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Russia Over the Next Four Years: The Prospects for Democratization and Marketization ~~(C/NF)~~

National Intelligence Estimate

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the views of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*

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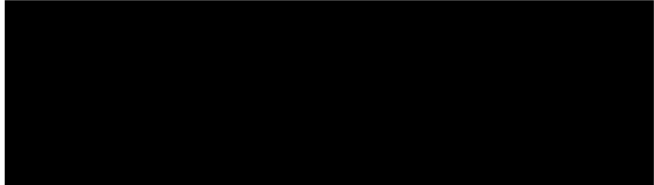
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Russia Over the Next Four Years: The Prospects for Democratization and Marketization (~~C/NF~~)

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in the preparation of this Estimate:*

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The Director of Naval Intelligence,
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Key Judgments

Russia Over the Next Four Years: The Prospects for Democratization and Marketization (C/NF)

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Long-range estimative judgments about an epochal revolution in progress must be seen as an effort to discern what can be said with confidence; what alternative courses events may take and the implications of each; what signs to look for as to general directions; and, finally, what the best estimate is. [REDACTED]

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First, the certainties. Over the next four years, Russia will remain very unstable. Under the best conditions, there will be serious crises and turmoil. In the next year or so, tensions are bound to increase significantly as unemployment grows and privatization evokes bitter quarrels over social justice. Powerful pressures will be brought to bear on any Russian government to adopt inflationary policies and slow the process of economic restructuring. Nationalism of various stripes will gain momentum. The factors of chance, the sequencing of events, and personality will impact disproportionately upon Russia's evolution. [REDACTED]

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Yel'tsin will be hard put to maintain power and authority in the face of the population's exhausting struggle for a normal existence. Russia will not be spared the psychological "post-totalitarian depression" still widely noted in Eastern Europe. The rule of law will come slowly. Institutionalization of progressive change—not only codification, but routine acceptance by the population—will require time. [REDACTED]

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Shortages of food, fuel and other consumer necessities, rising unemployment, declining real income, and anger over corruption and increasing economic disparities are the main factors that will undermine public support for steps needed to marketize the economy. While some of these conditions may stabilize or improve in the next year or so, some will get worse. Major strikes and public unrest are highly likely. Over the next year, unemployment will rise sharply, and in some regions it will reach dangerously high levels. In the best possible case, there are bound to be enormous inertia and resistance in each area of structural reform. [REDACTED]

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Yet, reversion to the previous order is not possible. The Communist alternative is discredited. A full-blown command economy cannot be restored. The need to move toward some kind of market economy is broadly accepted in principle. Restoration of a Moscow-dominated empire of former Soviet Republics is beyond Russia's military or political capabilities. [REDACTED]

EO 12958 6.1(c)<10Yrs (U) The completion of Russia's economic restructuring will take many years. By 1996, it is almost certain that a large monopoly-ridden state industrial sector and major remnants of the collective farming structure will still exist. The question is, what will be the trend of restructuring? [REDACTED]

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Russia has made an important start toward democracy and a market economy. It has conducted two elections by secret ballot, voted in a president, gained experience in pluralistic politics, and avoided violence. These are not transient bits of good news but developments rooted in genuine strivings of new elites and the general population. But this is only a start. [REDACTED]

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Further progress along the road to a relatively stable pluralistic society will be determined by several key variables:

- The general sense of Russian nationhood that fills the national identity void: statist and imperialist, or liberal democratic.
- Emergence of an economic order that begins to fulfill popular expectations.
- Acceptance by the military and security services of much diminished roles without rebellion.
- Preservation of Russian territorial integrity and resolution of conflict with other former Soviet republics—especially Ukraine—without major violence.
- A Western approach that provides support to reform and also to Russia's battered psyche, without inflating expectations. [REDACTED]

Consolidating a free political and economic order in Russia will take decades. Looking forward over the next four years, we see three possible paths of development:

- **Democratization and marketization:** a successful continuation of present positive trends. We assign a slightly-better-than-even chance to this scenario, mainly because we judge generally positive outcomes to the variables just noted above to be more likely than not. We note, however, that even this promising path will be marked by recurring crises.
- **Stagnation and possible fragmentation:** failure of efforts to resolve key constitutional and center-periphery issues, stabilize finances, or make progress on economic structural reform, eventually threatening fragmentation of the country. We think the chances of this path are about 1 in 3—given the consequences, a worrisome possibility.

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- **Dictatorship:** establishment of a repressive regime under the banner of order and populist chauvinism. This regime would seek to impose a highly controlled, corporatist marketization with strong elements of monopoly and property ownership by the old managerial elite. We think the chances of dictatorship in the short term are low, mainly because we judge society to be resistant to its peaceful imposition and the likelihood of military revolt to be low and declining. We believe the odds for dictatorial rule would increase considerably if political and economic stagnation set in. (A number of nongovernmental experts judge the chances of unrest and a coup are high right now because of widespread dissatisfaction with the general situation.) [REDACTED]

For Russia to maintain itself on the path to reform, the Yel'tsin government must address two brewing crises:

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- First, it will have to assuage public unhappiness over a falling standard of living, corruption, and blatant income disparities. To do so, it will most likely have to give greater emphasis to the requirements of social stability over the pace of reform—even at the risk of periodic disputes with the IMF.
- Second, the government will have to break the stalemate over the adoption of workable constitutional arrangements and private property rights. The quickest path to these goals is a referendum, but this is also a high-risk tactic, as success is by no means ensured. [REDACTED]

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We believe the maintenance of a Russian reform program will also require a strengthening of executive authority at all levels, which will be decried by some inside and outside Russia as antidemocratic. The critical tests will be whether this strengthening occurs in the context of the continued establishment of the rule of law, a free market, and democratic institutions. [REDACTED]

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For at least the next six to 12 months, we see continued energetic but conciliatory leadership by Yel'tsin as critical. No other regime is likely to be as committed to rapid marketization as the present Yel'tsin/Gaydar government. Over the longer term, however, the mark of success for democratization will be a decrease in Yel'tsin's role: the emergence of other national leaders committed to similar goals, the growth of political organizations that can mobilize support for such leaders, and development of a property-owning class that is the foundation of a pluralistic system. [REDACTED]

The unprecedented nature of the revolution transforming Russia, the number and complexity of the variables involved, and Russia's ensuing special vulnerability to wildcard events reduces our estimative confidence.

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Yet the implications of the different paths for the United States are profound. If Russia moves in a positive direction, the United States will benefit greatly in terms of our own security, Eurasian regional stability, and global issues, although even a democratic Russia may take actions toward its ethnic minorities or neighbors that undermine regional stability and conflict sharply with US aims. But, if Russia moves toward stagnation or dictatorship, the costs to the United States in having to cope with new security problems, regional instability, enhanced ecological dangers, and potential economic catastrophe in Russia will be enormous. 

Discussion

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The collapse of the Communist political order, disintegration of the command economy, and decolonization of the Soviet empire confront Russia with social and psychological challenges unprecedented in history. They also open a path to a liberal political and economic order never enjoyed by Russia in the past. Will it take this path? [REDACTED]

Where Russia Stands Today

The Russian people have decisively rejected Communist rule and demonstrated a desire for a free society. They have selected representatives in elections that were procedurally more or less fair and directly elected their president. The new officials have gained experience working in an increasingly free political environment, subject to free media. So far, political violence in Russia has been negligible. Advocates of authoritarianism fare poorly in opinion polls and elections. [REDACTED]

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Nevertheless, Russia has a long way to go before it attains stable democracy and a functioning market economy. The strong control exercised by the old Communist political elite (the "nomenklatura") over the nomination of candidates in 1990 damaged the legitimacy of the new parliament and elective local government organs. The selection of leaders and the processes of government are not yet anchored in a developed system of competitive, broadly based political parties. Administration at all levels is extremely weak. There is no agreed separation of powers or division of functions at any level. The allocation of power between the center and the regions is sharply contested, and local power is often concentrated in the hands of presidentially appointed representatives. The style of decisionmaking often deviates from democratic ideals. The entire process of government is not yet rooted in a developed civil society, not constitutionalized, and not constrained by an effective judiciary. Effective parliamentary, legal, and executive constraints on internal security organs have not yet been established. [REDACTED]

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Defining Terms

"Democracy" combines the right of citizens to exercise power by selecting their government through periodic, secret-ballot, multiparty elections, and rule of law that limits government; guarantees freedom of speech; and protects the person, property, and civil rights of the population through an independent judiciary and other protective institutions. A "market economy" allows private ownership and entrepreneurship, a free price mechanism, a predominant private sector, openness to foreign participation, and limited government regulation. [REDACTED]

In the economy, Yel'tsin has taken painful first steps toward replacing the command system with a market. He has freed nearly all prices, redirected government spending, and restrained credit expansion. Some legislation authorizing structural change has been passed. A private sector—especially in trade, services, and agriculture—has sprung up. There is creative commercial ferment across the country. [REDACTED]

Yet elements of the population and parts of the old establishment—industrial managers, farm bureaucrats, and local government officials—continue to resist strongly the emerging marketplace. Property rights are still being defined. Land is still not subject to clear private ownership, including the rights of purchase and sale. Price liberalization has not been completed on some key commodities. Monopolistic enterprises still control most of the economy. There has been little democratically accountable privatization of state-owned industrial enterprises. In industry there have been considerable seizure and disposal of enterprise assets by their managers without legally valid title. Much of the state industrial sector has not

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been commercialized; it is still supported by subsidies. Commercialization and privatization in other sectors have been controlled and often stifled by local authorities. Fraud and corruption are widespread in this "nomenklatura privatization." Moreover, individual members of the police, security, and intelligence services are deeply involved in the process of appropriating state assets. Entrepreneurship has—often with some justification—been linked by the public to criminal activity. A convertible currency, still lies ahead. Numerous obstacles and exactions confront Western companies seeking business opportunities. All businessmen face capricious and conflicting regulation of commerce. [REDACTED]

Some Elements of Certainty

In the next year or so, tensions are bound to increase significantly, as unemployment grows and privatization evokes bitter quarrels over social justice. Powerful pressures will be brought to bear on any Russian Government to adopt inflationary policies and slow the process of economic restructuring. Nationalism of various stripes will gain momentum. Factors of chance, the sequencing of events, and personality will impact disproportionately upon Russia's evolution. Overall, the situation will remain unstable. [REDACTED]

Yel'tsin will be hard put to maintain power and authority in the face of the population's exhausting struggle for a normal existence. Russia will not be spared the psychological "post-totalitarian depression" still widely noted in Eastern Europe. The rule of law will come slowly. Institutionalization of progressive change—not only codification, but routine acceptance by the population—will require time. [REDACTED]

Yet, reversion to the previous order is not possible. The Communist alternative is discredited. A full-blown command economy cannot be restored. The need to move toward *some* kind of market economy is broadly accepted in principle. Restoration of a Moscow-dominated empire of former Soviet republics is beyond Russia's military or political capabilities, although restoration of control over subregions might be possible. [REDACTED]

Possible Paths of Development

Over the next four years, the needs of democratization will conflict with the imperatives of marketization.

Acceptance by the Russian population and most elites of the requirements of marketization is relatively weaker than their acceptance of the basic elements of democratization. As in Eastern Europe, political leaders will be under growing pressure to slow the pace of reform and sacrifice budgetary stringency to maintain production, sustain employment, and shore up the social safety net. A number of Russian economists who are committed to market reforms are nevertheless highly critical of the path specified by IMF guidelines. Overall, we believe no other regime is likely to be as committed to rapid marketization as the present Yel'tsin/Gaydar government. Most analysts do not see the combination of dictatorship and *liberal* marketization as a live option: there is no visible replacement elite or leader with this position, and it lacks a base of social support. These considerations underpin our identification of the type and character of paths Russia might follow in this period: democratization and marketization; stagnation and possible fragmentation; and dictatorship. [REDACTED]

Path A: Democratization and Marketization. Even under the most favorable conditions, Russia will not achieve consolidated democracy and mature marketization within the space of four years. The system that develops will have unique Russian characteristics. In the near term, at least, economic difficulties are going to get worse. But in this path we see more or less successful continuation of present positive trends, notwithstanding inevitable setbacks. Inflation, while high by current Western standards, will not be out of control. There will be real progress in democratically privatizing trade, services, and agriculture and at least some progress in privatizing industry. There will be no significant return to price, wage, and other forms of direct government management of the economy. Commercial law will begin to become a reality. And Western investment will gradually increase. Maintenance of this path will most likely require the strengthening of executive authority. Civilian rule will persist, the principle of elected government will be observed, and ethno-regional centrifugal forces will largely be kept under control. [REDACTED]

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Path B: Stagnation and Possible Fragmentation. This path involves deadlock or failure in solving economic problems, which feeds back into and intensifies political problems that might otherwise move toward resolution. Budget deficits return to the 1991 level of 20 percent or more of GDP, threatening hyperinflation. The economic decline accelerates. There is little systematic progress in commercializing industry and agriculture or overcoming economic monopolies. Privatization occurs mostly in a wildcat fashion or through *nomenklatura* aggrandizement. These conditions deter all but the most intrepid foreign investors. Politically, no effective compromise is negotiated over conflict between parliament and president or between the center and the localities. The government's ability to implement policy is minimal. Law enforcement declines, and crime continues to mount. Central authority over the Russian provinces begins to evaporate. Some ethnic units and regions assert outright independence. If this trend continues, it leads to fragmentation of the country. Local rule then becomes largely authoritarian, with strong elements of local warlordism. Economic decisions are made directly by local political leaders, and interregional trade occurs essentially on a barter basis. Armed struggle against the rump central state, among regional groupings, and across republic borders is likely.

Path C: Dictatorship. Repressive rule is instituted, from within or outside the government, on the grounds of combating anarchy and dismemberment of Russia. The new regime seeks to legitimize itself under the banner of populist chauvinism. Under some conditions, it may present a civilian face, but the military itself could also seize power outright. Under any conditions, support by the military and security forces is essential. The regime suppresses local autonomy, liquidates independent trade unions, and outlaws other oppositional groups and political parties. In their place, it tries to build corporatist structures "representing" different social sectors. Its aim is a tightly controlled market economy with a large state sector; strong monopoly domination; and much direct government control over prices, wages, allocation of supplies, and deliveries of goods.

A brief statement of these alternatives obviously oversimplifies complex possibilities. We assume strong crosscurrents among the impulses generating these paths. Transitions from one path to another are possible, even within our four-year time frame. Stagnation invites dictatorship. And dictatorship could fail and give way to renewed democratization.

Key Variables

Over a four-year period, estimative judgments are very uncertain and must be conditional; we cannot simply extrapolate current trends. The odds on the various possible paths Russia may take depend on a number of critical variables.

Filling the National Identity Void. The collapse of Communism has profoundly disoriented the Russian public, raising the question of how its nationhood will be defined. The Yel'tsin team's initial attempt at forging a new sense of national identity—which has stressed common human values, individualism, and fusion with the civilized world—almost totally ignores the anti-Western strain in Russian thinking. It is already under sharp attack. Engagement of Russia in the rough-and-tumble of international affairs, conflict with other former Soviet republics, and its own domestic restructuring are certain to generate movement toward a dominant new synthesis that blends *some* measure of Russian nationalism, a more collectivist ethic, and defense of perceived national interests externally. A range of possibilities is open here, running from a liberal Russian nationalism that is fully compatible with democracy to a less likely xenophobic, messianic chauvinism that is not.

Public Opposition to the Social Costs of Marketization. Shortages of food, fuel, and other consumer necessities, rising unemployment, declining real income, and anger over corruption and increasing economic disparities are the main factors that will undermine public support for the steps needed to marketize the economy. While some of these conditions may stabilize or improve in the next year or so, some will

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get worse. Major strikes and public unrest are highly likely. If local elections are held in late 1992 or 1993, or national elections are held in 1993, public dissatisfaction may well be translated into a further weakening of parliamentary support for rapid reform. Alternatively, public anger may lead to prolonged industrial paralysis and social violence, which would directly threaten the emerging democratic order and continuation of liberal marketization. [REDACTED]

Pursuit of an Effective Economic Policy. We believe the Russian Government's macroeconomic policies are laying the groundwork for necessary structural changes. But care must be taken to prevent a decline in production and employment in some sectors so sharp and rapid that its destabilizing effects spin out of control. (Some outside specialists charge that Gaydar's policies are causing a decline in production that is imposing dangerously heavy hardships on the population.) Further, price liberalization by itself will not automatically generate the structural changes—such as the privatization and demonopolization—required for a transition to a market economy [REDACTED]

Within a certain range of discretion, the government has no choice but to balance social quiescence and lower unemployment against higher rates of inflation and weigh long-term stability of restructuring against the speed of current reform action. A certain stretch-out is possible and may prove to be necessary. These adjustments will almost certainly provoke disputes with the IMF and possibly private lenders. [REDACTED]

There nevertheless are certain "red lines" beyond which tactical maneuvering will be self-defeating: on *prices*—reimposition of controls on prices that have already been freed; on *resource allocation*—a reversal of the commitment to sharply cut military spending; on *stabilization*—a budget deficit and money or credit expansion so great that they lead to runaway inflation; on *restructuring*—systematic failure to implement the privatization program; on *entrepreneurship*—a serious retraction of freedoms already granted and imposition of confiscatory taxation; and on *foreign economic relations*—seriously disrupting raw material exports and Western collaboration required to maintain a minimal necessary level of food and other critical imports. These dimensions of economic

policy are all highly interdependent. We believe, however, that the single greatest threat to pursuit of a viable economic policy will lie in pressures on the government from all quarters to increase deficit spending and credit expansion to the point of undermining the government's capacity to maintain minimum financial stability. [REDACTED]

Implementation of Economic Restructuring. The phase of economic reform Russia is now entering requires legally enshrining the right to private property; extending private ownership of the means of production on a major scale; reconfiguring the country's industrial and agricultural capital stock—and with this the entire pattern of employment; separating the social support apparatus from the workplace; building a new system of wholesale trade within Russia and between Russia and the other former Soviet republics; and opening the economy to the world. Over the next year, unemployment will rise sharply, and in some regions it will reach dangerously high levels. In the best possible case, there are bound to be enormous inertia and resistance in each area of structural reform. The conversion to civilian production of defense industry—which constitutes such a large proportion of Russia's manufacturing capacity—presents huge economic and social problems. Dilemmas of an equal or greater magnitude exist in creating an economically effective agricultural sector. Disputes over equity and social justice will delay change. The prerequisites for market operation at the microlevel are *not* all in place—far from it. Decision-makers rightly fear the social consequences of rapid restructuring. And there are powerful vested interests in the status quo on the part of state sector managers, local officials, and the middle and older generations of the population at large. [REDACTED]

The completion of Russia's economic restructuring will take many years. By 1996, it is almost certain that a large monopoly-ridden state industrial sector and major remnants of the collective farming structure will still exist. The question is: what will be the *trend* of restructuring? Depending on how the employment problem is handled, how privatization takes

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place, how broadly the private sector begins to develop in manufacturing, and other factors, we see restructuring moving in three possible directions: (1) toward a new statism, with widescale "nomenklatura privatization," major continuing subsidization of heavy and defense industry, and little increase in competition; (2) toward no coherent pattern; or (3) toward a more liberal mixed economy beginning to show signs of competitiveness and genuine autonomy from the state.

Maintaining Political Moderation. The struggle of organized political forces will greatly affect Russia's path of development. In general, we are not impressed by the current capacity of extremist forces on either the "right" or "left" to overthrow the present political order. Elections, polls, and turnouts for demonstrations have shown that the public does not support radical extremism and is highly unlikely to vote for a fascist regime. The still omnipresent former Communist elite is a brake on change and a source of policy sabotage that can significantly retard reform at the center and the regional level. Nonetheless, it is not homogeneous in its concerns, and many of its members are interested less in reversing the post-August 1991 changes than in exploiting them to their own benefit.

In our judgment, the most serious threat to successful pursuit of democratization and marketization lies not among extremists but within the parliamentary mainstream and some quarters of the government itself, in tendencies toward "populism" and national chauvinism. The former represents an inclination to unrestrained deficit spending and credit expansion. The latter represents a striving to resolve differences with non-Russian communities in Russia or attempts to support Russian minorities in other former republics in ways that would violate the sovereignty of these republics and could be sustained only through force. To some extent both tendencies reflect pressures that elected officials feel from their constituents and their effort to adjust correspondingly. If populism gains the upper hand, Russia will move toward hyperinflation and political crisis. If national chauvinism becomes more pronounced, it is likely to prompt the employment of threats or coercion against non-Russian "autonomous" regions in the Russian Republic and

against former republics of the USSR in ways that are likely to shift the balance of power in favor of groups hostile to liberal reform, distort the political agenda and distract the country's leadership (or even force a change in it), unleash new inflation, complicate Russia's external economic ties, and increase the danger of direct military intervention in Russian politics.

Possible Military Revolt. Prevention of both military disintegration and military intervention in politics is an essential condition of democratization and marketization in Russia. New civilian control mechanisms are still embryonic. The Russian officer corps is frustrated and angry. It has become politicized to an unprecedented degree. The military could act in ways harmful to democratization and marketization. If their situation worsens, district-level military leaders could take unilateral action in sensitive areas like the Baltic states, the Black Sea, the Caucasus, or other borderland regions that could precipitate a crisis between Russia and other former Soviet republics. If the military's material welfare deteriorates further, individual units may increasingly ignore orders, seize supplies, form alliances with local leaders, or even take power locally. Most analysts believe that, under conditions of greater political and economic stress than exist today, elements of the military high command might overcome their internal divisions and fear of precipitating civil war and either support a civilian-led coup or try to seize power themselves. Some analysts think that erosion of military cohesion has already progressed too far to permit a straight military coup.

Presidential Leadership. Despite some decline in his popularity rating, Yel'tsin still enjoys a legitimacy that is unlikely to be matched by any other leader in the near future. His forceful leadership has been essential to progress so far in both democratization and economic reform. His willingness to compromise has also been a key ingredient of his success.

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Most analysts believe that, if Yel'tsin did leave the scene, his successor—whether Rutskoy or someone else—would certainly have trouble at the outset in pursuing as strong a policy on marketization as his and would be less able or willing to effect the compromises required to keep relations with ethnic minorities and the former republics on an even keel (see inset). After a startup period and some backsliding, a successor might—depending on when he assumed office and the context—gain stature and be able then to exercise strong presidential authority.



Yel'tsin is likely to be the President of Russia through the end of his term in 1996. But the possibility that his term could be cut short by a health crisis, assassination, or a coup cannot be discounted. Assuming he stays in office, the question is: will he continue to provide the presidential leadership that is required for Russia to stay on the path of democratization and

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Alternatives to Yel'tsin

In the event of Yel'tsin's departure from office through illness or assassination, Russian law provides for the vice president to take charge. Under the current Constitution, if the president dies in office, a new election is to be held within three months. Currently, the only visible political figure whom we can identify as having a serious chance of succeeding Yel'tsin as President through a national election is the Vice President, Aleksandr Rutskoy. Others—such as Mayor of St. Petersburg Anatoliy Sobchak, or the leader of the Democratic Party of Russia, Nikolay Travkin—might aspire to the job and, under changed circumstances, win it. Other contenders will arise over the period of this Estimate.

There are different views among analysts on Rutskoy's commitment to democracy, his predisposition to resort to coercion against the political opposition, and how hard a line he would take toward autonomies or indeed Russian regions. All analysts expect that he would subsidize unprofitable enterprises to limit unemployment, reimpose some price controls, protect the interests of the military, and position himself as a staunch defender of the interests of Russians in other former Soviet republics.



marketization? A near-term political crisis is brewing and will probably confront Yel'tsin, as resistance to his economic reform policies intensifies and attempts continue to narrow his presidential authority through passage of a new constitution that would entrench parliamentary power. He needs a "presidential party" or—at a minimum—a better organized faction in parliament, but so far he is not moving seriously to create either. If he survives this crisis, which is probable, it is likely nonetheless that, by 1994 or so, rising unemployment, strikes, corruption, and crime

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will have drained away a good deal of his popular appeal. A few analysts believe that, at some point in this process, Yel'tsin might go beyond strong executive rule and embark on the path of dictatorship. Most believe that the evidence concerning Yel'tsin's inclinations is to the contrary and that, in any event, he would be highly unlikely to attempt to destroy the electoral foundation on which his own authority is based—thereby placing himself in the same untenable position once occupied by Gorbachev. [REDACTED]

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The Capacity To Govern. Currently, Russia is poorly governed. Improving this situation and creating conditions for the rule of law depend, first of all, upon resolving conflict over whether the country should adopt "parliamentary" or "presidential" rule and over what sort of regional devolution of power should occur. Most analysts believe that—under conditions of continued *nomenklatura* control of many localities, divisive ethnic and regional tendencies, and dependence of economic progress on adoption and implementation of extremely painful policies—successful pursuit of an effective marketization strategy will require, for the present at least, the adoption of a system of government embodying strong executive authority at all levels. [REDACTED]

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So far, settlement of this conflict has been frustrated by a parliamentary battle over competing drafts of a new constitution, a power struggle between the legislature and the presidency, and efforts by ethnic autonomous regions to expand their jurisdiction. Yel'tsin has been attempting to deal with this situation by seeking compromise in the existing parliamentary arena, but he now appears to be moving toward bypassing the parliament via a referendum on presidential power and the constitution—a high-risk strategy of direct confrontation. A failed attempt at a referendum could well be the beginning of the end for the Yel'tsin government. Should Yel'tsin win, whatever his tactics, it will remain unclear how rapidly many other obstacles to effective government can be eliminated. [REDACTED]

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Centrifugal Forces. Developments as diverse as the imposition of provincial and even city "export" controls, efforts to promote regional autonomy in Siberia and the Far East, and serious ethnic separatism in the

North Caucasus and Tatarstan pose an immediate problem of the governability of Russia and a potential threat to the territorial integrity of the country. There has been an important shift of taxing power to the localities. Moscow has made deals with individual provinces, granting various privileges and immunities—partly to pacify local discontent with the center, partly to relieve the central budget of deficit-producing spending obligations, but also as a byproduct of a deliberate effort to dismantle the highly centralized Soviet state economic apparatus. The net result has been weakened central authority. [REDACTED]

Will this trend continue? Regional separatism represents a threat to Russian stability over the next few years. There are indeed similarities between the USSR's disintegration and patterns now evident within Russia: the ethnic diversity, economic grievances, the escalating "sovereignty" demands, the removal of the glue provided by the Communist Party, the breakdown of central power levers, the successful defiance of the center by the localities, and the problematic effectiveness of either negotiation or coercion in stabilizing the situation. In some cases, concessions have simply whetted the appetite of the ethnic and other regions for more and more autonomy up to independence. Nevertheless, the Russian leadership has key political advantages that the old Soviet leadership lacked: the weight of ethnic Russians in the population and their close identification with the Russian state; the limited aims of most non-Russian groups; possible solution to the struggles over economic jurisdiction; and the physical, economic, and security dependency of almost all regions on Russia. So long as stagnation at the center can be avoided, the problem of centrifugalism can be effectively managed, if perhaps never fully "solved." A lapse into stagnation at the center, however, could open the door to fragmentation. [REDACTED]

Relations With Former Soviet Republics. The presence of large Russian minority populations in the other former Soviet republics, the Russian military presence in the Baltic states and elsewhere, emerging territorial claims, the dividing up of military and

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other assets, the formation of national armies, conflicts of economic interest, and the weight of past ethnic grievances pose the problem of avoiding a serious worsening of relations between Russia and the other new states. [REDACTED]

Although many permutations in relations between Russia and the other former Soviet republics are possible, we believe the key factor impacting on Russia's prospects for democratization and marketization over the next four years will be the degree and severity of armed confrontation and violence—whether provoked by Russia or by another republic. The character of what is likely to be continuing conflict with Ukraine is central in this respect. [REDACTED]

There is a possibility of problems with Russian minorities in Central Asia, the Caucasus, the Baltic states, and Moldova degenerating to such a point as to invite Russian intervention as well as an accelerated flow of refugees to Russia. Similarly, economic relations among members of the Commonwealth of Independent States (CIS) could break down further. But we do not think either process would be so pronounced as to undermine reform in Russia or the authority of the current leadership. [REDACTED]

We think there is a greater risk of relations between Russia and Ukraine deteriorating sharply over key issues such as the Crimea, the Black Sea Fleet and other military assets, and the division of old Union properties. However, we doubt that an initial skirmish between Ukrainian and Russian forces over, say, the Black Sea Fleet or Crimea would grow into a large-scale armed conflict: the leaderships of both countries recognize this would jeopardize their domestic reform programs; neither side's militaries are positioned or eager to conduct hostilities against the other; and the lack of deep-seated religious or ethnic animosities between Russians and Ukrainians make it doubtful that popular support for a conflict could be sustained. Consequently, we believe that Russian-Ukrainian differences can be kept at a level that does not doom reform. [REDACTED]

The Likelihood of Different Paths

Our review of critical variables reveals several areas in which we can lean toward optimism, a majority in

Points of Controversy

The gap between optimistic and pessimistic assessments of Russia's future over the next four years is much broader among academic specialists than it is within the Intelligence Community. No observers believe Russia will have an easy time of it. Some academics are more confident than we are that pluralism has already developed strong roots in Russia. But other academics think that:

- *Shock therapy in Russia is a recipe for disaster and the Russian Government's chances of preventing economic chaos are low.*
 - *The Russian population has reached its limit of deprivation and is ready to revolt.*
 - *The chances of ethno-territorial fragmentation of the Russian Republic are high.*
 - *The chances of a military coup are also high.*
- These views are not shared by the Intelligence Community. During discussions of this Estimate by the Community, few issues arose that polarized opinion. A handful of analysts believed that Yel'isin might eventually feel compelled by adverse circumstances to try to exert dictatorial power. There was also disagreement over whether the Russian Government would under some conditions intervene with physical force to stop secession by minority regions or other territories [REDACTED]*

which we must remain agnostic, and none in which the pessimistic outcome is most likely. The number of these variables and their interconnectedness suggest that high confidence in predictive judgments about Russia's future is not warranted. [REDACTED]

The Likelihood of Democratization and Marketization. The chances of Russia's pursuing the path of democratization and marketization depend in the economic sphere on the government's capacity to resist financial destabilization, to proceed with the commercialization and privatization of the economy in a manner that enjoys some public support, and at

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the same time to prevent further *steep* declines in production and cushion the effects of unemployment and other forms of social dislocation. We believe that, if the Russian government manages its policy trade-offs wisely and is not suddenly burdened with the sort of major economic costs that could spring from new Chernobyl'-type disasters, the problems in achieving these objectives are not insuperable. The government will constantly face the quandary of how much it can deviate from IMF standards and yet get support, but its policies should still allow the country to move forward. [REDACTED]

Politically, the government needs to:

- Work out a distribution of institutional power that preserves democratic processes while strengthening executive authority to carry through painful reforms.
- Keep strikes and social violence to a minimum.
- Prevent military disintegration or revolt.
- Avoid the political temptations of extreme populism or chauvinism.
- Contain peacefully pressures for regional and ethnic separatism.
- Prevent relations with other former Soviet republics from turning violent. [REDACTED]

Russian society must also continue to develop in a liberal democratic direction. Entrepreneurship must grow, democratic institutions must be strengthened, and the end of the empire must be accepted. [REDACTED]

These are formidable but not impossible requirements. Public endurance of adversity so far is a hopeful sign. A constitutional consensus may emerge, stabilizing the separation of powers and allocation of government functions, while delivering a viable federalism through a significant devolution of power to the localities and probable side deals between Russia and several recalcitrant autonomous republics. Most analysts believe the chances are good that the creation of a Russian ministry of defense and Russian army and steps by the government to improve military welfare will gradually strengthen civilian control and reduce the likelihood of extraconstitutional action by the military. Whether chauvinistic tendencies become stronger in Russian policy is problematic: we think the

dominant trend will be the consolidation of a moderate nonimperialistic sense of Russian nationalism, but xenophobic currents could be stimulated by various developments—including the activities of neighbors and conflicts between the latter and their Russian minorities. A majority of analysts think that economic logic and the interests of most incumbent republic leadership groups in stability should favor the development of peaceful relations between Russia and other republics, but the conflicts that do exist arouse intense passions and can escape control by the republic governments. [REDACTED]

Western policy can play a significant role in promoting democratization and marketization. Economic and technical assistance is central; but the West can help in many other ways by recognizing that the liberal, democratic ethos that can develop in Russia will be different from our own; being sensitive to the potential for misinterpretation or misuse of Western military, intelligence, political, or economic actions by nationalist extremists; strengthening the hand of moderates in the military and the pursuit of military reform; encouraging the observance of human rights inside the country while discouraging outside support of secessionist elements; and fostering conciliation in conflicts between Russia and other former Soviet republics, first of all Ukraine. [REDACTED]

Of all the factors that can increase the chances of Russian pursuit of democratization and marketization over the near term, none affects a broader range of variables than the provision of strong but conciliatory leadership by the Russian President. This factor is especially important over the next six to 12 months, when Russia's future political system will still be jelling and social instability will be deepening. There is a good chance that, even though his authority may wane, Yel'tsin will be able to meet the political challenges that confront him and offer such leadership in this period. Over the longer term, however, the mark of success for democratization will be a decrease in his or any leader's personal role, reflected in the institutionalization of the presidency, the emergence

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of other national leaders committed to the same goals, the development of political organizations that can mobilize support for such leaders, and the growth of a property-owning class that is the foundation of a pluralistic system. If Yel'tsin continues to provide strong presidential leadership, most analysts think the chances are slightly better than even that Russia will stick to this path. Absent such presidential leadership, they believe the chances would decline sharply. [REDACTED]

The Likelihood of Stagnation and Fragmentation. Most analysts believe that stagnation is likely to be the outcome if the Russian political process rejects strong executive authority and populism undercuts the Gaydar line in economic policy. They think the chances of these developments occurring are about 1 in 3. [REDACTED]

Most analysts agree that a breakup of the Russian Republic could occur if the downward economic spiral produces sudden and massive unemployment and a further sharp drop in living standards, if the political struggle between reformers and traditionalists becomes still more closely aligned with the pattern of ethno-territorial conflict, and if the military fragments along regional lines—all highly possible under stagnation. Analysts disagree over whether, before these conditions permit fragmentation, Moscow would attempt to save the day by intervening with force. Provided it did so and only isolated regions were involved, democracy in the country as a whole would probably survive in some form or other. But terrorism and guerilla warfare would become highly likely—complicating Russian politics, further impeding political and economic reform, and probably impacting negatively on Russia's foreign policy and relations with the southern-tier CIS states. [REDACTED]

The Likelihood of Dictatorship. We think replacement of the present order by a dictatorship today would most likely occur through a coup and judge the chances for this in the short term to be low. If Russia were beset by mass violence, anarchy, actual dismemberment, or war, however, dictatorship could come about with popular acceptance. Civilian politicians—led, say, by Rutskoy and drawing on the military-industrial complex—would most likely initiate such a seizure of power. Any dictatorship could

exist only on the sufferance of the military and—to a lesser degree—of the security forces. As we have argued above, most analysts believe the chances of military revolt are currently low and declining. They therefore think that the odds on a military-driven switch to dictatorship are low. If the presidency ceased to provide strong leadership and stagnation set in, the chances for dictatorship would increase considerably. [REDACTED]

Indicators of Progress. Key indicators of progress will be consolidation of a healthy, nonextremist Russian patriotism; persistence of a degree of popular political patience and absence of paralyzing strikes or protracted mass unrest; cessation, or dramatic slowing, of the decline in economic production and the standard of living; avoidance by the government of financial destabilization and achievement of at least gradual success in effecting commercialization, privatization, and competition; achievement of consensus on new constitutional arrangements that regulate conflict over the form of rule and federalism; success in institutionalizing civilian control structures over the military and in addressing their social and material concerns; and the exercise by Russian elites of self-control in conflicts with the former Soviet republics that could undermine Russia's own capacity to pursue reform. If, on the other hand, Russia begins to slide toward stagnation or worse, we would expect to see an inability by the government to push through constitutional change, a severe aggravation of the economic crisis and an attendant rise in social unrest, and the growth of centrifugal forces. [REDACTED]

Implications for the United States
Over the next four years, Russia will remain very unstable, presenting the United States with great uncertainties. Under the best conditions, there will be serious crises and turmoil between now and 1996. [REDACTED]

If Russia remains on a democratic track, this will be highly beneficial for the United States. It will strongly reinforce the gains we have already achieved in our own security, increase the likelihood of positive changes in other CIS countries, and enhance the

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prospects for progress on Eurasian regional and global issues. But Yel'tsin and his foreign policy team are already being accused of slavishly following Western dictates. Even a democratic future Russian government will increasingly define its national interests in a more independent manner and bargain harder in bilateral and multilateral negotiations. Russian interests are not identical with those of the United States, and even a democratic Russia may take actions toward its ethnic minorities or neighbors that conflict sharply with US aims. [REDACTED]

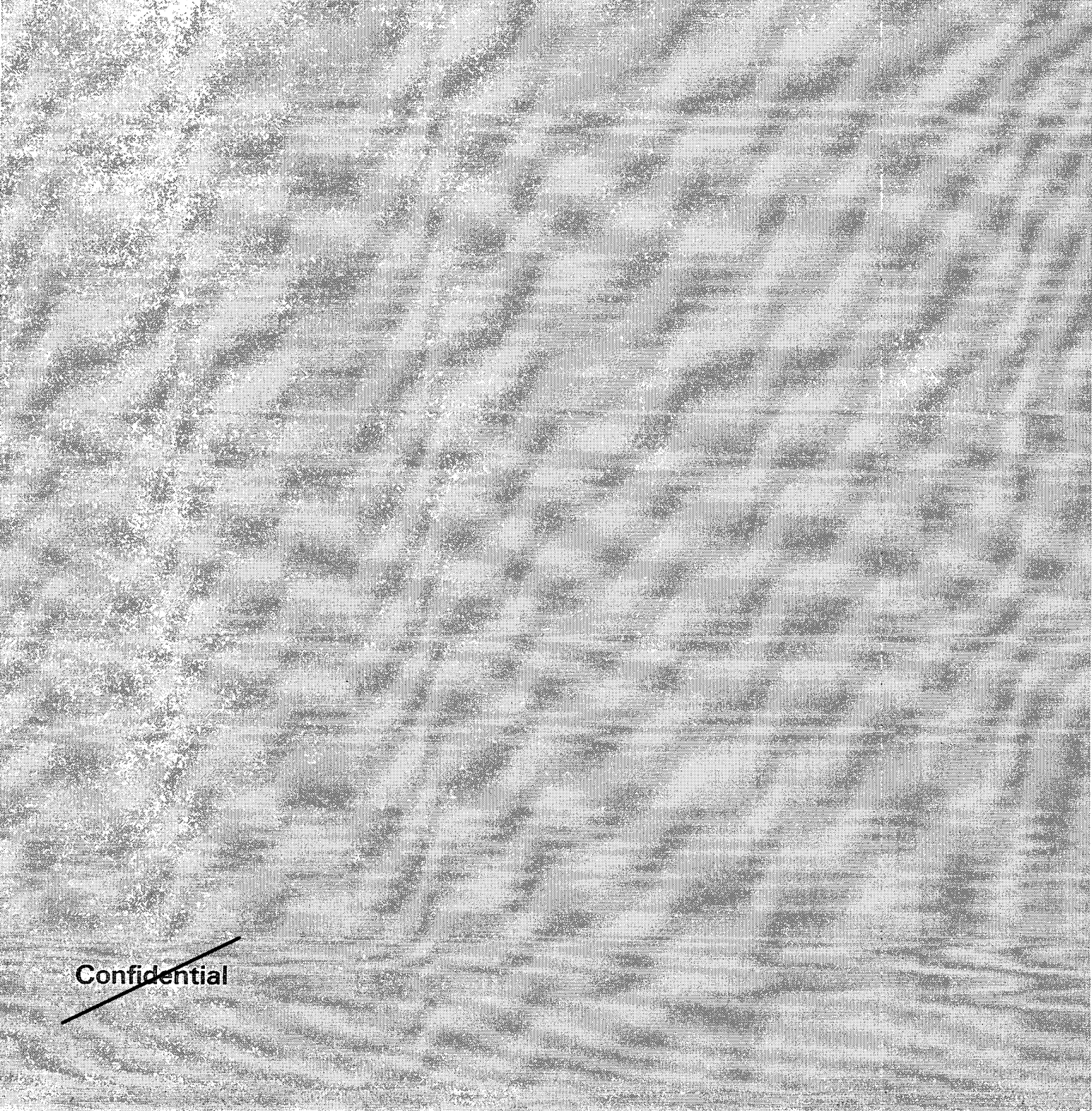
If Russia stagnates, there will be more likelihood of violations of human rights, greater vulnerability to chauvinist demagogy, and a higher probability of intensified conflict with neighbors. Russia will be much less able to conduct a coherent foreign policy. Its capacity to deal with nuclear weapon problems and potential sources of ecological catastrophe will decline. Its demands for Western assistance will probably increase, while its capacity to work out its own problems will decline sharply. If stagnation leads in turn to fragmentation, Moscow could lose control over some nuclear weapons. The threat of new ecological disasters—especially at nuclear power plants—will rise significantly. Possible civil war, cross-border hostilities, economic catastrophe, and widespread hunger will confront the United States with a broad array of difficult, no-win policy options. [REDACTED]

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Russia will not regain its status as a global power under dictatorship. Because such a regime is unlikely to solve its underlying economic problems, it will remain basically unstable and will have a limited life expectancy. Nevertheless, it will probably pose regional threats and adopt a more menacing strategic nuclear posture toward the United States. It is likely that it will be more inclined to resort to shows of force or subversion against its neighbors, such as Ukraine. It may seize territory that it considers to be historically its own, such as northern Kazakhstan. And it may engage in other military activities along its periphery that would generate major regional instability and embroil the United States. [REDACTED]

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