

BEAR MARKET COERCION:
RUSSIAN USE OF ENERGY AS A COERCIVE TOOL
IN CENTRAL ASIA AND EASTERN EUROPE

BY

MAJOR MAXIMILIAN BREMER

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Disclaimer

The conclusions and opinions expressed in this document are those of the author. They do not reflect the official position of the US Government, Department of Defense, the United States Air Force, or Air University.

About the Author

Major Maximilian Bremer received a Bachelor of Science in Russian History as a distinguished graduate of the United States Air Force Academy in 1997. Upon graduation, he attended Harvard University's Kennedy School of Government in Cambridge, Massachusetts, attaining a Masters in Public Policy in International Security in 1999. After completing the program, Major Bremer attended Undergraduate Pilot Training at Columbus Air Force Base, Mississippi. Upon earning his wings, he flew KC-135R/T aircraft with the 905th Air Refueling Squadron at Grand Forks Air Force Base, ND. After numerous worldwide deployments in support of a variety of operations, including Operations NORTHERN WATCH, SOUTHERN WATCH, NOBLE EAGLE, ENDURING FREEDOM, and IRAQI FREEDOM he was selected for the Air Force Intern Program at the Pentagon, Washington DC. Returning to the KC-135, Major Bremer was stationed at McConnell Air Force Base, Kansas, where he served as Chief of Wing Plans. In 2008, Major Bremer was selected to attend the School of Advanced Air and Space Studies, at Maxwell Air Force Base, Alabama. Major Bremer has over 1,700 flying hours, principally in the KC-135R/T, accumulating more than 500 combat and combat-support hours. Major Bremer is married to the former Thomasin Showalter of Brookline, Massachusetts; they have two sons, J.B. and Benaiah, and one daughter, Gloria.

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For the Lord gives wisdom; from his mouth come knowledge and understanding.

Proverbs 2:6

Abstract

This study considers the efficacy of economic coercion as a means of securing national interests. It begins by defining coercion as one state using positive or negative efforts to cause another state to alter perceptions of its own interests. These efforts can take the form of deterrence, compellence, or a combination of the two. Using a framework of capability, credibility, communication, and choice, this study considers how different cultures, especially the Russian culture, understand the interactions of these elements through Thucydides' lens of fear, honor, and interest. Russian strategic culture is significantly different from American culture, and this study examines the roots of that difference: geography and history. By looking at recent Russian coercive efforts in two areas, Central Asia and Eastern Europe, this study concludes that Russia, since Putin's rise to power, has engaged in effective economic coercion to further Russian strategic interests. Fear drives Russia to build a buffer zone of Near Abroad countries; honor dictates Russia's concern for international prestige and the rights of ethnic Russians abroad; and economic interest requires Russia defend her dominance in European energy markets. Understanding Russia's coercive methods and the strategic interests it seeks to secure illuminates recent Russian actions and helps predict future coercive efforts.

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Chapter 1

Economic Coercion: Effective Way to Further the Goals of the State?

It follows that it was not a very remarkable action, or contrary to the common practice of mankind, if we did accept an empire that was offered to us, and refused to give it up under the pressure of three of the strongest motives, fear, honor, and interest. And it was not we who set the example, for it has always been law that the weaker should be subject to the stronger.

Thucydides

A great European empire, having suffered a military defeat and then the loss of influence over nations under its protective control, sought to expand its influence and wealth through conquest in Central Asia. Over a century and a half later, dishonored militarily, marginalized diplomatically, and threatened economically, Russia once again looks to expand its empire through Central Asia. The Crimean War was no less disastrous than the Cold War, and the Treaty of Paris no less damaging to Russia's perceived honor than the breakup of the Soviet Union.¹ In the late 19th century, the Napoleonic invasion was still remembered and feared. In the early 21st century, the German invasion and the Great Patriotic War are, likewise, recent history. Russian perceptions of external threats and internal dangers drive a very real fear of the future and other nations' intentions. Apparent loss in the Cold War has tarnished Russian pride in their social accomplishment, and failures in the Caspian region have diminished perception of their military might. Russian desire to be seen as the protector of the Slavic nations is as real an interest as Athens' as protector of the Hellenes.

Yet Russia is constrained by international norms, military realities, and economic considerations. Defending interests, pursuing honor, and mitigating fear require new methods in the chaotic, multi-polar post-Cold War world. As NATO expands and surrounds Russia externally, and fears of internal political instability increase, Russia's means of defending its interests have become more limited. Yet Russia has a new means of coping with this challenge: the use of economic coercion, especially in the realm of strategic energy resources.

In July 2005, angered by US criticism of the handling of riots and at the Shanghai Cooperation Organization's urging, Uzbek President Islam Karimov demanded that the US and NATO forces vacate the base at Karshi-Khanabad.² Although the proximate cause appeared to

¹ Nicholas Valentine Riasanovsky, *History of Russia*, 6th ed. (New York: Oxford University Press, 2000), 385.

² "Evicted; Uzbekistan and America," *Economist*, August 6, 2005, http://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?docLinkInd=true&risb=21_T6195627518&format=GNBFI&sort=RELEVANCE&startDocNo=1&resultsUrlKey=29_T6195627521&cisb=22_T6195627520&treeMax=true&treeWidth=0&csi=7955&docNo=2 (accessed March 31, 2009).

have been US criticism, Karimov and Russian President Vladimir Putin had previously signed a treaty to form a “strategic partnership” covering political and economic issues. Provisions in the treaty included increasing support for the fuel and energy sectors of the Uzbek economy, including a promise (by Gazprom, Russia’s gas monopoly) of \$1 billion in investment (including a 40% expansion of pipeline capacity) and a 25-year development and production-sharing agreement with Lukoil, also worth an estimated \$1 billion.³ After US and NATO troops left, Russia and Uzbekistan demonstrated closer relations by signing a treaty of mutual military assistance.⁴

Less than four years later, in Moscow on Tuesday, 4 February 2009, Kyrgyzstan President Kurmanbek Bakiyev announced that Russia was extending \$2 billion in loans to his country. He then announced that NATO forces would have to vacate Manas AB, the main aerial lifeline to NATO forces in Afghanistan.⁵ This change in policy, following the disruption to land routes caused by the Georgian conflict, put US strategy and the planned spring troop surge in Afghanistan at risk. Are these events isolated incidents of economic coercion, or is Russia engaged in a far-sighted and subtle coercive strategy? If so, is economic coercion an effective means of securing Russian interests, allaying fears and preserving honor?

The answers to these questions are important since they point to probable future events. If shaping a situation economically is an effective and efficient means of securing interests, US planners must consider what the future may look like, especially in Eastern Europe and Central Asia. Economic shaping is a long-term prospect involving infrastructure construction and market development. The possibility of a large, resource-rich, Russian dominated trading block that wields economic power is a significant strategic challenge (think OPEC with an ideology). If, however, economic coercion is relatively ineffective at securing interests, and is merely the result of military and diplomatic weakness, the challenge for planners is significantly simpler. In this case, Russia will pursue short-term gains in the Near Abroad, at the expense of long-term strategic advantage.

³ Antoine Blua, "Russia/Uzbekistan: Presidents Sign Strategic-Partnership Agreement" Radio Free Europe / Radio Liberty, <http://www.rferl.org/content/article/1053371.html> (accessed March 31, 2009).

⁴ Adam Kleszczewski, "RUSSIA, UZBEKISTAN FORM ALLIANCE DESPITE EU EMBARGO," *Moscow News*, November 16, 2005, <http://www.mnweekly.ru/> (accessed March 31, 2009). Accessed through LexisNexis http://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?docLinkInd=true&risb=21_T6195896691&format=GNBFI&sort=RELEVANCE&startDocNo=1&resultsUrlKey=29_T6195896694&cisb=22_T6195896693&treeMax=true&treeWidth=0&selRCNodeID=14&nodeStateId=410en_US,1&docsInCategory=31&csi=10966&docNo=1

⁵ Alan Cullison and Yochi J. Dreazen, "Moscow Moves to Counter U.S. Power in Central Asia," *Wall Street Journal*, February 5, 2009, <http://online.wsj.com/article/SB123378027003448977.html> (accessed February 5, 2009).

To understand the significance of Russian attempts to use economic coercion, it is important to understand both the mechanisms of coercion and the nature of the actors involved (both the target and the coercer). This thesis answers the question: “Is economic coercion an effective way to further the long-term interests of the state?” Beginning with the concept of coercion, especially economic coercion, this thesis examines how strategic energy resources can be used to further state goals through an understanding of credibility, capability, communication, choice, and culture. Because understanding the context is crucial to understanding the elements of a specific coercive transaction, the case studies focus on the relationship between the coercer (Russia) and the target, based on history and perceived interests. This relationship depends on the interaction of the strategic cultures within the framework of the coercive efforts. All countries have a strategic culture and that culture, though mutable, is slower to change than the form of government or specific interests of the country. Russia’s strategic culture influences the perceived means of coercion, and is the catalyst driving the use of economic coercion instead of military force. Finally, this thesis looks at contextual case studies where Russia has attempted to use strategic energy resources to coerce both dependent producer countries in Central Asia, and dependent consumer countries in Eastern Europe.

Chapter 2

Coercion: Credibility, Capability, Communication, Choice, Culture

The rich rules over the poor, and the borrower is the slave of the lender.

Proverbs 22:7

The purpose of this chapter is to build a theoretical basis for understanding coercion, the use of coercion as a means of furthering the interests of the state, and the ways a nation can apply economic means coercively in place of, or in combination with, military means. Additionally, it examines the limits of the traditional (Western) understanding of coercion, and explains how an expansion of the definition of coercion is crucial to understanding the use of economic coercion.

Coercion

Coercion entered the national security lexicon during the Cold War as a contrast to political persuasion and military brute force. Thomas C. Schelling, writing about military options in *Arms and Influence*, viewed coercive efforts as threats to “destroy value.”¹ Coercion, according to Schelling, has two elements: compellence and deterrence. Compellence is “initiating an action that can cease...if an opponent responds,” while deterrence is “prevent[ing] from action by fear of consequences.”² Although he sees both positive and negative outcomes from compellence, deterrence, according to Schelling, seeks only a negative result, that is, an action not occurring.³ When viewed through a Cold War, military lens, this analysis made sense. A complex world, however, requires an expanded understanding of coercion as it applies to national security.

Coercion, simply put, is “a way...to get other people to do things they would not otherwise do.”⁴ A coercer promises or delivers inducements or punishments to change a target’s initial preferences.⁵ The target’s perceptions of the relative costs (real or opportunity) associated with each coercive offer drive their ultimate decision. Both elements of coercion, deterrence and compellence, can be broken down into positive and negative outcomes. This is especially true in the economic realm. As David Baldwin points out in *Economic Statecraft*, economics provides

¹ Thomas C. Schelling, *Arms and Influence* (New York: Yale University Press, 1966), 2-4.

² Ibid., 69-78. Schelling says that “deterrence and compellence differ in a number of respects” but they can be likened to static and dynamic forces. Deterrence is the static force, since it involves setting the stage and waiting for the opponent to act. Compellence, on the other hand, requires a dynamic act on the coercer’s part to compel the opponent to act.

³ Ibid.

⁴ David A. Baldwin, *Economic Statecraft* (New York: Princeton University Press, 1992), 43.

⁵ Ibid., 38, 44.

the opportunity to add value, instead of the chance merely to hurt or to destroy value.⁶ Positive compellence is convincing an actor *to take action*, or change the present course of their action, toward a desired outcome that they would not otherwise seek. Negative compellence, likewise, is convincing an actor *to stop an action* or change course away from an outcome they would normally seek. Positive deterrence, similarly, is convincing an actor *to continue* (not end) a present course of action toward an outcome they would not otherwise seek. Negative deterrence is convincing an actor *to not begin* (or not take) an action toward an outcome they would normally seek.⁷ Deterrence and compellence do not have to be mutually exclusive, however.⁸ A coercive offer can include elements that both compel (take an action toward one outcome) and deter (so that the target does not begin an action toward another outcome) (see Table 1).

Table 1: Compellence and Deterrence

	Compellence		Deterrence	
	Positive	Negative	Positive	Negative
Desired Outcome	Take an Action	Stop an Action	Don't Stop an Action	Don't Start an Action
Example	Make an Alliance	End an Alliance	Continue an Alliance	Don't Make an Alliance

Source: Author's own work

A Model of Coercion

The elements essential to a coercive transaction are capability, credibility, communication and choice (see Table 2). According to Dr. Karl Mueller, the “3C’s” of coercion (credibility, capability, and communication) are the most commonly discussed elements.⁹ Beginning with this construct, this study considers the positive aspects of a coercive transaction, in addition to the traditional negative ones. According to Dr. Mueller, *capability* is the target’s belief in the coercer’s “ability to carry out a coercive threat.”¹⁰ This study adds the target’s ability to respond (based on the targeted interest) and the relative power between the coercer and the target as important aspects of capability. Capability determines the total value of the coercive offer, measured against the targeted interest. Dr. Mueller also writes that *credibility* is based on the target’s *belief* that the coercer will carry out the threat. He includes, furthermore, the caveat that the greater the possible harm, the less believable the threat has to be to have a coercive

⁶ Baldwin, *Economic Statecraft*, 20, 44.

⁷ Schelling, *Arms and Influence*, 69-70.

⁸ Daniel L. Byman, Matthew C. Waxman, *The Dynamics of Coercion: American Foreign Policy and the Limits of Military Might* (New York: Cambridge University Press, 2002), 7.

⁹ Karl Mueller, "The Essence of Coercive Air Power: A Primer for Military Strategists," *RAF Air Power Review* 4, no. 3 (Autumn 2001): 51

¹⁰ Ibid.

effect.¹¹ Examining the positive side of credibility, this study defines credibility as the threat or possibility of the transaction occurring, based not only on the potential harm or benefit to the target, but also on the interest that the coercer is seeking to ensure. Finally, Dr. Mueller looks at *communication* as the transmission of threats and promises from the coercer to the target.¹² Economic coercion, however, often involves offers and counter offers over time, so the coercer and target gain awareness of their respective interests and assign them appropriate values. This study, as discussed below, adds choice as the critical element distinguishing coercion from brute force, and strategic culture as an important modifier for all the elements of coercion.

Table 2: The Four C's of Coercion

	Capability	Credibility	Communication	Choice
Definition	Risk or reward if transaction occurs	Threat or possibility of transaction occurring	Awareness of capability and credibility	Outcome of coercive transaction
Elements	- Interest of the target - Relative power between coercer and target	- Interest of the coercer - Escalation potential - Expansion potential and external consequences	- Perceived interests - Iterations	- Isolation - Balance of motivation
Cultural Modification	- Derivation of interests - Past iterations and staging	- Perceived history of coercer	- Potential for mistranslation - Awareness of timeframe	- Ethnic, racial and national perceived history

Source: Author's own work

Capability

Capability is the result of the risks or reward possible in the coercive offer. It is the ability of the coercer to engage in the transaction, and the ability of the target to react. (In an extreme example, an attempt by a non-nuclear state to threaten a nuclear strike has no coercive effect—they have no ability to make good on their threat.) Sub-elements of capability include the relative power of the parties involved and the interests of the target.

The relative power of the parties is important because coercion is based on a relationship.¹³ To coerce the target, the coercer must introduce enough power (in the form of inducements or threats) into the situation to change the target's cost/benefit calculus in favor of the outcome desired by the coercer. If the coercer is relatively less powerful than the target *in the realm the transaction is taking place*, the target may simply deny the coercer the opportunity to coerce. Essentially this is the *coercer's ability to pay*.

The target of the coercive transaction has two sets of interests that are important. The first interest is what the coercer wants the target to give up (the objective). The second interest is

¹¹ Ibid.

¹² Ibid.

¹³ Baldwin, *Economic Statecraft*, 39.

what the coercer holds at risk to get to the objective.¹⁴ This is the *coercer's ability to pay enough*. If the interest that the coercer wants the target to give up is so important that loss of that interest threatens the existence of the target, the target cannot choose to give up that interest; coercion will fail since the target has no ability to negotiate. A coercer can, however, threaten an absolute interest in an attempt to get the target to give up a lesser interest.¹⁵ This is the classic example of “your money or your life.” Additionally, all lesser interests can be targeted as either the objective or as the interest held at risk.

Finally, for coercion in the interconnected realm of economic interests, a series of actions may be necessary to set up the concluding coercive offer. An actor must have financial depth and perspective on history to accept short-term losses, in exchange for access to the interests of the target and the chance to limit the ability of the target to counter-offer. An example of this is a chess match where one player sacrifices a significant piece to set up a checkmate several moves later. This is impossible with only a few remaining pieces, and it is impossible if the player is not capable of thinking several moves in advance. A nation's strategic culture and form of government will directly influence this aspect of the coercive offer. A nation with a culture that pragmatically accepts near-term losses and seeks delayed gratification will be more capable of setting up a long-term coercive relationship than one that demands immediate results. Additionally, a government that has control over the strategic direction of industry and commerce will be able to use that power to set the stage for coercive offers better than one where industry and governance are separate.

Credibility

The second element of coercion is the credibility of the coercive offer. Credibility is the target's belief in the likelihood of the coercive transaction occurring.¹⁶ Sub-elements that modify the credibility include the interests of the coercer, the possibility of escalation, expansion of external consequences, and perceived history of coercive action.

The greater the interest the coercer seeks to secure, the more likely the coercer is to complete the coercive transaction.¹⁷ Additionally, if the coercer has the ability to escalate the transaction to a different realm (for instance, from the political to the economic, or the economic to the military realm), the offer will be more credible. Likewise, external factors which change

¹⁴ Ibid., 16-17.

¹⁵ Alexander L. George, *Forceful Persuasion : Coercive Diplomacy as an Alternative to War* (New York: United States Institute of Peace, 1992), 13, 77.

¹⁶ George, *Forceful Persuasion*, 11,14.

¹⁷ Ibid., 13.

the costs or benefits will modify the credibility of a coercive transaction. (Example: Changing prices in world oil markets change the value of economic assistance in developing an oil field). History is also important because a coercer with a reputation of following through (with other targets) reduces the uncertainty involved (and thus the costs to the coercer of demonstrating resolve).

Because credibility is closely tied to both history and target perceptions, strategic culture plays a central role.¹⁸ Mueller points out that the threat to inflict great harm need not be very likely to have a coercive effect.¹⁹ The threat *or promise*, however, can easily be undermined by historical actions, or if the target understands the coercer, for cultural reasons, cannot bear the costs. The US threat of nuclear weapons is less credible, partly for historical and cultural reasons, than Israel's or India's, despite the US being the only country to have used nuclear weapons in anger. Also affecting credibility, as Baldwin points out, is a culture's ability to consider the effects of actions beyond the immediate transaction.²⁰ A culture that perceives its actions in an historical or political vacuum may harm future credibility, and thus ability to coerce, by focusing on immediate gains. Likewise, a government that promises action in an economic realm but is perceived by the target to have little control over the companies in that realm will be less credible than one where commercial and state interests are closely connected. Finally, as Robert Jervis points out, discrepancies in perception based on differences in strategic culture directly affect the credibility of coercive communications.²¹ Strategic culture can significantly alter the perceived credibility of a coercive transaction.

Communication

Communication is crucial because a coercive transaction is based on perception. As Joseph Nye points out, "the ability to share information—and be believed—becomes an important source of...power."²² If the coercer can communicate that they are defending a vital interest, the credibility of the offer increases. If either the coercer or the target misidentifies the level of interest, however, the credibility of the offer (and possibly the capability to effect the transaction) may suffer. Likewise, the target's perception of cause and effect influences their response. If the target does not understand what the coercer wants, they are not capable of

¹⁸ Strategic culture is discussed in the next section.

¹⁹ Mueller, "The Essence of Coercive Air Power."

²⁰ Baldwin, *Economic Statecraft*, 17.

²¹ Robert Jervis, *Perception and Misperception in International Politics* (New York: Princeton University Press, 1992), 122.

²² Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2005), 31.

acceding to the coercer's demand.²³ Furthermore, if the target fails to understand how the coercive actions relate to the coercer's desired objective, the target's cost-benefit calculus will not change in the way the coercer desires. Finally, communication itself can be used coercively. As Baldwin points out, "conveying correct or incorrect information...with respect to the cost/benefit ratios of the alternatives" is a coercive act itself.²⁴ Unlike the traditional understanding of communication in coercion where the coercer communicates a threat to the target, and the target responds, economic coercion involves communication in both directions. Communication in economic coercion is an iterative process. Targets can meet coercive offers with acceptance, rejection or a counter offer. This allows each transaction to be not only a coercive effort, but also a communication about the values of interests as well. This is analogous to the multiple rounds of bidding in a hand of bridge to win a game, and the multiple games required to win a "rubber." The intent in each game is both coercion (win the bid) and communication (discern the best trump suit). Each game, however, only serves as a partial fulfillment of the ultimate goal.

The culture of the coercer has two important roles to play in coercive communications. A country that has a unified strategic communication framework enhances credibility and capability. By choosing *how the information is communicated* (in terms of timing and method), the coercer can ensure that the coercive actions are related to (or hidden from) the desired outcome. By controlling *what information is presented to the target*, the coercer limits the scope of the target's options. For example, a country might be more amenable to coercion if it knew that the action it is coerced into taking (against another actor) would not be officially connected to investment by a company from the coercing country. Simple differences in language, additionally, can exacerbate the problems created by cultural differences. A recent example is the "reset button" gaffe, where a simple translation problem stole the headlines from more substantive issues between the US and Russia.²⁵

Choice

The element that determines the outcome of the coercive transaction is that of choice. Ultimately, the success or failure of coercion (in contrast to brute force) depends on the decision of the target.²⁶ The coercer makes an offer for the target's interest and the target *chooses* to accept or reject the offer, depending on if they understand the offer (communication), are

²³ Lawrence Freedman, *Strategic Coercion: Concepts and Cases* (Oxford: Oxford University Press, 1998), 60.

²⁴ Baldwin, *Economic Statecraft*, 38.

²⁵ Jay Solomon, "U.S. Gift Turns Into Gaffe," *Wall Street Journal*, March 9, 2009, <http://online.wsj.com/article/SB123637645344456855.html> (accessed March 20, 2009).

²⁶ Baldwin, *Economic Statecraft*, 39.

persuaded by the offer (credibility), and are able to respond (capability). The way the coercer frames this choice can be as important as the actual values involved.²⁷ The *perceived* value of compliance (inducements gained and/or punishment avoided) is the reservation price offered by the coercer for the target's interest.²⁸ Likewise, the *perceived* value of the interests given up is the reservation price for the target. This difference between reservation prices, what Alexander George calls the "balance of motivation," is based on the *perceived* level of national interest involved.²⁹ When the reservation price of the coercer is higher than that of the target, they can complete the transaction (make a deal) at a price between the seller's minimum price and the buyer's maximum. When the reservation price of the target is higher than that of the coercer, however, they will not make a deal until the situation changes (target's price decreases or the coercer is willing to offer a higher price).

Coercion is seldom this simple, however. If there are multiple coercive offers, the target should choose the one with the best relative value (most inducement credibly offered and/or punishment avoided). Multiple offers, therefore, increase the cost to the coercer by increasing options for the target. To coerce successfully in a "marketplace of coercion," the coercer must make the strongest offer (best deal for the target).³⁰ If, however, the target is isolated from other offers, or if the coercer can simply isolate the elements of the transaction (by bounding the interests, time, or options involved), the coercer will get a better deal.³¹ The presence of multiple actors with multiple interests exponentially increases the complexity of the problem for the coercer.

Culture

As discussed previously, a nation's culture directly affects its credibility, capability, and communication. It also influences what a nation views as coercion, since "coercion is often in the eye of the beholder."³² As discussed more fully in the next chapter, a nation's strategic culture, an amalgam of many things including geography, history, and image, determines what that nation considers its interests, who determines those interests, how important those interests are relative

²⁷ Jack S. Levy, "Prospect Theory, Rational Choice, and International Relations," *International Studies Quarterly* 41, no. 1 (March 1997): 90, <http://www.jstor.org/stable/2600908> (accessed April 2, 2009).

²⁸ Reservation price for a seller (in this case, the target) is the price above which they are willing to sell. Likewise, for a buyer (in this case, a coercer), the reservation price is the price below which they are willing to buy. If the seller's reservation price is below the buyers, they can make a deal. If the seller's reservation price is above that of the buyer, no deal will be made.

²⁹ George, *Forceful Persuasion*, 13.

³⁰ Everett Dolman, *Astropolitik Classical Geopolitics in the Space Age (Strategy and History Series)* (New York: Routledge, 2001), 104.

³¹ George, *Forceful Persuasion*, 71.

³² Byman and Waxman, *Dynamics of Coercion*, 5.

to other interests, the means allowed to pursue those interests, and the form and span of government control.³³ In fact, the influence of culture makes any discussion of coercion exceptionally complex, unless narrowed to a specific coercer and a specific target. Since coercion in the economic realm involves *perceived* values (as opposed to *absolute* ones), and culture is the lens through which nations perceive those values, understanding the culture of the coercer and the relationship of that culture to the target is crucial.³⁴

Why Understanding Economic Coercion is Useful

In military discussions of coercion, the focus is often on military force or “hard power,” and the use of threats to effect negative coercive actions. Instruments of national power, however, span a spectrum from the softest of diplomatic power to the hardest of military force; national interests include positive considerations (honor and interests) as well as negative (fear and security).³⁵ Coercing nations can use all instruments to change the perceived costs and benefits in a transaction, though the situation dictates which instruments are the most effective. Economic power falls in between diplomatic power and military force, and has significant overlap with both. Because it is not the hardest form of power, it is usually not the last resort in defense of vital interests. It is not the first resort either, however, when lesser interests are at stake. Usually by the time a nation begins considering economic coercion, diplomatic efforts are well underway and the eventual threat of military force is implicit.³⁶ For this reason, it is difficult to measure precisely what effect economic methods have in achieving coercive ends.

Economic coercion is a useful tool of the State, however, for several reasons. First, it is often more capable (holds more at risk or offers greater benefits if the transaction occurs) than diplomatic power because it escalates the transaction to a realm with real, measurable values.³⁷

Second, it is sometimes more persuasive than military force because it usually costs less (in real terms as well as in world opinion) than military operations, and thus is more likely to be carried out, increasing the credibility of the coercive offer. As Byman and Waxman point out, the strategic culture of the United States is relatively more tolerant of civilian suffering caused by economic sanctions than direct military attacks (like bombing) on an adversary.³⁸

³³ Colin S. Gray, "National Style in Strategy: The American Example," *International Security* 6, no. 2 (Autumn 1981): 22, <http://www.jstor.org/stable/2538645> (accessed April 2, 2009) and Baldwin, *Economic Statecraft*, 189.

³⁴ Baldwin, *Economic Statecraft*, 20.

³⁵ Nye, *Soft Power*, 35.

³⁶ Baldwin, *Economic Statecraft*, 107.

³⁷ George, *Forceful Persuasion*, 81.

³⁸ Byman and Waxman, *Dynamics of Coercion*, 139.

Third, economic coercion usually works more slowly than traditional forceful coercion, and so is more useful for long-term goals than short-term interests. Inducements, as opposed to threats, are generally the most effective when persuading a target to give up future benefits rather than previously attained gains (since probable gains are overvalued).³⁹ For this reason, they are relatively more effective (than threats) at changing behavior *over time* and producing a favorable outcome for the future-thinking coercing actor. Since “the surest way to evoke a violent response from a country is to attack it,” slower economic operations may gain more, in the long run, than swift military ones.⁴⁰ Asking a target to change incrementally is less threatening than demanding a sudden change, and less likely to strengthen resistance against the coercer or provoke a reaction.⁴¹

Fourth, because economic coercion is about perceptions, there is more room for negotiations and adjusting expectations, and thus, by extension, interests.⁴² Military confrontation over a boundary line is absolute: gain for one side is loss for the other. Economic coercion involves potential gains and losses that are relative, not only to the original baseline, but also to the realm of possible gains by the targeted actor. Additionally, because the scope is harder to limit and isolation is harder to achieve, economic coercion is more useful in a permissive or non-mutually exclusive environment. This is an advantage, since the use of economic coercion allows the target to negotiate, communicating back to the coercer what interests are more or less valuable to them, and increasing the likelihood of reaching a deal that preserves honor and interest.

Finally, economic coercion, especially in the form of carrots like trade deals, treaties, and subsidies, can actually add value, as opposed to destroying it as military operations generally do. Instead of being a zero-sum game (or worse, a net loss to both sides), economic coercion holds the possibility of gains for both, though they may be unequally distributed. One benefit of this effect is that it sets the stage for future coercive activities, since removal of the benefit conferred

³⁹ Prospect theory states that actors overvalue risks where an interest is already attained, and overvalue potential gains where an interest is not yet attained. The pain of losing \$100 is greater than the pleasure of gaining \$100, so people are more likely to be risk averse toward possible losses, and risk takers with possible gains. For readings on prospect theory, beyond the scope of this paper, see, Jack S. Levy, "An Introduction to Prospect Theory," *Political Psychology* 13, no. 2, Special Issue: Prospect Theory and Political Psychology (June 1992): 176, <http://www.jstor.org/stable/3791677> (accessed June 5, 2008), and Daniel Kahneman and Amos Tversky, eds., *Choices, Values, and Frames* (New York: Cambridge University Press, 2000), 473-487.

⁴⁰ Baldwin, *Economic Statecraft*, 111.

⁴¹ George, *Forceful Persuasion*, 12.

⁴² David A. Baldwin, "The Power of Positive Sanctions," *World Politics* 24, no. 1 (October 1971), 24.

is now a threat to an attained gain instead of an inducement.⁴³ Economic inducements are generally better at creating this situation than military efforts.

There are limits to economic coercion's utility, however. A country may be willing to incur extreme costs to defend its perceived vital national interests.⁴⁴ Additionally, for isolated or time critical situations, military threats can be more credible than economic inducements, and lead to a more rapid transaction.⁴⁵ In some situations, a military *threat* may be more cost-effective since the coercer only has to pay if their desires are not accommodated. Pure economic *inducements* are generally slower and more expensive, since the coercer must pay if accommodated (the desired outcome), and might have to pay before the target actually takes action.⁴⁶ Making economic coercion even less cost-effective, inducements can lead to greater expense since the marginal value of the inducement decreases with use. Military credibility (a history of making good on threats in the past) decreases the probable cost of future threats, since they are more likely to be believed and thus less likely to need to be carried out. Because threats are more effective when targeted against interests already attained (since risk of loss is overvalued), they are more effective at changing current behavior than shaping future actions, although they can condition an actor to behave certain ways or avoid certain behaviors. This paper focuses on the messy middle ground between political persuasion and military force where economic coercion is effective.

Cultural Aspects of Economic Coercion

In addition to the normal challenges of coercion (understanding the target's interests, perception of credibility and decision calculus), economic coercion is challenging since it takes place in a realm where strategic culture determines the level of state control of economic instruments. As Robert Gilpin points out, states hold varying opinions in three important areas: "1) the primary purposes of the economic activity of the nation, 2) the role of the state in the economy, and 3) the structure of the corporate sector and private business practices."⁴⁷ For the purposes of directed economic coercion, what matters is not the absolute economic power of the state, but the relative power with respect to the targeted state and the relative ability to direct and control economic power for achieving interests. These relative differences affect the capability and credibility of the coercive transaction. An economically powerful state where the

⁴³ Ibid., 23.

⁴⁴ See, for instance, the decision of the Melians in Thucydides., *Landmark Thucydides: A Comprehensive Guide to the Peloponnesian War*, ed. Robert B. Strassler (New York: Simon & Schuster, Inc., 1998), 355.

⁴⁵ Baldwin, "The Power of Positive Sanctions," 35.

⁴⁶ Ibid., 28.

⁴⁷ Ibid., 149.

government has little ability to direct economic activity toward specific interests might be unable to coerce an economically smaller state with stronger economic centralization. Most western cultures, especially the United States, consider diplomatic and military efforts as wholly within the realm of the state, which exercises direct command to further state interests.⁴⁸ In contrast, the economic realm is a chaotic mix of state-directed actors, interest groups, and free-market forces, each with unique values and beliefs about the acceptable uses of economic coercion.⁴⁹

Market structure within a state also dictates the power and efficacy of economic coercive efforts. A country with centralized control of strategic economic resources can set prices and more easily use market manipulation for coercion than a country without state control of the markets. Even without direct control, however, a coercer can work to move the target into a realm where the coercer has a relatively better chance of coercing. Creating a dependency on a product opens the target to the possibility of future coercive offers. A crossover between the military and economic realms, foreign military sales is an example of this. Once the target country has bought a major weapon system, the threat of cutting off replacement parts is a coercive threat in both the economic and military realm. Recognizing that a target's future interests will lie within an area, likewise, gives the coercing actor a chance to take a loss now so that it can induce the target to take a risk against a future interest. An example of this would be subsidizing a pipeline for natural gas so the target country becomes relatively dependent on the coercing country for imports or exports.

Additionally, whereas military coercion is generally limited by geography and national boundary lines, economic activity usually has broad, hard-to-contain effects due to global markets and trade. Isolation, which makes coercion much easier since the coercer does not have to "bid" against other actors, is harder to achieve when there are multiple actors with multiple interests in multiple markets. Instead of being a one-on-one game, coercive efforts become many-on-many operations, exponentially increasing the difficulty of communicating or predicting effects of coercive offers.

The diversity of actors, however, provides an important opening for a coercive state. Instead of a single means of influencing the target state, private and corporate actors provide additional avenues for threatening or inducing a target state to respond in the desired manner.⁵⁰ Threatening the interests of a large company so that it provides inducements to the target government can shift the costs of coercion away from the coercing state to commercial actors in

⁴⁸ Baldwin, *Economic Statecraft*, 58.

⁴⁹ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (New York: Princeton University Press, 2001), 41.

⁵⁰ Byman and Waxman, *Dynamics of Coercion*, 106.

the target state. An example would be the threat to nationalize a foreign oil company's assets so that it has an incentive to lobby for improved relations between the states. Likewise, an inducement to a company (such as the opportunity to invest in a high-risk/high-payoff venture) can be a threat to another country's interests. An example of this would be the offering joint ventures in developing oil or gas fields, which would take market share and pricing power from another producing state. This inducement would have the additional benefit of moving the company to a realm where they would be open to further threats and coercive actions.⁵¹ Furthermore, the interconnectedness between states allows a coercer to leverage one state against another in the same way.

The complexity and timing involved in economic coercion make it difficult for the coercing state to know if the incentives and threats are working, and to what degree the economic coercion is responsible for changes in the target's specific behavior.⁵² This does not mean that economic coercion is useless, however, or that a state cannot effectively employ it to attain and defend national interests. Effective economic coercion must be a long-term consideration, with an understanding of the totality of the situation and the benefit of multiple iterations. The timing of the market (oil price volatility, e.g.) and other (third-party) actors' interests mean that opportunities may be fleeting and often unexpected.

While there are many areas where economic coercion can take place, strategic energy resources are one of the most common, since modern economies are dependent on them, and the costs are easy to monitor and measure. Russia has attempted coercion through natural gas, oil, and nuclear energy. Each of these areas has different dominant factors that make them more or less suited to coercion with different states (see Figure 1, below). For example, due to lack of an economically viable means of converting natural gas to a liquid, infrastructure is the predominant factor in the market for natural gas.⁵³ The high capital cost of constructing a pipeline network compared to the marginal cost of the gas leads to a natural monopoly by the first operator to construct a pipeline. It benefits the coercer, then, to take a short-term loss and build a pipeline. Even better, of course, is inducing the target to build a pipeline, so the target country becomes dependent on the coercer's gas.⁵⁴ Without an alternative infrastructure, the coercer can then raise the cost of gas (a coercive offer that pays well), or shut down supply (at some cost to the coercer). If the target country seeks to diversify using marketplace mechanisms to finance a new pipeline,

⁵¹ Baldwin, "The Power of Positive Sanctions," 24.

⁵² Byman and Waxman, *Dynamics of Coercion*, 35.

⁵³ Anita Orban, *Power, Energy, and the New Russian Imperialism* (Westport, Conn: Praeger Security International, 2008), <http://psi.praeger.com/doc.aspx?d=/books/gpg/C35222/C35222-58.xml> (accessed January 28, 2009).

⁵⁴ Lenin's dictum in 1922 about capitalists selling the rope by which they will be hung comes to mind.

the coercing country only has to lower the cost of gas to the point that the new pipeline is not economically viable. Alternatively, the coercer can buy all the supply, effectively nullifying any benefit the alternative infrastructure would give.

For oil, however, fungibility and transportability mean that refining capacity and demand are the main factors in its use as a coercive tool, unless a country is well isolated from alternative supply sources.⁵⁵ Global market forces are unpredictable and uncontrollable, making coercion in this diverse market more uncertain. One option for a coercer would be to offer a relatively lucrative (but risky) development contract for an oil field or refinery in exchange for another, future interest (like long-term basing rights). For nuclear energy, the limited availability of high-quality, easily accessible ores and the limited numbers of nuclear power plants means that only a few countries can coerce or be coerced with nuclear energy, but the value of that coercive transaction would be high. As nuclear power becomes a closer substitute for natural gas, however, its utility as coercive instrument will also increase, but the ability to isolate a target will decrease.

In all these areas, to coerce effectively the country must have resources (capability), will (credibility), the ability to link the offer to an interest over time (communication), the ability to limit the target's options (choice), and the strategic culture to understand and employ these resources in a way that furthers the interests of the state. This last area, the strategic culture of Russia, is addressed in the next chapter. Following a discussion of Russian strategic culture, this study applies the coercive framework to Russian efforts in Central Asia and Eastern Europe, examining how coercion in each area is essential to coercion in the other.

⁵⁵ Orban, *Power, Energy, and the New Russian Imperialism*.

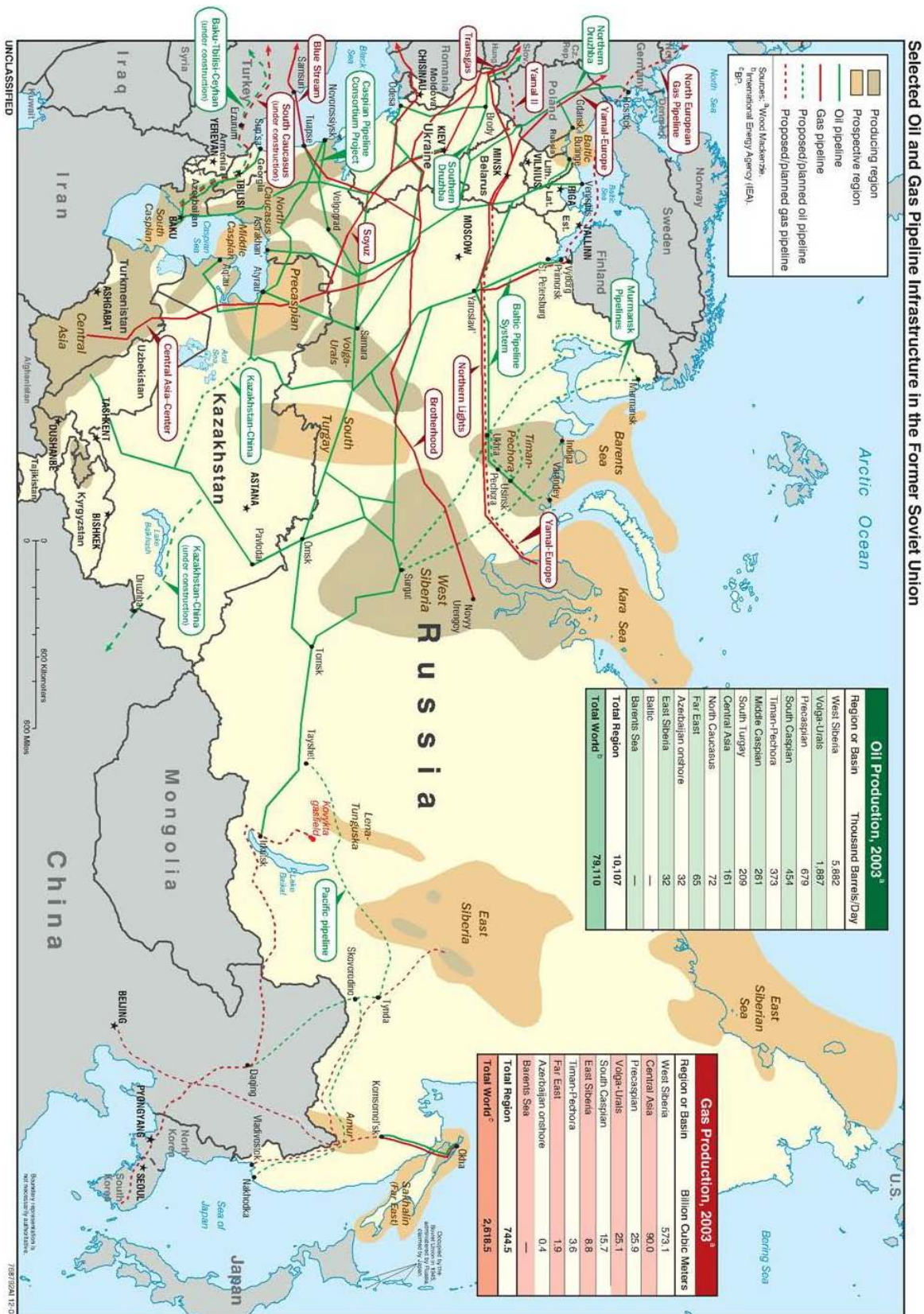


Figure 1. Selected Oil and Gas Pipeline Infrastructure in the Former Soviet Union.
(Reprinted from http://www.eia.doe.gov/cabs/Russia/images/fsu_energymap.pdf)

Chapter 3

Russian Strategic Culture

Circumstances define us; they force us onto one road or another, and then they punish us for it.
Ivan Turgenev

Understanding a country's strategic culture is crucial to understanding its interests, its perceived history, its efforts at controlling communication (framing), and its willingness to plan for long-term actions (staging). Additionally, a country's form of government and the relationship between the government and business directly relate to the economic power available to the state to direct against a target (state or company). These are, ultimately, all factors that contribute to how credible and threatening a coercive action is, and whether a country views economic coercion as a cost-effective means of furthering state goals.

Although there is wide disagreement on how to define strategic culture (or even if strategic culture exists and what effect it could have on policy-makers' decisions), this thesis takes the view that strategic culture influences, but does not determine, the way policy-makers and strategists view and frame strategic issues.¹ A country's strategic culture develops out of its perceived geography, history, economic situation, and language.² Although not static and deterministic, the strategic culture of a nation is slow to change. It provides a framework for decisions, a measure of value for government and a perspective for examining historical and external events.

Russian culture is as different from American as French is from German. According to Colin Gray, "it would be difficult to design two countries more likely to misunderstand each other than the United States and the Soviet Union."³ Though written in 1984 about the Soviet Union, current Russian culture has not changed dramatically in the past two decades (or even since the time of the tsars): "the Soviet Union of today is the Great Russian Empire of yesterday with the overlay of an ideology with global pretensions."⁴ Although the term "empire" is a loaded term

¹ See, for example, Colin S. Gray, "Strategic Culture as Context: the First Generation of Theory Strikes Back," *Review of International Studies* 25, no. 1 (January 1999), Alastair I. Johnston, "Thinking about Strategic Culture," *International Security* 19, no. 4 (Spring 1995), <http://www.jstor.org/stable/2539119> (accessed April 2, 2009), and Jeffrey S. Lantis, "Strategic Culture and National Security Policy," *International Studies Review* 4, no. 3 (Autumn 2002), <http://www.jstor.org/stable/3186465> (accessed May 12, 2008) for a two-decade debate on strategic culture.

² Colin S. Gray, "National Style in Strategy: The American Example," *International Security* 6, no. 2 (Autumn 1981): 22, <http://www.jstor.org/stable/2538645> (accessed April 2, 2009).

³ Colin S. Gray, "Comparative Strategic Culture," *Parameters, US Army Quarterly* 30, no. 4 (Winter 1984), <https://carlisle-www.army.mil/usawc/Parameters/a-index.htm> (accessed November 21, 2008).

⁴ Ibid.

from an American perspective, from a Russian perspective it is more closely associated with security than wealth, influence than domination, and past glory than past failures.⁵ There are several reasons for this; the most obvious one comes from Russia's geographical location.

Geographic History

Russia is the world's largest country, covering one eighth of the world's land area and 11 time zones. It shares land borders with 14 countries. In contrast, the US is the third largest country, but shares land borders with only two other countries. Despite its size, Russia is essentially land-locked, with no warm-water ports near the main industrialized portions of the country.⁶ Additionally, although it has large amounts of land, only about 7% is arable,⁷ and that is near the border, historically subject to invasion and devastation.⁸ Despite being about half the size of Russia, the United States has almost twice as much arable land, and the "bread basket" of the country is far from borders, well protected from invaders.⁹ The result is that for Russia, survival has always depended on a strong security perimeter and a centrally controlled government.¹⁰ This historical reality is a significant part of Russia's strategic culture that is difficult for Americans and western Europeans with a culture of individualism to understand.

Russia faces another geographic problem that drives it toward centralization: though it has vast potential wealth in mineral resources, greater distances and more severe climatic conditions than in any other exploitable region in the world defend them. The investment and infrastructure necessary to liberate the natural wealth of the country lead to an economic natural monopoly and centralized control of the resources at market prices.

Additionally, due to geographic constraints, Russian imperial efforts tended to focus on border countries rather than colonization abroad. This served the purposes of acquiring wealth, arable land, and building a buffer against invading forces through acquiring control over weaker, less centralized states.¹¹ The value of this strategic geographic depth manifested itself in the

⁵ David T. Fahrenkrug, *Enduring Empires: Strategies of Imperial Persistence*, diss., University of Chicago, 2006, 221.

⁶ Nicholas Valentine Riasanovsky, *History of Russia*, 6th ed. (New York: Oxford University Press, 2000), 4.

⁷ CIA - The World Factbook, "CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> (accessed March 31, 2009).

⁸ Riasanovsky, *History of Russia*, 5,9.

⁹ CIA - The World Factbook.

¹⁰ Riasanovsky, *History of Russia*, 8. And Fahrenkrug, *Enduring Empires*, 47.

¹¹ Marlene Laruelle, *Russia's Central Asia Policy and the Role of Russian Nationalism*, Central Asia-Caucasus Institute Silk Road Studies Program, Silk Road Paper, 32, <http://www.isdp.eu/files/publications/srp/08/ml08russiacentral.pdf> (accessed April 2, 2009).

Napoleonic invasion and again in the Great Patriotic War (World War II).¹² The preservation of this strategic depth became ingrained as a strategic interest that persists to this day. Examples of this thinking span Russian history. They include Peter the Great's war against Sweden for a northern seaport (which established a "window into Europe")¹³ and continue beyond the annexation of Poland after the Molotov–Ribbentrop Pact.¹⁴ Following the Second World War, the Soviet domination of Eastern Europe was more than just an ideological attempt at expanding communism (the Communist Parties in France and Italy were stronger than those in Eastern Europe).¹⁵ It was also insurance against a third invasion by Germany and defense against a second invasion by anti-communist forces in general.¹⁶

Social History

Geography also meant the Russian region absorbed the greatest blow from the Mongol hordes, and thus Russia endured cultural isolation during the European Renaissance. This relative political contrast to its European neighbors, combined with a paternalistic Eastern Orthodox religious background, led to a strong unifying Russian culture that survived the demise of both the tsars and the Soviet Union. In both cases, the end of the government led to a democratic period full of opportunity and chaos. The transitional democratic period in each case, however, brought about a strong central government that, though different in form from its predecessor, was nonetheless similar in function. The basic mandate of security from foreign invasion (cultural or physical) continued to trump the espoused ideals of freedom and prosperity. To ensure security, Russian strategic culture assumes a strong connection between the state, land, and the economy, with companies considering the interests of the state as much as their own bottom line, and the leadership of the country using the power of the state to look out for the interests of these "National Champions."¹⁷

Economic Culture

While Western (and especially American) culture sees the state as the protector of freedom in the economic realm, Russian culture perceives this relationship very differently. The state, instead of protecting freedom, protects security and stability, essential in a land of constant

¹² Riasanovsky, *History of Russia*, 8-9.

¹³ Ibid., 226.

¹⁴ Ibid., 516.

¹⁵ Fahrenkrug, *Enduring Empires*, 141.

¹⁶ Riasanovsky, *History of Russia*, 530, 533.

¹⁷ Marshall I. Goldman, *Petrostate : Putin, Power, and the New Russia* (New York: Oxford University Press, Incorporated, 2008), 124. and Putin's thesis, found at <http://www.docstoc.com/docs/1064312/Putins-Thesis>, translated by Thomas Fennell and uploaded by Patrick Appel of the Atlantic Monthly and accessed 31 March 2009.

crisis from within and without. Additionally, in Western culture the role of the state in the economic realm is to promote trade and protect industries that are creating wealth. In exchange, trade and industry generate revenue for the other aspects of governance. In Russia, however, the acceptance of centralization and paternalism means that the relationship between the state and industry, and industry and other nations, has a very different dynamic. Rather than merely providing a tax base for the government, corporations are expected to further the interests of the protective state in the diplomatic and military realms as well.¹⁸ In exchange, or rather, because the state now has an interest in the success of companies, governmental actions with other countries can support goals of specific companies. The distinction between public and private is significantly less pronounced in Russia than it is in the West, especially the United States.

Fear, Honor, and Interest

As Thucydides observed over two millennia ago, nations clash over three main areas: fear, honor, and interest. Strong neighbors seem threatening, and in the anarchic world system, each state must be most concerned about the worst-case scenario. Rather than seeing the best in people, the safest course for a nation to take is to assume the worst. In Russia's case, the worst is in massive invasion with strong external powers colluding to destroy the country.

Russian honor has historically been a stated factor in decision making. Russia has long been torn between Westernizing and defending Slavic culture and people, even beyond Russian borders. The tsarist court at times mandated and forbade Western hair and clothing styles, and mandated or forbade speaking Western languages. Whenever Russian Westernization became excessive, however, the cultural paternalism and xenophobia combined with an external threat to cause social turmoil, economic chaos, and generally disaster. Examples in the last century include the Stalinist period of massive industrialization and the Yeltsin period of rampant oligarchic capitalism. As different as the periods may appear, each had its roots in a desire to "catch up" to the West with a culture that was not compatible.

Despite this cultural divide, however, Russia has always desired to be seen as a significant player in Europe. Unable to compete economically or politically, Russia has seen its strength, and thus its honor, in sheer size and military might. At the end of the Cold War, military stagnancy compounded the disgrace brought by economic weakening. Further striking a blow to Russian honor was the dissolution of the Soviet Union into many separate, independent states, and most of which have significant ethnic Russian populations. Vladimir Putin rose to power partly through the promise of a "return to order" and patriotic images of a resurgent

¹⁸ Laruelle, *Russia's Central Asia Policy*, 21.

Russian Empire.¹⁹ It has not helped Russia's feeling of dishonor that the West still talks about winners and losers in the Cold War and that Russia had to struggle to join the G-8. The recently published Russian National Security Strategy specifically includes "traditional Russian values, spirituality, dignity related to historical memory," "rights of Russians abroad," and "international prestige of the Russian Federation," as interests related to national security.²⁰ Understanding Russia's need for honor is key to understanding Russian actions in Central Asia and Eastern Europe.²¹

The Russian government, then, has a significantly different perspective on both the national interests it must protect and the available tools to protect those interests than do American policy makers.²² The most important and most difficult interest to protect is the territorial integrity of the Russian state and the influence Russia has in the "Near Abroad." Historically, the most dangerous enemies have come from Europe (Germany, France, and Poland/Lithuania) and Central Asia (the Mongol/Tartar hordes) and success has come through sacrifice of land and people. Defense against these enemies has come through both treaties (traditionally unreliable) and a physical buffer zone. Current actors Russia perceives as threats include NATO (which did not dissolve with the dissolution of the Warsaw Pact),²³ China (which shares a long border and is interested in increasing influence in the Central Asian region), the United States (an enemy since the Russian civil war), and radical Islamic elements that could destabilize the country or allies in the Near Abroad.²⁴

The foremost means for protecting security is a physical and political buffer of the so-called "Near Abroad" nations. This allows strategic warning and depth, increasing Russia's ability to prepare for and destroy an invading enemy. For this reason Eastern European and Central Asian countries are prime targets for Russian coercion with the goal of making them very close allies or subjects (but not necessarily a part of Russia). A positive orientation toward Moscow's direction and policy is essential to Russia's security in countries like Ukraine, Georgia, Belarus and the Baltic states. These countries have direct, physical access to Russia. With the recent increase in NATO troops in Afghanistan, Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan have become more important in the security realm as well.²⁵

¹⁹ Ibid., 39.

²⁰ "Strategy for the National Security of the Russian Federation to 2020," <http://www.scrf.gov.ru/documents/99.html> (accessed May 17, 2009).

²¹ Riasanovsky, *History of Russia*, 388.

²² Robert Legvold, ed., *Thinking Strategically: The Major Powers, Kazakhstan, and the Central Asian Nexus (American Academy Studies in Global Security)* (New York: The MIT Press, 2003), 6.

²³ "Strategy for the National Security of the Russian Federation to 2020," Paragraph 8.

²⁴ Legvold, *Thinking Strategically*, 5.

²⁵ Ibid., 7.

Failure or collapse of influence in an ancillary area can quickly spread to critical regions. Just as during the height of the Cold War the United States was concerned about the domino effect, Russia is now concerned that loss of Central Asia could be the beginning of greater problems.²⁶ According to Byman and Waxman, “failure raises the chances of a destructive spiral. When U.S. instruments fail to coerce, or when the United States concedes to counter escalation, the damage extends far beyond the immediate crisis. Failure can raise potential adversaries’ doubts about the sustainability of U.S. coercive pressure. It can also lead allies or potential allies to cooperate with rather than oppose aggressors.”²⁷

If Russia fails to coerce in the Near Abroad to maintain its interests, the results for security could be troublesome.²⁸ Furthermore, just as Russia in the past has used the tactic of dividing allies through threats, treaties, and incentives, it fears that the United States (and others) are employing the same tactics against the Russian sphere of influence. Again, according to Byman and Waxman, “Exploiting coalition fissures offers adversaries an enticing counter-coercive strategy, one that can serve as an alternative or adjunct to combating threats of force directly.”²⁹

Russia appears to be rationally pursuing goals of mitigating *fear* of invasion from Europe and Central Asia, preserving *honor* as heir of the Great Russian Empire and protector of Russians abroad, and furthering *interests* of economic autonomy and power of the state. Russia is doing this by using instruments of national power, including, as discussed in the following case studies, economic coercion in Central Asia and Eastern Europe to increase dependency on Russia and ensure a strategic orientation in Russia’s favor.

Russian culture, a result of Russia’s long, unique, and troubled history, influences the choice of instruments and the way they are wielded in pursuit of Russian interests. These cultural paradigms assert that companies should serve the interests of the state, that a buffer zone is critical to security, that the land and resources in it belong to the state, that the interests of individuals are inferior to those of the state, and that state paternalism is the best way to ensure national vitality. Although Russia is pursuing national interests rationally, the cultural lens through which Russia perceives those interests and determines acceptable means of securing them differs significantly from American and European lenses.

²⁶ Laruelle, *Russia's Central Asia Policy*, 43.

²⁷ Daniel L. Byman and Matthew C. Waxman, *The Dynamics of Coercion : American Foreign Policy and the Limits of Military Might* (New York: Cambridge University Press, 2002), 239.

²⁸ Legvold, *Thinking Strategically*, 7.

²⁹ Byman and Waxman, *Dynamics of Coercion* , 171.

Chapter 4

The Great Energy Game in Central Asia

When everyone is dead the Great Game is finished. Not before. Listen to me till the end. There were Five Kings who prepared a sudden war...

Rudyard Kipling



Figure 2. Central Asia. (Reprinted from <https://www.llnl.gov/str/March05/gifs/Knapp1.jpg>).

Context Matters

Every state is unique, as is every coercive transaction. The following case studies consider the context of both the coercer (Russia) and the target, looking at what makes each similar, and what makes them different. In each case, a brief history of the target country and of that country's relationship with Russia highlights the areas where fear, honor, and interest provide motivation for coercion. The form of government in the target country, the economics of the target country (especially as they relate to oil and gas), and the perceived interests provide the

mechanisms and targets of coercion. Finally, historical coercive incidents provide a clue to the utility of coercion.

Table 3: Energy Resources in the Former Soviet Union

		Oil				Natural Gas			
	GDP (B USD)	Production (bbl/day)	Imports (bbl/day)	Exports (bbl/day)	Reserves (M bbl)	Production (M cu m)	Imports (M cu m)	Exports (M cu m)	Reserves (B cu m)
Russia	\$2,225	9,980,000	54,000	5,170,00	79,000	654,000	68,200	173,000	44,650.00
Kazakhstan	\$176.9	1,445,000	127,600	1,236,00	30,000	27,880	10,800	8,100	2,832.00
Uzbekistan	\$71.63	99,260	31,440	11,940	594	65,190	0	14,010	1,841.00
Kyrgyzstan	\$11.41	965	14,240	2,534	40	18	750	0	5.66
Tajikistan	\$15.40	503	10,100	0	12	16	513	0	5.66
Turkmenistan	\$29.65	180,400	5,283	40,000	600	68,880	0	49,400	2,832.00
Ukraine	\$337.0	102,400	441,200	190,500	395	21,050	65,400	4,000	1,104.00
Belarus	\$114.1	33,700	394,100	256,400	198	164	21,600	0	2.83
Moldova	\$10.63	0	14,450	50	0	50	2,440	0	0

Source: CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>.
 “Bbl/day” is barrels per day,” M cu m” is million cubic meters, “B cu m” is billion cubic meters.

The two geographic areas this thesis considers are Eastern Europe and Central Asia. Influencing these regions is crucial to Russian honor, using these regions as a buffer against invasion mitigates fear, and controlling these regions economically is a means to fulfilling both of these interests. This is the overarching context for economic coercion. Within these regions, however, the relationship between Russia and the individual states, and between the states themselves, is also important for understanding the mechanisms and reasons for Russian coercive attempts. Each state has different interests, levels of economic autonomy and power, and different resources (Table 3). Although Russia dwarfs all the other states in most areas, the relative differences between them are significant enough to present a means for coercion to affect Russia’s main strategic concerns: security fears, economic interests, Russian honor, and protection of ethnic Russians abroad.¹

Central Asia

Central Asia, extending from the Caspian Sea to China, and from the southern border of Russia to the Indian Ocean, is a region rich in mineral wealth, diverse in population, with uncertain borders. Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan (Figure 2), five former Soviet republics, are prime candidates for Russian coercion since they provide a significant portion of the gas, oil, and nuclear material Russia uses to coerce other regions and

¹ Daniel W. Drezner, *The Sanctions Paradox* (Cambridge [England]: Cambridge University Press, 1999), 135.

countries. Often referred to as “the -stans,” each country has unique interests that can be targeted, resources that Russia covets, and an important history with the Russian Empire.

Regional History

Russian engagement in Central Asia (aside from the periodic Mongol/Tartar invasions) goes back to the 16th century, but the Tsarist conquest and colonization of the region in the 19th century brought the region into the Russian Empire.² Prior to the middle of the 19th century the two main groups occupying the region could be divided into nomadic people (mineral regions) and sedentary cultures (agricultural regions), but there was little organization of either group beyond tribal affiliation and clan identification.³ As the Russian empire expanded southward over the course of the 18th century, through trade and military conquest, the region became increasingly tied economically to Russia.⁴ The interests Tsarist Russia saw in Central Asia were three-fold.⁵ First, Russia sought security from invasion, as the relatively flat southern steppes were the soft underbelly of the expanding Russian Empire.⁶ Second, the vast resources, agricultural and mineral, were another reason for economic expansion in the region. Finally, the Silk Roads ran through this region, creating a strong incentive for Tzarist Russia to gain and maintain control over trade routes, waterways, and railroads.

Russia experienced fewer problems in the colonizing process than many Western nations experienced at the same time in other regions.⁷ This was partly due to Russia’s *laissez-faire* attitude toward local governmental structures and partly because of the significant divisions in the region and lack of political awareness.⁸ The current Central Asian republics did not exist as political entities at the time of Russian conquest. Rather, they were a creation of the Soviet Union in an attempt to modernize the region, and ironically, to do away with the nationalism of the Russian Empire.⁹ The Soviet Union drew boundaries along understood ethnic lines in an attempt to provide an alternative focus to tribal boundaries, thus allowing the Soviet central government greater control. In addition to drawing boundaries and creating republics, the Soviet

² Peter Ferdinand, ed., *New States of Central Asia and Their Neighbours* (New York: Council on Foreign Relations Press, 1994), 9.

³ Ibid., 20.

⁴ Nicholas Valentine Riasanovsky, *History of Russia*, 6th ed. (New York: Oxford University Press, 2000), 385.

⁵ Ibid., 389.

⁶ Robert Legvold, ed., *Thinking Strategically The Major Powers, Kazakhstan, and the Central Asian Nexus (American Academy Studies in Global Security)* (New York: The MIT Press, 2003), 4.

⁷ Ferdinand, *New States of Central Asia*, 10.

⁸ Riasanovsky, *History of Russia*, 389-390.

⁹ Ferdinand, *New States of Central Asia*, 10, 16.

Union implemented a comprehensive modernization plan for the region.¹⁰ Collectivization, education, and eradication of religious influences were central to this strategy. Clans, however, continued to exert strong influence and became a second hierarchical power structure in the region. The importance of clan membership continues to this day.¹¹

With the dissolution of the Soviet Union, the Central Asian republics entered a new era. The Soviet Union had ensured that the republics were dependent on the central government for trade, industry experts, foreign interaction, transportation of raw materials, and distribution of energy. In fact, most of the Central Asian republics supported the attempted coup in 1991, fearing that the dissolution of the Soviet Union would adversely affect their ability to maintain control and ensure economic prosperity.¹² Since the dissolution of the Soviet Union, the republics have sought differing interests in pursuit of political stability and economic prosperity, but have generally had a more pro-Russian stance than Eastern European states.¹³ Much of this difference is because of the high percentage of Russian nationals still living in the region.

Short-term pragmatism has been the driving force in Central Asian political culture since 1991. Limited by history and unable to learn from engagement with the Western world during the Soviet era, the republics have had varying (but generally small) success at developing diplomatic skills, economics ties, and political philosophies rapidly while still isolated from Western ideas and financing. The personalities of leaders, perceived cultural heritage, and available resources of the individual republics drive the main differences between their engagement strategies with Russia. Instead of drawing the republics in the region closer together, freedom to pursue interests and threats to interests have increased the political differences between them. These differences provided one opening for Russian attempts at coercion and securing the interests of a greater Russian Empire.

Russian interests in the Central Asian region have not changed much since the mid-19th century. Security of the southern border is still a significant interest.¹⁴ Additionally, control of trade routes, including pipelines carrying oil and natural gas and roads that carry food, cotton and other goods, are important for Russian economic well-being.¹⁵ This control of these routes is central to Russia's coercive capabilities in Eastern Europe, as will be discussed in the next

¹⁰ Ibid., 11-12.

¹¹ Ibid., 16.

¹² Ibid., 14.

¹³ Marlene Laruelle, *Russia's Central Asia Policy and the Role of Russian Nationalism*, Central Asia-Caucasus Institute Silk Road Studies Program, Silk Road Paper, 8, <http://www.isdp.eu/files/publications/srp/08/ml08russiacentral.pdf> (accessed April 2, 2009).

¹⁴ Ferdinand, *New States of Central Asia*, 43.

¹⁵ Laruelle, *Russia's Central Asia Policy*, 27.

chapter. Furthermore, Russian perception of an empire's value still resides in land size, which the Central Asian republics have in abundance (the Central Asian republics are just over one quarter the size of Russia). Russia considers the fate of ethnic Russians (citizens or not) living in the "near abroad" a vital national interest as well.¹⁶ Another significant interest in the region is the mineral wealth, especially the gas and oil that Russia supplies to Europe and China for hard currency.¹⁷ Finally, the challenge of Islamic fundamentalism and the threat it poses to Russian internal security continues to be a source of concern and reason for engagement in Central Asia.¹⁸ Each section below looks at how Russia pursues these interests in the individual countries of Central Asia using economic coercion though capability (risk if the transaction occurs), credibility (the threat of the transaction occurring), communication (awareness of capability and credibility against perceived interests), and choice (the outcome of the coercive transactions).

Kazakhstan

The largest of the Central Asian republics (and the ninth largest country in the world in terms of land mass), Kazakhstan also dwarfs the other republics in terms of economic potential and agricultural output.¹⁹ When Russia conquered the region that is now Kazakhstan in the 18th and 19th centuries, it became vital to Russia's agricultural, mineral, and eventually, space industries. Since the end of the Cold War, Kazakhstan has been the most stable and cautious of all the Central Asian republics.²⁰ Like all the Central Asian republics, Kazakhstan's government is generally authoritarian, although the parliamentary system is more liberal than most of the others in the region. Economically, petrochemicals make up about two thirds of the state's exports, with China, Germany, and Russia being the top three trading partners.²¹ Kazakhstan is generally well managed financially, and has an investment-grade credit rating.²² Diplomatically, Kazakhstan has engaged both East and West.

Capability

Kazakhstan's stability, economic prosperity, and interconnectedness with the East and West seem to leave fewer openings for Russian coercion than in most of the other Central Asian republics. This has not prevented Russia from attempting to coerce Kazakhstan economically,

¹⁶ Legvold, *Thinking Strategically*, 4, Ferdinand, *New States of Central Asia*, 43, and "Strategy for the National Security of the Russian Federation to 2020," Paragraph 38.

¹⁷ Ferdinand, *New States of Central Asia*, 42.

¹⁸ *Ibid.*, 43.

¹⁹ "CIA - The World Factbook," CIA World Factbook, Kazakhstan.

²⁰ *Ibid.*

²¹ *Ibid.*

²² *Ibid.*

however. Kazakhstan's authoritarian government provides an opportunity that would not be available in a more democratic nation, and its economic integration with Russia means that it has a lot to lose if Russia decides to pursue a negative economic policy toward the country.²³

Kazakhstan's energy interests lie in three areas: oil, natural gas, and nuclear material. Oil presents, by far, the biggest venue for successful Russian coercion. Oil must be extracted from the ground (or from under water, as is the case in the Caspian Sea), transported and refined.²⁴ Kazakhstan has the 11th largest proven reserves of oil in the world, the largest oil discovery since the 1970's, and if combined with Russia, would be the 5th largest oil state.²⁵ Yet the lack of foreign financing (due to byzantine rules and high risk) has not permitted full exploration or exploitation of Kazakh fields.²⁶ Once oil is extracted, moreover, it must be moved (by pipeline, tanker, or rail) and refined. Kazakhstan has not succeeded in freeing itself from the Russian-dominated transportation, refining and distribution system.

Despite having the largest gas reserves (along with Turkmenistan) of all the Central Asian republics, Kazakhstan does not produce or export as much as either Turkmenistan or Uzbekistan. The main reasons for this are, again, lack of capital and infrastructure. The most likely foreign interest (after Russia) in Kazakh gas is from China.²⁷ If a significant pipeline to China was connected to a well-developed Kazakh field, both countries could benefit. Russia, however, has proven capable of delaying and denying any major connection. By controlling the current infrastructure, concluding long-term deals with KazMunayGas (the state-owned gas and oil company), and outbidding foreign investors, Russia has managed to stifle development in this realm.²⁸

The final energy resource Kazakhstan owns in abundance is ores for nuclear energy. Due to development in the Soviet era, Russia is highly reliant on Kazakh uranium and other material for its nuclear enterprise.²⁹ While nuclear material, especially in its raw form, requires less infrastructure for extraction and transportation than gas or oil, the current political climate

²³ Stephen Sestanovich, Senior Fellow for Russian and Eurasian Studies, Council on Foreign Relations, testimony in U.S. Senate, Foreign Relations Committee, *Energy Hearings in the 109th Congress*, 109th Cong., S. Doc. 060629, <http://lugar.senate.gov/energy/hearings/109.cfm> (accessed April 5, 2009).

²⁴ Adam N. Stulberg, *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia* (New York: State University of New York Press, 2008), 6.

²⁵ "CIA - The World Factbook," CIA World Factbook, Kazakhstan.

²⁶ Ibid.

²⁷ Richard Weitz, *Kazakhstan and the New International Politics of Eurasia* (Washington, D.C.: Johns Hopkins University-SAIS, 2008), 82.

²⁸ Amy Myers Jaffe, Fellow in Energy Studies and Associate Director, Rice University Energy Program, testimony in U.S. Senate, Foreign Relations Committee, *Energy Hearings in the 109th Congress*, 109th Cong., S. Doc. 060629, <http://lugar.senate.gov/energy/hearings/109.cfm> (accessed April 5, 2009).

²⁹ Laruelle, *Russia's Central Asia Policy*, 26.

and lack of consumer nations means that this is another area where Kazakhstan is more reliant on Russian consumption than world markets. However, this is also one realm where Kazakhstan is seeking to change the monopsonistic equation.³⁰ Recent efforts, including US brokered deals with the United Arab Emirates, are opening this area as a possible Kazakh growth industry. Such an opening, however, would hurt Russia severely and may provoke a stronger coercive effort in another realm. Russia is attempting to prevent Kazakh interests from becoming separate from Russian interests by engaging in joint ventures for the mining and enriching of uranium and the construction of nuclear power plants for export.³¹

Overall, Kazakhstan is more financially secure than the other Central Asian republics, but still relatively less powerful than Russia in all areas of energy economics. The main Kazakh interests that Russia can target are security (the 4300 mile border with Russia is the largest land frontier in the world, and the majority of the large ethnic Russian population lives near it),³² economic development (through pipeline access, foreign investment, and technical expertise), and honor as the keystone Central Asian republic. Kazakh interests that lie outside the range of Russian reach are Kazakh honor as a nation and diplomatic connections to other major countries like China and the US.

Credibility

Key Russian (coercer) interests in Kazakhstan include: traditional claims of empire, agricultural production, space access, ethnic Russian security, and energy resources.³³ Kazakh mineral wealth (including natural gas and oil) is found primarily in eastern Kazakhstan, where, not coincidentally, the largest city is predominantly ethnic Russian. This provides both an interest and a coercive capability for Russia, since ethnic Russians there are essential to the Kazakh energy industry, due to the Soviet practice of importing Russian technicians and engineers to develop a region's wealth, rather than developing indigenous capability. Much of the discussion in the early to mid 1990s revolved around the question of dual citizenship for Russians living in Kazakhstan and guarantees of Russian equality.³⁴ Kazakhstan's size and proximity to Russia mean that Russia has a stronger interest in tying Kazakhstan to Russia than any of the other Central Asian republics.

³⁰ Weitz, *Kazakhstan and the New International Politics of Eurasia*, 86.

³¹ Laruelle, *Russia's Central Asia Policy*, 26-27.

³² Edward Lucas, *The New Cold War : Putin's Russia and the Threat to the West* (New York: Palgrave Macmillan, 2008), 133.

³³ Drezner, *Sanctions Paradox*, 160.

³⁴ Ferdinand, *New States of Central Asia*, 35.

As discussed in the next section on Eastern Europe, Russia needs Kazakh gas and oil at below-market rates to ensure a positive cash flow through arbitrage³⁵ to Europe and China, and to prevent the financial viability of planned future pipeline expansions (like the Baku-Tblisi-Ceyhan and Nabucco pipelines).³⁶ This is a significant interest of Russia, not just for the cash, however, but also for the prestige of being a “reliable supplier” to Europe, even in tough times. As demand for oil and especially gas increases in the future as Russian fields become depleted (due to both exhaustion and mismanagement), Russia needs guaranteed and increasing supplies to maintain its status and thus its economy and honor. An additional pipeline that bypasses “bad actors” (from a Russian perspective) like Ukraine and Georgia to supply gas to Europe increases Russian coercive capability (through isolation) of those countries.³⁷ As this thesis described in Chapter 2, the interests in Eastern Europe and Central Asia, as well as Russia’s coercive attempts, are interconnected and entangled. Only by developing them in concert can Russia hope to successfully coerce and regain the honor of empire, security from invasion and economic prosperity.

In addition to the Kazakh oil and gas, Russia has a strong interest in Kazakh nuclear material. Although Russia has supplies, reserves and mines, Kazakh materials are both higher quality and more easily accessed. For this reason, Russia has promoted increased trade, and where possible, Russian corporate ownership of involved companies. The recent offer, lauded by the US and others, to be a global repository for nuclear fuel is a clear sign that Kazakhstan is seeking to set itself up as an autonomous entity in the realm of nuclear energy.³⁸ Russia’s reaction to this proposal will be interesting, and the proposal will probably escalate Russia’s coercive efforts in other realms.

China and the West both have interests in what happens in Kazakhstan, due to the amount of natural resources and the potential impact their export would have on Russian control of energy resources in the region. Russia in the past has discouraged other foreign interest and investment in these resources, especially from China. This interest, however, gave Kazakhstan an

³⁵ Arbitrage is the nearly simultaneous purchase and sale of a commodity in different markets to profit from price discrepancies. In Russia’s case, it buys oil and gas at significantly below market rates in Central Asia, and resells it in Europe at market rates.

³⁶ Paata Tsagareishvili, “New Caspian Oil Production Will Bypass Russian Transport,” *Oil and Gas Journal* (January 26, 2009), https://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?docLinkInd=true&risb=21_T6455860301&format=GNBFI&sort=BOOLEAN&startDocNo=1&resultsUrlKey=29_T6455855862&cisb=22_T6455860303&treeMax=true&treeWidth=0&csi=8039&docNo=5 (accessed April 30, 2009).

³⁷ Ibid.

³⁸ Jonathan Weisman and Marc Champion, “Kazakhstan Offers Nuclear Fuel Deal to U.S.,” *Wall Street Journal*, April 5, 2009, World, <http://online.wsj.com/article/SB123894229162890323.html> (accessed April 5, 2009).

opening for a counter-coercive offer: develop infrastructure and open markets in China. Western oil companies and, ironically enough, governments, concerned that Chinese investment will lessen the value of Western offers, have discouraged Kazakh pursuit of this opportunity.³⁹ In this conflict, Russia has been content to sit and wait. Russia's guaranteed access and control of transit lines (attained earlier in coercive actions) allows it to benefit from any foreign development of Kazakh energy. Additionally, due to historical Kazakh culture, the security of the state appears to be more threatened by Chinese expansion than Russian, an interest Russia can use in future transactions.⁴⁰

The external aspects of Russian/Kazakh interaction will have a significant impact on Russian credibility in future operations. As the largest and most prosperous Central Asian republic, the outcome of Russian/Kazakh coercive transactions will be felt strongly in the rest of the region. If Russia succeeds in coercing Kazakhstan back into the Russian fold, or even if it seems to dominate Kazakh relations with external countries, the other Central Asian republics will have both a challenge and an opportunity. Uzbekistan, already seeking a leadership role in the Central Asian republics, would become pivotal, and thus at greater risk for Russian coercion. However, as is the case when a developer buys land for a large mall, with each purchase, the price of the remaining land increases.

It is for this reason that Russia is working simultaneously, rather than sequentially, to coerce all the republics back into the Russian sphere of influence. Timing is important. If Russia gets too far ahead with one of the republics, the others will increase their reservation price and become more challenging to coerce. If, however, Russia delays too much, it will lose some of the opportunity gained in previous coercive transactions.

Communication

Russia has done a lot to ensure that Kazakhstan understands Russian interests at stake. Examples include repeated statements about the Russian obligation to protect Russians abroad, and blocking foreign companies from exporting oil from Kazakhstan.⁴¹ Because of its importance to Russia, coercive interaction with Kazakhstan began early.

In 1993, when Kazakhstan was trying to decide whether it should stay with the ruble or develop its own currency (at the urging of the World Bank and the United States), Russia offered

³⁹ Richard Weitz, *Kazakhstan and the New International Politics of Eurasia* (Washington, D.C.: Johns Hopkins University-SAIS, 2008), 110.

⁴⁰ Weitz, *Kazakhstan and the New International Politics of Eurasia*, 111.

⁴¹ Steve LeVine, Jason Bush, Mark Scott, and Dexter Roberts, "Kazakh Oil: A War of Nerves," *Business Week*, September 22, 2008, 74, <http://bx.businessweek.com/oil-and-gas> (accessed March 31, 2009 through LexisNexis).

an agreement, "On Unification of the Financial Systems of Russia and Kazakhstan," which would ensure stability of the country. Once the agreement was signed, however, Russia demanded billions of dollars in financial guarantees.⁴² The blatant attempt at coercion (and at separating Kazakhstan from other Central Asian republics) failed because the Kazakh government simply did not have the financial resources (capability) to acquiesce.⁴³ Since that time, however, Russia has entered various agreements with the Kazakh regime, seeking closer military, economic, and diplomatic ties. For the most part, Russia has succeeded, increasing economic ties with Kazakhstan every year and becoming the Kazakhstan's largest trading partner in 2006.⁴⁴

Another example of Russian economic coercion occurred in 1994 and signaled that Russia still considered economic coercion viable. Shortly after Kazakhstan announced that it was demanding \$7 billion for a ten-year lease on the Baikonur Cosmodrome, Russia announced that it was closing the base and investing in costly upgrades of another launch site (in Russia). Given that the base was worthless without Russian technical support and seeking concessions in other areas, less than a week later Kazakhstan recanted. The new agreement was a 30-year lease where Russia only paid for the time it actually used, valued on paper at \$115 million a year, but actually worth significantly less.⁴⁵ In 2004, the countries extended the lease, with the same terms favorable to Russia, until 2050.⁴⁶ With the completion of this transaction, Russia demonstrated a willingness to inflict and absorb short-term costs for long-term gains. This strategy matured after the end of the chaotic Yeltsin era, suggesting that the Putin administration developed a long-term view of the utility of economic coercion, especially with respect to energy resources.

Russia communicated its interests in Kazakhstan through the creation of significant roadblocks to foreign (Western and Chinese) companies interested in developing and controlling Kazakh infrastructure. Methods included tax policy, lucrative development contracts, and partnership with Kazakhstan's national gas and oil companies. When Chevron attempted to invest unilaterally in Kazakhstan, Russia coerced the company by threatening existing contracts for access to Russian pipelines and oilfields.⁴⁷ Only after Lukoil, one of Putin's "national champions," gained access to the fields and a stake in the endeavor, was the project allowed to continue.⁴⁸ Russia's interest in coercion does not just run to governments and companies,

⁴² Ferdinand, *New States of Central Asia*, 25.

⁴³ Ibid., 133.

⁴⁴ Laruelle, *Russia's Central Asia Policy*, 21.

⁴⁵ Drezner, *Sanctions Paradox*, 162.

⁴⁶ Weitz, *Kazakhstan and the New International Politics of Eurasia*, 121.

⁴⁷ LeVine, Bush, Scott, and Roberts, "Kazakh Oil: A War of Nerves."

⁴⁸ Douglas Busvine, "Kazakh Pipeline Deadlock Solved," *Lloyd's List*, <http://www.lloydslist.com/ll/news/kazakh-pipeline-deadlock-solved/1013971153748.htm> (accessed April 30, 2009).

however. After American Richard Matzke (as a director and vice-president of Chevron) helped arrange the deal, he became a director of Lukoil and worked on engineering other similar deals in other “strategically important markets.”⁴⁹

While the near-term results are generally in Moscow’s favor, the long-range outlook is decidedly so. Russian companies control interests in all of Kazakhstan’s gas fields, and Kazakhstan and Russia teamed up to coerce Turkmenistan into an exclusive Caspian gas development and transit deal.⁵⁰

External Russian actions, whether it is their intent or not, continue to influence internal decisions. The 2008 conflict in Georgia effectively halted financing for foreign-built facilities that would have refined Kazakh oil, and put into jeopardy expanding pipeline and rail service across Georgia, the only operating non-Russian controlled Western export route.⁵¹ Instead of increasing capacity or building new infrastructure in the risky Caucasus region, oil and gas companies are signing on to the Russian plan to expand Lukoil and Gazprom controlled transit routes, a less risky option for these companies in the short-term.⁵²

Choice

Kazakhstan has demonstrated an adroitness in trying to mitigate Russian coercive efforts. For example, Kazakhstan has begun an exchange program with China to train Kazakh engineers in pipeline construction and operation.⁵³ Over time, this will mitigate the leverage Russia has through control of the gas and oil specialists. However, this program, beginning with 24 engineers, will take time to bear fruit. Kazakhstan is also seeking to increase Western interests and connections in the country, despite Russian efforts at coercing the same countries and companies. By opening pipelines to China and Europe that bypass regions of Russian control, Kazakhstan can build a market that is as dependent on its natural gas as Russia currently is, a market that would have a significant interest in Kazakh autonomy and security. Kazakh efforts in the nuclear realm are probably the most significant. Russia is more dependent on Kazakh nuclear supplies than it is on any other country for any other material, and Kazakh success in this area

⁴⁹ BBC Monitoring Europe-Political, "Russian LUKoil Official Views Energy Market," in LexisNexis, https://www.lexisnexis.com/us/Inacademic/results/docview/docview.do?docLinkInd=true&risb=21_T6456090145&format=GNBFI&sort=RELEVANCE&startDocNo=1&resultsUrlKey=29_T6456090148&cisb=22_T6456090147&treeMax=true&treeWidth=0&csi=10962&docNo=3 (accessed April 30, 2009).

⁵⁰ Kulpash Konyrova, "Putin Deal Torpedoes Trans-Caspian Gas Pipeline Plans," New Europe, http://www.neurope.eu/view_news.php?id=73862 (accessed April 7, 2009).

⁵¹ LeVine, Bush, Scott, and Roberts, "Kazakh Oil: A War of Nerves."

⁵² Laruelle, *Russia's Central Asia Policy*, 22.

⁵³ "Kazakh Specialists to do Training in China," Kazinform, <http://www.inform.kz/showarticle3.php?lang=eng&id=177216> (accessed April 6, 2009).

would be a significant inversion of the balance of motivation currently driving the relationship. Finally, Kazakhstan has successfully increased foreign interest in oil and gas production and pipelines, and is using contacts in the East and West to ensure external engagement. By successfully combating Russian attempts at isolation, Kazakhstan limits Russian coercive capabilities as well.

Despite these apparent successes, Kazakhstan seems to have been out-maneuvered in terms of long-range interests. Russia has demonstrated skill at what Byman and Waxman call second-order coercion, "indirect pressure...leverage with a third party that can influence the adversary."⁵⁴ Russia, through the use of coerced companies engaged in Kazakh energy production, effectively gained long-term rights to Kazakh energy production. Russian dominated regional security and economic organizations like the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO) multiply Russia's influence over internal and interstate policy.⁵⁵ As Kazakhstan has increased connections to the West and China, Russia has changed tactics while keeping long-term goals in mind. Even if Russia is unable to call Kazakhstan a part of the Russian empire, it is still deriving more economic benefit and coercive capability from the relationship than it is putting in. According to David Baldwin, alternative objectives like this may be a viable and desired outcome of coercive efforts.⁵⁶

Uzbekistan

Ethnic Uzbeks, generally less nomadic than the Tajiks to the west and more populous, were easily organized and assimilated into the Tsarist system and later, the Soviet Union.⁵⁷ Uzbekistan was one of the first republics given full union status, in 1924. Currently Uzbekistan is vying with Kazakhstan for the keystone role in the Central Asian republics.⁵⁸ As the only republic to share a border with all the others, as well as Afghanistan, Uzbekistan is quite literally central to any Central Asian strategy.

⁵⁴ Byman and Waxman, *Dynamics of Coercion*, 82.

⁵⁵ Ariel Cohen, "Eurasian Tiger's Visit," *Washington Times*, September 27, 2006, Special ed., A18, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.476232.11252009025&target=results_DocumentContent&reloadEntirePage=true&rand=1242488716485&returnToKey=20_T6576074142&parent=docview (accessed May 16, 2009).

⁵⁶ David A. Baldwin, *Economic Statecraft* (New York: Princeton University Press, 1992), 132.

⁵⁷ Ferdinand, *New States of Central Asia*, 11.

⁵⁸ "Turkmenistan: The Government Clamps Down," STRATFOR, http://www.stratfor.com/analysis/20081111_turkmenistan_government_clamps_down (accessed April 26, 2009).

Capability

Although Uzbekistan has only a little more than half of Kazakhstan's proven gas reserves, it exports almost twice as much.⁵⁹ This is mostly due to Soviet-era development of the gas fields on the Uzbekistan/Turkmenistan border and access to the compressor stations and pipelines themselves.⁶⁰ Oil, while a significant interest, is less of a factor. Its geographic centrality is a significant issue since Uzbekistan, which unlike Kazakhstan and Turkmenistan, does not have direct access to the Caspian Sea; unlike all the other republics, it does not have access to a major outside nation (Iran or China). It also does not have direct access to Russia. For this reason, Uzbekistan has a strong interest in another entity, aside from its neighbors, controlling the pipelines that transport its gas. Russia has successfully used the tension between Kazakhstan and Uzbekistan to improve its position in bilateral discussions, and it has used Uzbek/Turkmen tensions over water rights to divide two countries which could be a formidable force against Russia.⁶¹ As is the case in Kazakhstan, Gazprom (and Russia) can buy Central Asian gas at below market prices because it possesses the infrastructure required to move the gas to markets.⁶² Europe has attempted to bypass Russia by building pipelines through the Caspian to Georgia and Turkey, but the prohibitive cost combined with Russia's current ability to increase risk to investors by opening the spigot or building capacity into current lines, means that these attempts have generally failed.⁶³

Other targetable Uzbek interests include security and foreign investment flows. A difficult country for foreigners to engage with in business, Uzbekistan continues to be a centrally controlled country that has high risk but also the potential for high rewards.⁶⁴ After several years of apparently drawing closer to the West, Uzbekistan seems to have returned to Putin's camp. In 2005, Uzbek President Karimov signed an alliance with Russia (subsequent to kicking US and NATO troops out, which followed Western criticism of government handling of anti-government riots).⁶⁵ It also rejoined the Russian dominated Collective Security Treaty Organization and the

⁵⁹ "CIA - The World Factbook," CIA World Factbook, Uzbekistan.

⁶⁰ Daniel W. Drezner, *Sanctions paradox economic statecraft and international relations* (Cambridge [England]: Cambridge University Press, 1999), 183.

⁶¹ "Uzbekistan and the U.S.-Russian Competition for Influence," STRATFOR, http://www.stratfor.com/analysis/20090208_uzbekistan_net_assessment (accessed April 25, 2009).

⁶² Marshall I. Goldman, *Petrostate : Putin, Power, and the New Russia* (New York: Oxford University Press, Incorporated, 2008), 186.

⁶³ Laruelle, *Russia's Central Asia Policy*, 24.

⁶⁴ "Uzbekistan and the U.S.-Russian Competition for Influence," STRATFOR.

⁶⁵ "Evicted; Uzbekistan and America," *Economist*, August 6, 2005, http://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?docLinkInd=true&risb=21_T61956

Eurasian Economic Community.⁶⁶ One probable reason for this is Russia's help with (and mutual interest in) suppressing the Islamic Movement of Uzbekistan (IMU), based in the Fergana Valley.⁶⁷ This valley spans the borders of Uzbekistan, Kyrgyzstan, and Tajikistan and is a "hotbed of Islamic extremism."⁶⁸

Credibility

Russia's interests in Uzbekistan are similar, but not identical, to its interests in Kazakhstan. Uzbekistan has more available gas than Kazakhstan, and Uzbek oil is a significant resource Russia desires as well. However, cotton, gold, and uranium are also commodities that were produced for the Soviet Union in significant quantities, and still constitute a Russian interest.⁶⁹ Additionally, Russian control of the hub of Central Asia would greatly increase Russian chances of regaining hegemony in the entire region. Suppression of radical Islamic groups like the IMU helps increase Russian security. Finally, there are a significant number of ethnic Russians still living and working in Uzbekistan.⁷⁰

If Russia does not get its way, there are several areas in which Putin could escalate the situation. President Karimov, who predates Uzbek independence in that office, is justifiably worried about internal dissent.⁷¹ Radical Islamic parties and organizations are a threat that Russia could conceivably wield (though this would threaten Russian interests as well). Likewise, as Lukoil and Gazprom acquire more suppliers, stopping buying gas or even taking control of the fields and pumping it without payment are coercive options. Additionally, there is always the threat, more credible now after the Georgia operation, of military intervention.

External actors involved in the outcome of any coercive efforts in the country include countries to the East, West, and South. Europe gets its gas from Central Asia, though Eastern Europe. Eastern Europe gets subsidized Central Asian gas for other, coercive, reasons, and transits Central Asian gas to Europe. China has a developing market for Central Asian gas and a need for increased energy supplies as it grows. Central Asian republics would be in a weaker position if Russia controlled the resources in Uzbekistan, but also would be in a stronger position

27518&format=GNBFI&sort=RELEVANCE&startDocNo=1&resultsUrlKey=29_T6195627521&cisb=22_T6195627520&treeMax=true&treeWidth=0&csi=7955&docNo=2 (accessed March 31, 2009).

⁶⁶ Laruelle, *Russia's Central Asia Policy*, 10.

⁶⁷ Drezner, *Sanctions Paradox*, 184.

⁶⁸ Senate, Foreign Relations Committee, *Energy Hearings in the 109th Congress*, 109th Cong., S. Doc. 060629, <http://lugar.senate.gov/energy/hearings/109.cfm> (accessed April 5, 2009).

⁶⁹ "Caspian Oil and Gas," International Energy Agency, http://www.iea.org/textbase/nppdf/free/1990/caspian_oil_gas98.pdf (accessed April 25, 2009) 178.

⁷⁰ "CIA - The World Factbook," CIA World Factbook, Uzbekistan.

⁷¹ Ibid.

as holdouts against Russian domination. Uzbekistan, as the most central of the Central Asian republics, is therefore crucial to Russia's coercive strategy.

Communication

Uzbekistan seems to be aware of Russia's interests, as well as its own. Diversification is a stated goal, yet the government has done little to make the country more welcoming to outside investment. It has, however, continued dialogue with both NATO and China, the former in the realm of possible military cooperation and the latter in the realm of supplying gas and oil through Kazakh pipelines.⁷² By openly seeking to keep these options on the table, Uzbekistan is indicating to Russia that it is aware of the influence attempts and is hedging against them.

Choice

Geographically and politically isolated, Uzbekistan is vulnerable to economic coercion. Its dependency on Russian infrastructure and trade means that Uzbekistan has a lot to lose, and Russia can use the relatively cheaper coercive threat, rather than more expensive economic inducements. On the horizon, however, there are other options available to Uzbekistan, which is used to being the central regional power, both in Soviet times and since.⁷³ Russia, more experienced in foreign policy maneuvering and motivated to preserve an empire, can use threats against current Uzbek interests (water, trade, gas, stability) to ensure that Uzbek options remain limited. For this reason, Uzbekistan is a likely candidate for long-term economic coercion, through both inducements (high-risk prospects for developing energy resources) and threats (removing support for the government against Islamic fundamentalists or supporting other Central Asian countries in border disputes).⁷⁴ Based on shared interests, however, the former is more likely to be used explicitly than the latter.

Kyrgyzstan

Annexed to Russia relatively late (compared to the other Central Asian republics) in 1876, Kyrgyzstan also was a late-comer to the Soviet Union in 1936.⁷⁵ Kyrgyzstan has a history of rebellion against Russia, with over one sixth of the population having been wiped out in

⁷² "Uzbekistan: The Geopolitics of an Air Base," STRATFOR.

http://www.stratfor.com/analysis/uzbekistan_geopolitics_airbase (accessed April 25, 2009).

⁷³ Senate, Foreign Relations Committee, *Energy Hearings in the 109th Congress*, 109th Cong., S. Doc. 060629, <http://lugar.senate.gov/energy/hearings/109.cfm> (accessed April 5, 2009).

⁷⁴ Ibid.

⁷⁵ "CIA - The World Factbook," CIA World Factbook, Kyrgyzstan.

1916.⁷⁶ Although it is the poorest of the Central Asian republics, it is the only one to attain World Trade Organization (WTO) membership (and was the first Commonwealth of Independent States member to do so).⁷⁷ This presents some interesting issues for both Russia and the West, as Russia covets WTO membership and is willing to use energy resource development to attain it.⁷⁸ Nonetheless, Kyrgyzstan is an agricultural, autocratic country (despite the so-called Tulip Revolution in 2005),⁷⁹ with little development of the few natural resources contained within its borders.⁸⁰ At the time of this writing, Kyrgyzstan is unique in that it is the only country to have both an active US military and Russian military base in the country (Manas Air Base and Kant Field).

Capability

Kyrgyzstan's greatest interests are preservation of the government, continued stability, and suppression of radical Islamist organizations (like the Islamic Movement of Uzbekistan (IMU) in the Fergana valley). To defend these interests it needs money, forces, and equipment. Russia has strong capability to support or attack these interests, as recent events demonstrate. In February 2009, Russia announced that it was forming a financial rescue fund for Central Asian allies. The next day, Kyrgyzstan agreed to evict the US from Manas Air Base (a long-stated Russian desire).⁸¹ and ratified an agreement to join a Russian dominated rapid reaction military force.⁸² This coercive economic offer of US \$2 billion dwarfed both the US rental rate for Manas (US \$17.4 million annually)⁸³ and the Kyrgyz annual budget (US \$1 billion).⁸⁴ Additionally, Bishkek has increasingly viewed US aid, in the aftermath of the so-called "Color Revolutions," as antithetical to the interests of the state, decreasing its coercive value considerably.⁸⁵

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Cindy Hurst, "Investment Risky in Russia as Politics Affects Profits," *Oil & Gas Journal* (July 16, 2007): 18, http://www.ogj.com/display_article/297918/7/ARCHI/none/none/1/Investment-risky-in-Russia-as-politics-affects-profits/ (accessed May 16, 2009).

⁷⁹ "CIA - The World Factbook," CIA World Factbook, Kyrgyzstan.

⁸⁰ Ibid.

⁸¹ U.S. Congressional Research Service. Russia: CRS Issue Brief for Congress (IB92089; March 22, 2006), by Stuart D. Goldman. Accessed: January 27, 2009.

⁸² Alan Cullison and Yochi J. Dreazen, "Moscow Moves to Counter U.S. Power in Central Asia," *Wall Street Journal*, February 5, 2009, <http://online.wsj.com/article/SB123378027003448977.html> (accessed February 5, 2009).

⁸³ "Kyrgyzstan Says U.S. Will No Longer Have Access to Critical Air Base," Fox News, <http://www.foxnews.com/story/0,2933,488327,00.html> (accessed February 4, 2009).

⁸⁴ Cullison and Dreazen, "Moscow Moves to Counter U.S. Power in Central Asia,".

⁸⁵ John C.K. Daly, "Analysis: Manas, energy and the U.S.," Energy News, http://www.energy-daily.com/reports/Analysis_Manas_energy_and_the_US_999.html (accessed April 25, 2009).

Credibility

The three main powers that could coerce Kyrgyzstan through threat to or provision for its interests are the US, Russia, and China. Of these, the US has the least credibility in the military realm and has lost credibility in the economic and political realms; Russia and China both have credibility in the economic realm, but Russia has a significant edge in the cultural/political realm, due to history and current infrastructure configuration. Furthermore, Russian interests in maintaining Kyrgyzstan as a close ally in Central Asia are the greatest of the three powers for both cultural and realpolitik reasons. Due to geography, Kyrgyzstan is one of three possible gateways for Central Asian energy to enter China (Kazakhstan and Tajikistan are the other two). Given the extreme poverty and dependence of Kyrgyzstan and Russia's promises of investment, Russia seems to be the most credible ally. For example, Russia attempted to acquire a stake in Kyrgyz state-owned nuclear processing facilities (Minatom) in the late 1990's for processing Kazakh uranium ore in a way that would have been disadvantageous for Kyrgyzstan.⁸⁶ Kyrgyzstan resisted initially, seeking diversity through Western contracts and decentralization; it eventually came to an agreement with Moscow, that, though better than the initial coercive offer, nonetheless increases Kyrgyz dependence on Russia and increases Russia's ability to not only coerce Kazakhstan (as the supplier of uranium) but also Ukraine and other consumers.⁸⁷

Russia also has the greatest potential to cause internal and external consequences for non-compliance with coercive offers, since Kyrgyzstan is a net energy importer.⁸⁸ and relies on Russian training and arms for security operations.⁸⁹ Ideologically, President Bakiyev is much closer to Prime Minister Putin than any Western leader, seeing stability and protection from radical Islamists as his greatest challenges.⁹⁰

Communication

This ideological linkage provides a common grammar for Russia to converse with Kyrgyzstan about commonly perceived interests, smoothing the coercive interaction. Kyrgyzstan perceives less threat from Russian long-term military presence than US presence, and so is more likely to be receptive to coercive offers from Russia than the US. China, with greater potential

⁸⁶ Stulberg, *Well-Oiled Diplomacy*, 184.

⁸⁷ *Ibid.*, 208-209.

⁸⁸ "CIA - The World Factbook," CIA World Factbook, Kyrgyzstan.

⁸⁹ Laruelle, *Russia's Central Asia Policy*, 9.

⁹⁰ Plakoudas Spyros, "Russian Nationalism and Central Asia in the 21st Century," Center for Russia and Eurasia, <http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail?ots591=0C54E3B3-1E9C-BE1E-2C24-A6A8C7060233&lng=en&id=93817> (accessed April 7, 2009).

gains from a relationship with Tajikistan or Kazakhstan, also has less capability to offer a near or long-term coercive relationship.

Choice

Given Kyrgyzstan's relatively isolated situation and Russia's willingness to offer incentives that directly benefit both short-term interests (cash-flow and internal security) and long-term ones (stability, development, preservation of power), the balance of motivation is clearly on Russia's side.⁹¹ Kyrgyzstan may seek to hedge as it has in the past by keeping a dialogue open with the US and NATO and developing economic trade with China. Overall, however, it is likely to trend more toward the Russian camp without the use of explicit threats from Moscow.

Tajikistan

Tajikistan got a rough start. In the Soviet era of the 1920s ethnic Tajiks lost most of their territory to ethnic Uzbeks, mostly due to the nomadic nature of ethnic Tajiks and the sedentary nature of ethnic Uzbeks, the latter having better ability to claim ancestral land. With the dissolution of the Soviet Union, Tajikistan devolved rapidly into a civil war that lasted 5 years and claimed thousands of lives.⁹² The legacy of this civil war and the ethnic conflict between Uzbeks and Tajiks continues to this day.⁹³ Although violent clashes are rare, the instability caused a flight of expertise, primarily engineers, skilled technicians, and experienced workers, especially from the mining and energy sectors.⁹⁴ Of the five Central Asian republics, Kyrgyzstan has the most to lose by severing ties with Moscow, and the most to gain by ensuring Moscow stays engaged with the country, helping preserve the power of the current leadership. It is the only one of the Central Asian republics with a Persian-based language and significant ethnic and familial ties to Afghanistan.⁹⁵

Capability

Like neighboring Kyrgyzstan, Tajikistan's critical interests are currently preservation of order, economic stability, and the suppression of radical Islamist organizations like the IMU.

⁹¹ Stulberg, *Well-Oiled Diplomacy*, 187.

⁹² "CIA - The World Factbook," CIA World Factbook, Tajikistan.

⁹³ Erica Marat, "National Ideology and State-building in Kyrgyzstan and Tajikistan," Silk Road Papers, <http://www.asia-studies.com/asia/SilkRoad/Papers/em08nationalideology.pdf> (accessed April 14, 2009) 16.

⁹⁴ Ferdinand, *New States of Central Asia*, 46.

⁹⁵ Lena Jonson, *Vladimir Putin and Central Asia: The Shaping of Russian Foreign Policy* (London: I.B. Tauris, 2004), 46.

Tajikistan's geographic location means that the long border with Afghanistan exacerbates the radical Islamist problem that exists in the Fergana Valley it shares with Uzbekistan and Kyrgyzstan. Nearly half of the population works in Russia, supporting the country with remittances and leaving the economy doubly vulnerable to external forces like the current economic crisis.⁹⁶ Furthermore, the Soviet legacy of building infrastructure for energy transmission (power lines, oil and gas pipelines, and roads) that ignored the borders the Soviet state has created is a significant problem for Tajikistan today. For example, electricity produced in central Tajikistan has to pass through Uzbekistan to reach northern Tajikistan. Likewise, to sell electricity to neighboring Kyrgyzstan, Tajikistan has to move it via Uzbek lines. Reducing Tajikistan's dependence on its neighbors for energy, especially Uzbekistan, is a significant interest of the country.⁹⁷

Credibility

Russian interests in Tajikistan, the furthest Central Asian republic from Russian borders, are threefold. First, Russia does not want the radical Islamic problem creeping north, and for that reason took control of the Tajik/Afghan border from the mid-90's until 2005.⁹⁸ This intervention was costly, however, and Russia would prefer that the burden be borne by Tajik troops with Tajik financing.⁹⁹

The danger of radical Islam is not felt by Russia alone and directly led to a challenge of Russia's second significant interest in Tajikistan. After 11 September 2001, Western powers, especially the United States and NATO, sought access for military forces, causing the appearance of NATO encroachment on Russia's southern flank. Russia had to balance the danger of Western influence and interest in the region, especially states bordering Afghanistan, with the dangers posed by organizations like the Taliban and the IMU. Rather than be relieved by the help with the border problem, Russia sought to create the Collective Security Treaty Organization.¹⁰⁰ The goal was to prevent the influx of Western aid (military and financial), especially to the countries it saw as the "weakest links," Tajikistan and Kyrgyzstan.¹⁰¹

This threat from the West, combined with the high number of Tajik immigrants in Russia, creates a situation where Russia has a lot to lose, and not much to gain. The third significant Russian interest, one stemming from the first two, is to wean the Tajik state from Russian aid so

⁹⁶ "CIA - The World Factbook," CIA World Factbook, Tajikistan.

⁹⁷ Jonson, *Vladimir Putin and Central Asia*, 73.

⁹⁸ Laruelle, *Russia's Central Asia Policy*, 14.

⁹⁹ Drezner, *Sanctions Paradox*, 179.

¹⁰⁰ Laruelle, *Russia's Central Asia Policy*, 16.

¹⁰¹ Ibid., 13.

Tajiks can go home, but without letting Tajikistan drift into the domain of China or the West. This has already proved a challenge and ultranationalist politicians like Vladimir Zhirinovsky make political hay out of the situation.¹⁰² The overrepresentation of Tajiks in the ranks of HIV cases and heroin addicts only increases the Russian interest in convincing them to return to their country.¹⁰³

Communication

Russia has made it clear that it is interested in Tajikistan's security for self-serving reasons, and Tajikistan understands that offers of assistance and aid are less than selfless. Nonetheless, it is in Tajikistan's interest to continue to be in Russia's security sphere; Tajik politicians have said as much.¹⁰⁴ Russia has also made it clear that it will not tolerate Tajik overtures to outside powers, especially the United States and NATO. One demonstration of this was Russia's recent occupation and use of all former Soviet bases in Tajikistan (either directly or through the Collective Security Treaty Organization), precluding the possibility of them being offered to NATO as substitutes for Manas Air Base.¹⁰⁵ Other Russian coercive efforts include writing off large portions of Tajik debt and assistance with the two main industries in the country: hydroelectric power generation and aluminum production.¹⁰⁶

Choice

Geography, economics, and history have all conspired to isolate Tajikistan from major powers other than Russia. No major energy supplies are found within Tajik borders, no major energy supply routes run through the country, and Tajikistan is not a major consumer of Russian energy. The alignment of Tajik and Russian interests allows pursuit of both sets of interest without overtly aggressive threats. Tajikistan will probably continue to engage Russia in realms that increase internal security and economic benefits at the expense of future independent options. Russia, likewise, will probably continue to engage whenever other countries (like the US and China) evince an interest in Tajikistan, but give minimal effort toward providing real help.

¹⁰² The author attended a large political rally in Moscow in 1996 in which Zhirinovsky spoke about danger of immigrants from the south, clearly alluding to both the Caucasus and Central Asia.

¹⁰³ Lutz Kleveman, *The New Great Game: Blood and Oil in Central Asia* (New York: Grove/Atlantic, Incorporated, 2003), 194.

¹⁰⁴ Jonson, *Vladimir Putin and Central Asia*, 50.

¹⁰⁵ "Tajikistan: A Cry for Help," STRATFOR.

http://www.stratfor.com/analysis/20090416_tajikistan_cry_help (accessed April 26, 2009).

¹⁰⁶ "CIA - The World Factbook," CIA World Factbook, Tajikistan.

Turkmenistan

Turkmenistan is a poster-country for successful Russian economic coercion. Consisting mostly desert and reliant on exports of cotton, gold, natural gas, and oil, at independence Turkmenistan seemed to be in the best position to leave the Russian realm and become a part of the West. Separated from Russia by other countries (Uzbekistan and Kazakhstan), Turkmenistan also had vast reserves of exportable natural gas equal to Kazakhstan's.¹⁰⁷ Furthermore, the Caspian Sea, Iran, and Afghanistan provided an opportunity to connect with the West without going through Russia. Since 1991, however, Turkmenistan's relationship with the West has continuously deteriorated and it has become more dependent on Russian security and economic assistance.

Capability

Like the other Central Asian republics, the instability following the breakup of the Soviet Union raised security and stability to new levels as a Turkmen interest. Mainly used by the Soviet Union as a source of exportable cotton and natural gas, Turkmenistan's lack of infrastructure limited its potential to immediately expand the energy sector, despite having the world's fourth largest proven reserves of natural gas.¹⁰⁸ The disorder in the former Soviet Union, however, allowed Turkmenistan to begin discussions with western companies and nations about creating an export infrastructure to end reliance (on both sides) on the Russian-controlled pipelines. In addition to economic expansion, Turkmenistan also has an interest in defending its borders against Iranian and Uzbek encroachment, but does not have significant military forces for these operations.¹⁰⁹ Furthermore, Turkmenistan is aware of the strategic, long-term value of its petrochemical reserves and its interest in keeping them under Turkmen control.¹¹⁰ Finally, if Turkmenistan has any hope of developing an independent gas and oil industry, it needs to keep highly-skilled workers (mostly Russian) in the country.¹¹¹ As is the case with all the other Central Asian republics, Russia's political, economic, and military power dwarfs Turkmenistan's.

¹⁰⁷ "CIA - The World Factbook," CIA World Factbook.

¹⁰⁸ Stulberg, *Well-oiled Diplomacy*, 103.

¹⁰⁹ Ibid., 163.

¹¹⁰ "Turkmen President Foresees Economic Transformation in Coming Years," in LexisNexis (Rossiyskaya Gazeta), http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.529551.6749221284&target=results_DocumentContent&reloadEntirePage=true&rand=1241014590380&returnToKey=20_T6443291189&parent=docview (accessed April 29, 2009).

¹¹¹ Drezner, *Sanctions Paradox*, 170.

Credibility

Russia's main interests in Turkmenistan are security (against the southern flank of Iran and Afghanistan),¹¹² protection of ethnic Russians,¹¹³ and control of the oil and natural gas operations in the country.¹¹⁴ Like Kazakhstan and Uzbekistan, Turkmenistan is a significant source of hard currency for Russia through the arbitrage of hydrocarbon energy to Western European countries.¹¹⁵ In addition to having control over Turkmenistan's export routes, Russia also maintains substantial control over food imports.¹¹⁶

Communication

Since the breakup of the Soviet Union, Turkmenistan seems to have the greatest potential and motivation of all the Central Asian states to escape the Russian sphere of influence. President Niyazov quickly stabilized the country and declared it neutral, while courting hard-currency countries for development of gas fields and transportation infrastructure. Yet, perhaps for this reason, Russia used the most obvious and open economic coercion methods on Turkmenistan, and it has been successful.

For instance, in 1992 Turkmenistan refused to sign mutual military agreements with the Russian-dominated Commonwealth of Independent States and Collective Security Treaty, instead declaring neutrality and appealing to the United Nations for recognition of its non-aligned status.¹¹⁷ Additionally, Turkmenistan invited Western companies to invest in its gas fields and open a trans-Caspian pipeline for Turkmen gas.¹¹⁸ Russia responded almost immediately by stopping food exports to Turkmenistan and slowing (and eventually halting) the use of Gazprom controlled gas export lines to Europe (Turkmenistan's only hard-currency market).¹¹⁹

These coercive methods soon began to bite; Turkmenistan signed a bilateral security agreement with Russia (allowing Russian troops to be stationed in Turkmenistan) and permitted Russians to have dual-citizenship (another key Russian demand).¹²⁰ By the middle of the decade, the formerly anti-Russian, pro-Western republic seemed back in Russia's orbit.

¹¹² Laruelle, *Russia's Central Asia Policy*, 9.

¹¹³ Ibid.

¹¹⁴ Drezner, *Sanctions Paradox*, 169.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Jonson, *Vladimir Putin and Central Asia*, 45.

¹¹⁸ Stulberg, *Well-oiled Diplomacy*, 103.

¹¹⁹ Drezner, *Sanctions Paradox*, 169-170.

¹²⁰ Ibid.

Soon, however, Western companies decided that Turkmenistan was a good option for diversifying their operations, and Niyazov was given another chance to break away.¹²¹ This time Russia, instead of targeting the country directly, used the substantial price differential of Turkmen gas to subsidize alternatives to Western pipeline proposals, in effect forcing Turkmenistan to pay for the coercion of its potential commercial partners.¹²² Naturally, this caused relations between the countries to sour, and the terrorist attacks of 11 September 2001 and the US interest in the region opened another opportunity for Turkmenistan to move to the West.

But Russia's (and especially then-President Putin's) ability to comprehend strategic timeframes while Turkmenistan struggled with daily existence meant that Turkmenistan's options were actually more limited during this potential opening. The perceived unreliability of Turkmenistan (due to previous coercion) meant that at the same time as the European Union and the United States were interested in increasing contacts, Western companies were backing away, canceling and curtailing contracts. To make up the difference, Russia and Turkmenistan signed a "strategic partnership agreement," along with a 25-year contract for natural gas at less than half the European market price (of which only half was in hard currency).¹²³ The deal, signed in Moscow in 2003, followed publicly expressed European doubts about financing new pipelines¹²⁴ and an attempt on Turkmenistan President Niyazov's life.¹²⁵ As was the case in Kazakhstan, Russia (through Gazprom) successfully limited Turkmenistan's future options by timing the coercive offer to fulfill Turkmenistan's short-term interests at the expense of future flexibility.

Choice

The long-term value Moscow's efforts to isolate Ashgabat became clear four years later. With gas prices soaring, Kazakhstan and Turkmenistan sided with Russia in supporting an expansion of current (Russian-controlled) pipeline capacity in lieu of the European-favored

¹²¹ Stulberg, *Well-oiled Diplomacy*, 106.

¹²² Ibid., 107.

¹²³ Mikhail Klasson Vremya, "Political Gas," *Moscow News*, April 16, 2003, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.731032.6585230705&target=results_DocumentContent&reloadEntirePage=true&rand=1238536155969&returnToKey=20_T6195751682&parent=docview (accessed March 31, 2009).

¹²⁴ Jerry Frank, "EU Gas at Risk as Bankers Balk at Financing Russian pipelines," *Lloyd's List*, <http://www.lloydslist.com/ll/news/eu-gas-at-risk-as-bankers-balk-at-financing-russian-pipelines/1013971160059.htm?highlight=true&containingAll=Jerry+Frank&containingPhrase=&containingAnyWords=> (accessed April 30, 2009).

¹²⁵ Robin Sheperd, "Sentence First, Then We'll Have the Trial," *Times* (London), January 15, 2003, https://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?docLinkInd=true&risb=21_T6454797286&format=GNBFI&sort=RELEVANCE&startDocNo=1&resultsUrlKey=29_T6454797289&cisb=22_T6454797288&treeMax=true&treeWidth=0&selRCNodeID=17&nodeStateId=411en_US,1,6&docsInCategory=6&csi=10939&docNo=2 (accessed April 30, 2009).

construction of a new trans-Caspian pipeline.¹²⁶ This new agreement eroded the financial viability of the new pipeline at the time it was most politically feasible to begin its construction (following the Russia/Ukraine gas disagreement of 2006). Having ceded a significant level of control over gas production to Gazprom (and thus giving up one of its stated interests), Turkmenistan had few other options. Turkmenistan assured some of its interests (stability seems guaranteed, a Russian-dominated organization mediates regional border disputes, and Gazprom continues to supply petrochemical experts to develop Turkmen fields) by giving up others. But the coercion has not ended, as recent events show. Russia recently imposed special tolls on Turkmen trucks entering Russia,¹²⁷ and an April 2009 explosion in the sole export pipeline halted gas exports for several days.¹²⁸ While it is not clear what caused the explosion (Gazprom blames Ukraine's Naftogaz for slowing deliveries, thus causing an upstream overpressure), Turkmenistan bore the costs were since they could not export gas during the shutdown. Whether intentional or not, the tolls and disruption of gas serve as a warning to Turkmenistan that it is still reliant on Russia and will be for the foreseeable future.

Conclusion

In the first decade after the collapse of the Soviet Union, the Central Asian republics had a fleeting opportunity to think strategically about economic and political independence. Limited by history, geography, infrastructure, and political culture, however, they missed a chance to secure long-term interests by assuming risk in the short-term. By the turn of the millennium, Vladimir Putin began to unite Russia's economic and political efforts to secure Russian interests, and through carefully planned and timed efforts, succeeded in framing a series of coercive offers that enticed the republics to cede some of their long-term interests to Russia. Rather than an absolute game of win-lose, Putin's efforts have been about relative gains for Russia and, despite some blatant coercive actions, have generally been nuanced and focused on long-term, multifaceted positioning for future gains. Reducing the *fear* of encirclement by NATO continues to be a Russian interest in the region. In the past decade, Russia has reduced US and NATO presence and influence in the region, despite Western interest in energy and countering radical Islam, a success for economic coercion. Preserving the rights of ethnic Russians abroad and

¹²⁶ "Russia, Turkmenistan, Kazakhstan agree landmark gas pipeline deal - Forbes.com," Forbes.com - Business News, Financial News, Stock Market Analysis, Technology & Global Headline News, <http://www.forbes.com/feeds/afx/2007/05/13/afx3715292.html> (accessed April 7, 2009).

¹²⁷ John W. Miller, "Nations Rush to Establish New Barriers to Trade," *Wall Street Journal*, February 6, 2009, Business, <http://online.wsj.com/article/SB123388103125654861.html> (accessed April 26, 2009).

¹²⁸ "Russian Gas Supply Cut by Turkmenistan Blast," Ukraine News, <http://unian.net/eng/news/news-310373.html> (accessed April 26, 2009).

maintaining Russian prestige in the Near Abroad are key elements of Russian *honor*. Russia's dominance of the CSTO and SCO, as well as bilateral agreements with Central Asian countries granting Russians dual-citizenship have furthered this interest. Russia's *economic interests* include dominance of the energy trade in the region and favorable trading terms for Russian goods. In the economic realm, Russia has been overwhelmingly successful at coercing Central Asian countries to risk long-term interests for short-term gains (or limit short-term losses). Russia, through state-controlled "National Champions" like Gazprom and bilateral agreements, effectively controls enough of the production and transportation of energy to limit profitability of new entrants. This is crucial to Russia's strategic national interests, because Russia, by coercing Central Asian republics (especially energy producers like Kazakhstan, Uzbekistan, and Turkmenistan), has increased its coercive capabilities in another critical region: Eastern Europe.

Chapter 5

Buffer Zones and Pipelines in Eastern Europe

Who rules East Europe commands the Heartland; Who rules the heartland commands the World Island; Who rules the World Island commands the World.

Sir Halford John Mackinder



Figure 3: Eastern Europe. (Reprinted from <http://belarus.usaid.gov/uamap.shtml>)

The countries of Eastern Europe, especially Ukraine, Belarus, and Moldova, present a different set of challenges to Russia's interests than do the Central Asian republics. Due to markets, politics, and geography, they also present different openings for coercion. Unlike the Central Asian states (especially Kazakhstan, Uzbekistan, and Turkmenistan), Eastern European states are both energy consumers and transporters (See Figure 4, at the end of the chapter). Like the Central Asian republics, these states are a physical buffer against historic enemies (France, Germany, and NATO). However, they also have large Slavic and ethnic Russian populations that predate the Soviet era, making them, in the Russian mind, both natural allies and Russia's

responsibility.¹ Defection of these nations to the West, therefore, is more damaging to Russian honor than the relatively recently settled (and “culturally backward”) Central Asian republics. Since the breakup of the Soviet Union, these states have all seen various coercive methods employed against them in two main periods: the Yeltsin period (1991-1999) and the Putin period (2000-present). While some efforts have been more successful than others, in the last 18 years the trend has been an increasing orientation towards Russian interests. Economic coercion has been effective at achieving significant Russian goals, without the diplomatic costs of a military invasion.

Ukraine

The Russian nation grew out of what is now Ukraine, making the interests and honor of the countries entangled in a way difficult for Americans to understand.² The first eastern Slavic state, Kyivan Rus, was also the most powerful European state in the 11th and 12th centuries.³ The Mongol invasions that destroyed Kiev (already weakened by power struggles) as a power, allowed Moscow, then an obscure, forested outpost, to become the center of the eastern Slavic world. Over the next centuries, Russia expanded west and south, repossessing Ukraine completely in the 18th century. In the 19th century, the Crimean War, fought in modern-day Ukraine, and the humiliating Treaty of Paris (1856) which followed, provided the impetus for radical change in Russia under new leadership.⁴

Sixty-two years later, Ukraine experienced both independence and conquest in short order following the Treaties of Brest-Litovsk in February and March 1918. After four years of being overrun by German, Polish, White, and Soviet armies, Ukraine eventually became a part of the Soviet Union in 1922. The internal ethnic and social schisms that formed in Ukraine during these tumultuous years persisted; externally inflicted trauma continued as well.⁵ In an attempt to destroy nationalism, Stalin collectivized the farms in the breadbasket of the Soviet Union, ensuring mass starvation in Ukraine and Kazakhstan. Between 1929 and 1933, around 7 million Ukrainians and 2 million Kazakhs starved to death.⁶ Despite Soviet attempts to destroy it, the dream of Ukrainian nationalism continued and resulted in an independent Ukrainian state following the dissolution of the Soviet Union. The resurrected state included 30 million ethnic

¹ CIA - The World Factbook, "CIA World Factbook, Ukraine, <https://www.cia.gov/library/publications/the-world-factbook/> (accessed March 31, 2009).

² Riasanovsky, *History of Russia*, 63.

³ "CIA - The World Factbook," CIA World Factbook, Ukraine.

⁴ Riasanovsky, *History of Russia*, 340.

⁵ Ibid., 485.

⁶ See, for example, Miron Dolot and Adam B. Ulam, *Execution by Hunger: The Hidden Holocaust* (Boston: W. W. Norton & Company, Incorporated, 1987), xv.

Russians, predominantly in the East; ethnic Ukrainians dominated the West. Despite its declared political independence, Ukraine was (and is) completely reliant on Russia for energy supplies.⁷

Capability

Given its history with Russia, Ukraine's main interest after independence was ensuring that it could maintain that independence. Yet 70 years of integration are hard to immediately reverse. Ukraine, due to its location at the "crossroads of Europe and Asia,"⁸ is the shortest and most economically viable route for gas and oil pipelines that flow from Russian and Central Asian fields to Europe.⁹ Also due to geography, Ukraine is a major food producer for the region and plays a role in producing steel and heavy equipment for Russian industry, including the energy industry. Yet steel production is an energy-intensive process, so Ukraine, as the sixth largest gas consumer in the world, is dependent on Russian energy for production of the equipment to produce that energy.¹⁰ Ukraine, therefore, has an interest in ensuring it can trade with Russia and buy inexpensive energy from the Central Asian republics.

There is another economic interest crucial to Ukrainian independence: transit lines.¹¹ As long as Ukraine owns and controls the gas and oil infrastructure that run through the country, it can charge Russia for use of the pipelines. Furthermore, assuming Russia has an interest in selling gas in Europe and no better way to get it there, Ukraine's control of the infrastructure ensures gas will always be available for domestic use.

Additional Ukrainian interests include preserving the Ukrainian identity and gaining membership in high-status organizations like the European Union, World Trade Organization, and North Atlantic Treaty Organization. Attainment of these goals ahead of Russia, or despite Russian efforts, would bring significant honor for Ukraine. Yet the divided nature of the country means that a significant portion of the population sees a future with Russia, instead of the West, and that gaining membership in Western organizations is traitorous to Ukrainian interests.¹²

⁷ Riasanovsky, *History of Russia*, 624.

⁸ "CIA - The World Factbook," CIA World Factbook, Ukraine.

⁹ Lucian Pugliaresi, Ben Montalbano, and Saltanat Berdikееva, "Is It Time for Gazprom to Hit the Reset Button?" *Oil and Gas Journal* (March 9, 2009), www.eprinc.org/pdf/gazprom-timetoreset.pdf (accessed May 2, 2009).

¹⁰ Energy Information Administration, <http://www.eia.doe.gov/emeu/cabs/Ukraine/NaturalGas.html> (accessed May 02, 2009).

¹¹ See Figure 4 at the end of this chapter.

¹² "East Ukrainian Council Urges MPs to Prevent Foreign Troops Entering Country," in LexisNexis, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.972161.341560447&target=results_DocumentContent&reloadEntirePage=true&rand=1241316748444&returnToKey=20_T6467898547&parent=docview (accessed May 2, 2009).

Credibility

Russian interests now, as they were in the Crimean War, are more than just economic or military. The Crimean War began when, among other things, Russians, as keepers of the Orthodox flame, demanded that the Ottoman Empire settle a Holy Land dispute in favor of the Orthodox Church. Russians today continue to see Slavic honor, and since the fall of the Soviet Union, the Orthodox Church, as an important interest. Also contributing to the war was Britain and France's invasion of the Black Sea region to support Turkey, despite Nicholas I's acceptance of the so-called Vienna Note, demanding he pull his troops back toward Moscow. Today, NATO expansion into lands traditionally part of the Russian protectorate stirs historic memories of past invasions.¹³ Maintaining the Black Sea fleet at Sevastopol is vital to Russia's national interest for historic reasons, as well as for Sevastopol's huge value as a warm water port.¹⁴ There are significant historical reasons why Russia has been working so hard to return Ukraine to the Russian fold.

While this historically justified fear drives Russia further from the West, Russia has another interest that draws it closer: money. Russia is dependent on European hard currency, and the biggest producer of that currency for Russia is Gazprom.¹⁵ Russia needs an efficient, reliable, and secure way of supplying oil and natural gas to Europe.¹⁶ As energy prices have increased, Russia has lost money with the subsidized energy it supplies to Ukraine, Belarus, and Moldova. Worse, when these countries can't pay even the subsidized rates and simply take the gas or oil from shipments intended for Western Europe, Russia's bottom line and reputation as a reliable supplier are simultaneously injured. To remedy this problem, Russia has sought control of the transit infrastructure. Short of an invasion, there are two ways to accomplish this. State energy companies (like Gazprom) must either control the infrastructure, or they must partner with a foreign company that will ensure the continuous flow of oil and gas. Russia's *Energy Strategy Through 2020* calls for the state to take the first approach where possible.¹⁷ This strategy of direct control has the added advantage of making it harder for transit countries to shut off oil and gas for political reasons.

¹³ Riasanovsky, *History of Russia*, 337.

¹⁴ Although Russia is currently building up Novorossiysk, it will not have the depth or space of Sevastopol.

¹⁵ Gazprom provides about 20% of Russia's annual federal budget, as well as subsidized natural gas to Russian people. See (FN 9) Pugliaresi, Montalbano, and Berdikova, "Is It Time for Gazprom to Hit the Reset Button?" *Oil and Gas Journal* (March 9, 2009), and (FN 5) Energy Information Administration.

¹⁶ Energy Information Administration, <http://www.eia.doe.gov/cabs/Russia/Full.html> (accessed May 03, 2009).

¹⁷ Adam N. Stulberg, *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia* (New York: State University of New York Press, 2008), 97.

Oil and gas are not the only interests Russia is seeking to secure in Ukraine, however. Other Russian interests include Ukraine's nuclear electric power generation facilities as consumers of Russian-processed, Kazakh produced fuel, and Ukrainian food production (which once amounted to a quarter of the total Soviet agricultural output).¹⁸ The century and a half that separates the Crimean War from today has not significantly changed the complicated Russian view of its interests in Ukraine.

Communication

Ukraine's central geographic position means Russia's coercive efforts get more recognition in the Western press than those in the Central Asian republics; its size means they are more discussed than similar efforts in Belarus and Moldova. For this reason, there is an interesting, large, and conflicting body of information on the on-going coercive conversation between the two nations. Although the phases can be broken down many ways, this thesis considers two periods: the post-USSR Yeltsin era (1991 to 1999) and the Putin era (2000 to present). Just as Russia experienced an intermediate period of decentralized democracy and uncertainty between the abdication of Nicholas II and the seizure of power by the Bolsheviks, so the "Lost Decade" of the 1990's led into a new era of strong Russian central control and leadership.¹⁹ Russian coercive efforts began immediately after the fall of the Soviet Union, but they have taken on a more focused and strategically-oriented direction in the last 9 years.

Beginning in 1992, Russia attempted to coerce Ukraine into signing various agreements on the Commonwealth of Independent States (CIS) that would have limited Ukraine's options and benefited Russia.²⁰ Russia punished Ukraine for its intransigence by charging it twice as much for oil as it charged Belarus, an early signatory. When Ukraine continued to resist signing, Russia decreased the amount of oil flowing into the country by 50 percent.²¹ This blatant coercive effort failed, however, and Russia discovered two problems with this type of coercion. First, Ukraine, as the main transit route for Western European-bound energy, was able to take that energy for itself and limit Russia's much-needed hard currency inflow. Second, Russian heavy industry was dependent on the output of Ukrainian factories, the target of the energy slowdown.²²

¹⁸ "CIA - The World Factbook," CIA World Factbook, Ukraine.

¹⁹ Daniel Gros and Alfred Steinherr. *Economic Transition in Central and Eastern Europe: Planting the Seeds*. (Cambridge, England: Cambridge University Press, 2004), 226.

²⁰ Daniel W. Drezner, *The Sanctions Paradox* (Cambridge [England]: Cambridge University Press, 1999), 199.

²¹ Janusz Bugajski, *Cold Peace: Russia's New Imperialism* (Westport, Conn: Praeger, 2004), 85.

²² Ibid.

Additionally, this effort led Ukraine to begin seeking ways to diversify its energy supplies, a threat to future Russian coercive offers.²³

This discovery, along with recurrent, non-coercion related delivery problems to Turkey and Western Europe, led Russia to change tactics. In 1995, Russian companies began to seek control of the Ukrainian companies that owned the transit pipelines and refineries.²⁴ Ukrainian non-payment for consumed gas (and the debt from past deliveries) was also a significant issue, leading to shortages and threats of cut offs. In 1996, Pavlo Lazarenko was elected Prime Minister of Ukraine based on a plan to solve the perpetual energy crisis.²⁵ The resulting formation of regional gas monopolies had two main beneficiaries: Russia, which would now receive goods in kind from dependent factories instead of increasingly worthless debt; and Yulia Tymoshenko, who soon controlled 20 percent of Ukraine's gross national product and would eventually become the Prime Minister.²⁶ Yet Gazprom still suffered from Ukrainian gas theft since Ukraine's oligarchs, through Naftogaz, maintained control of transit lines.²⁷ In an effort to stop the theft that directly injured Russian hard-currency revenues, Russia aggressively increased attempts to purchase and control Ukrainian companies and infrastructure. Understanding the threat, the Ukrainian parliament sought to block foreign ownership by law in 1999; in retaliation, Moscow began negotiating an expanded route through Belarus while blocking shipments to Ukraine.²⁸ The Russian effort worked. Ukraine began letting Gazprom pay for transit rights in gas (instead of cash), while assuming past Naftogaz debt (one means of gaining control of a company).²⁹ The millennium ended with Russia and Ukraine each attempting to use their power to coerce the other over important, but short-term, interests.

In 2000, Vladimir Putin took the reins in Russia, invigorating a new era of Russian energy coercion. In the Yeltsin era, companies like Yukos, Gazprom, Rosneft, and Lukoil had

²³ "Ukraine Presses On with Oil Pipeline Scheme," in LexisNexis, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.414483.9076738603&target=results_DocumentContent&reloadEntirePage=true&rand=1241377317067&returnToKey=20_T6470073696&parent=docview (accessed May 3, 2009).

²⁴ Bugajski, *Cold Peace*, 86.

²⁵ James Meek, "The Millionaire Revolutionary," *UK Guardian*, November 26, 2004, <http://www.guardian.co.uk/world/2004/nov/26/ukraine.gender> (accessed May 2, 2009).

²⁶ Ibid.

²⁷ Sarah Arnott, "Gazprom and the Struggle for Power," *The Independent* (London), January 7, 2009, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.512476.31471182895&target=results_DocumentContent&reloadEntirePage=true&rand=1241296038498&returnToKey=20_T6467190586&parent=docview (accessed May 2, 2009).

²⁸ Bugajski, *Cold Peace*, 86.

²⁹ "Gazprom Says Kiev Siphoning Off Gas," in LexisNexis (Interfax News Agency), http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.847453.7202028335&target=results_DocumentContent&reloadEntirePage=true&rand=1241297504332&returnToKey=20_T6467253140&parent=docview (accessed May 2, 2009).

operated on the basis of balance sheets and cash flow for the “New Rich” in Russia. Under Putin, these so-called “National Champions”³⁰ were expected not only to bring in cash (at times Gazprom has contributed nearly a quarter of the total Russian tax revenues),³¹ but also to further the long-term interests of the state (and, by extension, not challenge the leadership or direction of the state). The transition did not happen overnight, but with the arrest of Yukos’s Mikhail Khodorkovsky in 2003 and the Kremlin acquisition of a 51 percent interest in Gazprom in 2005, the other companies understood they were now effectively under state direction.³²

It did not take Putin long to begin coercing Ukraine in a more assertive, strategic manner.³³ As Gazprom was seeking control of Naftogaz in 2002, Putin initiated a confrontation over the Straits of Azov. When the West, distracted by Afghanistan and the impending Iraq war, failed to intervene, the already Russian-leaning government of Leonid Kuchma moved even more decisively in Moscow’s direction. It appeared that Russia had succeeded in changing Ukraine’s political orientation.³⁴

History, however, has a way of unfolding in an unexpected fashion. In the winter of 2004-2005, the so-called Orange Revolution brought Viktor Yushchenko to power as President (supported by, among others, exiled Sibneft owner Boris Berezovsky)³⁵ and Yulia Tymoshenko as Prime Minister. Putin’s preference, Viktor Yanukovych, from the eastern portion of Ukraine, favored EU membership but was opposed to NATO membership for Ukraine. Yanukovych, as Prime Minister, had generally been more pro-Kremlin than pro-Western. Yushchenko, from the western part of Ukraine, was Ukrainian nationalist, in favor of both NATO and EU membership.³⁶

Shortly after the Orange Revolution, Russian coercive offers increased. The Russian oil company Lukoil established dummy companies in Ukraine to fund pro-Kremlin politicians, putting political pressure on the new government.³⁷ In January 2006, Gazprom, on Putin’s order, stopped Turkmen gas supplies intended for Ukraine after Ukraine rejected a price increase of over 300 percent.³⁸ Russia, having successfully used coercion to gain control of the Turkmen fields

³⁰ Marshall I. Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, Incorporated, 2008), 98.

³¹ Energy Information Administration, Russia.

³² Goldman, *Petrostate*, 99.

³³ Bugajski, *Cold Peace*, 82.

³⁴ Ibid. 83.

³⁵ Steven Rosefielde, *Russia in the 21st Century: The Prodigal Superpower* (New York: Cambridge University Press, 2004), 210.

³⁶ Goldman, *Petrostate*, 144.

³⁷ Bugajski, *Cold Peace*, 43.

³⁸ Andrew E. Kramer, "Russia Cuts Off Gas to Ukraine as Talks on Pricing and Transit Terms Break Down," *New York Times*, January 2, 2006,

which supplied subsidized gas to Ukraine,³⁹ argued that this was merely market forces at work, not international economic coercion.⁴⁰ The result of the 2006 gas dispute was a Ukrainian counteroffer of increasing prices and increasing Gazprom control of the transit lines, in effect acquiescence to Russian interests.⁴¹ As part of the deal, Gazprom and Ukraine contracted with a Swiss-based trading company, RosUkrEnergo, to be the monopoly supplier of gas to Ukraine. Owned by Gazprom and two Ukrainian businessmen, this front company allowed Gazprom to obscure its interest in Ukrainian infrastructure and effectively negotiate on both sides of the table.⁴² The aftermath of the coercive confrontation caused Viktor Yushchenko's popularity in Ukraine to plummet. After devastating losses in the 2006 parliamentary elections, Yushchenko was forced to accept pro-Kremlin Yanukovich over pro-Western Tymoshenko as the new Prime Minister.⁴³

Moscow's political fortunes suffered another setback in December 2007, when Tymoshenko again replaced Russian-leaning Yanukovych. Tensions increased almost immediately when the new Prime Minister called for a repeal of the agreed-to price increases, forced by the 2006 shutoff. Additionally, Tymoshenko called for removal of RosUkrEnergo as the monopoly supplier of Ukrainian gas.⁴⁴ January 2008 saw the disagreement between Russia and Ukraine expand; in March, after Russia began restricting the flow of gas to Ukraine, the two sides reached an agreement. The results were, once again, favorable to Russia's interests:

http://www.lexisnexis.com/us/lnacademic/results/docview/docview.do?docLinkInd=true&risb=21_T6470677516&format=GNBFI&sort=BOOLEAN&startDocNo=1&resultsUrlKey=29_T6470677519&cisb=22_T6470677518&treeMax=true&treeWidth=0&selRCNodeID=10&nodeStateId=411en_US,1,9&docsInCategory=8&csi=6742&docNo=3 (accessed May 3, 2009).

³⁹ See previous chapter

⁴⁰ Bugajski, *Cold Peace*, 86.

⁴¹ "BBC World News Diary," in LexisNexis,

http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.334393.9250836526&target=results_DocumentContent&reloadEntirePage=true&rand=1241015282511&returnToKey=20_T6443458753&parent=docview (accessed May 3, 2009). The European reaction, sympathizing with Ukraine instead of Russia (in contrast to the 1999 dispute), seems to have surprised Moscow, which is not without precedent. In the 1850's, leading up to the Crimean War, Tsar Nicholas I was surprised that other European powers found his coercion of the Ottoman Turks provocative. See Goldman, *Petrostate*, 144, and Riasanovsky, *History of Russia*, 337.

⁴² Catherine Belton, "Rosukrenergo Emerges as Winner in Gas War," *Moscow Times*, January 10, 2006, <http://www.moscowtimes.ru/article/927/49/207601.htm> (accessed May 23, 2009).

⁴³ Fred Weir, "Ukraine's New, Bumpy Path," *Christian Science Monitor*, March 24, 2006, 6, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.673024.4804028914&target=results_DocumentContent&reloadEntirePage=true&rand=1241016152481&returnToKey=20_T6443663407&parent=docview (accessed April 29, 2009). When Yushchenko's term ends in 2010, his unpopularity makes it likely a pro-Moscow candidate will be competitive in this politically and ethnically torn state.

⁴⁴ Alexander Bor, "Tymoshenko Voted in as Ukraine's New PM," *Platts*, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.916104.1833723215&target=results_DocumentContent&reloadEntirePage=true&rand=1241406456746&returnToKey=20_T6471998758&parent=docview (accessed May 3, 2009).

Gazprom gained access directly to Ukrainian industrial customers, allowing increasing price discrimination and eliminating the need for RosUkrEnergo. Additionally, Ukraine agreed to continue paying the 2006 price of gas and to pay nearly double for the gas it had consumed without a contract in the previous two months. Making matters worse for Ukraine in the long term, Naftogaz agreed to future price increases based on the (Russian-controlled) price of gas from the Central Asian republics.⁴⁵ The result was that Ukraine, without the money to pay current, subsidized rates, became increasingly indebted to Gazprom. Gazprom, meanwhile, could continue supplying gas to paying customers while denying it to deadbeats.

As if on schedule, 2009 once again saw a disagreement between Gazprom and Naftogaz that resulted in restricted supply to Europe. Once again, the agreement signed afterward ceded more control to Gazprom, increased prices for Ukraine, and eroded domestic support for the pro-Western President and Prime Minister.⁴⁶ Additionally, Tymoshenko acknowledged Russia as the sole supplier of nuclear fuel to Ukraine, invalidating the current Westinghouse contract, and making Ukraine even more dependent on Russia in the long term.⁴⁷ Furthermore, the fuel Russia will be supplying will come from Kazakhstan, in a Russian-controlled, previously negotiated joint-processing venture with Kyrgyzstan.⁴⁸

In addition to these deliberately set coercive actions, recent explosions in Gazprom's network demonstrate both a need to coerce (and gain control of the pipelines) and a means to do so. These five separate explosions (in Moldova, Ukraine, Turkmenistan, and Russia), blamed on aging infrastructure and local mismanagement, threatened supplies to Europe. Gazprom did what it could to ship gas via alternate routes, but the incidents put pressure on Ukraine to allow Gazprom long-sought control over its transit routes.

⁴⁵ Anna Shiryayevskaya, "Russia, Ukraine Sign Gas Supply Agreement," Platts, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.340466.95188190433&target=results_DocumentContent&reloadEntirePage=true&rand=1241297724467&returnToKey=20_T6467260788&parent=docview (accessed May 2, 2009).

⁴⁶ Andrew E. Kramer, "Russia and Ukraine Settle Gas Dispute," *International Herald Tribune*, April 30, 2009, http://www.nytimes.com/2009/04/30/business/global/30iht-gas.html?_r=1&scp=1&sq=russia%20ukraine&st=cse (accessed March 2, 2009).

⁴⁷ "Russia to Complete Ukrainian Nuclear Plant Construction, Supply Fuel (30 April 2009)," in LexisNexis (BBC Monitoring Service), http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.638801.995521401&target=results_DocumentContent&reloadEntirePage=true&rand=1241298952861&returnToKey=20_T6467309644&parent=docview (accessed May 2, 2009).

⁴⁸ Yuriy Humber, "Putin Revives Nuclear Alliance," *Moscow Times*, January 13, 2006, <http://www.themoscowtimes.com/article/941/49/207530.htm> (accessed March 31, 2009).

Choice

Russia has successfully secured its interests in Ukraine: an increasingly positive orientation toward Moscow and away from the West, increasing control over energy pipelines to ensure deliveries to Europe, and increased security of electricity, food, and heavy equipment for Russian consumption. Since Putin's rise to power, every coercive iteration has limited Ukrainian strategic choices and forced Ukraine to decide between short-term relief and long-term opportunity. Despite Europe's dissatisfaction with the annual gas wars, the options usually discussed (increased nuclear energy, new pipelines, liquefied natural gas, and increased energy efficiency), would all constrain Ukrainian options even more. Putin has demonstrated the cost-effectiveness of energy coercion at slowly steering a vital, breakaway state away from the West and closer to the Russian fold.

Belarus

Belarus, or "White Russia," claimed in centuries past by Ukraine, Poland, Lithuania, Bessarabia, Romania, and Russia, is the most closely aligned country to Russia. In 1922, White Russia was a founding republic in the USSR; in 1991, Belarusians voted overwhelmingly to remain a part of the Soviet Union.⁴⁹ When the Soviet Union dissolved, the population fully supported the Commonwealth of Slavic States, precursor to the more ethnically expansive Commonwealth of Independent States.⁵⁰ The first president, Stanislau Shushkevich, unpopular because of his neutral policies, was replaced by the current president, Alexander Lukashenko, in 1994.⁵¹

Capability

Belarus is poor, landlocked, and dependent on Russia in almost every facet of the economy.⁵² Due to the closed nature of the society, it is hard to discern what the government perceives as its critical interests. Increasing ties with Russia and preserving the current administration in power, however, seem to be paramount. Belarus has a weak sense of national identity, so fear of domination by the Russian state is not a significant issue; 80% of voters supported a law making Russian an official language, along with Belarusian.⁵³ Belarusian honor,

⁴⁹ Riasanovsky, *History of Russia*, 484, 595.

⁵⁰ Bugajski, *Cold Peace*, 53.

⁵¹ Bugajski, *Cold Peace*, 63.

⁵² "CIA - The World Factbook," CIA World Factbook, Belarus.

⁵³ Grigory Ioffe, "Understanding Belarus: Questions of Language," *Europe-Asia Studies* 55, no. 7 (November 2003): 1016.

apparently, is best served by being a partner, even if a junior one, to Russia. Likewise, Russian trade and subsidies fulfill Belarusian economic interests. In the 1990's, Belarus survived and gained hard currency by refining Russian crude oil and re-exporting it to Europe, as well as reselling excess Russian gas and pocketing the difference.⁵⁴ Russia, however, was not entirely happy with the arrangement; since Putin's rise to power, he has acted to remedy the situation. Overall, Belarus has little relative power compared to Russia and little incentive to resist Russian coercion, though individuals such as President Lukashenko have a strong interest in preserving their own personal power and prestige.

Credibility

The main Russian interests in Belarus are basing rights for Russian armed forces, control of the energy sector, and reducing costly subsidies.⁵⁵ Belarus borders three NATO countries, and provides a relatively easy path for invasion of Russia, as history has demonstrated. For this reason, Russia has a strong interest in ensuring that Belarusian orientation remains decidedly pro-Moscow. President Lukashenko understands this; in his traditionally blunt manner he often states, "We cannot let tanks cross our territory towards Moscow."⁵⁶ As long as Russia has control of the air space and basing rights when needed, Moscow is not concerned about fortifying the border; NATO is currently expanding by assimilation, not invasion. The personality of "Europe's last dictator," fortunately for Russia, is insurance against NATO membership.⁵⁷

Of more immediate Russian concern is ensuring that Moscow controls the trade and energy routes across Belarus, to Western Europe. An aging legacy of the Soviet era, pipelines in Belarus carry 20 percent of Russia's European-bound gas, a vital source of hard currency.⁵⁸ Additionally, 70 percent of all European-bound Russian trade passes through Belarus.⁵⁹ For these reasons Moscow sees Belarus as a strategic priority. Yet these entanglements also present a problem for Russia. Belarus has little independent economic potential. Few unique industries or

⁵⁴ "CIA - The World Factbook," CIA World Factbook, Belarus.

⁵⁵ Drezner, *The Sanctions Paradox*, 154.

⁵⁶ See for example, "Belarusian President Critical of Russian Oil, Gas Prices," in LexisNexis (BBC Monitoring Service), http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.831196.4937529898&target=results_DocumentContent&reloadEntirePage=true&rand=1241450905361&returnToKey=20_T6476832282&parent=docview (accessed May 4, 2009).

⁵⁷ Stephen Mulvey, "Europe's Last Dictator," *BBC World News*, September 10, 2001, <http://news.bbc.co.uk/2/hi/europe/116265.stm> (accessed May 16, 2009).

⁵⁸ Anna Shiryayevskaya, "Belarus Makes Gazprom Free Gas Transit Offer," *Platts Oilgram News* 85, no. 204 (October 16, 2007): 4, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.16283.57097281674&target=results_DocumentContent&reloadEntirePage=true&rand=1241452711875&returnToKey=20_T6477176810&parent=docview (accessed May 4, 2009).

⁵⁹ Bugajski, *Cold Peace*, 67.

natural resources are indigenous to the country.⁶⁰ Since the dissolution of the Soviet Union, Belarus has been a drain on Russian coffers. Unable to pay in hard currency and still using the Soviet model of state control over industry, ties to Belarus result in a net economic loss to Russia. In attempting to secure this economic interest, Russian has aimed its coercive actions at bringing productive sectors of the economy under Russian control while reducing costly subsidies in other areas.

Communication

After the dissolution of the Soviet Union, Belarus experienced a shorter period of unrestrained oligarchic capitalism than did Russia. Because of this, Russia and Belarus kept political and economic interactions separate through most of the 1990's. Political leaders discussed treaties and the possibility of a political union, while business leaders did what they could to profit from the privatization of state-run enterprises. Lukashenko's election reversed the privatization trend in Belarus while it continued in Russia, changing the calculus for Russian oligarchs. By the end of the decade, Gazprom was working with the Belarusian government to open new gas transit lines to Europe, while Belarus sought Kremlin help in dealing with debts owed to Gazprom.⁶¹ Press reports and academic analysis of Eastern Europe depicted Belarus' attachment to Russia, if not the proposed "Union State," as a done-deal.⁶²

Putin's ascension changed things, however. As Russia regained control over energy companies and began using them in a coercive manner, the coercive offers extended to Belarus as well. This surprised many analysts, since it defied the Cold War-era lens through which they still viewed Russia's actions. Putin took Belarus at its word that it wanted unification with Russia, and in 2002 he offered it a place as Russia's 19th province.⁶³ This would have greatly simplified matters for Putin, Gazprom, and Russia, but it also would have eliminated Lukashenko's power, an unacceptable exchange.

Under Putin's supervision, Russia launched a series of confrontations aimed at increasing the Belarusian price of energy, using that price to increase Belarusian debt, and then trading the

⁶⁰ "CIA - The World Factbook," CIA World Factbook, Belarus.

⁶¹ *Deutsche Presse-Agentur*, "Belarus and Gazprom Said to Strike Deal on Outstanding Energy Bills," August 6, 1998, Minsk ed., http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.636289.9857926969&target=results_DocumentContent&reloadEntirePage=true&rand=1241447589599&returnToKey=20_T6476191384&parent=docview (accessed May 4, 2009).

⁶² Kirill Palshin, "Russia Agrees to Sponsor Single Currency," *Moscow News*, November 22, 2001, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.152053.2993038908&target=results_DocumentContent&reloadEntirePage=true&rand=1242520802711&returnToKey=20_T6576971246&parent=docview (accessed May 16, 2009).

⁶³ Bugajski, *Cold Peace*, 67.

insolvent debt for interests in Belarusian energy sectors.⁶⁴ In 2002, the Kremlin increased pressure for joint ventures between Russian and Belarusian companies. Specifically, Putin wanted Gazprom to be able to buy, or create a jointly owned company that could buy shares in Beltranshaz, the Belarusian national gas transportation company. Additionally, Gazprom nearly doubled the price it charged Belarus for gas, especially gas Belarus was reselling to Europe for hard currency.⁶⁵ Lukashenko protested, and Russia threatened to find a way to route natural gas around Belarus, initiating a project that eventually became the Nord Stream.⁶⁶ Lukashenko relented, signing an agreement allowing Gazprom to purchase shares in Beltranshaz in return for debt forgiveness, and increasing the future price of Russian-subsidized gas.⁶⁷ Most Western press outlets took no note of what seemed to be an internal dispute with no impact on Europe.

The next spring, Lukashenko reneged on the deal. He claimed the price Gazprom was paying for Beltranshaz shares was too low and the price of gas was too high.⁶⁸ In January 2004, as discussions continued, Gazprom shut down the gas supply to Belarus. This time the West took notice, since deliveries to Poland, Lithuania, and ironically, the Russian enclave of Kaliningrad, were adversely affected. The immediate assumption in many reports was that this was a coercive effort targeting Poland or Lithuania, but supply immediately resumed when Belarus agreed to Russian terms—increased prices for gas and increased control of pipelines.⁶⁹ Two years later, following the first significant Ukrainian gas shut down, Gazprom again threatened Belarusian supplies, demanding a doubling in price and an increased control over Beltranshaz.⁷⁰ In early

⁶⁴ "Desperate for a Reunion with Russia," *Petroleum Economist* (March 21, 2000), http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.39824.88593889777&target=results_DocumentContent&reloadEntirePage=true&rand=1241452910594&returnToKey=20_T6477212454&parent=docview (accessed May 4, 2009).

⁶⁵ Valeria Korchagina, "Minsk Tries Diplomacy in Gas Row," *Moscow Times*, November 6, 2002, sec. 2560, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.487438.95735203224&target=results_DocumentContent&reloadEntirePage=true&rand=1241467252861&returnToKey=20_T6479202790&parent=docview (accessed May 4, 2009).

⁶⁶ *Russian Economic News*, "There is No Real Integration Between Russia and Belarus in Gas Sector, Gazprom Believes," November 12, 2002, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.688622.117372701&target=results_DocumentContent&reloadEntirePage=true&rand=1241448268936&returnToKey=20_T6476321871&parent=docview (accessed May 4, 2009).

⁶⁷ Bugajski, *Cold Peace*, 67.

⁶⁸ *Ibid.*

⁶⁹ "Russia-Belarus Natural Gas Delivery Standoff Has Ended," *Oil & Gas Journal* (April 5, 2004): 7, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.606941.5092556961&target=results_DocumentContent&reloadEntirePage=true&rand=1241447551242&returnToKey=20_T6476185311&parent=docview (accessed May 4, 2009).

⁷⁰ Andrew Osborn, "Russia and Belarus Reach Gas Deal," *The Independent* (London), January 1, 2007, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.47057.693849058116&target=results_DocumentContent&reloadEntirePage=true&rand=1241448340125&returnToKey=20_T6476337226&parent=docview (accessed May 4, 2009).

2007, Lukashenko agreed to terms, but a week later Putin ordered crude oil exports halted, accusing Belarus of stealing oil and demanding concession “for the protection of the countries dependent on Russian energy supplies.”⁷¹ Once again, Lukashenko quickly backed down, and the flow of oil resumed, at a higher price and under less Belarusian control.

Choice

Belarus’ economic and physical isolation, combined with a politically isolated autocratic government, facilitated Russian coercion. Russian efforts at increasing control of the energy industry in Belarus to ensure reliable and economic delivery to hard currency-paying customers will probably continue successfully. Barring a significant change in the political order both inside and outside Belarus, Lukashenko has few options other than acquiescing to Russian coercive offers. Nor would it be in his personal interest to resist Russian coercion. Lukashenko’s popularity inside Belarus is unaffected by the extreme poverty and isolation of the state, so he has little incentive to open himself to dangerous Western ideas that generated the “Color Revolutions.”⁷² Russia’s forces are assurance against external military threats, and Belarusian honor relates more closely to Russian greatness than Western European ideals. This alignment of interests and isolation from options ensure Russia’s success at economic coercion.

Moldova

Moldova is a created country, much like the Central Asian republics, but one with a European history of ethnic, religious, and political conflict. As part of the Molotov-Ribbentrop Pact, Germany recognized Bessarabia as part of the Soviet Union, and in 1940, Soviet troops moved in, creating the Moldavian Soviet Socialist Republic.⁷³ The modern boundaries of Moldova were formed, but the nation was not. Following the war, the Soviet Union converted the Bessarabian language, nearly indistinguishable from Romanian, into “Moldovan” by rewriting it in Cyrillic script; previously it had been in Latin.⁷⁴ Divisions in Moldova appeared immediately following the breakup of the Soviet Union. The western portions of Moldova were inclined to move West and unite with Romania, while the area east of the Dniester river,

⁷¹ Michael Schwartz, "Russia Considers Alternatives to the Oil Pipeline Through Belarus," *New York Times*, January 10, 2007, http://www.lexisnexis.com/us/Inacademic/frame.do?tokenKey=rsh-20.149605.97700871193&target=results_DocumentContent&reloadEntirePage=true&rand=1241281342703&returnToKey=20_T6466513165&parent=docview (accessed May 4, 2009).

⁷² Fred Weir, "Why Europe's 'Last Dictator' Might Win," *Christian Science Monitor*, March 17, 2006, <http://www.csmonitor.com/2006/0317/p06s01-woeu.html> (accessed May 16, 2009).

⁷³ Edward Lucas, *The New Cold War: Putin's Russia and the Threat to the West* (New York: Palgrave Macmillan, 2008), 137.

⁷⁴ Riasanovsky, *History of Russia*, 595.

Transnistria, sought to orient East. The stage was set for the conflict and coercion that continues to this day.

Capability

One of the poorest and most dependent European countries with few natural resources or indigenous industry, Moldova does not have a strong sense of nationalism to bind the country together against outside coercive offers.⁷⁵ The western regions of the country are predominantly agricultural, but are not overly productive. The eastern parts of the country are industrialized,⁷⁶ but as a whole, the country is not a significant supplier of anything but light industrial equipment, inexpensive wine, black-market arms, and slaves.⁷⁷ The country is completely reliant on Russian imports for energy, and the relative power difference between Moldova and Russia is enormous. Elimination of instability, endemic since the fall of communism, is a significant goal of some in the country. For others, such as black-marketers, human traffickers, and Russian officers on the make, preserving illicit economic opportunities is a vital interest.

Credibility

Western writers, when considering Russia's interest in Moldova, usually see geopolitical maneuvering around NATO or interests in preserving the last vestiges of a great empire. As in Belarus, Russian interests in Moldova are complicated, but do not necessarily rise to the level of "vital national interests." Russia is certainly concerned about NATO encirclement, and Moldova's location in the heart of Europe and at the doorstep of the Balkans confers a significant geographic advantage for armies and arms dealers alike. But Moldova is not a significant European interest, nor is it likely to join NATO. It is, however, a member of the US-fostered GUUAM (for Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova). Russia's interest in dominating nations in its "sphere of influence" includes all these states, and organizations of Near Abroad states that Russia does not dominate are a threat. For this reason, Russia views this "anti-Russian organization" as "extremely dangerous" and works to marginalize and subvert it.⁷⁸ Moldova, as the poorest and only non-energy related state, presents the best opportunity for Russia to penetrate and undermine the group. Russia's greatest demonstration of success came in

⁷⁵ The country is so poor and lacking in resources that the Energy Information Agency does not even have a Country Analysis Briefing for it. Other economic and business information is also sparse.

⁷⁶ Lucas, *The New Cold War*, 137.

⁷⁷ "CIA - The World Factbook," CIA World Factbook, Moldova.

⁷⁸ Igor Zevelev, *NATO's Enlargement and Russian Perceptions of Eurasian Political Frontiers*, report, 31, www.nato.int/acad/fellow/98-00/zevelev.pdf (accessed November 21, 2008).

2008: GUUAM had no official statement about the Russia/Georgia conflict, despite the attack by a non-member on one of the signatories..⁷⁹

Russia also has an interest in ensuring that energy, especially gas and electricity, continue to flow through Moldova to customers in the Balkans. Though not as crucial a transit route, Moldova has the potential to cause problems as was demonstrated in April of 2009 when an explosion in a Moldovan section of the Gazprom supply pipe halted Balkan deliveries for several days. Economically, Russia does not gain much from Moldova, but Russian companies have been investing heavily there, in hope of future gain. Since Putin came to power, Moldova has been the top recipient of Russian direct investment (on a per capita basis) of any former Soviet republic..⁸⁰

Communication

Immediately after the dissolution of the Soviet Union, Russia began a coercive dialogue with Moldova, combining military and economic offers. Russian troops in the 14th Army gave direct and crucial support to the breakaway Transnistria region. When Moldova hesitated in signing on to the treaty creating the Commonwealth of Independent States in 1993, Russia imposed tariffs on Moldovan goods, which had immediate and long-term negative consequences. This first, blatant use of economic coercion worked, and set the framework for future actions..⁸¹ Shortly afterward, the imbalance of trade caused a current account deficit, and Gazprom halted gas deliveries due to excessive debt..⁸² Gas deliveries resumed when Gazprom gained a controlling interest in the Moldovan pipeline companies..⁸³ The motive was to make a fast profit, however, as the company did not make any investment in infrastructure or upgrade the capacity..⁸⁴ Late in 1994, Gazprom once again shut off the gas, and received as payment a cement plant and an electrical power station..⁸⁵

In 1995, Lukoil got in the game and with Moldovan President Snegur's endorsement, gained control of several different energy companies in different industries..⁸⁶ Later, Gazprom

⁷⁹ Anar Valiyev, *Azerbaijan After the Russia-Georgian War*, Georgetown University, PONARS Policy Memo No. 52, 67, https://gushare.georgetown.edu/eurasianstrategy/Memos/2008/Transformations%20in%20the%20Black%20Sea%20Region_PONARS%20Eurasia.pdf (accessed April 14, 2009).

⁸⁰ Bugajski, *Cold Peace*, 102.

⁸¹ Marshall I. Goldman, *Petrostate : Putin, Power, and the New Russia* (New York: Oxford University Press, Incorporated, 2008), 187.

⁸² Ibid., 188.

⁸³ Bugajski, *Cold Peace*, 101.

⁸⁴ Ibid., 102.

⁸⁵ Goldman, *Petrostate*, 187.

⁸⁶ Ibid.

cut gas supplies to the steel industry for non-payment, and gained a foothold in that industry.⁸⁷ These efforts were not coordinated with Yeltsin; they were purely opportunistic moves by rapidly expanding companies seeking market share and entrance into new markets. These companies, and the oligarchs that controlled them, were not ambivalent about the political climate, however. They were quite supportive of divisive Russian policies that made it possible for their black-market activities to continue. The Russian government likewise, while not controlling the companies, was content to reap the financial rewards of their growth.⁸⁸ In the early part of the next decade, however, two things happened to change the relationship and cause the coordinated coercion to increase: Putin came to power in Russia and Moldova elected a pro-Russian Communist government.

With the advent of the Russian-leaning government, Russia lessened its support of the breakaway Transnistria region, but kept troops there despite an agreement for them to leave.⁸⁹ Russia views the region as a sort of Kaliningrad in the Balkans, and continues to use the presence of a reduced number of troops, supposedly there as peacekeepers, to influence Moldovan politics.⁹⁰ Russia, through fortuitous control of portions of the energy infrastructure, has also targeted certain industry and companies. In 2003, Gazprom offered to cut the price of gas in exchange for yet more strategic industry assets, including Moldovagaz, which had previously successfully rebuffed takeover efforts.⁹¹ Gazprom soon raised rates again, however, and the resulting debt led to a 2005 gas and electricity shutoff that went almost unnoticed in the West.⁹² Moldova agreed to the price increases.⁹³ In 2007, Moldova again handed over more control of the pipelines to Gazprom without protest.⁹⁴ The process was repeated in early 2009.⁹⁵

Choice

Moldova is little threat to Russian interests, yet Russia has found Moldova useful enough to engage in economic coercion. In a reversal of its coercion of Kazakhstan, where Russia used second-order coercion through regional organizations *against a country*, Russia used Moldova for

⁸⁷ Ibid., 97.

⁸⁸ Bugajski, *Cold Peace*, 107.

⁸⁹ Ibid., 106.

⁹⁰ Ibid., 98.

⁹¹ Ibid., 62.

⁹² "CIA - The World Factbook," CIA World Factbook, Moldova.

⁹³ "Russia-Moldova News Brief 26 June 2006," Platts Oilgram News, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.277627.9771433888&target=results_DocumentContent&reloadEntirePage=true&rand=1241483429695&returnToKey=20_T6480809047&parent=docview (accessed May 4, 2009).

⁹⁴ Goldman, *Petrostate*, 150.

⁹⁵ "CIA - The World Factbook," CIA World Factbook, Moldova.

second-order coercion *against a regional organization*.⁹⁶ Furthermore, though Moldova is weaker politically and economically than even Belarus, and thus is more isolated, the alignment Moldovan of interests with Russia's allows preservation of those interests.

President Voronin's highest interest is security and preservation of his power. This interest, fortunately for him, aligns with Putin's interest. When accusations of rigged elections caused riots in 2009, Moscow publicly supported the victorious Communists. The protesters and rioters waved EU and Romanian flags, strengthening Russia's case that Europe was trying to destabilize and overthrow the government.⁹⁷ President Voronin is ineligible for a third term, but could model his career after Prime Minister Putin, who handpicked his successor (former Gazprom Chairman Dmitri Medvedev) but retains a significant amount of power as Prime Minister.⁹⁸

Lacking infrastructure and resources, Moldova as a country has few economic options for the future. Close relations with Russia, including Russian companies that supply and control the energy infrastructure Moldova depends on, is a benefit to Moldova. Moldova does not have the resources to develop itself, and is too far removed from Europe's concern to hope for significant assistance. As long as Moldova's interests align with Russia's, however, Moldova will be able to rely on Russia to defend those interests. In the short term, the alignment is secure. Russia sees value in keeping Moldova as a Russian outpost against NATO encirclement, Ukrainian Western orientation, and the United States' coercive use of GUUAM. Therefore, Russia has an interest in staying engaged and supporting the country. If, however, Ukraine reorients toward Russia, GUUAM collapses, or NATO no longer is an encirclement threat, Moldova's use to Russia will be over, and Moldova will merely be a drain on Russian resources.

Conclusion

The first decade after independence provided an opportunity for Ukraine, Belarus, and Moldova to follow the path of the Baltic states toward the West. Internal divisions caused by ethnic and political schisms, however, prevented significant strategic thinking about the long-term interests of the states. Nationalist politicians' failure to perceive, before Moscow did, that their *political* independence could be compromised by *economic* dependence eventually limited

⁹⁶ See previous chapter and Byman and Waxman, *Dynamics of Coercion*, 82.

⁹⁷ Andrew Osborn, "Russia Supports Moldova Vote Probe," *Wall Street Journal* (New York), April 9, 2009, <http://online.wsj.com/article/SB123931950172706847.html> (accessed May 4, 2009).

⁹⁸ Shaun Walker, "Uprising in Moldova as Communists Win Election," *The Independent* (London), April 8, 2009, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.391900.71515452216&target=results_DocumentContent&reloadEntirePage=true&rand=1241483972840&returnToKey=20_T6480854456&parent=docview (accessed May 4, 2009).

their strategic options. When Putin began to unite Russia's economic and political actors to in pursuit of Russian interests, Eastern European politicians either did not notice or did not care. Through coercion, Putin has persistently and effectively reduced the threat of NATO expansion into the Slavic territories of the former Soviet Union, allaying one of Russia's most significant *fears*. Reversing the pro-Western Orange Revolution and preventing similar movements in Moldova and Belarus has helped maintaining Russian prestige and *honor* in Eastern Europe. Although the Kremlin seems to be surprised that it lost some face with Western Europe through annual "gas wars" and the Georgian conflict, Moscow sees these as necessary expenditures of political capital to ensure future coercive capabilities and further Russia's *economic interests*. Russia's increasing control over the energy infrastructure, built by the Soviet Union and lost in its demise, also serves this interest. As long as Russia can control the pipelines in Eastern Europe and the production in Central Asia, Russia will be able to prevent additional pipelines from becoming economically viable. By ensuring that gas and oil continue to flow west under Russian control, Russia can be sure that European hard currency will continue to flow east.

Chapter 6

An Effective Strategy for Securing National Interests

*Strategic deterrence is implemented with the economic capabilities of the state.
Strategy for the National Security of the Russian Federation to 2020*

Since the dissolution of the Soviet Union, and with increasing frequency since Putin's rise to power, Russia has used economic coercion to protect and advance its interests. Russia's efforts are directed in three areas: fear (of NATO encirclement), honor (ensuring a positive orientation toward Moscow and protection of ethnic Russians in the Near Abroad countries), and interest (ensuring a supply of energy for hard currency customers). These areas are interconnected and interdependent. The use of economic coercion, especially in the realm of energy, is the result of two major factors: Russia's relative loss of diplomatic power, and the costs (economic and political) of using military force. The two resources Russia has in relative abundance are land (which is hard to use for coercion) and energy. Blessed with a pre-existing, Soviet-era infrastructure that raised the cost of entry to competitors, Russia has logically chosen the most cost-effective means of protecting its interests.

Although it is incontrovertible that Russia has used energy as a coercive tool, more debatable is Russia's degree of success. The frame of reference is important in defining success, and there are three levels at which this question can be answered. The first, most basic level of analysis is that of a bilateral, short-term game with few iterations. At this level, Russia's success at using economic coercion has been mixed. Examples of apparent success include Uzbekistan's eviction of NATO forces in 2005 and Belarus' agreement to sell portions of the pipeline system to Gazprom in 2007. Apparent failures include efforts to get Ukraine to pay European prices for gas and attempts to get Turkmenistan to sell gas significantly below market rates. This, however, is only the first level of analysis, and does not take into account the coercer's extended timeframe and use of second-order coercion.

To a country that has been independent for only twenty years, a decade represents half of its existence. However, to a country that looks back on 1000 years of history, including an occupation lasting 200 years, a decade is a very short time period. Russia's traditional mastery of chess, a game where short-term sacrifices can lead to long-term success, demonstrates the second level of analysis. At this grand political level, Russia's use of economic coercion has been an unmitigated success. Russia's ability to return the Near Abroad countries to a Moscow-centric orientation without creating a drain on Kremlin coffers has been remarkable. Russia has used

control of the infrastructure to manipulate prices, initially for profit, and then for political gain and market control. By cornering the market on Central Asian gas, Russia decreases the economic viability of new transit lines, ultimately limiting choice in both Eastern Europe and Central Asia, continuing the cycle. This has led to coercive success.

Compared to the situation in the early 1990's, the Central Asian region is both more economically viable and more likely to see Russia as a strategic partner, defending them from external threats like China, transnational dangers like radical Islamist elements, and internal problems of instability and security. In Eastern Europe, the situation is similar. Russia has more leverage over Ukraine, Belarus, and Moldova, at less cost, than it did during the Yeltsin years. As these countries increase the amount they pay for Russian (actually, Central Asian) gas, they become more indebted to Russia, and thus more dependent on Russian good will to keep their economies afloat. Russia is slowly turning these countries from public housing renters, dependent on Russian subsidies (a drain on the economy) to owners, with Russia holding the mortgage and reaping the rewards (a boon to the economy). At the same time, the political orientation of these countries has either moved no further from Russia (the result of deterrence as in the case of Belarus) or moved closer to Russia after initially seeking to orient westward (the result of compellence as in the cases of Ukraine and Moldova). Russia has done this at significantly less cost (both political and economic) than a military invasion might have presented. In fact, while Russia's influence in these crucial areas increases, Russia has drawn down its conventional military forces.¹ As Leo Tolstoy wrote in *War and Peace*, "The two best men are Time and Patience. They will win in the long run." Russia has made good use of both.

This level of analysis is not the final answer to the question of efficacy or cost-effectiveness, however. A third level, grand national strategy as "a plan for attaining continuing advantage" by "stringing together anticipated outcomes" must be considered.² As Dr. Everett Dolman points out, "Strategy changes the context within which those events will happen."³ While Russia has recently had significant coercive success in the Near Abroad, its successes may be bounded temporally and geographically. External reaction to coercion has varied from muted (Moldova) to loud (Ukraine), but has generally remained in the political realm. Although there

¹ "About 36,000-27,000 Officers to be Dismissed in 2009," *ITAR/TASS News Agency* 28 Apr. 2009, 6 May 2009 <<http://www.itar-tass.com/eng/prnt.html?NewsID=13884016>>.

² Everett C. Dolman, *Pure Strategy: Power and Policy in the Space and Information Age* (London: Frank Cass, 2005), 6.

³ *Ibid.*

are recurring reports of plans to diversify European energy sources, ranging from alternative fuels to alternative pipelines, thus far concrete actions have been minimal..⁴

The few solid efforts that have occurred, such as European moves toward alternative pipelines, ironically have increased Russia's coercive abilities in the countries the Kremlin is most interested in coercing. Ukraine and Belarus have much more to lose than Russia if the Nord Stream⁵ and Nabucco⁶ pipelines are completed, effectively isolating them from Europe. Gazprom has shown adaptability and deftness in acquiring stakes in ventures like these; Ukraine and Belarus would be completely at Russia's mercy if they could no longer threaten the flow of oil and gas to Europe (and thus cut off hard currency from Europe). The situation is similar in Central Asia. Western efforts at developing gas and oil fields have generally been joint efforts with Russian controlled companies. Russia gains from the increasing supply and decreasing costs, knowing that, if necessary, national control of the assets is merely a rigged election, revolution or cross border invasion away.

The picture is not all positive for Russia, however. As was the case prior to the Crimean War, Russian heavy-handedness provoked a stronger reaction in the West than Russia anticipated. The paradox of strategy is that once a strategy is applied, the "dynamic contention of opposed wills" means the outcome will be subject to unanticipated reactions from external actors that change the situation..⁷ The more Russia demonstrates a willingness to use energy as a coercive tool, the more targets of that coercion, real and imagined, will seek to mitigate that power. This will increase the future reservation prices of targeted interests, making economic coercion more costly, and possibly change the equation more favorably toward military intervention..⁸

Another effect of this paradox is that Europe will choose the next target of Russia's coercion. Russia was not concerned about NATO encirclement in Central Asia until the terrorist attacks of 2001 brought significant troops to the region. Likewise, as pipeline options become limited, Europe will focus more effort on the remaining choices, increasing their threat to Russia's energy operations. If Nabucco moves forward, Azerbaijan and Turkmenistan will become central to Russia's strategy, especially if Western relations with Iran remain tenuous.

⁴ Marc Champion, "EU Pipeline Gets Boost Amid Slump," *Wall Street Journal* (New York), May 6, 2009, <http://online.wsj.com/article/SB124156815330789749.html> (accessed May 6, 2009).

⁵ The Nord Stream pipeline would take Russian gas through the Baltic Sea to Europe.

⁶ The Nabucco pipeline would take Central Asian gas across Turkey to Europe.

⁷ Edward Luttwak, *Strategy: The Logic of War and Peace* (Cambridge, MA: Belknap P of Harvard University Press, 2001), 87.

⁸ Russia just released the "Strategy for the National Security of the Russian Federation to 2020" which explicitly makes this point. See: "Strategy for the National Security of the Russian Federation to 2020," Paragraph 11-12, <http://www.scrf.gov.ru/documents/99.html> (accessed May 17, 2009).

Already Russia is increasing military and economic ties with Azerbaijan, probably in anticipation of the next iteration of the great energy game.⁹

External actors are not the only influence on the outcomes of strategy, however. The current economic crisis and collapse of energy prices has already changed the situation for Russia. Instead of coercing Ukraine and Belarus because of failure to pay for gas consumed, Gazprom has started levying fines because these countries did not consume the minimum specified in the coercively attained contracts.¹⁰ Lower prices and decreasing demand are not only a threat, but also present an opportunity. With cash gained in the bull energy market, Gazprom is increasing its stake in companies hit hard by the bear market.¹¹

At this highest level of analysis, the cost-effectiveness of Russia's strategy of economic coercion is impossible to quantify, since it must be judged against a counterfactual history. Instead of determining cause and effect, this level considers an "aggregate of innumerable events shaping history."¹² Russia's use of economic coercion has shaped the environment to one with a decreased fear of invasion, increased perceived influence (and thus honor) in the Near Abroad, and a growing market for its energy resources (a significant economic interest). Pursuing these interests is understandable, even vital; in the last decade, Russia has done so successfully. Overreaching in pursuit of these interests is destructive, however, as Athens discovered over two millennia ago. Russia's ability to manage this tension, in the face of a changing economic and security environment, will determine its long-term success.

⁹ *Moscow Times*, "Lavrov Seeks to Extend Radar Lease," March 13, 2009, <http://www.moscowtimes.ru/article/1010/42/375270.htm> (accessed March 13, 2009).

¹⁰ "Russian Fine on Ukraine Depends on Restoration of Turkmen Gas Supplies," in LexisNexis (BBC Monitoring Service), April 20, 2009, http://www.lexisnexis.com/us/lnacademic/frame.do?tokenKey=rsh-20.194810.45836700438&target=results_DocumentContent&reloadEntirePage=true&rand=1240949782423&returnToKey=20_T6435725173&parent=docview (accessed April 28, 2009).

¹¹ Guy Chazan, "Gazprom Neft to Acquire Sibir Stake," *Wall Street Journal*, April 24, 2009, <http://online.wsj.com/article/SB124051684208849299.html> (accessed May 6, 2009).

¹² Dolman, *Pure Strategy*, 71.

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