

CHAPTER II

RUSSIA FOREIGN POLICY ON ECONOMY

Russia or the official name of the country is Federatsiya Rossiyskaya (Russian Federation) is a vast country that stretches from Eastern Europe to North Asia. Russia is the largest country in the world whose total area of 17 million square kilometers, about the size even more than doubled from Canada who was named the nation's second largest country in the world (Britannica, 2019). Russia became an independent country since 1991 after the collapse of the Soviet Union as a superpower after the Cold War. Russia, led by Boris Yeltsin as Russia's first president who took office in 1991, which only lasted for one year because of infighting within the political bonds which are supported by the global crisis.

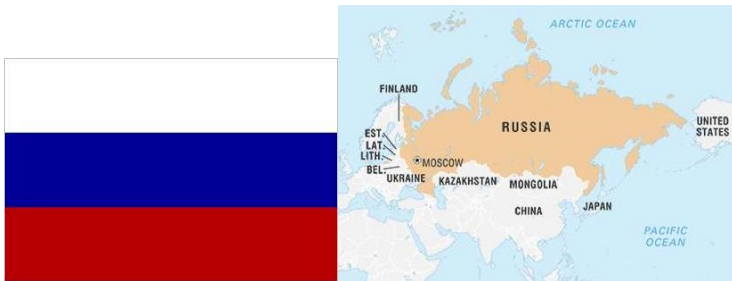


Figure 1 Flag of Russia

Figure 2 Russia Territorial

source: <https://www.britannica.com/topic/Russia>

Russia was then led by President Vladimir Putin who began two periods in 2000-2004 and 2004-2008. Succession experienced by the Russian state positively affects the country's economic situation since each leader has a different policy goal. Ups and downs of the Russian state in maintaining the state of the economy as well as cooperation activities

carried out by Russia then has made Russia a developed country that almost rival the United States at this time as the state bears the name Super Power (Encyclopedia, 2019).

A. Historical Background of Russian Foreign Policy on Economy

After the collapse of the Soviet Union, Russia experienced a prolonged economic crisis. Even the state of the Russian economy is at its lowest when the global world affected by the economic crisis in 1998. Coupled with state-owned enterprises controlled by the private sector to make profits, there is no longer enter the country where the income relied upon as one of the country's economic boosters factors. The economic crisis experienced by Russia does not stop there, and the incumbent president Yeltsin was subsequently resigned from his position as president.

Furthermore, Yeltsin was eventually replaced by President Putin to take steps of real change for Russia. Putin until now has served as three times as president of the Russian state. Russia itself is shaped country where the Czech Presidency of the supreme power is held by the executive branch, which is divided into two entities, namely the President who has the dominant force and the Prime Minister. Although standing as an independent country, but Russia in matters of foreign policy turned out to be the majority inherited a lot from the former Soviet Union where the ideology espoused were communists and then turned into a Republican form of government since Boris Yeltsin leads (Vasilevitskaya, 1993).

Russia which has changed its government form into this Republic in terms of its Foreign Policy tends to be pro against the West, which is where the primary purpose of foreign policy is to political and economic development in the country of Russia (Donaldson, Boris Yeltsin Foreign Policy Legacy, 2000). Yeltsin here to get a challenge in his tenure because at that time Russia is still in a period of self-discovery after becoming heir to the Soviet Union in terms of ideology.

At that time, the west into a political ally of Russia for Russia in the economic and political development stage and make the west as a potential source of borrowing funds to reform the Russian economy. Boris Yeltsin also has to maintain the strength of Russia as the country's largest power territorial inherited by the Soviet Union, one of which is a holder of a permanent seat on the UN Security Council (Lo, 2002).

Foreign policy initiated by Boris Yeltsin as Russian president refers to its national interests are not always limited to the obvious. Russia here trying to balance his position through cooperation with other countries to cope with the instability in the border regions of Russia. (Busthomi, 2010) Economic conditions inherited from the Soviet Union into a primary task that must be addressed by Boris Yeltsin. Between 1989 and 1991, the Russian crisis of concern such as the state budget crisis, financial imbalances, inflation, foreign economic relations crisis, and economic control. Seeing the condition of Russia on the verge of crisis, Russian government need to solve the problem of it is Russian economic (Shleifer & Treisman, 2001).

Boris Yeltsin, as Russia's first president, confirms that he will focus its foreign policy on solving the economic problems of both infrastructure and superstructure. The Russian reform plan also diverts economic system into a market economy. In economic policy, Yeltsin took steps "Shock Therapy" by abandoning the reform intervention of the Gorbachev era. In 1991, the fifth congress of people's deputies, Yeltsin said that Russia needed funds and financial credit policy, budget cuts, price liberalization, tax reform, and the strengthening ruble (Ayer, 1992). Yeltsin also proposed privatization by emphasizing the need for acceleration of the market price. Yeltsin also takes another step in Shock therapy that is intended to streamline further and rationalize the use of economic resources of the country. It is then supported by the elimination of all subsidies and price controls (Marshall, 1995).

In January 1992, Russia's economic reforms began to run with the hopes of Russian economic transformation could run fast. This reform on three main core components: macroeconomic stability, economic liberalization, and privatization. Stabilization is a tight monetary policy which was shown to suppress inflation and imports. Privatization is a kind of liberalization concerning the liberation of prices, including the release of the labor market and the liberation movement of goods and services that transcend national boundaries. Privatization is an effort to develop the private sector and encourage the independence of state enterprises. Liberation price is a policy that is intended to reduce controls and subsidies from the government as the beginning of the creation of large domestic and external markets. The Russian economy also opened widely to the production flow from abroad. The opening of the economy to foreign trade is an effort that the international market can affect the structure of the domestic market price (Islam, 1993).

The trip of the Russian economy in the mid-Yeltsin's leadership faces many obstacles, including the lack of support from the State Duma and also the lack of democracy in Russia, exacerbating the declining graph of Russia's economy. The decline of the Russian economy declined at the end of Boris Yeltsin's leadership. This setback is not separated from the less precisely the strategy launched by Yeltsin in regulating the Russian economy. Russian oligarchy gain wealth through tax evasion activities and games, as well as the stock price, do transfer-transfer of state assets into private property. Liberalization program is not entirely liberal, and the monetary crisis has also been a problem of economic reform Russia located on the reform is too partial. Some business group enriches themselves and rampant corruption cases in the government arena. (Shleifer & Treisman, 2001).

Program privatization not able to establish companies classy as expected. Shares of the company only sold to employees of large companies and the business community

who are experienced. Those disparities occur among businessman and ordinary people. People can only buy a stake of around 5000 companies that are old and outdated. It is only about one percent of the companies that have the potential to compete with large companies (Rais, 2005). Liberalization efforts of government, in fact, has brought politics with money. Power tends to overlap and are difficult to separate. The economic and social situation in Russia is a result of the act of a few oligarchies supported by the bureaucracy and the politicians they employ. Yeltsin persistence in maintaining the position of Russia on the global scene did not last long, because of the political bonds as well as the global economic crisis is endemic.

B. Government Policy in Economy on Vladimir Putin

President Vladimir Putin eventually replaced the fall of the presidency of Boris Yeltsin in 2000. The Russian People understand very well that Vladimir Putin can be trusted to leads Russia because it has properties that brave, robust, and not pro-western. Here Putin served two period in the year 2000 to 2004 and also served in 2000-2008. Although Putin did not want a pro with the west, Putin still makes the West as a source of cooperation in the fields of technology and science. Vladimir Putin also believed to improve the state of Russia being a country stable again.

In general, the political basis Putin dubbed "sovereign democracy." It received the citizens of Russia, where the Russian democracy must be determined by itself, not outsiders. Russia, said Putin, is not ready to classical liberalism, and could not be immediately, or will not ever be like the US and the UK. He also criticized the Soviet leaders who failed to galvanize the country, and also Russian reformer who has made several mistakes that could be avoided. However, Putin also likes Yeltsin, always trying to maintain a close relationship with the reformers. It is one shrewdness Putin in diplomacy. Putin still liaises closely with the

technocrats who have dropped the Russian economy as long as they are still willing to work together hand in hand to revive the Russian economy (Cohen, 1999).

The primary purpose of Foreign Politics put forward by Vladimir Putin after serving very well, Putin said about Pragmatism, the effectiveness of the economy and national interests are the main objectives in its foreign policy. Putin plans to restore Russia's glory within the body of the Russian Federation, as well as Russia's strategic policy as a country that has high power (Great Power). Putin did this by emphasizing that the world must remain in the form of multipolar and make Russia one of the major powers in the world. In the context of political reform, Putin's leadership as president received support from members of the State Duma, so that in running his leadership period, it became more comfortable and better. It is very different from Yeltsin who lacked the support of the State Duma so that in practice, there were often differences of opinion and views to conflicts of interest (Saputra, 2014).

The first thing Vladimir Putin did to improve the state of the Russian economy was to reduce his country's dependence on economic assistance from foreigners and especially from western countries. Putin's primary goal in running his foreign policy is to emphasize that Russia is one of the superpower countries in the world. Vladimir Putin then campaigned in 2000 by making the slogan "Great Russia." One of the memorable characters of Greater Russia is the affirmation of the character of non-isolationism towards its foreign affairs. Russia, under the leadership of Vladimir Putin, showed his character at an international meeting attended by 260 countries at the official level. Vladimir Putin also showed his foreign policy orientation towards Europe (Saputra, 2014).

As the president of Russia will lead during one period or four years, Putin got a kick on the economic and political instability in Russia because of the time previously

Reforms have brought Russia toward destruction (Suryono, 2012, *Russian Post-Communism: The Long Road to Change*). In his official speech on 8 July 2000, Putin in economic policy prioritized six critical principles for overcoming the economic crisis in Russia as follows:

1. Guarantying property high.
2. Stopping the preferential treatment of some business over others and ending unnecessary intervention in business.
3. Lowering the tax burden.
4. Simplifying the customs system.
5. Developing banks and other economic infrastructure
6. Reorganizing the welfare system by reducing the number of benefits.

Vladimir Putin has a desire to create a new world order that is more powerful and balanced. Putin began to embrace many countries for this purpose for the creation of a stable and secure world, even started to improve its relations with the EU and also closer to the countries in Asia such as India, China and also became an official member of the G-8. Putin believes that if domestic problems in Russia has been completed, then Russia could again become a superpower and will have an important role for other countries in terms of strengthening the self. Putin's foreign policy is more visible and seen quite successful compared to the previous period. The main priority of president Putin is to get closer to the neighboring countries to ensure the security of Russia's geographical and geopolitical. Russia, as part of the CIS, aggressively pursue cooperation with countries of the former Soviet Union and participate actively in solving the conflicts in the CIS countries.

In the past five years, a significant trend is that Russia's energy policy is starting to show its position as a cornerstone of Russian diplomacy. As soon as number one in Russia, Putin's first priority is to revitalize Gazprom, the

Russian gas company. He immediately gets rid of the criminals of Gazprom and replaces them with managers who can put the interests of the country above their interests. Putin began to dismiss Chernomyrdin⁶⁰ in 2000 from his position as Commissioner of Gazprom and replace it with Dmitri Medvedev, now the President of Russia.

The arrest of Mikhail Khodorkovskii, owner one of the largest oil company, Yukos, suggesting that the higher power to decide the color and the direction of energy policy. Apart from managerial problems, the Energy Strategy until 2020 (Energy Strategy up to 2020) shows how the options of diplomacy is an important part of the strategy check.⁶² Repeatedly, Putin hinted at the importance of Gazprom for him and a role to play in the revival of Russia's Gazprom as an energy superpower. In his address in 2006, Putin boasted that Gazprom had become the third largest company in the world. Putin realizes that Russia does not have much potential in the field of economics and business except energy and mineral resources. If appropriately used, oil, gas, mineral, and another potential of Russia can be used to awaken Russia (Gazprom, 2006).

C. Government Policy in Economy on Dmitry Medvedev era

In 2008, Vladimir Putin had decided to resign from the seat of leadership as president and was replaced by the closest people Dmitry Medvedev. Dmitry Medvedev's political views are not much different from Vladimir Putin because they are derived from the same party the United Russia party. The priority of the foreign policy adopted by Dmitry Medvedev earlier not far from the integration of Russia into the international community and Russia equalized with the EU, NATO, and also of Western hegemony to achieve national interests of Russia. Dmitry Medvedev also wants Russia to get involved in international economic activity as a form of strengthening the Russian economy. As

performed by Putin before, Medvedev did not receive a world in multipolar because Medvedev thought that world could not be centered in only one big country that cannot make a rule that should be obeyed by countries in the world (Simes, 1999).

Foreign policy taken by Dmitry Medvedev reflected in the policy document issued by the wild country in July 2008. The Russian government is also thinking long about Medvedev on Russia's security strategy, and he made the policy to build Russia's security is becoming stronger by the year 2020. Moscow, as the Russian capital, was also deployed to build international cooperation and role in the world order to follow international law and abide by the Security Council (Donaldson & Noguee, 1998).

As the next leader, Medvedev in 2008 received the full support of Putin as the highest strength and raised Putin became Prime Minister. During his reign, Russia carried on in the current domestic economic crisis experienced by the United States, which later expanded into a global crisis. The economic disaster that struck the United States made a very sharp fall in oil prices. Oil prices, which reached 150 US dollars dropped to 40 dollars per barrel, while the source of the Russian economy dependent on oil export production abroad. Russia's currency also weakened as a result due to declining demand from other countries for the oil. Companies eventually reducing the salaries and number of employees, it then responds by the Russian government by using one trillion Russian rubles to rescue the country's banks, lent more than 50 billion US dollars to the company in order for them to survive. Russia's economic situation stabilized in 2009, but economic growth only occurred in 2010.

In the reign of the Medvedev, era makes an effect of the Russian government system that is their policy to amend the Russian constitution. These changes include the extension of the presidential term and the State Duma from four to six years. In an official speech on 5 November 2008, Medvedev said that the reason for this amendment for the freedom and democracy that is successful if the President and the Duma could be an authority on a high level. With the extension of

this period of office will maintain political stability so that the focus of more attention to the country's problems. However, many are also those who think that the extension of tenure is that the leaders have more time for the ruling (Arkhipov, 2018).

The year of 2008 was the first year of Medvedev's leadership, this year Medvedev had two issues dominated by the issue of the economic crisis and Russia's involvement in the South Ossetia war. Since then, Medvedev emphasized the strategic role of technological innovation to put it in the four priority areas of economic policy (Antolyevich, 2013). Medvedev reiterated one of his priorities is modernization as a strategy to strengthen Russia as an international actor. It is done to promote technological innovation and improve the global competitiveness of the economy (Jonson & White, 2009).

The economic crisis made the Russian national income into tidal cause a state of the Russian economy decreased. Dependence on energy sources to be one cause. Finally, the Russians took control of the energy sector by raising the price of natural gas. The structure of the Russian economy as a benchmark of the country's economic growth and natural resources of energy into a force Russia to boost the country's economy because the energy possessed by Russia amounted to much and needed by neighboring countries. Despite the economic crisis hit Russia, but here, Russia took measures to reduce its dependence on energy and prefers an increase in natural gas prices and export activities. Here it can be seen that the foreign policy during the reign Medvedev focused on the benefits. Besides, cooperation with other countries has also become one of the factors increasing the Russian economy. Natural resources are owned by Russia and then be used as a tool for diplomacy enumerated by Russia to another country. Russia does cooperation with former Soviet Union countries, such as Belarus, Ukraine, Moldova, and European Union (Freire & E.Kanet, 2012).

Russia's involvement in the conflict in South Ossetia and Abkhazia is also a factor in the decision of the Russian state. Russia, in the conflict involvement exerting firepower to affect Nicaragua and Venezuela to join the separate recognition of the state of Georgia. This conflict is known as the South Ossetia war, and this war is widened because it involves parties that support separatism Russian South Ossetia and Abkhazia from Georgia. Many people who said that the involvement or the Russian invasion of Georgian territory is a price to be paid by Georgia for its policy of pro to the West. Russia has long intervened in this conflict and the full support of South Ossetia. Russia also has relationship ups and downs with NATO. In 2010, Medvedev approved the military doctrine states that decisions in the military sphere. Russia calls NATO as a threat due to the expansion of the country which borders with Russia. Russia and strengthen the CSTO military alliance that is the former Soviet Union.

In fulfilling its policies, Medvedev did not relinquish his interest in the Middle East is a region who's potential. It is undeniable that the Middle East is one area that has abundant natural resources, especially oil. In the petroleum sector, Russia has oil reserves of 79 million barrels of oil and produce an average of 7 million barrels per day in 2001. This figure makes Russia ranks second as the largest oil producer after Saudi Arabia (International Energy Agency, 2004). As a country which has abundant energy resources, Russia needs a market that the production of oil products can contribute to the national income. Russia is then cooperating with some countries one China. China is one of the actors of the world economy that consumes energy the second largest after the United States since 1993 (Jinggou, 2009).

The Middle East owns natural resources is also a concern for Russia. There are so many countries that want to get involved and spread its influence in the Middle East in order to get power katas ha of natural resources in the region, Russia is no exception. Russia, in practice, has its overseas

development policy for the Middle East. The policy is divided into two components, firstly Iran and then other Middle East regions. In Iran, the Russian government pursuing cooperation in the fields of energy and economics. Russian bilateral cooperation with Iran because it is driven their economic interests, while Iran to cooperate with Russia to improve its defense capabilities in order to stem the threat from other countries. Iran is a Middle Eastern country that has a highly developed economy, while Russia is a country with military technological capabilities and very strong. So that cooperation between the two countries is beneficial to one another. Russia has three main interests in this cooperation, namely economic interests to improve the state of the domestic economy, the security interests of the trade lane that passes through the area of the Caspian Sea, and interest in stemming the expansion of NATO in the area of the former Soviet Union (Kholis, 2010).