangers of moving the oil through the Turkish straits, which are already overburdened with oil tanker traffic. For discussions on this issue, see International Energy Agency 1998, 41 and Pipeline News, Nov. 18, 1997.

⁷²⁶ The consortium is split as follows: British Petroleum and Norway's Statoil, 25.5 percent each; Russia's LUKoil, France's Elf Aquitaine, SOCAR and the National Iranian Oil Company (NIOC), 10 percent each; and Turkish Petroleum, 9 percent. In MRT, Ramco and Mobil each hold 40 percent of the consortium, while Total holds the remaining 20 percent. Pipeline News, Nov. 2, 1996; Jan. 13, 1997.

⁷²⁷ Itochu, the Japan National Oil Company (JNOC), Japan Petroleum Exploration, Marubeni Corporation, Mitsubishi, Mitsui and Nippon Oil Exploration have all expressed interest in participating.

Table 7.2: Offshore Oil Production Sharing Agreements, as of December 1997

Block	Consortium or main foreign partner	PSA signature year ^a	SOCAR's Share (percentage)	Estimated Recoverable Reserves ^b
Azeri, Chirag, Guneshli	AIOC	1993	10	650-800Mt ^c
Karabakh	CIPCO	1995	7.5	68-150 Mt
Shakh Deniz	British Petroleum/Statoil	1996	10	100-200 Mt gas: 400-700 Bcm ^d gas condensate: 200 Mt
Dan Ulduzu	NAOC	1996	20	100-120 Mt gas: 30-50 Bcm
Lenkoran Deniz	Elf	1997	25	50 Mt
Yalama	LUKoil	1997	40	50-70 Mt
Oguz	Mobil	1997	50	40 Mt gas: 20 Bcm
Apsheron	Chevron	1997	50	115 Mt gas: 400 Bcm gas condensate: 200 Mt
Nakhichevan	Exxon	1997	50	100 Mt
Inam	Amoco	1997	50	120-300 Mt
Kyurdashi	Agip	1997	50	90-100 Mt

Source: International Energy Agency 1998, 174-181, except where noted.

^aThe blocks are listed by the date the parties signed the Production Sharing Agreement (PSA).

^bRecoverables refers to oil, unless otherwise noted. Oil and gas condensate are measured in metric tons (Mt); gas, in billions of cubic meters (Bcm).

^cThe lower estimate is as of mid-1997. The Azerbaijani Academy of Sciences claims that reserves could be as high as 800 Mt.

^dAccording to recent estimates following the drilling of test wells, the Azerbaijani government estimates that there may be 700 Bcm, per a June 11, 1999 report in RFE/RL Daily Report.

As U.S. oil interests became increasingly focused on the vast dollars to be made in Azerbaijan, the oil companies stepped up their lobbying efforts to overturn Section 907. The U.S. government has been responsive. As one analyst put it, "Armenian-Americans are not the only lobbyists in town. U.S. oil companies are just as skilled at making their case to Washington, and their complaints of lack of government support and the difficulty of obtaining export credits have found many sympathetic ears."⁷²⁸ This pressure has led to serious efforts to repudiate Section 907. In March 1998, administration official Donald L. Pressley testified that the administration favors repealing the

Pipeline News, Jan. 1, 1997; Sept. 12, 1997; and TransCaucasus: A Chronology, electronic version, Vol. 5, Oct. 1996, No.10.

⁷²⁸ RFE/RL Newslines July 3, 1998, Editor's Analysis.

section.⁷²⁹ In July 1998, the U.S. Senate Foreign Relations Committee approved the Silk Road Strategy Act. The Act called for making available to all the Transcaucasian and Central Asian states the same level of economic, political, and security assistance extended to the other former Soviet republics and Eastern Bloc states.⁷³⁰ While the Act does not directly challenge the ban on Azerbaijan, it would essentially override Section 907, as it explicitly states that the legislation would supersede every other legislation that has been passed by Congress with regard to the region.⁷³¹ In its arguments for repealing 907, the U.S. administration has tended to focus on the benefits that would accrue to Azerbaijan and on the ability of the U.S. to help in economic reforms such as privatization. While they rarely specifically mention oil, this is certainly an aspect of their reasoning. In a vague reference to the oil interests, for example, Ambassador Richard L. Morningstar testified in 1998 that "Our assistance in [economic reforms, such as privatization] would facilitate the efforts of U.S. companies seeking to invest in Azerbaijan...."⁷³² As the Office of Technology Assessment has pointed out, U.S. involvement in FSU states could significantly boost employment in an industry that has "shrunk by 400,000 jobs over the past 10 years."⁷³³

The Clinton Administration advocated aiding Azerbaijan through direct state support as well as assisting the oil companies in their efforts in the region. For more than four years, the State Department has urged abolishing the restriction on aid. When the Silk Road Strategy Act was brought before the Senate, the Administration testified in favor of it. In prepared testimony, Secretary of State Albright argued that repealing Section 907 "would restore balance in our policy toward Azerbaijan and Armenia and reinforce our role as an honest broker in the [Nagorno-Karabakh] peace process."⁷³⁴

Until recently, the U.S. Overseas Private Investment Corporation (OPIC) had not assisted in funding Azerbaijan. This was because OPIC officials believed that Section 907 applied to OPIC

⁷²⁹ U.S. House 1998, 60.

⁷³⁰ RFE/RL Newslines, July 3, 1998, Editor's Analysis.

⁷³¹ Jeremy Bransten. "Armenia: Foreign Minister Elaborates On Policy." RFE/RL Newslines, Apr. 9, 1999.

⁷³² U.S. House 1998, 144.

⁷³³ OTA 1994a, 174.

⁷³⁴ Sonia Winter. "Armenia: U.S. To Renew Focus On Nagorno-Karabakh Peace Talks." RFE/RL Reports, June 17, 1998.

support as well as direct governmental aid.⁷³⁵ However, in June 1998, Congress clarified the Act's language making it clear that the 907 restrictions were not intended "to apply to assistance 'the direct beneficiaries of which are required by law to be United States entities.' Since, by law, OPIC programs support only U.S. companies' investments, OPIC is thus free to consider insurance and loan guaranty projects in Azerbaijan, subject to OPIC's usual policy and underwriting criteria.⁷³⁶ As of July 1999, OPIC had not provided insurance for any projects in Azerbaijan, but had started funding a private investment fund for projects in all three of the Transcaucasian states.

Of course, states other than the U.S. can and have assisted Azerbaijan. However, the amount of assistance pales in comparison to FDI. Two states bear mentioning here. While Turkey has considerable interest in the region, its weak economic status has made it a less than forthcoming donor. Its white knight status comes about more indirectly by lobbying the U.S. for support for the Ceyhan route, which bypasses Russia. As part of its continued support for the Ceyhan route, Turkey's government recently agreed to cover additional expenses if the cost of construction exceeds the estimated \$2.5 billion.⁷³⁷ Azerbaijan has also teamed up with other oil producing states in the region to weaken Russia's hold. For example, Chevron oil company is the major player in the Tengiz oil field in Kazakhstan. By bringing Chevron into a deal with SOCAR to develop the south Caspian Sea, Azerbaijan increased the likelihood that Chevron would select an oil pipeline route that can accommodate both Azerbaijani and Kazakhstani oil. Combining the two states' oil export routes would make the route through Azerbaijan and Georgia and into Turkey more attractive than new Russian routes that could only serve one state.⁷³⁸

If these alternate oil transit routes succeed, Russia's Transneft will lose its ability to arbitrarily set high transit fees for Azerbaijan, to block fuel flowing to states for which Russia is now the dominant provider, and otherwise use this asset as leverage against Azerbaijan. Given this, it is not surprising to find that the Russian government has aggressively lobbied against routes that bypass Russia. In 1995, a senior Russian diplomat warned that Russia intends to increase political pressure on

⁷³⁵See chapter 2 for a more thorough discussion of OPIC.

⁷³⁶OPIC website, "OPIC Highlights: OPIC in Europe and the New Independent States," June 1998.

⁷³⁷RFE/RL Newline, Mar. 16, 1999.

⁷³⁸Dorian, Rosi, and Indriyanto 1994, 421.

Azerbaijan to route pipelines for oil exported from the Caspian Sea through Russia. The official said that Moscow planned "tough measures to persuade Azerbaijan and other countries in the Caspian Sea region to adopt a more realistic position" on the pipeline and other issues related to the development of oil resources in the Caspian region. The Russians have continued to make their opposition known.⁷³⁹

Armenia: A Russian Security Hierarchy

For both Armenia and Russia, the benefits of a Russian dominated security hierarchy outweighed the moderate to low costs of implementing and maintaining the hierarchy. In contrast, there is relatively little to be gained by either party from an economic hierarchy.

For the Armenians and their Turkic neighbors, the modern era has been markedly conflict-ridden, making Nagorno-Karabakh a flash point for the Armenians, as well as raising concerns about the intentions of Iran and Turkey. The Armenians have twice suffered large-scale massacres, or genocide, at the hands of the Turks: in the late 1800's and again in 1915 when Turks of the Ottoman Empire exterminated or forced out most of the Armenian population in modern day Turkey. Armenians and Moslems have engaged in less well-known mutual massacres as well. For example, during the Soviet Union's formation in 1918, Armenians massacred a defenseless Moslem population in Baku, which was then under Soviet control. About 3,000 people, mostly Moslems, lost their lives.⁷⁴⁰ In retaliation, when the Turks took back Baku several months later, Moslems massacred some 4,000 Armenians.⁷⁴¹ Armenian fears of future abuses and even pogroms often determine the state's foreign policy. These fears are exacerbated by the fact that Muslims—in Turkey, Iran, and Azerbaijan—surround Armenia on three sides. Landlocked, Armenia has only Georgia—a Christian state—as its remaining conduit to the rest of the world. Indeed, the Armenians are often likened to the Jews, in that they have been repeatedly persecuted and massacred for their religion, have suffered their own holocaust, and are nearly surrounded by large Islamic states that are marked by varying degrees of religious fervor.

⁷³⁹For example, in 1997, Russian fuel and energy Minister Boris Nemtsov said that Russia would fight to have the main export pipeline routed to Novorossiisk. RFE/RL Newswire, Nov. 14, 1997, July 25, 1995.

⁷⁴⁰ Pipes 1997, 200.

⁷⁴¹ Pipes 1997, 205.

Armenia's fears of pogroms at the hands of Muslims dominated its foreign policy as a new state. As the Soviet Union collapsed, Armenians feared attacks from any of its three Muslim neighbors: Turkey, Iran, and Azerbaijan. The massacres and on-going fighting in and around Nagorno-Karabakh seemed to confirm these fears. Kurd terrorists on its border with Turkey also potentially threatened Armenia. Furthermore, in May 1992, fighting broke out Nakhichevan, raising fears that Turkey would be brought into the battle.⁷⁴²

Like their counterparts in Azerbaijan, Armenian political leaders have been politically threatened by their potential failure to favorably resolve the Nagorno-Karabakh conflict. In the case of the Armenians, public opinion overwhelmingly favors either joining Nagorno-Karabakh to Armenia or granting Karabakh its independence. While Armenia has not officially declared war on Azerbaijan, the success of the Karabakh Armenians has directly affected the fortunes of Armenia's leaders. As with the Azerbaijani leadership, perceptions that the president was failing to make progress toward Armenian's goals led to the demise of that leader.

The Armenian leadership was on relatively safe ground as long as the Armenians continued to gain ground, literally. The successes of taking Nagorno-Karabakh piece by piece and then the corridor connecting Nagorno-Karabakh to the Armenian "homeland" meant that the leadership could count on continued domestic support. With Russia's assistance, the leadership was able to continue down this track. The leadership agreed to allow the Russian troops on their territory in exchange for progress in the conflict. When the fighting stopped, the negotiating began. This put the Armenian leadership in a more precarious position. Without clear progress on the battlefield, the leadership had to demonstrate progress at the negotiating table. This proved more difficult to demonstrate and eventually led to Ter-Petrossyan's resignation.

⁷⁴² Aves 1998, 182.

CIS agreed to do in March 1992. He repeatedly signed cease-fires and prisoner exchanges, some of which took place and others which amounted to nothing. He continued to call for the various international mediators to recognize Nagorno-Karabakh as a "separate political entity" and, henceforth, to include them in the negotiations. However, he stopped short of officially recognizing the Republic as a state, despite continued opposition pressure to do so.⁷⁴⁴ In 1993, Ter-Petrosyan appointed a Karabakh Armenian—Sergei Sarkisyan—Defense Minister. Sarkisyan had been a member of the Karabakh parliament and head of the Karabakh self-defense forces.⁷⁴⁵ By bringing in a Karabakh Armenian, Ter-Petrosyan was able to demonstrate his interest in and commitment to resolving the conflict to the satisfaction of the Karabakh Armenians, thereby deflating the power of the opposition's call to formally recognize Karabakh as an independent Republic.

Ter-Petrosyan was re-elected in 1996, but carried with him the taint of election fraud. His primary opponent, Vazgen Manukyan—a 50 year old former professor of physics and briefly the Prime Minister under Ter-Petrosyan—charged that the election results were fixed. While Ter-Petrosyan claimed that he had won 57 percent of the vote, Manukyan and his supporters alleged that 55 percent had voted for Manukyan against only 37 percent for Ter-Petrosyan. The disagreement led to a violent protest, resulting in the arrests of several prominent politicians. The capital was cordoned off with tanks and the city remained tense for several days. The Central Election Committee announced on September 29 that the final results showed Ter-Petrosyan with 52 percent of the vote, Manukyan with 41 percent; the remainder went to the Communist candidate.⁷⁴⁶ The OSCE as well as the American-based International Foundation for Election Systems disputed the results. The OSCE mission reported "very serious breaches of the election law," including a 21,000 discrepancy between the number of votes

⁷⁴⁴ In June 1992, the opposition Dashnak party called for the President's resignation on the grounds that he was not firm enough on Nagorno-Karabakh. The Party called for Armenia to form an economic, political and military union with the Karabakh Armenian community. On August 17, the opposition succeeded in winning an emergency session of the Armenian parliament to debate whether Ter-Petrosyan should be forced to resign. RFE/RL Newsline Mar. 3, 1992; Mar. 4, 1992; Mar. 17, 1992; Mar. 19, 1992; Mar. 20, 1992; May 4, 1992; May 6, 1992; May 11, 1992; June 1, 1992; June 5, 1992; June 24, 1992; July 2, 1992; Aug. 17, 1992; Aug. 18, 1992; Aug. 27, 1992.

⁷⁴⁵ RFE/RL Newsline, Aug. 24, 1993.

⁷⁴⁶ RFE/RL Newsline, Sept. 26, 1996; Sept. 27, 1996; Sept. 28, 1996; Sept. 30, 1996.

cast and ballots counted.⁷⁴⁷ Later, after Ter-Petrosyan had resigned, one of his ministers confirmed on state television that the government had indeed fixed the 1996 election.⁷⁴⁸

Despite the controversy, Ter-Petrosyan went on to serve as President, though surely a weakened one. Several months after winning reelection, he chose as his prime minister, Robert Kocharyan, the former president of Nagorno-Karabakh. Kocharyan had been elected president by the Karabakh parliament in 1994 and had been reelected by popular vote in 1996.⁷⁴⁹ Bringing Kocharyan onto the team served the same purpose as Ter-Petrosyan's 1993 appointment of Sarkisyan as defense minister: it was a powerful symbol of Ter-Petrosyan's commitment to the Karabakh Armenians. However, the president continued advocating compromise on the Nagorno-Karabakh settlement, arguing that "'unilateral demands' for Nagorno-Karabakh's secession from Azerbaijan are unrealistic and will not be tolerated by the international community."⁷⁵⁰ He continued pressing the OSCE, which was leading the international negotiating team, to include the Karabakh Armenians as full partners at the negotiating table. He eventually prevailed and by 1997 it was understood that the Karabakh government would have to approve any agreement.⁷⁵¹

Ter-Petrosyan's politically fatal move occurred in September 1997 when he held his first press conference in 5 years and announced that he would consider an OSCE proposal for withdrawing Armenian forces from Nagorno-Karabakh and six districts in Azerbaijan proper before the Republic was formally recognized. The Karabakh Armenians remained resolutely opposed to the proposal, demanding instead that their state first be recognized; discussions of troop withdrawals would follow. Manukyan, Ter-Petrosyan's 1996 presidential opponent, harshly criticized Ter-Petrosyan's decision as

⁷⁴⁷ RFE/RL Newswire, Oct. 3, 1996; Oct. 16, 1996.

⁷⁴⁸The former Interior Minister Vano Siradeghian implied that the president was not prepared to win a second round and thus the administration fixed the election to prevent the need for a second round. The former minister said "I attribute the whole flop of 1996 to Ter-Petrosyan's fatigue. He had already depleted himself," RFE/RL Newswire, Dec. 30, 1998. Shortly after giving the interview, state prosecutors accused Siradeghian of murder during his tenure as Interior Minister. As of July 1999, Siradeghian had not been convicted and continued to serve in Armenian politics. See RFE/RL Newswire, Feb. 5, 1999; Feb. 27, 1999. Armenia Report, May 4, 1999.

⁷⁴⁹ When Ter-Petrosyan was reelected, the prime minister since February 1993 was Hrant Bagratyan. Bagratyan resigned in November 1996, giving no precise reason for his resignation. The next prime minister was Armen Sarkisyan who resigned for health reasons after only a few months. RFE/RL Newswire, Nov. 6, 1996; Mar. 10, 1997; Mar. 11, 1997; Mar. 20, 1997; Mar. 25, 1997.

⁷⁵⁰ RFE/RL Newswire, Sept. 3, 1996; Oct. 8, 1997.

⁷⁵¹ Carley, 2.

"capitulation" and "treason."⁷⁵² In November, about 8,000 opposition supporters gathered in Yerevan to condemn Ter-Petrosyan's position, which they described as a willingness to return Karabakh to Azerbaijan.⁷⁵³ Opposition leaders made the stinging accusation that the president lacked authority to sign critical treaties because he was not elected in free and fair elections. In an address to parliament, Prime Minister Kocharyan voiced his dissent, arguing that the agreement would leave the enclave exposed. In December, some 10,000 protesters came to the capital to condemn the president and his actions. Under increasing pressure from the opposition, criticized by his prime minister, and weakened by the election scandal, Ter-Petrosyan finally gave way and resigned in February 1998. Robert Kocharyan replaced Ter-Petrosyan.⁷⁵⁴ Nagorno-Karabakh remains a tinderbox for the leadership.

The primary benefit that Armenia sought, and that Russia could provide, was direct security assistance in the form of military troops to fight in and around Nagorno-Karabakh, military equipment to assist the Karabakh Armenians in their battle, and troops and equipment to guard the borders with Iran and Turkey. As the preceding discussion suggests, these were critically important benefits for the Armenian leadership. With Russian troops guarding Armenia's external border, the state would have to expend fewer resources on potential threats and dedicate more energy to the very real conflict surrounding Nagorno-Karabakh. While the benefits of the hierarchy were high, the potential costs to Armenia were moderate. Russia and Armenia at first appeared to share similar policy preferences, aiding the Karabakh Armenians and repelling Islamic threats from Turkey, Iran, and Azerbaijan. While Russian forces based on Armenian territory could pull Armenia into an unwanted conflict, there was little evidence to suggest that this would occur. Both Russia and Armenia shared an interest in controlling Armenia's southern borders with its Muslim neighbors. On the other hand, historical experience might suggest that Armenians would reject a Russian hierarchy on the basis of incompatible polity choices. After all, Russian forces under the Soviet regime had been responsible for severe crackdowns on the Armenian people resulting in hundreds dead and more injured and homeless. The Soviets had also not shown themselves to be sympathetic to Nagorno-Karabakh's independence

⁷⁵² Manukyan is quoted in RFE/RL Newline, Oct. 1, 1997. He made his statements at a press conference in Yerevan.

⁷⁵³ RFE/RL Newline, Nov. 17, 1997.

movement. These factors suggest that there may well be incompatible policy costs to a Russian hierarchy. In addition, there is some evidence that Russia may not want to resolve the Nagorno-Karabakh conflict. If Russia prefers a stalemate over resolving the conflict in Armenia's favor, Armenia may find that the policy preferences are sufficiently divergent to no longer favor a hierarchy. The other potential cost of hierarchy, domestic political costs, have been low. The Armenian population has demonstrated in elections, as has the parliament in its behavior, that it expects its leaders to make advancements regarding Nagorno-Karabakh, regardless of who abets it in attaining those victories. While there were some costs to the hierarchy, a clear fear of not favorably resolving the Nagorno-Karabakh conflict combined with a lack of choices for Armenia, which I discuss below, explain why Armenia surrendered some sovereignty to Russia.

For Russia, the benefits to a hierarchy in Armenia are similar to those for Azerbaijan. Russia sought to guard against Islamic threats rising from Iran and Turkey, as well as Azerbaijan. Even if these three Muslim states did not officially sanction terrorism against Russia, they might be unwilling or unable to prevent Islamic terrorists from using their territory as training bases or launching points for incursions. While Turkey and Azerbaijan are secular states, the fundamentalists in Iran pose a more obvious threat. If Russia could guard Armenia's borders with Turkey and Iran, it could better ensure that any potential threat would be kept far from its borders. Given Armenia's weak military and economic position, Russian leaders might well have worried that Armenia was not a competent security partner. Thus, more powerful, better trained and equipped Russian forces would be preferable to the weaker Armenian forces, whose primary focus was clearly on the immediate threat of Nagorno-Karabakh rather than on the potential, more distant threats in Iran and Turkey. Furthermore, bases in Armenia would allow Russia to better contain conflicts in Abkhazia, Ossetia, and Chechnya. With troops based to the north and south of these troubled spots, Russia could essentially surround the threats. Finally, as with Azerbaijan, the Russian leadership had a general political interest in demonstrating that it could dominate the former Soviet region, particularly the troublesome Transcaucasus.

Armenia's active pursuit of the security hierarchy meant that Russia's costs to implementing the hierarchy were low. With Armenia specifically requesting that Russian troops remain after the

⁷⁵⁴RFE/RL Newline, Nov. 7, 1997; Dec. 17, 1997; Feb. 4, 1998; Feb. 5, 1998, "Armenian President's

Soviet collapse, Russia did not have to use diplomatic or military pressure to force a security hierarchy. In addition, Russian forces were already based on Armenian territory, further lowering the costs of implementation. The government did not have to build new military housing, purchase or build new equipment, or transport troops, equipment, and other logistical support. The infrastructure was already in place. Similarly, Armenia was in no position to demand that Russia tie its hands, and specialized forces were not required, two additional factors that contributed to lowering the cost of hierarchy. Finally, Armenia's borders are reportedly lucrative places to work, with various illegal trade occurring there. The U.S. Central Intelligence Agency reports that Armenia is "increasingly used as a transshipment point for illicit drugs—mostly opium and hashish—to Western Europe and the US via Iran, Central Asia, and Russia."⁷⁵⁵ To the extent that Russian troops are able to obtain bribes from this illegal trade, they may be more willing, if not eager, to remain in Armenia. If one or more of these factors were to change, the cost of hierarchy would rise, eventually leading to the collapse of the hierarchy.

The final factor to consider is the degree to which the security hierarchy was relationship specific; in other words, what if any options could Russia and Armenia have turned to, if not to each other? To defend against threats in Iran and Turkey and to further its goals in Nagorno-Karabakh, Armenia had no immediate options to Russian direct military aid. Armenia's immediate neighborhood provided unattractive options. Turkey, Iran, and Azerbaijan constituted threats and thus were not suitable allies. Christian Georgia is the only other contiguous neighbor but it has been wracked with its own security problems, both from the secessionist Abkhazians and Ossetians and from political forces that continue to threaten the government. No other states offered direct military assistance. This lack of options increased the probability of hierarchy.

Russia also had no other options. To attain its goals of controlling the Transcaucasus; guarding against threats from Iran, Turkey, and other Islamic states; and aiding its forces in battles in Abkhazia, Ossetia and Chechnya, Russia sought a hierarchy in the form of basing rights with all three Transcaucasian states. To most effectively reach the three goals, Russia needed bases in all three

Resignation Likely To Cause Policy Changes," ED; Feb. 6, 1998, Paul Goble, "Why Ter-Petrosyan Fell."

⁷⁵⁵ U.S. Central Intelligence Agency web site, last accessed April 2001.

southern states. Losing control in any one state opens up a gap in its line of defense against Islamic threats. In terms of controlling the Transcaucasus for political reasons, the Russian leadership would presumably want bases in all three states, but would still prefer some over no basing options. This dearth of alternatives on Russia's part also suggests hierarchy.

With Russia as the only security partner willing to offer direct military aid and with the benefits of hierarchy high and costs low for both Russia and Armenia, hierarchy was an unsurprising outcome. While no state other than Russia was willing to commit forces for Armenia's immediate battle, Armenia has had allies in the economic arena. These economic partners have not only aided Armenia in avoiding an economic hierarchy, but may also pave the way for Armenia to shake loose of the security hierarchy. If it can boost its economy, it may be able to buy enough equipment and artillery to fend for itself against its myriad threats. This brings me to the economic arena.

Economic Hierarchy Lacks Benefits for Both Armenian and Russia

Armenia's Soviet economy initially suggested that it would be inclined toward a post-Soviet hierarchy. During the Soviet era, Armenian industry was dominated by the military-industrial complex. About 40 percent of all Armenian enterprises were devoted to the defense industry.⁷⁵⁶ The plants produced "instruments for Soviet submarines and ships, aircraft computer systems, other aviation electronics, telescope lenses, and other electronic equipment."⁷⁵⁷ Two large component plants are located near Yerevan and in Echmiadzin, both of which are in the southern part of Armenia, less than 20 miles from the border with Turkey.⁷⁵⁸ These military components were then assembled in Russia. When the Soviet Union collapses and demand for military equipment plummeted, some of Armenia's facilities lost 60-80 percent of their business.⁷⁵⁹ Without Russian demand for the components and without assembly capabilities, Armenia was vulnerable to Russia. With its own capacity to manufacture components, Russia did not share this vulnerability.

⁷⁵⁶ Curtis 1995, 43.

⁷⁵⁷ CIA, 23.

⁷⁵⁸ Ibid.

⁷⁵⁹ Curtis 1995, 43.

Most of Armenia's relation specific assets have been with Azerbaijan and other states, rather than Russia. Armenia relies on outside sources to meet 90 percent of its energy requirements. Armenia's dire situation regarding low domestic fuel and electricity production is compounded by the high energy demands of inefficient industries, as is the case in Ukraine. Historically low energy prices and low collection rates promoted excessive energy consumption.⁷⁶⁰ In addition, the Nagorno-Karabakh conflict competes with these industries for money in general and fuel in particular. These increased demands come at a time when Armenia has lost access to many of its traditional energy sources and trade routes. During the Soviet period, Armenia had three steam generating power plants, producing about 49 percent of its electricity capacity. To fuel the generators, Armenia relied on oil and gas transported through pipelines originating in Azerbaijan and Turkmenistan. Azerbaijan's fuel supply accounted for about 50 percent of Armenia's consumption.⁷⁶¹ For trade routes, Armenia's key connections have been two railways through Azerbaijan, one through Turkey, and one through Georgia. To trade with Central Asia, Armenia relied on Azerbaijan's railroads and seaports in the Caspian, access routes that are also now closed to Armenia. Since the Nagorno-Karabakh conflict, however, only the Georgia route is a realistic option. This critical connector allows Armenia access to Georgia's Batumi seaport which in turn is a conduit to Europe. Even this route has been limited, given on-going internal conflicts in Georgia.⁷⁶²

The most important asset in Armenia's domestic energy portfolio is its nuclear power plant. During the Soviet era, Armenia's Medzamor nuclear power plant, located near Yerevan, provided about 36 percent of Armenia's domestic energy needs.⁷⁶³ Units 1 and 2 of the plant were closed down in early 1989 due to damage from the powerful earthquake that had rocked Armenia months earlier. The closure caused serious energy shortfalls. Without Medzamor and with the Azerbaijani imposed blockade, Armenia was left with such severe shortfalls that all industrial plants were closed for several days in 1991. Later, Armenia reported that at times households in Yerevan received electricity for only 2 hours per day and industry was at a "virtual standstill."⁷⁶⁴ Desperately in need of additional energy sources, Armenia re-opened Unit 2 in 1995; Unit 1 will remain closed until the entire plant is retired.

⁷⁶⁰ U.S. House 1998, 58.

⁷⁶¹ Masih and Krikorian 1999, 66.

⁷⁶² Ibid., 67.

⁷⁶³ RFE/RL Newswire, Dec. 7, 1992.

This reopening was possible with Russian financial and technical assistance as well as Russian nuclear fuel.⁷⁶⁵ The nuclear power plant is a specific asset. It cannot easily be moved or converted to another use. As with the other FSU states that have nuclear power plants, Armenia is loathe to close its primary source of energy. The primary drawback of the asset, however, is that it relies on Russian nuclear fuel. While the fuel could be supplied by others, at the time of the collapse, Russia was the only contributor, and remains so today.

In contrast to the high relation specificity in the defense sector and to a lesser degree in the energy sector, Armenia's economy has some potential in the mineral subsector, which does not have high RSAs with Russia. Minerals, particularly copper and molybdenum, have been important exports for Armenia and are expected to continue to be so. In 1996, "jewelry and nonprecious metals," "precious metal scrap and waste," and "unprocessed and processed diamonds" accounted for 66 percent of Armenia's exports.⁷⁶⁶ Armenia plans to build two new copper smelts, which would significantly improve its export earnings. Armenia's second potentially most significant mineral is molybdenum. Molybdenum is used primarily as an alloying agent to strengthen, harden, and improve wear resistance for steel, cast iron, and superalloys. According to the U.S. Geological Survey, "The versatility of molybdenum has ensured it a significant role in contemporary industrial technology, which increasingly requires materials that are serviceable under higher stresses, greater temperature ranges, and more corrosive environments."⁷⁶⁷ The Survey expects worldwide demand to continue growing, given that the mineral is adaptable and has few substitutes. With increased mine output and construction of a new processing plant, Armenia could be a major worldwide molybdenum producer.⁷⁶⁸ In addition to these two major export opportunities, Armenia is among the top 10 perlite producers and mines some gold. A recent Armenian-American venture called Global Gold may soon become Armenia's largest FDI project. The venture expects to mine 18 tons of gold and will search for additional deposits in Armenia. If these expectations are borne out, Armenia would become the world's 13th largest gold

⁷⁶⁴ RFE/RL Newswire, Apr. 22, 1991; Dec. 23, 1991; Feb. 18, 1994; Feb. 18, 1994.

⁷⁶⁵ RFE/RL Newswire, Dec. 7, 1992; Sept. 1, 1997; Nov. 30, 1998.

⁷⁶⁶ Levine, 1.

⁷⁶⁷ Blossom 1997, 1.

⁷⁶⁸ Casadevall, 3.

producer.⁷⁶⁹ Armenia also has a diamond-cutting factory, which has traditionally relied on imported Russian diamonds as the raw input. Given transportation costs and Russia's large reserves, Armenia might be expected to continue receiving Russian diamonds without difficulty. However, much of the value of diamonds comes from the cutting process. In its negotiations with DeBeers, Russia has been pressed to allow DeBeers to do the majority of the cutting. As such, Armenia has not benefited from this part of its industry.⁷⁷⁰

In evaluating the probability of a hierarchy forming, the economic RSAs suggest that Armenia might seek a hierarchy, given its vulnerability in the military-industrial sector. This prediction is somewhat off-set by the non-RSA mineral sector. More significantly, however, is the low value of an economic hierarchy, for both Russia and Armenia, as well as Armenia's ability to garner significant humanitarian assistance from other sources, most notably the United States. For Russia, a hierarchic customs union with Armenia would seem of little value. Unlike Ukraine, Kazakhstan, and Belarus—where Russia has pressed for a customs union, Armenia does not share a border with Russia. Furthermore, the states separating Armenia and Russia are conflict-filled. Trade is unlikely to be high between the two states, regardless of a favorable economic arrangement. Since Russia does not require any of Armenia's economic assets, there is little incentive to control them. While Armenia would benefit from Russia once again requiring Armenian military components, the declining arms market along with Belarus and Ukraine's much larger components industries, suggests that Russia is highly unlikely to move in this direction. The political benefits that might have accrued to Russia for including another state in its hierarchy would be of limited added value, given that Russia already dominates a security hierarchy, a more important goal. Armenia could follow Kyrgyzstan's path of surrendering sovereignty at no cost to Russia, in hopes of some minor gains. While Armenia might still pursue this path, other options appeared more fruitful. These white knights included the Armenian diaspora, humanitarian aid from the U.S. and other sources, and opening trade and energy routes through Iran, Turkey, and Georgia, thus breaking Armenia's vulnerability to Azerbaijan.

⁷⁶⁹ Masih and Krikorian 1999, 84.

⁷⁷⁰ Levine, 1.

The United States is home to a large percentage of the Armenian diaspora. Americans and Armenians originally crossed paths through Christianity. During the 1800's, American Protestant missionaries found receptive converts among the Armenian population in the Ottoman Empire. The missionaries developed networks of schools, churches, hospitals and other institutions. By World War I, American missionary property in the Ottoman Empire was worth about \$123 million.⁷⁷¹ During the massacres of 1894-96, when hundreds of thousands of Armenians died at the hands of the Ottoman Turks, the missionaries wrote voluminous books and articles on the killings, bringing American attention to the tragic event. When the attempted genocide took place during World War I, missionaries were again largely responsible for highlighting the atrocities. Over a 4-year period, the missionaries raised about \$30 million to aid the refugees, an enormous sum for the time. Following WWI, part of historic Armenia went to Turkey, part to the Russians, and part to the British and then French.⁷⁷²

Although Armenian independence movements also organized in Britain and France, the American lobby was by far the largest and most important of these organizations. Called the American Committee for the Independence of Armenia, they lobbied in favor of an independent Armenia with its historic borders.⁷⁷³ At the time, there were 100,000 Armenians in America.⁷⁷⁴ Given this small number, the group leadership could not reasonably threaten to remove anyone from office. They instead relied on moral argument for persuasiveness.⁷⁷⁵ The diaspora continued after W.W.II. Fearing aggressive nationalism in Turkey, Egypt, Syria, and Iraq, Armenians fled to the U.S., Canada, and South America. Other members of the diaspora were refugees from the war or political refugees from

⁷⁷¹ Aftandilian 1981, 13.

⁷⁷² Aftandilian 1981.

⁷⁷³ Preceding the American Committee for the Independence of Armenia (ACIA) was the Armenian National Union of America. This group was formed by Armenians who had fled during the two massacres, arriving either right before or after WWI. The ACIA was organized to bring focus to "American" and away from "Armenian," which the founder, Vahan Cardashian, thought would make the group more effective. Aftandilian, 21-27.

⁷⁷⁴ An interesting bit of Armenian trivia is that it was one of these Armenians families, the Colombosian family, that originated yogurt making in America.

⁷⁷⁵ Aftandilian begins his book with a telling quotation from Herbert Hoover: "Probably Armenia was known to the American school child in 1919 only a little less than England. The association of Mount Ararat and Noah, the staunch Christians who were massacred periodically by the Mohammedan Turks, and the Sunday School collections over fifty years for alleviating their miseries – all cumulate to impress the name Armenia on the front of the American mind." The quotation is from Hoover's *Memoirs. Years of Adventure, 1874-1920*. New York, 1951, p. 385.

Soviet Armenia. Today, the approximately one million ethnic Armenians in the U.S. are centralized in a few cities.⁷⁷⁶ This centralization enables the diaspora to act as a more cohesive lobby than if they were scattered. Adding to their effectiveness is the Armenian focus on education. For example, at California State University, Fresno, and the University of Michigan, there are Armenian Studies Programs in which the Armenian language as well as history, culture, art, religion, and other topics are taught.⁷⁷⁷

This powerful lobby would prove instrumental in bringing aid to Armenia. In their efforts to win U.S. foreign assistance, the Armenian lobby initially pointed to important economic reforms in their home state, demonstrating that Armenia was actively pro-Western. Armenia was among the first FSU states to pass land reform laws. On January 30, 1991, Armenia passed a land code law. Within two months, Armenia had privatized 80 percent of its arable land.⁷⁷⁸ Armenia deregulated many prices in 1994 and began a major stabilization program for its new currency. The government passed an unusually liberal foreign investment law, allowing full repatriation of profits and full ownership of companies and purchase of securities by foreigners. Privatization measures, however, moved slowly.⁷⁷⁹ The cumulative liberalization index (CLI), developed in Gelb, de Melo, and Denitzer (1996), has been used to rate the progress of the 15 FSU states. According to this rating, Armenia was classified as a low intermediate reformer.⁷⁸⁰ Despite its early promise as a reformer, by 1998, Armenia was criticized by a U.S. official for its “laxness in implementing reforms.”⁷⁸¹

Despite Armenia’s laxness, the diaspora has been highly successful in its efforts. For several years, the U.S. made Armenia its third largest recipient of assistance funds to the FSU (Russia and

⁷⁷⁶ Kouymjian. Los Angeles has a particularly large Armenian population.

⁷⁷⁷ As an indicator of the diaspora's continued organization and cohesiveness in the US, consider the Armenian American Almanac. The 1985 Almanac contains 1,229 entries that include cultural, educational, athletic, and professional organizations; nursing homes and hospitals; newspapers and periodicals; library collections; scholarships, loans, grants, and fellowships; cookbooks; and, naturally, books about the attempted genocide. The Armenians in Cyberspace website has over 650 links to English language Web sites on Armenian subjects. For the website, see <http://www.flash.net/~hamoarb/armenweb.html>. Of course some of these do not indicate any sort of organizational power. For example, the link to “Cucumber-Yogurt Salad” is unlikely to have any political implications.

⁷⁷⁸ Masih and Krikorian 1999, 68.

⁷⁷⁹ Schroeder 1996, 27.

⁷⁸⁰ Kaminski 1996, 412 fn 21.

⁷⁸¹ U.S. House 1998, 57.

Ukraine were first and second).⁷⁸² Between 1990 and 1996, of the \$6.8 billion that the U.S. disbursed to the former Communist states of Central and Eastern Europe and the FSU, \$312 million went to Armenia; Russia received a total of \$1.679 billion, while Ukraine was the recipient of \$474 million.⁷⁸³ This is particularly notable given Armenia's small population: about 3.8 million in the late 1990's.⁷⁸⁴ U.S. assistance to Armenia has been higher per capita than for any other FSU state. In 1994, for example, per capita disbursements for Armenia equaled \$23.24. This compares with \$1.17 for Russia, and \$9.81 for Georgia, the second highest per capita recipient.⁷⁸⁵ Worldwide, only Israel received a higher per capita assistance from the U.S. in fiscal year 1996.⁷⁸⁶ In addition, the U.S. has supplied natural gas to Armenia, as well as gas meters for consumers, in an effort to increase fuel efficiency and collection.⁷⁸⁷ In fiscal year 1997, the U.S. granted Armenia \$30 million to purchase natural gas.⁷⁸⁸ The U.S. has shipped wheat and kerosene, providing 230,000 tons of wheat and 50,000 tons of kerosene in 1994 alone. In 1995, the U.S. provided 138,000 tons of wheat and 20,000 tons of soybeans.⁷⁸⁹ The United States has not been alone in providing aid. In 1994, for example, Armenia's total per capita assistance came to \$51; it peaked in 1996 at \$77. Between 1993 and 1998, Armenia garnered \$295 per capita in official development assistance (ODA) and other aid; the second highest FSU recipient was Kyrgyzstan at \$269. Aid has been an important part of Armenia's GNP; in 1996, it accounted for 18.1 percent.⁷⁹⁰

Armenia has also looked to international organizations for concessional and non-concessional aid. The World Bank (IBRD/IDA) and the IMF listed Armenia as a major aid recipient among the former Communist states. The World Bank reported providing a net of \$181 million in official

⁷⁸² U.S. House 1997, 51.

⁷⁸³ Organization for Economic Cooperation and Development 1999, 41.

⁷⁸⁴ World Bank, World Development Indicators 2000.

⁷⁸⁵ These figures are based on U.S. official net bilateral disbursements. The author drew on OECD reports for his calculations. Dombrowski 1997, 219.

⁷⁸⁶ U.S. House 1996b, 33.

⁷⁸⁷ U.S. House 1996a, 76.

⁷⁸⁸ U.S. House 1998, 58.

⁷⁸⁹ Masih and Krikorian 1999, 72.

⁷⁹⁰ World Bank, World Development Indicators 2000.

development assistance and \$191.2 million in non-concessional net disbursements between 1990 and 1996; the IMF reported \$49.1 million in assistance during the same period.⁷⁹¹

The high per capita levels of U.S. and other assistance combined with moderate aid from international organizations have allowed Armenia options other than hierarchy with Russia, which as noted would most likely not have significantly benefited Armenia. However, this money has been used to satisfy immediate demands, rather than going toward long-term investments that would allow Armenia to restructure its economy. Without restructuring, Armenian leaders are unlikely to succeed in boosting the economy. As the U.S. Agency for International Development reported in March 1999,

By virtually any measure, investment levels are poor in Armenia. The [European Bank for Reconstruction and Development] reports that total investment equals 8.8 percent of GDP, among the lowest in the FSU and Eastern Europe. The very low investment rate is particularly surprising in view of the very large volume of assistance to the country. As a percent of GDP, Armenia receives more official development assistance (ODA) than any other nation in the FSU and Eastern Europe. In Armenia ODA is twice the magnitude of investment. In addition to ODA, Armenia receives large cash infusions from the diaspora and remittances from Armenians working abroad. Clearly, the very large majority of these infusions are being used for current consumption, often on imports, or are leaking out of the economy as capital flight, rather than being used for investment. In other words, domestic saving/investment rates are actually negative. Unless the inflow of funds from ODA, the diaspora, and remittances is considered permanent, Armenia is not only poor, it is living beyond its means.⁷⁹²

Armenia's low level of foreign direct investment reveals the international system's skepticism about Armenia's ability to stabilize its economy. Between 1992 and 1997, Armenia reported an average annual total of only \$15 million in FDI. Only Tajikistan, engaged in a civil war and part of a hierarchy with Russia, showed a lower average, at \$10 million.

Whether Armenia opts to join Russia's customs union in the future will depend on several factors. First, the military conflicts in the region would need to be sufficiently restrained to allow trade to flourish between Armenia and Russia. This appears to be years away. Second, Armenia would have to believe that the cost of Russia's tariffs varying from its own preferences would be outweighed by the benefits of increased trade or other economic benefits that Russia would provide in return. Russia currently appears to have few economic benefits that it is willing to offer Armenia. Third, given the minimal benefits of the hierarchy, Armenia would have to conclude that it had exhausted more lucrative

⁷⁹¹ These figures include debt relief. Organization for Economic Cooperation and Development 1999. See tables 26 and 27 for IMF and World Bank disbursements.

and/or less hierarchical methods of boosting its economy. Some factors indicate that this may soon be the case, while others suggest that Armenia's economy may be recovering on its own. Four factors suggest that Armenia may be running out of non-hierarchical options. First, for all FSU states, humanitarian and other forms of aid are declining. Armenia's aid per capita peaked in 1996 at \$77. In 1997, it fell to \$44, declining to \$36 the following year.⁷⁹³ Since this has been one of Armenia's most important sources of income, Armenia is particularly at risk. Second, Azerbaijan's economic blockade of Armenia has remained in place since 1989, and Turkey has kept its border with Armenia closed. While U.S. officials have noted that Turkey continues to trade with Armenia via Georgia, the closed border blocks an important trade route for Armenia. Despite Armenia's efforts to improve relations with Turkey, the Muslim state has chosen to support Azerbaijan over rapprochement with Armenia. For example, in December 1992, Turkey considered supplying electricity to Armenia in exchange for Armenia shutting down its unsafe nuclear power plant. However, under pressure from its opposition Motherland party, Turkey's government withdrew the offer.⁷⁹⁴ Third, section 907 of the Freedom Support Act has been seriously challenged by members of the U.S. Senate and U.S. Administration. Although it had not been revoked as of early 1999, declining U.S. support for maintaining the section indicates that it may not last much longer. While revoking section 907 would not directly harm Armenia's economy, it would strengthen Azerbaijan's economy by paving the way for U.S. economic assistance to Azerbaijan. This in turn could affect Armenia's future ability to wage war over Nagorno-Karabakh and to support the forces currently stationed there, a dangerous position for a political leader. Fourth, unlike Ukraine, Armenia lacks assets to sell to Russia to forestall hierarchy. It does not have military equipment in excess of its needs. It does not own special forces such as the Black Sea Fleet or nuclear weapons. The assets that Russia might be interested in, such as access to gold and other minerals, are precisely the assets that Armenia requires for hard currency earnings.

Countering these factors that tend toward hierarchy are lower energy demands due to the cease-fire and Armenia's decision to restart its nuclear power plant—both discussed above—as well as potential

⁷⁹² U.S. Agency for International Development 1999, electronic version.

⁷⁹³ World Bank, World Development Indicators 2000.

white knights. One of the most important white knights in the region are foreign direct investors, which the World Bank defines as those from another state investing in at least a 10 percent managing share of an enterprise.⁷⁹⁵ Although FDI levels in the first 5 years of Armenia's independence were extremely low, they have been increasing. In 1998, they jumped significantly, going from \$51 million in 1997 to \$232 million in 1998. As a result FDI went from accounting for 3 percent of GDP in 1997 to 12 percent in 1998.⁷⁹⁶ Since Turkey and Azerbaijan have restrained its trade options, Armenia has turned to Iran as a trading partner and for access to international markets. Iran is currently Armenia's primary trading partner. To the extent that this relationship bears fruit for Armenia, it may not require the minor benefits promised by a Russian customs union. Finally, Armenia has been actively pursuing accession to the World Trade Organization (WTO). States such as Kyrgyzstan and Kazakhstan have viewed the Russian customs union as an interim measure until they gain WTO membership. Armenia may similarly opt out of the Russian hierarchical union in favor of increased trade through the WTO.

Conclusion

Azerbaijan and Armenia shared the same security threat—Nagorno-Karabakh—and the same need for assistance in fighting that conflict. Russia shared their concern. With civil war on its border with the Transcaucasus and Georgia fighting secessionist battles, Russia had a strong interest in controlling the situation in Azerbaijan. Both Armenians and Azerbaijanis had been brutalized by Russian nationals representing the Soviet government. As such, historical experience provides little insight into why Armenia would end up in a security hierarchy with Russia while Azerbaijan would not. Rather, it is the lack of options available to the two states that led to hierarchy. As Stephen David pointed out in his omni-balancing theory, when your only option for defeating an imminent threat is a distant enemy, weak states will opt to ally with the distant enemy. Armenia made its deal first, which then raised Azerbaijan's costs of entering into a hierarchy with Russia. With Russian troops based in Armenia, Azerbaijan's leaders could not trust that Russia would act with their interests in mind. Turning to

⁷⁹⁴ Interestingly, Iran has not supported Azerbaijan's blockade of Armenia. In general, Iran has been more supportive of Armenia than Azerbaijan. For coverage of the blockade, see Apr. 15, 1991; Nov. 12, 1991; Dec. 07, 1992; Mar. 19, 1992; Mar. 26, 1992; Jan. 28, 1993; and Mar. 31, 1996.

⁷⁹⁵ World Bank, World Development Indicators 2000.

economics, Azerbaijan's heavy dependence on Russian oil pipelines suggests that it should have been in an economic hierarchy with Russia (hypothesis 3). Weak states that are vulnerable to strong states are unable to resist pressures to join a hierarchy. However, in the case of Azerbaijan, there were few benefits to Russia of a customs union with Azerbaijan. The two states were separated by the Chechen civil war, making increased trade highly unlikely and the customs union difficult to monitor. Finally, Azerbaijan is actively trying to reduce its vulnerability to Russia by building alternate pipelines and bringing in foreign direct investment for Caspian Sea drilling. The foreign direct investment has most likely aided Azerbaijan not only in its efforts to reduce the RSAs in its relationship with Russia, but to build its forces to retake Nagorno-Karabakh.

⁷⁹⁶ Ibid.

Chapter 8: Conclusion

Nearly 10 years ago, when the Soviet Union collapsed in December 1991, the future of the 15 newly independent states appeared highly uncertain and chaotic. From the chaos, however, patterns have emerged. One of the most important international relations and comparative politics questions in the region is whether each state will survive as an independent state. To answer this question, I analyzed the region using dyads, each consisting of Russia and one of the weaker former Soviet states. The puzzle became why some of these states surrendered sovereignty to Russia while others retained their full autonomy. Evaluating the two primary arenas in international relations—economics and security—I coded each dyad on a scale from 0 to 4, with the higher numbers referring to hierarchies and 0 representing full autonomy. On the economic scale, I evaluated three primary policies, and therefore, arenas in which to look for hierarchy: trade policies (tariff rates, export taxes, etc.), monetary policy, and other domestic economic policies (price controls, e.g.). If Russia controlled one or more of these policies, then there was a hierarchy. On the security scale, I used levels of Russian troops on the weak state's territory. The higher the percentage of troops, the deeper the hierarchy. Alternatively, if Russia controlled one aspect of the weak state's defense (army, air force, navy, air defense, or border controls), then it qualified as a type of hierarchy. A 4 would indicate that Russia controlled the domestic leaders of the weak state. Figure 4.1, reproduced below, illustrates the dyads' placement on the range from autonomy to hierarchy. None of the dyads scored higher than a 1 on the economic scale and a 3 on the security scale. While some states have delegated decision-making authority to Russia, none are members of a Russian empire.

	Hierarchy				
ECONOMICS	1	Azerbaijan Kazakhstan Uzbekistan	Belarus Kazakhstan Moldova Turkmenistan	Belarus Georgia Kyrgyzstan	Armenia Tajikistan ^a
	0	Azerbaijan Estonia Latvia Lithuania Uzbekistan	Armenia Georgia Kyrgyzstan Moldova Turkmenistan Ukraine ^a		Estonia Latvia Lithuania
	Autonomy	0 Autonomy	1	2	3 Hierarchy
		SECURITY			

^aThe state did not change positions between 1993 and 1997.

Figure 4.1: Placement of Dyads in the Former Soviet Region (Russia and the Other Fourteen States), 1993 and 1997

To understand why states would enter into hierarchies, I conceived of the state leaders as bargaining over the nature of their relationship. Using a rational choice foundation, I assumed that if there was a hierarchy, then either the weak state or the strong state, or both states, found that the benefits outweighed the costs. In thinking precisely what these costs and benefits would be, I considered economic, security, and political factors, as shown in Table 1.3. While many variables could affect the costs and benefits, I chose to evaluate only one variable: relation specific assets (RSAs). These assets affect the cost-benefit calculations, depending on which state becomes vulnerable because of the assets. I do not claim that RSAs can explain everything, only that they play a critical role, in some ways constraining political actors and in other ways enabling them. Some of my best evidence for this is in the Ukraine and Belarus cases where we can see the leaders—Russian as well as Ukrainian and Belarusian—using the pipelines, transit fees, low-cost fuel, and refineries as leverage against the dyad partner. Related to RSAs is the concept of what I called white knights. White knights can reduce a state's vulnerability by eliminating or reducing the relation specificity of the asset. If a state can transport oil through two different states, instead of just one, then it has more leverage in

dealing with both of those states. If a state can use several states for forward basing, it is less vulnerable than if only one option exists. Both the strong and the weak state benefit from, and will seek, more options. The cases demonstrated this. Kazakhstan and Azerbaijan brought in foreign oil companies to build pipelines that go around Russia. Russia sought to escape its vulnerability to Ukraine, by building a pipeline through Belarus. Azerbaijan and Armenia have tried to find other means of building their forces to continue their fight over Nagorno-Karabakh.

Summary of Cases

Ukraine and Belarus have actively used their RSAs—pipelines, transit fees, the military-industrial complex, nuclear weapons, the Black Sea Fleet (in Ukraine’s case)— to fight off Russian pressure for hierarchy as well as to win economic benefits. While both started down a path of actively seeking white knights rather than hierarchy with Russia, Belarus changed courses in about 1995, after President Lukashenka was elected. Ukraine’s presidents have tended to straddle east and west, remaining close to Russia while pursuing large amounts of foreign funding. Lukashenka, on the other hand, turned authoritarian and rejected the advice of the World Bank and the International Monetary Fund. As these white knights closed their offices in Belarus, Lukashenka ramped up his pro-Russian rhetoric, submitted to an economic and security hierarchy with Russia, and exchanged his pipeline transit fees for continued low cost fuel and other benefits. Lukashenka has not been Russia’s puppet, however. Under pressure to agree to even more hierarchy, he responded by reminding the Russians that they were using military installations at no cost. For its part, Russia actively pursued hierarchy in both Slavic states. Under political pressure to dominate hierarchies in the region, combined with the strategic location of Ukraine and Belarus and the pipelines traversing their territory, Yeltsin and his administration stood to gain significant political benefits from controlling these hierarchies. As I argued in chapter 5, the two Slavic states’ paths may once again parallel one another. Ukraine’s continued reluctance to reform its economy, high international debts, and dependency on Russian pipelines for fuel and transit fees may lead it toward a hierarchy with Russia. Without white knights to break its dependency, it is increasingly likely to succumb, or even pursue, a Russian-dominated

hierarchy in exchange for economic benefits. Belarus, on the other hand, may find ways to encourage some foreign direct investors or financing from international organizations, without losing the benefits of the Russian hierarchy.

Kazakhstan began its independence with what appeared to be nostalgia for the Soviet Union. President Nazarbayev pressed the Slavic states to allow Kazakhstan to join the CIS, tried to resuscitate the dying ruble zone when even Russia had lost interest, and was an early and enthusiastic supporter of the Russian-dominated customs union. Dependent on Russian pipelines to carry its fuel to markets, Kazakhstan was vulnerable to Russian pressure. However, as Kazakhstan has successfully wooed Western white knights to build an alternate pipeline, it has become increasingly emboldened in its dealings with Russia. With outside funding and new pipelines, Kazakhstan's vulnerability to Russia has declined. Increasingly, I would expect it to reject the Russian-dominated customs union.

Finally, Armenia's and Azerbaijan's independence years have been embroiled in war over Nagorno-Karabakh. In both states, voters have directly tied leaders' political survival to military success in Nagorno-Karabakh. The imminent threat and the lack of alternative partners led to Armenia's decision to seek a security hierarchy with Russia. Russia's interest in containing conflicts in the Transcaucasus, as well as in bordering Chechnya, resulted in mutual vulnerability: Armenia required Russia assistance, and Russia had only a few other options—Georgia and Azerbaijan. Azerbaijan, in contrast to Armenia, has refused a Russian security hierarchy as a price too high to pay for military assistance. Since Russia had already thrown its support behind Armenia—Azerbaijan's opponent—the cost of incompatible policy choices was too high. Particularly since 1994, when several lucrative oil and gas deals were signed, Azerbaijan has been the recipient of significant white knight financing. Although these white knights are clearly interested in their own economic gains, they are inadvertently assisting Azerbaijan in reducing its security vulnerability. The increase in funds can be used to purchase additional weapons, giving Azerbaijan a non-hierarchic security option. The pipelines that will bypass Russia also aid Azerbaijan in retaining its economic autonomy.

Assessment of Hypotheses

In chapter 3, I formulated nine hypotheses, seven of which were directly related to RSAs; the first two were more general statements about the types of costs and benefits that the weak and strong states associate with hierarchy. Several of the cases are not explained by RSAs and white knights alone; they require a cost-benefit analysis that is unrelated to my variables. In the discussion below, I summarize what the variables predict for each case, which predications match the outcome, and what other factors appear to account for those cases in which my variables alone do not account for the outcome.

H3: When relation specific assets make the weak state vulnerable, it is more likely to agree to hierarchy.

There were three cases in which the weak state was economically vulnerable to Russia due to high RSAs: Azerbaijan, Armenia, and Kazakhstan. Of these three, only Kazakhstan joined the hierarchic customs union with Russia. Neither of the Transcaucasian states joined the customs union for the simple reason that the expected economic and political benefits would have been extremely low. For all the reasons that Russia focused on Belarus, Ukraine, and Kazakhstan in selecting members—proximity to its borders, large size, and higher levels of pre-union trade—it was uninterested in Armenia and Azerbaijan. Armenia and Azerbaijan account for less than 6 percent of Russia's imports or exports (see table 5.2 for details). In addition, the on-going conflicts in the region, including in Chechnya, made it highly unlikely that trade could be increased significantly even with a customs union. On the security dimension, Azerbaijan, Armenia, Belarus, and Ukraine were vulnerable to Russia based on RSAs. Azerbaijan and Armenia lacked alternative partners, while the Russian leadership could satisfy its goals of placating its own nationalists and calming the Transcaucasus through several partners. Since it had bases in Armenia and Georgia, Russia was not as concerned about putting bases in Azerbaijan. Belarus and Ukraine each had valuable security assets—an air defense radar, communications site, and naval base—in which no other white knights were interested. With Russia as the sole interested buyer and with the two states in need of energy debt relief, hierarchy

was a reasonable solution. Of these four states, only Azerbaijan did not submit to a Russian hierarchy. Although Azerbaijan considered it, in the end it opted against hierarchy because of the obvious conflict of interest given that Russia had bases in Armenia, the state that was supporting the Nagorno-Karabakh opposition, and had been supplying Armenia with heavy weapons. The fear of misaligned policy preferences was overwhelming.

H4: When relation specific assets make the strong state vulnerable, it will be more likely to pursue hierarchy.

There were no cases in which Russia was the only vulnerable dyad member due to relation specific assets.

H5: When relation specific assets result in mutual vulnerability, the states are more likely to have an autonomous relationship.

The two economic cases in which there was mutual vulnerability due to RSAs were Ukraine and Belarus. Ukraine's case fits the prediction of autonomy. Belarus, however, does not. When evaluating the various costs and benefits, the primary factor is clearly the lack of nationalism and Lukashenka's turn toward an authoritarian, anti-Western system. By eliminating any possible white knights, Lukashenka left himself with the sole option of hierarchy with Russia. The RSAs do, however, still play a role. The pipelines and security sites have allowed Belarus to gain economic benefits without further surrendering sovereignty.

H6: Weak state leaders who perceive high costs of hierarchy, will be more likely to try to sell assets to the strong state as a means of escaping hierarchy.

This hypothesis was supported by Belarus and Ukraine, who sold military assets to Russia as a means of escaping (or minimizing) hierarchy. Kazakhstan and Azerbaijan also sold assets, but these were to

private Russian companies. As private companies, they do not fit my definition of hierarchy. The companies were reportedly connected to the Russian government, but these claims remain unsubstantiated rumors. Armenia lacked any sizable assets to sell.

H7: The vulnerable state will seek to escape its vulnerability by courting white knights.

Kazakhstan and Azerbaijan have successfully courted international oil companies whose investments are being used to build pipelines that by-pass Russia. These alternate routes will reduce the two Muslim states' dependence on Russia. Russia, meanwhile, is building a pipeline through Belarus to Europe, thereby reducing Ukraine's leverage over Russia. With higher capacity pipelines, Russia is less vulnerable to Ukraine's high transit fees. Ukraine has also looked to white knights to reduce its energy vulnerability, including purchasing more gas from Turkmenistan and weighing the costs of building nuclear plants. To reduce its dependence, Armenia sought support from its diaspora, but it could not replace the immediate strength of Russian forces and their heavy equipment. Belarus only weakly supports the hypothesis. Before Lukashenka took office, Belarus did seek some third party options, such as importing oil through Latvia, finding oil suppliers in the Middle East, and debating nuclear power as an option, despite the scars of Chernobyl.⁷⁹⁷ These options did not come to fruition.

H8: The more a weak state leader anticipates white knights becoming available, the more likely he will forestall hierarchy with the strong state.

Azerbaijan, Kazakhstan, and Ukraine have significant white knights in the form of foreign direct investment (FDI) for the first two and financial flows from international organizations in the case of Ukraine. In the case of Azerbaijan, there is no evidence that Russia was interested in enacting an economic hierarchy. As such, the idea that Azerbaijan would forestall a hierarchy does not make sense. On the other hand, Azerbaijan's high levels of FDI may have been the reason behind its decision

not to pursue a Russian security hierarchy. With more hard currency at hand, Azerbaijan could afford to buy more equipment and mercenaries for a coming war with the Nagorno-Karabakh opposition. This has not yet occurred, but as the case study demonstrates, political leaders are under enormous pressure to oust the opposition forces. Some evidence suggests that Kazakhstan's FDI may already be emboldened it in its relations with Russia. Although I was unable to verify it, some have suggested that Kazakhstan no longer implements the customs union. Ukraine has clearly used its financial flows to keep Russia at bay.

H9: When there are no significant relation specific assets, the relationship is more likely to be based on autonomy.

None of the five cases fit this category.

Many of the hypotheses are supported by the cases. The case analyses revealed several broader findings as well. First, despite the commonly held Westphalian assumption, state leaders sometimes submit to hierarchy when they have a critical economic or security need and do not perceive other options available. Armenia willingly invited Russian troops onto its territory, even though this meant giving up some sovereignty and despite Russia's history of violence in Armenia and Nagorno-Karabakh. While hierarchies have often been violently forced—think of the Russian empire—they can also be the result of bargaining between elites to solve a problem that both states face. For example, Belarus agreed to lease its military sites to Russian forces and to give Russia the authority to set its external tariffs in exchange for desperately needed low-cost energy.

Second, the weaker state in the dyad does not always lose in bargaining with the strong state. The stronger member of the dyad could use its full force to crush the weaker state. However, states often avoid using such a blunt instrument. If that were not the case, Russia would simply take over

⁷⁹⁷ Dawisha and Parrott 1994, 183.

Ukraine rather than continue a rather humiliating courtship. In Ukraine's case, relation specific assets have given it leverage through hostage-taking.

Third, relation specific assets play an important role in constraining political leaders, as well as providing opportunities. RSAs played a key role in several of the relationships I evaluated in the dissertation. Ukraine has been able to use the pipelines crossing its territory to exact debt relief from Russia. If Russia had more options, it would be less beholden to Ukrainian pressures. States used these assets opportunistically to gain benefits from their dyadic partner. In 1994, Belarus agreed to waive Russia's pipeline transit fees—the result of an RSA—in exchange for credits to help Belarus meet its balance-of-payments, among other benefits. Kazakhstan's dependence on Russian pipelines may have given Russia sufficient leverage to gain Kazakhstan's entry into the economic hierarchy with Russia.

Fourth, nationalism and ethnicity do not fully explain the outcomes. Belarus's strongly pro-Russian leanings and weak sense of nationalism should have led it to a fuller hierarchy than Belarus is currently in. Similarly, focusing only on Ukraine's stronger nationalist movement would not have predicted Ukraine's security hierarchy with Russia. Armenia's strong sense of nationalism would suggest a corresponding strong resistance to hierarchy; yet Armenian leaders encouraged Russian forces to remain on their territory. Kazakhstan's changing behavior, from playing the role of subordinate to being a more independent actor cannot be easily explained by nationalism.

Areas for Further Exploration and Research

The cases demonstrate the importance of RSAs, but also suggest three areas that require further attention: the role of political coalitions, the strong state's interests in hierarchy, and the white knights' interests. While my theoretical assumptions and the cost-benefit analysis spelled out in chapter 3 embrace the role of politics, the hypotheses do not capture this aspect of the equation. A leader's ability to pursue or reject hierarchy in part depends on his supporting coalition or potential coalition. With a high percentage of Belarusians favoring a union with Russia, President Lukashenka faced fewer obstacles to hierarchy than Presidents Kravchuk and Kuchma, who had a vocal, organized pro-

independence movement that both emboldened and constrained them. Political entrepreneurs, however, can generally form different coalitions from the same population set. Democrats and Republicans in the United States, for example, do not rule with the same coalition. Whether a state leader pursues hierarchy may then be related to the complexion of his coalition. If the weak state leader's coalition consists of owners of RSAs and the weak state is vulnerable due to those RSAs, the leader is more likely to accept hierarchy when pressured by the strong state. When the military is a critical coalition member and it seeks assistance in fighting an imminent threat, the weak state is more likely to accept hierarchy. This type of political argument is consistent with my RSA argument. While the cases demonstrate the importance of political coalitions, the hypotheses do not fully capture this important link to politics.

Second, my personal interest was in exploring the strategies and options available to the weaker states, as opposed to Russia. The great regional powers tend to draw the attention of politicians, academics, and the general population alike. The less powerful states tend to be under studied and therefore less understood. Furthermore, while many take for granted that strong states want to rule hierarchies, it is less obvious that weak states also gain from hierarchy. Given my interests, it is perhaps unsurprising that Russia's role in both my theory and my narratives is underdeveloped. In chapter 4, I provided significant evidence that the Yeltsin administration began its tenure with a strongly pro-Western focus, but within a few years the administration's direction had shifted to a more centrist position. Russia exerted a more independent path, often crossing swords with the United States, and more aggressively focusing on what it dubbed the "near abroad." A more developed analysis, however, would delve into the coalition that supported President Boris Yeltsin and now Vladimir Putin, as well as analyzing more fully other aspects of Russia's cost-benefit calculation, such as the financial costs of hierarchy. While Russia is strong relative to its former Soviet neighbors, it remains a financially troubled state with a deteriorating and demoralized military. These factors will inevitably affect the benefits of maintaining hierarchies.

Third, related to Russia's interests is the question of what the white knights want. White knights often make only marginally less hierarchic demands. When the International Monetary Fund

(IMF) tells a state what economic policies it must implement in exchange for loans, it acts remarkably like a dominant state in a hierarchy. Since the IMF does not have RSAs with the former Soviet states, something else is driving its interests. To make the puzzle more tractable, I considered white knight support to be exogenous to the theory. Indeed, I suspect that the dynamics behind hierarchies with international organizations and within federations, for example, differ from interstate hierarchies. This would be an interesting line of inquiry.

My contribution here was to develop a theory and to evaluate the extent to which five cases support or refute the derived hypotheses. The next step is to test the theory against competing explanations. Only recently have scholars begun analyzing and explaining a similar dependent variable—the range from autonomy to hierarchy. As a result, there are virtually no clearly defined alternative explanations for the puzzle as I have conceived it. Nevertheless, extrapolating from theories designed to explain other puzzles, I suggested a number of alternative explanations in chapter 1. To fully test my theory, I need to test hypotheses and cases that can distinguish between my predictions and those of other explanations.

I conclude with an observation on the power of globalization. The cases suggest that a plethora of economic white knights aided the weaker states in realizing their economic autonomy. In particular, foreign direct investors, the International Monetary Fund, the World Bank, and regional development banks played significant roles in the region. In Azerbaijan, for example, foreign direct investment averaged \$559.6 million per year between 1995 and 1998; Kazakhstan averaged \$1.145 billion during the same period. Ukraine brought in substantial concessional and non-concessional financial flows, totaling nearly \$4.5 billion between 1995 and 1998. In addition, the World Trade Organization has held out the promise of increased trade with distant states, thus providing an option to the Russian-dominated customs union. These economic options may in turn reduce the probability of security hierarchies. The financial flows can be used to bolster security forces, ameliorating the need for hierarchy, as appears to be the case in Azerbaijan. My theory suggests that the modern open economy in part accounts for less hierarchy in the former Soviet Union and the international system as a whole. This appears to be a positive development.

Appendix 1: Alternative Variables and Their Predictive Power

The following table provides more detail than that discussed in Chapter 1 on possible independent variables and how well they correlate to the dependent variable. Those with an asterisk correlate with the dependent variable. Within each column, we can see that there is mixed success in terms of correlation.

	Language: E. Slavic	Religion: Christian	Lacks History of Independence	Nomadic	Percentage of Titular Nationality ^a	Percentage of Russians ^b	Degree of Hierarchy ^c
Armenia	No	*Yes	No	*Yes	High	Low	1
Azerbaijan	*No	*No	Yes	Unclear	*High	*Low	0
Georgia	No	*Yes	No	No	Medium	Low	1
Belarus	*Yes	*Yes	*Yes	No	Medium	Medium	2
Moldova	No	*Yes	*Yes	No	Medium	Medium	1
Ukraine	Yes	Yes	Yes	*No	*High	High	1
Estonia	*No	Yes	*No	*No	Medium	High	0
Latvia	*No	Yes	*No	*No	Low	High	0
Lithuania	*No	Yes	*No	*No	*High	*Low	0
Kazakhstan	*No	*No	Yes	Yes	Low	High	1
Kyrgyzstan	No	No	*Yes	*Yes	*Low	Medium	1
Tajikistan	No	No	*Yes	*Yes	Medium	Low	4
Turkmenistan	*No	*No	Yes	*No	*High	Medium	1
Uzbekistan	*No	*No	Yes	*No	High	Low	0

Sources: Percentages on the titular nationality and Russians are from the CIA web site.

^aFor the titular percentages, states with 46 (Kazakhstan) to 57 (Latvia) percent were ranked low; those between 75 (Ukraine) and 93 (Armenia) were ranked high; others were medium, with all in the 60's and low 70's.

^bFor the Russian percentages, if there were fewer than 10 percent, I ranked the state as low; 22 (Ukraine) to 35 (Kazakhstan) percent was considered high; the others were labeled medium.

^cThis is the dyads combined score for a security and/or economic hierarchy. A 0 implies autonomy; 1-4 are hierarchies of increasing depth. See chapter 4 for details on how the dyads were coded.

The second through sixth columns represent possible explanations for the variation of hierarchy and autonomy. The final column is the type of relationship the states had with Russia in 1997. A 0 indicates a relationship based on autonomy. Numbers 1 through 4 refer to increasing levels of hierarchy. For more information on how I determined the degree of hierarchy (or autonomy), see chapter 4. The first four variables are set up so that a "yes" indicates that the state would be more likely to end up in a hierarchy with Russia than not. If there is a match between a "yes" in the variable column and a "yes" in the hierarchy column, then the independent and dependent variables correlate. Otherwise, they do not. For the columns with percentages, the ones with the highest percentages for titular nationalities would be less likely to be in a hierarchy. The logic being that they are more homogeneous and better able to establish their national identity. Along with a strong national identity comes greater resistance to Russian pressures to "return to Russia." The percentages of Russians works in the other direction. The higher the percentage of Russians, the more likely the state will be pressured by the ethnic Russians and Russia itself to return to Russia.

Appendix 2: Economic White Knights'

Assistance to the Former Soviet States

Table 1: Aid per capita, 1992-1998 (current US\$)

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	6	29	51	58	77	44	36	43
Azerbaijan	1	3	19	14	12	23	11	12
Belarus	26	18	11	22	7	4	3	13
Estonia	68	28	29	39	40	44	62	44
Georgia	1	19	33	39	57	44	30	32
Kazakhstan	1	1	3	4	8	8	13	5
Kyrgyzstan	1	21	38	63	50	51	46	39
Latvia	31	13	21	25	29	32	40	27
Lithuania	25	17	19	48	25	28	34	28
Moldova	2	7	12	15	8	14	8	9
Russian Federation	13	16	12	11	9	4	7	10
Tajikistan	2	5	12	11	17	14	17	11
Turkmenistan	1	6	6	6	5	2	4	4
Ukraine	11	6	6	6	8	4	8	7
Uzbekistan	0	0	1	4	4	5	6	3
Average	13	13	18	24	24	21	22	19

Table 2: Aid, as a percent of Gross National Product, 1993-1998

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia		5.4	8.1	7.6	18.1	10.0	7.3	9.4
Azerbaijan		0.5	4.5	3.8	3.0	4.7	2.3	3.1
Belarus		0.7	0.6	1.2	0.4	0.2	0.1	0.5
Estonia		1.1	1.1	1.2	1.4	1.4	1.8	1.3
Georgia		3.1	7.0	7.1	6.9	4.4	3.1	5.3
Kazakhstan		0.1	0.2	0.3	0.6	0.6	1.0	0.5
Kyrgyzstan		2.2	5.5	8.6	12.9	14.0	13.1	9.4
Latvia		0.6	1.0	1.3	1.4	1.4	1.5	1.2
Lithuania		1.0	1.2	2.6	1.2	1.1	1.2	1.4
Moldova		0.6	2.0	2.2	2.1	3.0	2.0	2.0
Russian Federation		0.6	0.6	0.3	0.3	0.2	0.4	0.4
Tajikistan		0.9	3.2	3.3	5.3	4.0	4.9	3.6
Turkmenistan		0.4	0.5	0.6	0.6	0.4	0.6	0.5
Ukraine		0.5	0.6	0.7	0.6	0.3	0.9	0.6
Uzbekistan		0.0	0.1	0.4	0.4	0.5	0.7	0.4
Average		1.2	2.4	2.7	3.7	3.1	2.7	2.6

Table 3: Foreign direct investment, net inflows, 1992-1998 (US\$ million)

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	0	8	14	18	51	232	46
Azerbaijan	..	0	22	330	627	1115	1023	445
Belarus	..	10	15	20	73	200	149	67
Estonia	82	162	214	202	150	266	581	237
Georgia	0	0	6	8	40	50	50	22
Kazakhstan	100	150	185	964	1137	1321	1158	716
Kyrgyzstan	0	10	38	96	47	84	109	55
Latvia	29	45	215	180	382	521	357	247
Lithuania	0	30	31	73	152	355	926	224
Moldova	0	0	12	23	24	72	85	31
Russian Federation	0	0	637	2017	2479	6243	2764	2020
Tajikistan	0	0	10	15	16	20	18	11
Turkmenistan	..	0	0	0	108	108	130	49
Ukraine	0	0	159	267	521	623	743	330
Uzbekistan	40	45	50	115	55	285	200	113
Average	17	30	107	288	389	754	568	308

Table 4: Foreign direct investment, net inflows, percentage of Gross Domestic Product, 1992-1998

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	0	0	0	1	3	12	2
Azerbaijan	..	0	1	11	20	30	26	15
Belarus	..	0	0	0	0	1	1	0
Estonia	2	4	5	4	3	6	11	5
Georgia	0	0	0	0	1	1	1	0
Kazakhstan	0	1	1	5	5	6	5	3
Kyrgyzstan	0	0	1	3	3	5	6	3
Latvia	0	1	4	4	7	9	6	4
Lithuania	0	0	1	1	2	4	9	2
Moldova	0	0	0	1	1	4	5	2
Russian Federation	0	0	0	1	1	1	1	1
Tajikistan	0	0	0	1	1	1	1	1
Turkmenistan	..	0	0	0	3	3	5	2
Ukraine	0	0	0	1	1	1	2	1
Uzbekistan	0	0	0	1	0	1	1	0
Average	0.1	0.4	0.9	2.2	3.3	5.1	6.1	3

Table 5: Foreign direct investment, net inflows, per capita, 1992-1998

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	0	2	4	5	13	61	12
Azerbaijan	0	0	3	43	80	143	129	57
Belarus	0	1	1	2	7	19	15	6
Estonia	55	108	143	135	100	177	415	162
Georgia	0	0	1	1	7	9	9	4
Kazakhstan	6	9	11	60	72	84	74	45
Kyrgyzstan	0	2	8	21	10	18	23	12
Latvia	11	17	86	72	153	208	149	99
Lithuania	0	8	8	20	41	96	250	61
Moldova	0	0	3	5	6	17	20	7
Russian Federation	0	0	4	14	17	42	19	14
Tajikistan	0	0	2	3	3	3	3	2
Turkmenistan	0	0	0	0	23	23	28	11
Ukraine	0	0	3	5	10	12	15	7
Uzbekistan	2	2	2	5	2	12	8	5
Average	4.9	9.8	18.6	26.0	35.8	58.6	81.2	34

Table 6: Population, total, 1992-1998 (millions)

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	3.7	3.7	3.7	3.8	3.8	3.8	3.8	3.8
Azerbaijan	7.4	7.5	7.6	7.7	7.8	7.8	7.9	7.7
Belarus	10.3	10.4	10.4	10.3	10.3	10.3	10.2	10.3
Estonia	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.5
Georgia	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Kazakhstan	16.5	16.5	16.3	16.1	15.9	15.8	15.6	16.1
Kyrgyzstan	4.5	4.5	4.5	4.5	4.6	4.6	4.7	4.6
Latvia	2.6	2.6	2.5	2.5	2.5	2.5	2.4	2.5
Lithuania	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Moldova	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Russian Federation	148.7	148.5	148.3	148.1	147.7	147.3	146.9	147.9
Tajikistan	5.6	5.6	5.7	5.8	5.9	6.0	6.1	5.8
Turkmenistan	4.0	4.3	4.4	4.5	4.6	4.7	4.7	4.5
Ukraine	52.2	52.2	51.9	51.5	51.1	50.7	50.3	44.2
Uzbekistan	21.5	21.9	22.4	22.8	23.2	23.7	24.1	22.8
Average	19.5	19.5	19.5	19.5	19.5	19.5	19.4	19.5

Table 7: Concessional net financial flows, 1992-1998 (millions)
(includes IBRD, IDA, IMF, and RDB - tables 8-11)

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	1	7	92	141	101	94	62
Azerbaijan	0	0	0	30	36	131	41	34
Belarus	0	0	100	11	14	13	4	20
Estonia	1	19	10	18	17	11	10	12
Georgia	0	0	1	85	157	140	91	68
Kazakhstan	0	0	182	107	231	219	232	139
Kyrgyzstan	0	23	50	161	111	163	124	90
Latvia	0	21	22	9	24	53	78	30
Lithuania	0	42	4	12	44	18	57	25
Moldova	0	29	67	50	0	40	28	31
Russian Federation	1	371	283	824	1097	2691	1160	918
Tajikistan	0	0	0	0	30	22	93	21
Turkmenistan	0	0	0	1	3	3	2	1
Ukraine	0	0	102	401	406	306	385	174
Uzbekistan	0	0	1	162	9	13	13	28
Average	0	34	55	131	155	262	161	114

Table 8: Concessional net financial flows, 1992-1998 (millions)
(IBRD)

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	1	1	3	5	1	0	2
Azerbaijan	0	0	0	0	0	0	0	0
Belarus	0	0	100	11	14	13	4	20
Estonia	1	19	10	18	17	11	10	12
Georgia	0	0	0	0	0	0	0	0
Kazakhstan	0	0	182	107	225	202	211	132
Kyrgyzstan	0	0	0	0	0	0	0	0
Latvia	0	21	22	9	24	53	78	30
Lithuania	0	42	4	12	44	18	57	25
Moldova	0	29	67	50	0	5	26	25
Russian Federation	1	371	283	824	1097	2691	1160	918
Tajikistan	0	0	0	0	0	0	0	0
Turkmenistan	0	0	0	1	3	3	2	1
Ukraine	0	0	102	401	406	306	385	174
Uzbekistan	0	0	1	162	9	13	13	28
Average	0	32	51	107	123	221	130	95

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	0	6	89	87	77	43	43
Azerbaijan	0	0	0	30	36	55	21	20
Belarus	0	0	0	0	0	0	0	0
Estonia	0	0	0	0	0	0	0	0
Georgia	0	0	1	85	76	64	53	40
Kazakhstan	0	0	0	0	0	0	0	0
Kyrgyzstan	0	23	36	81	61	67	66	48
Latvia	0	0	0	0	0	0	0	0
Lithuania	0	0	0	0	0	0	0	0
Moldova	0	0	0	0	0	35	2	5
Russian Federation	0	0	0	0	0	0	0	0
Tajikistan	0	0	0	0	30	22	38	13
Turkmenistan	0	0	0	0	0	0	0	0
Ukraine	0	0	0	0	0	0	0	0
Uzbekistan	0	0	0	0	0	0	0	0
Average	0	2	3	19	19	21	15	11

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	0	0	0	49	23	51	18
Azerbaijan	0	0	0	0	0	76	20	14
Belarus								0
Estonia								0
Georgia	0	0	0	0	81	76	38	28
Kazakhstan								0
Kyrgyzstan	0	0	14	46	23	44	15	20
Latvia								0
Lithuania								0
Moldova								0
Russian Federation								0
Tajikistan	0	0	0	0	0	0	55	8
Turkmenistan								0
Ukraine								0
Uzbekistan								0
Average	0	0	1	3	10	15	12	6

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia								0
Azerbaijan								0
Belarus								0
Estonia								0
Georgia								0
Kazakhstan	0	0	0	0	6	17	21	6
Kyrgyzstan	0	0	0	34	27	52	43	22
Latvia								0
Lithuania								0
Moldova								0
Russian Federation								0
Tajikistan								0
Turkmenistan								0
Ukraine								0
Uzbekistan	0	0	0	0	0	0	0	0
Average	0	0	0	2	2	5	4	2

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	3	48	57	29	0	-1	19
Azerbaijan	0	0	0	107	84	55	21	38
Belarus	0	102	6	205	29	43	-24	52
Estonia	11	51	6	43	16	-22	-25	11
Georgia	0	0	40	76	2	5	-1	17
Kazakhstan	0	86	195	205	161	49	230	132
Kyrgyzstan	0	61	0	9	18	6	-12	12
Latvia	35	74	66	8	-17	-53	-25	13
Lithuania	24	101	73	80	50	18	-28	45
Moldova	0	88	71	69	55	15	-64	33
Russian Federation	1013	1506	1553	5485	3321	1562	5327	2824
Tajikistan	0	0	0	0	22	10	10	6
Turkmenistan	0	0	0	0	0	8	0	1
Ukraine	0	0	361	1208	797	318	277	383
Uzbekistan	0	0	0	161	86	0	0	35
Average	72	138	161	514	310	134	379	244

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	0	24	46	0	0	-1	10
Azerbaijan	0	0	0	103	78	28	21	33
Belarus	0	98	0	182	0	0	-24	37
Estonia	11	48	0	30	-11	-19	-25	5
Georgia	0	0	40	76	0	0	-1	16
Kazakhstan	0	86	195	141	135	-6	115	95
Kyrgyzstan	0	61	0	0	-4	-10	-12	5
Latvia	35	73	46	-3	-25	-37	-25	9
Lithuania	24	99	67	63	21	14	-28	37
Moldova	0	88	71	64	25	1	-64	26
Russian Federation	1013	1506	1544	5453	3235	1524	5327	2800
Tajikistan	0	0	0	0	22	10	10	6
Turkmenistan								
Ukraine	0	0	357	1196	778	285	277	374
Uzbekistan	0	0	0	161	86	0	0	35
Average	72	137	156	501	289	119	371	235

	1992	1993	1994	1995	1996	1997	1998	Average
Armenia	0	3	24	11	29	0		10
Azerbaijan	0	0	0	4	6	27		5
Belarus	0	4	6	23	29	43		15
Estonia	0	3	6	13	27	-3		7
Georgia	0	0	0	0	2	5		1
Kazakhstan	0	0	0	64	26	55	115	37
Kyrgyzstan	0	0	0	9	22	16		7
Latvia	0	1	20	11	8	-16		3
Lithuania	0	2	6	17	29	4		8
Moldova	0	0	0	5	30	14		7
Russian Federation	0	0	9	32	86	38		24
Tajikistan								
Turkmenistan	0	0	0	0	0	8		1
Ukraine	0	0	4	12	19	33		10
Uzbekistan	0	0	0	0	0	0		0
Average	0	1	5	13	21	15	8	9

	1992	1993	1994	1995	1996	1997	1998
Armenia	0.0	0.0	0.0	0.0	0.0	2.1	..
Azerbaijan	0.0	0.0	0.0	0.0	0.0	1.3	..
Belarus	0.0	0.0	0.2	3.6	3.5	6.7	..
Estonia	0.0	0.0	0.4	0.0	0.0	0.0	..
Georgia	0.0	0.0	0.0	0.0	2.5	0.0	..
Kazakhstan	0.0	0.0	0.0	0.8	0.2	0.0	..
Kyrgyzstan	0.0	3.7	2.9	7.3	0.0	0.0	..
Latvia	0.0	0.0	0.0	0.0	0.0	0.0	..
Lithuania	0.0	0.0	0.0	0.0	0.0	0.0	..
Moldova	0.0	0.0	12.9	5.4	0.6	7.9	..
Russian Federation	5.9	6.0	2.5	4.7	3.5	2.6	..
Tajikistan	0.0	0.0	0.0	1.4	0.0	0.0	..
Turkmenistan	1.4	0.0	0.0	0.0	0.0	0.0	..
Ukraine	0.0	0.6	0.9	1.8	1.4	3.5	..
Uzbekistan	0.0	0.0	0.7	0.3	1.9	1.7	..

Source: World Bank, World Development Indicators, 2000

Appendix 3: Military Forces in the Former Soviet Union

The data below reflect three time periods for each state: 1992-93, the first post-Soviet years; 1993-94, the first data point I use for the dependent variable, as discussed in chapter 4; and 1997-98, the second data point for the dependent variable. Other dates include significant changes in equipment and/or troop levels for individual states. Since the principal source is the International Institute of Strategic Studies' (IISS) *Military Balance*, the data is reported in paired years, as is the IISS' practice. For a guide to the acronyms, see the legend at the end of the appendix.

The Baltic States	
Estonia	<ul style="list-style-type: none"> 1992-93: Russia controls 23,000 personnel; 190 MBT, 160 AIVF, 20 artillery,^a 18 combat aircraft, 120 air defense combat aircraft. One of the four bases for Russia's Baltic Fleet is in the capital, Tallinn (two others are in Russia, one is in Latvia.) 1992-93: Estonia controls 2,500 personnel and essentially no heavy equipment 1993-94: Russia controls about 7,000 personnel, 40 MBT, 160 AIFV, 130 APC, 60 artillery. 1993-94: Estonia controls 2,500 personnel and essentially no heavy equipment. 1997-98: Estonia controls 4,340 personnel; 7 recce, 32 APC, 86 artillery, 200 rocket launchers, and 100 air defense guns.
Latvia	<ul style="list-style-type: none"> 1992-93: Russia controls 40,000 personnel; 130 MBT, 80 AIFV, 80 artillery, 44 attack helicopters, 90 recce combat aircraft, 40 air defense combat aircraft, 250 SAM. One of the four bases for Russia's Baltic Fleet is in Liepaja (two others are in Russia, one is in Estonia.) 1992-93: Latvia controls 2,550 personnel and no heavy equipment. 1993-94: Russia controls 17,000 personnel; 53 MBT, 50 AIFV, 50 artillery, 24 attack helicopters, 90 recce combat aircraft, 20 helicopters, 40 air defense combat aircraft, 25 SAM. 1993-94: Latvia controls 5,000 personnel (including border guards) and some aircraft and helicopters 1995-96: Russian troops withdrawn. 1997-98: Latvia controls 4,960 personnel plus 3,500 border guards; 2 recce, 13 APC, 52 artillery, 12 air defense guns, 12 patrol craft; naval bases at Liepaja, Riga, and Tallinn.^c
Lithuania	<ul style="list-style-type: none"> 1992-93: Russia controls 43,000 personnel; 180 MBT, 780 AIFV, 260 artillery, 4 SSM; 50 combat aircraft; 125 SAM. 1992-93: Lithuania controls 7,000 personnel and no heavy equipment. 1993-94: Russia controls 2,400 personnel 1993-94: Lithuania controls 9,800 (including border guards); some frigates and non-combat aircraft. 1997-98: Lithuania controls 11,130 personnel; 11 recce, 27 APC, 36 artillery, 2 frigates, and 4 patrol and coastal combatants.

The Western (non-Baltic) States	
Belarus ^b	<ul style="list-style-type: none"> • 1993-94: Russia controls 80 ICBMs; 43 recce, 66 bombers + 25 bombers in storage, 585 APC, 82 FGA/bombers, 122 bombers, 40 fighters, 28 recce, ABM-associated radar (Skrunda). 1993-94: Belarus controls 102,600 personnel; 3,287 MBT; 9 light tanks; 2,514 AIFV; 1195 APC; about 1595 artillery; 96 SSM; 80/135/42 attack/support/ transport helicopters; 130 bombers; 59 FGA/bombers; 99 FGA; 132 fighters; 92 recce; 50 ECM; 44 helicopters; 76 air defense fighters; 650 SAM. • 1994-95: Russia and Belarus agree on basing rights for Russia until the year 2000. • 1997-98: Belarus controls 83,000 personnel, 1,778 MBT, 1,590 AIFV, 930 APC, 2,009 artillery, 60 SAM (Air Force) , 276 combat aircraft, 74 attack helicopters, 175 SAM (Air Defense). • 1992-present: Russian border troops guard the external borders.
Moldova	<ul style="list-style-type: none"> • 1992-93: Russia controls the 14th Army (est. to be 9,200 in 1994); 120 MBT, 180 ACV, 120 artillery, 12 SSM, 10 attack helicopters 1992-93: Moldova controls 9,400 (includes 3,500 Ministry of Defense (MoD)) personnel; 52 AIFV, 35 APC, 108 artillery, 31 fighters, 3 helicopters, 25 SAM. • 1993-94: Russia controls the 14th Army; 120 MBT, 180 ACV, 120 artillery, 12 SSM, 10 attack helicopters 1994: Russia agrees to withdraw the 14th Army within three years. 1993-94: Moldova controls 9,400 (includes 3,500 MoD); 52 AIFV, 35 APC, 108 artillery, 31 fighters, 3 helicopters, 25 SAM. • 1997-98: Russia controls 2,500 personnel. 1997-98: Moldova controls 11,050 personnel; 54 AIFV, 156 APC, 154 artillery, 324 artillery, 25 SAM (air defense).

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| Ukraine | <ul style="list-style-type: none"> • 1992-93: Ukraine controls 230,000 personnel, excluding the Black Sea Fleet and nuclear strategic forces; 6,300 MBT; 180 light tanks; 3,686 AIFV; 2,200 APC; 3,076 artillery; 132 SSM; 240/353/100 attack/support/transport helicopters; 96 bombers; 150 FGA/bombers; 90 FGA; 340 fighters; 87 recce; 35 ECM; 4 training centers with 850 aircraft; 270 air defense fighters; 2,400 SAM.
 • 1992-96: Black Sea Fleet HQ is in Sevastopol; a second base is in Odessa. Since 1992, fleet is de jure jointly controlled by Russia and Ukraine, but de facto controlled by Russia. Russia transferred some minor units to Georgia. Includes 36 submarines, 39 principal surface combatants, 60 other surface ships; 65 bombers + 50 in storage; 40 FGA + 170 in storage; 35 fighters; 108 ASW aircraft and helicopters, 26 MR/EW aircraft and helicopters, 5 MCM helicopters, 3 tankers; 265 APC, 60 artillery for naval infantry unit; 270 MBT, 320 AIFV, 280 artillery in Coastal Defense.
 • 1992-96: Ownership disputed for 176 ICBMs (156 in 1994-95), 41 nuclear bombers (under Ukrainian control), 20 tankers, 416 APC; two over-the-horizon backscatter radar (near Kiev and Komsomolsk); and an ABM-associated radar (Mukachevo).
 • 1997-98: Ukraine controls 346,400 personnel; 115 ICBMs (w/o warheads), 44 bombers, 4,014 MBT (917 in storage), 1,500 recce, 3,079 AIFV, 1,823 APC, 3,752 artillery (582 in storage), 132 SSM, 236/214 attack/support helicopters (Army), 4 submarines, 9 surface combatants, 11 patrol and coastal combatants, 5 mine countermeasures, 7 amphibious, 786 combat aircraft (plus 380 in storage), 112 recce, 29 ECM, 272 transport aircraft, 452 training aircraft, 24/168 attack/support helicopters (Air Force), 825 SAM. |
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The Caucasus	
Armenia	<ul style="list-style-type: none"> • 1992-93: Russia controls 23,000 personnel, 250 MBT, 350 AIFV, 350 artillery, 7 attack helicopters, and 80 SAM. 1992-93: Armenia controls up to 50,000 personnel. • 1993-94: Russia controls about 4,500 personnel, 90 MBT, 200 APC, 100 artillery. 1993-94: Armenia controls 20,000 personnel; 160 MBT, 200 AIFV, 240 APC, 257 artillery, some SAM, and a few helicopters and aircraft. 1994: Russia reaches agreement with Armenia to use two military bases (Yerevan, Gyumri). • 1997-98: Russia controls 4,100 personnel; 74 MBT, 17 APC, 148 ACV, 84 artillery, 1 air defense squadron. 1997-98: Armenia controls 52,000 personnel; 102 MBT, 158 AIFV, 50 APC, 225 artillery, 72 SAM, 6 combat aircraft and 16 armed helicopters • 1992-present: Russian border troops guard the external borders.
Azerbaijan	<ul style="list-style-type: none"> • 1992-93: Russia controls 62,000 personnel, 400 MBT, 800 AIFV, 470 artillery, 14 attack helicopters, 30 light bombers, 30 FGA, 30 recce, 30 air defense fighters, 135 SAM. CIS controls ABM-associated radar (Lyaki) and a share of the Caspian flotilla. 1992-93: Azerbaijan controls up to 30,000 personnel and no heavy equipment. • 1993-94: Azerbaijan controls 42,600 personnel; 286 MBT, 480 AIFV, 362 APC, about 460 artillery, some SAM, 23 helicopters, 47 FGA, about 15 naval units from the Caspian. • 1994-95: Russia attempted to reach agreement with Azerbaijan regarding bases, but did not succeed. Azerbaijan claims ownership of the ABM-associated radar. • 1997-98: Azerbaijan controls 72,150 personnel; 270 MBT, 287 AIFV, 74 APC, 301 artillery, 160+ SAM (includes Army and Air Defense), 2 frigates, 18 patrol and coastal combatants, 15 mine countermeasures, 4 amphibious, 37 combat aircraft, and 15 attack helicopters.
Georgia	<ul style="list-style-type: none"> • 1992-93: Russia controls 20,000 personnel; 65 support helicopters, 48 attack helicopters, 850 MBT, 680 AIFV, 370 artillery, 60 bombers, 80 fighters, 30 recce, 70 air defense fighters, 175 SAM. 1992-93: Georgia controls an unspecified number of personnel, but plans up to 20,000. • 1993-94: Russian controls 20,000 personnel; 35 transport aircraft and helicopters • 1993-94: Georgia controls an unspecified number of personnel, but plans up to 20,000; 120 MBT, 180 AIFV, 60 artillery, and some SAM. The equipment came from the Russians. In 1994, Russia reached agreement with Georgia on using 3 military bases (Tbilisi, Akhalkalaki, Batumi). • 1997-98: Russia controls 9,200 personnel; 140 MBT, 500 ACV, 173 artillery, 35 transport aircraft and helicopters. 1997-98: Georgia controls about 17,000 personnel; 50 MBT, 70 AIFV/APC, 60 artillery, 110 SAM. • 1992-present: Russian border troops guard the external borders.

Central Asian States	
Kazakhstan	<ul style="list-style-type: none"> • 1992-93: Russia controls 104 ICBMs, 40 nuclear bombers; ABM-associated radar (Sary-Shagan). 1992-93: Kazakhstan controls 63,000 personnel and 1200 MBT + over 1000 MBT in store, 1500 artillery, 40 SSM, 25 attack helicopters, 140 FGA, 100 fighter aircraft, 70 recce, 60 air defense fighters and 150 SAM. (Kazakhstan originally stated that the equipment was under CIS control. However, on May 8, 1992, the newly created Armed Forces claimed control over all equipment on Kazakh territory.) • 1993-94: Russia controls 104 ICBMs, 40 bombers, and 80 fighters and 85 SAM (Air Defense), plus over 3,000 MBT in storage (probably under Russia's control). 1993-94: Kazakhstan controls 44,000 personnel; 1,400 MBT, 2,000 artillery, 12 SSM, 50 attack helicopters, 140 fighters, 55 recce, 95 training aircraft. • 1997-98:^c Kazakhstan controls 55,100 personnel plus 34,500 paramilitary (includes 20,000 internal security troops, 12,000 border guards, 2,000 presidential guards, and 500 government guards); 630 MBT, 140 recce, 1,000 ACV (plus about 1,000 in storage), 1,000 artillery, 10 SSM, 125 attack guns, 5 patrol and coastal combatants, 123 combat aircraft plus about 75 in storage, 32 fighters, 70 FGA, (it is unclear whether the fighters and FGA are included in the 123 combat aircraft), 12 recce, 44 transport helicopters, and 32 fighters and 100 SAM (Air Defense). • 1992-present: Russian border troops guard the external borders.
Kyrgyzstan	<ul style="list-style-type: none"> • 1992-93: Kyrgyzstan and Russia jointly control 8,000 personnel, 30 MBT, 170 ACV, 75 artillery, 200+ aircraft at a training center; 55 SAM. • 1993-94: Russia controls 26 SAM. 1993-94: Kyrgyzstan controls 12,000 personnel, 240 MBT, 415 ACV, 240 artillery, plus the training center. • 1997-98: Kyrgyzstan controls 12,200 personnel; 210 MBT, 34 recce, 98 AIFV, 45 APC, 253 artillery, 26 SAM. • 1992-present: Russian border troops guard the external borders.
Tajikistan	<ul style="list-style-type: none"> • 1992-93: Russia and Tajikistan jointly control 6,000 personnel; 260 MBT, 420 ACV, 360 artillery, 4 SSM. Tajikistan has no national forces. • 1993-94: Russia controls about 8,500 personnel and 200 MBT, 420 ACV, 200 artillery, and 10 SAM. 1993-94: Tajikistan controls about 2,000 to 3,000 personnel, but has not been able to form any military units. • 1997-98: Russia controls 14,500 personnel (Tajik conscripts, Russian officers) of Frontier Forces plus 8,200 Army personnel; 190 MBT, 313 AIFV/APC, 180 artillery, 20 SAM. Kazakhstan, Kyrgyzstan, and Uzbekistan contribute over 650 personnel. 1997-98: Tajikistan controls about 8,000 personnel; 40 MBT, 85 AIFV, 40 APC, 24 artillery, and 20 SAM. • 1992-present: Russian border troops guard the external borders.

Turkmenistan	<ul style="list-style-type: none"> • 1992-93: Turkmenistan and Russia jointly control 34,000 plus 2 FGA regiments; 750 MBT, 1000+ ACV, 1400 artillery, 24 SSM, 60 FGA, 30 aircraft at a training center, 115 air defense fighters, 75 SAM. • 1997-98: Turkmenistan controls 17-19,000 personnel; 570 MBT, 14 recce, 156 AIFV, 728 APC, 560 artillery, 12 SSM, 27 SAM, 89 FGA/fighters, 16 training aircraft, 21 transport/general purpose helicopters, and 82 fighters and 50 SAM for air defense. • 1992-present: Russian border troops guard the external borders.
Uzbekistan	<ul style="list-style-type: none"> • 1992-93: Uzbekistan and Russia jointly control 15,000 personnel plus 2 FGA regiments; 280 MBT + 5000 MBT in storage, 700 ACV, 780 artillery, 8 SSM, 24 attack helicopters, 100 FGA, 100 fighters, 35 recce, 30 air defense fighters, 100 SAM. • 1993-94: Russia controls 32 air defense fighters and 45 SAM. • 1993-94: Uzbekistan controls 40,000 personnel; 410 MBT, 160 ACV, 685 artillery, 8 SSM, 32 attack helicopters 70 FGA, 30 fighters, 20 transport. • 1997-98: Uzbekistan controls about 80,000 personnel; 370 MBT, 35 recce, 303 AIFV, 471 APC, 474 artillery (plus 2,000 MBT, 1,200 ACV, and 750 artillery in storage; these are assumed to have deteriorated significantly).

Sources: (1) International Institute of Strategic Studies, various years. (2) Information on Russian border guards is from a Dec. 3, 1996 RFE/RL Newsline report on an interview with Gen. Andrei Nikolaev, who was then head of the Russian Federal Border Guard units. Numerous news articles from the region confirm this information.

Notes:

^aArtillery includes medium-range launchers, mortar, and anti-tank guided weapons.

^bThe baseline information for Belarus is from the 1993-94 edition. According to IISS, Belarus' equipment holdings were significantly different at the Conventional Forces in Europe Treaty signing, which was the source for the 1992-93 edition.

^cParamilitary forces are included because of their unusually large contribution to the overall force.

Legend:	ICBM = intercontinental ballistic missile
ACV = armored combat vehicle	MBT = main battle tanks
AIFV = armed infantry fighting vehicles	MCM = mine countermeasures
APC = armored personnel carriers	MR/EW = maritime reconnaissance-electronic warfare
ASW = anti-submarine warfare	recce = reconnaissance aircraft
ECM = electronic countermeasure aircraft	SAM = surface-to-air missile
FGA = fighter, ground attack	SSM = surface-to-surface missile

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