

Domestic Structure, Economic Growth, and Russian Foreign Policy

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Although Russia seems to be in perpetual economic crisis and political transition, it is not too early to begin contemplating the impact of economic growth on Russian foreign policy. Even if one would doubt, and not without reason, official and unofficial statistics, there are qualitative signs which point at a real possibility of early economic growth. Specifically, two recent developments warrant attention. Money that was leaving Russia in the last ten years is flowing back, often in the form of investment by obscure Cyprus- or Bahamas-based companies. Second, financial capital is aggressively buying property, first and foremost in industry. In many cases banks are essentially paying additional money to legalize the ownership of property they had controlled through proxies. Those who are engaged in both types of activities seem unconcerned by either political upheavals or potential loss of profit: their predictions are obviously positive. The recent forecast of the World Bank is in line with these expectations.

The key features of the political and economic system are already discernible and economic growth might start as early as next year. As a result, Russia's dependence on external aid and credits will be decreasing. Though still essential, credits will become less crucial, causing the levers of influence which have become habitual to the West to eventually disappear. Simultaneously, the expanding capacity of the Russian market will make it more attractive and will increase Russia's leverage over industrialized countries, which will be interested in exporting to Russia. A dependency relationship will be gradually replaced by interdependence.

These general observations say little, however, about the direction of policy. Will Russia use new resources in ways compatible with Western interests or will it work against the West? This will depend on what the decisionmaking mechanism will be, who will be the key actors, and under what criteria they will operate--in other words, on Russia's economic and political structure.

Russia's Domestic Structure

Transition is still incomplete, but is sufficiently advanced to permit identification of key features. Russia is a democracy and market economy. As in any market democracy, the Russian government is increasingly responsive to domestic actors, and its foreign policy will reflect the preferences of the coalition of political forces that support or at least do not oppose a particular policy. Resource allocation and policymaking will not be all that different from Western countries.

At the same time, it would be wrong to draw direct parallels between Russia and the United States. Democracies vary: while the United States can be classified as a pluralist system, Russia is moving toward the far end of corporatism. Generally speaking, there are two types of corporatism, both characterized by a virtual right of veto over policy on the part of all relevant actors. One type is based on a "social contract," e.g. between capital owners and labor or between industry and agriculture, and is exemplified by Italy under Mussolini and contemporary Germany. The other type is characterized by high regional autonomy (e.g. Switzerland). Russia has features of both types. Both labor and capital owners wield strong influence, to the degree that the government routinely submits draft budgets to trade unions even before sending them to the parliament. Regions are increasingly autonomous as well. Even minor dissent can affect policy: in the spring of 1997, opposition from just five regions doomed the ratification of the Chemical Weapons Convention.

On top of this, Russia's corporate structure (the size and type of private economic entities) is characterized by a very high degree of monopolization and very tight integration of commodity producers with banks. The market and the political system are dominated by large corporate entities, while the stratum of medium and small entities is rather thin and politically weak. Overall, the situation is similar to the one in Japan.

Features of the Decisionmaking Process

Under this political and economic structure, the foreign policy decisionmaking mechanism is likely to have the following features:

- Relatively weak government. The ability of the government to develop and implement policy will be strongly limited by the influence of politically relevant domestic actors, each of whom will hold a virtual right of veto over specific aspects of policy. Unlike in pluralist systems, will have only a limited ability to manipulate domestic coalitions for the simple reason that the coalition will be nearly all-encompassing and very stable.
- Logrolling. The government will attempt to incorporate all interests into its foreign policy rather than choose between them. As a result, policy will not correspond to the rational-actor model. A rational actor strives to maximize benefits for the country as a whole, while logrolled policy seeks to maximize benefits for each individual player, often at the expense of overall effectiveness. Logrolling is commonly associated with overextension (attempting to achieve more goals than realistically possible), but that does not appear to be unavoidable: under favorable external conditions and with sufficient resources Russia might be able to avoid the danger.
- Relative stability. In pluralist systems, changes of dominant coalitions lead to changes of policy. In a corporatist system the dominant coalition is stable because it includes almost all the relevant actors and policy will change only if the interests of important members of coalition change, which should be rare. A degree of flexibility could result from availability of alternative ways to satisfy the same interest (e.g., the defense industry could produce arms for "internal consumption", i.e. rearmament, or export them).
- Low permeability of the government. Access to the government will be rather easy, but outside actors, whether governmental or not, will have difficulty in translating access into policy change. The foreign actors with the greatest influence will be companies that are

present on the Russian market either through large-scale investment or, especially, through moving production into Russia; in effect they will join the ranks of interest groups in Russian domestic politics. Pure importers are likely to be rather powerless.

- Low effectiveness of compensatory schemes. In some cases, policy change could be "rewarded" by concessions in other issue-areas. The effectiveness of this tactic, which was routinely used toward the Soviet Union, is likely to be limited with Russia, though, since benefits are rarely transferable between interest groups: the "reward" would go to a different player than the one who "loses."

These features are not yet fully developed, of course. Today, the government still has considerable powers and can hold opposition in check. However, this ability will probably be decreasing as political and economic structures mature.

Impact on foreign policy

The Russian economy is increasingly oriented toward the world market and its growth will only increase this involvement. The groups whose interests are associated with deeper integration into the world economy currently dominate Russia's foreign policy and will probably retain the leading positions. Simultaneously, strong interest in social programs, especially on the part of labor unions and regions, will discourage large increases in defense spending. This means that Russia is likely to pursue a "peaceful" foreign policy: the government will seek to limit and contain potential political-military conflicts with the West or solve them in a non-confrontational manner. The restraint demonstrated over the issue of NATO enlargement is an example of that line. Defense spending will certainly increase: personnel needs higher salaries and better living conditions; military reform, including reductions, is expensive; and hardware needs to be replaced (the rate of replacement has been almost zero in the last five years). But the share of defense spending in the (growing) GNP will probably remain constant. After an initial surge, weapons acquisition is likely to decrease relative to other items of the defense budget.

The strongest element of the coalition that supports "peaceful" foreign policy is the "new money" (financial-industrial groups centered around recently established banks), export-oriented civilian industries, first of all in resource extraction, and parts of the aerospace industry. Their support for international integration is driven by the profits they yield or expect to yield from trade. But because this interest is not rooted in ideology or political principles, support will wane if they do not receive the expected benefits. To support this policy, the West will need to accelerate Russia's integration into the world economy, first and foremost targeting trade relations, even at the expense of a temporary relaxation of WTO standards. Integration should receive strong institutional support through the G-8 mechanism and such forums as the Gore-Chernomyrdin group. With time, the "new money" might begin pushing for a stronger voice for Russia in world affairs. Hence, it will be important to institutionalize its role as early as possible, so that influence is pursued in an "organized" fashion, in coordination with the West, rather than independently. The key word here is "accommodation" rather than "concession," but the choice is between accommodation and conflict. Still, as long as the dominant actors are satisfied, accommodation will not be difficult or costly.

Another category of politically relevant actors are producers associated with the defense industry. For them, the internationalist approach is often the second-best but still acceptable choice as long as they can pursue arms trade and participate in international cooperation in peaceful uses of nuclear energy and missile technology. The key condition for them is fairness and non-discriminatory character of the international regimes that regulate these issue-areas. They could be even receptive to stricter rules as long as they are applied even-handedly. It is important to understand, however, that it is virtually impossible to neutralize their influence upon the Russian government, so the only realistic option is to provide them with a legitimate outlet. The failure to find a modus vivendi with Russian arms exporters is likely to cause either unrestricted arms trade outside the confines of international regimes or increased "internal consumption," i.e. massive rearmament. In such a scenario, arms producers will enjoy strong support from trade unions and proponents of protectionism. The government, in the meantime, will simply try to combine economic internationalization with rearmament: a policy which will ultimately fail, but nonetheless is the only one politically feasible.

The third category of actors are sectors of industry oriented toward the domestic market and agriculture; labor unions are likely to be close to them as well. Their interest in international integration is minimal. Hopefully, the growth-generated resources could be sufficient to compensate them for potential losses and facilitate a relatively slow transition toward a new policy orientation through greater competitiveness and development of new lines of products. The pressure in favor of protectionism will be present anyway, but it will be impossible to neutralize it without economic growth.

Conclusion

A few cautionary notes are due: first, the impact of economy-based interest groups notwithstanding, ideology, party competition, public opinion and bureaucratic politics will also play a role in decisionmaking. The analysis of political and economic structure could predict strategy, but not necessarily the tactics or rhetoric. One has to bear in mind this distinction. Second, the failure of economy-based interest groups to reap benefits from international trade will make them, at best, indifferent to internationalization and will seriously weaken the propensity of the government to limit or regulate conflicts with the West. This might result in a serious disruption of norms and regimes that govern the contemporary international system. Finally, a "normal" level of conflicts, including over trade, influence, etc., is unavoidable. One should not exaggerate them as long as the overall relationship is constructive.

The optimal method of regulating and solving conflicts is through international institutions, in particular through a transition to the principle of joint policy development. Although decisions will be made nationally or within alliances, the policy development phase could and should be internationalized. In this way, conflicts can be identified and minimized or solved early on, without disrupting cooperation. This principle is not particular to relations between Russia and the West--the relationship between the West and China is likely to require similar mechanisms in the near future.

The recently established NATO-Russian Permanent Council provides a convenient testing ground. The procedure for voting, which attracts most attention, is rather unimportant: the key advantage of the Council is the opportunity to integrate decision development. If NATO develops policy, adopts a decision and only then begins to talk to Russia, then the Council will be useless (at least to Russia) and will soon die out, while the conflict over NATO enlargement will resume with new and greater intensity. If, on the other hand, NATO deliberates policy together with Russia and only then adopts a decision, even if separately, then the Council will become a valuable instrument of international cooperation and building a stable European security system. The same mechanism could beneficially be employed in other regions and issue-areas.

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