

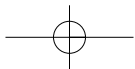
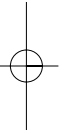
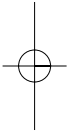
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U.S.-RUSSIAN RELATIONS: THE CASE FOR AN UPGRADE



МОСКОВСКИЙ ЦЕНТР КАРНЕГИ
Carnegie Endowment for International Peace





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ФОНД ПОЛИТИКА

Moscow 2005

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Executive summary

The recent sharp dispute over the Ukrainian presidential elections vividly illustrated the fragile and shallow nature of the U.S.-Russian relationship. Highly touted in both Washington and Moscow as a "strategic partnership" in 2001, the relationship has drifted and the gap between glowing rhetoric and thin substance has grown. When major policy differences emerge, as over war in Iraq in 2002-2003 and recently over Ukraine, all too easily the U.S.-Russian relationship spirals into "crisis," and the threat of a "new Cold War" looms.

This sense of drift and the impression that U.S.-Russian relations were heavier on rhetoric than substance motivated the authors in the summer of 2004 to try to develop a common strategic vision about why this relationship matters a great deal now, why it will matter in the future and how to ensure that its potential can be fulfilled. We seek to present how Russia and the United States understand their broader interests in international relations, to what extent their goals and interests overlap and how in the coming years we may be able to increase that overlap. As Russians and Americans, we should view relations with the other party in terms of national needs. The U.S. does matter a lot to Russia's development, and Russia matters quite a bit to the functioning of the global order. That is in itself a good basis for an upgrade.

The driving factors now and in the foreseeable future that will promote closer U.S. and Russian interests will be mainly in the security and energy realms. Within the realm of security issues, we broadly share interests in combating terrorism and preventing proliferation of weapons of mass destruction. But despite a rhetorical shared common interest of peace and stability across Eurasia, our competing visions and goals in the former Soviet states, as the recent presidential elections in Ukraine displayed, prevent deep cooperation. Moscow's status as an energy superpower possessing the largest overall hydrocarbon (oil and natural gas) reserves in the world is increasingly significant for U.S. policy and commercial interests.

The United States and Russia cannot afford to find themselves on the path of collision, while collusion remains out of the question. The answer then is patience, coupled with practical steps; consultations and transparency about policies; clarity about the "red lines"; and compromise where core interests are not at stake. We need to concentrate on what's realistically doable now and in the foreseeable future. Each country makes a choice on the basis of prioritizing its various interests. When interests are compelling enough, such cooperation should not be held hostage, for example, to the pace of Russia's domestic evolution or the United States' making its foreign policy more multilateral. To the extent that we can successfully cooperate on more issues, trust will grow, and our perceptions of our interests and how they are in effect tied to values may grow closer as well.

Introduction

The recent sharp dispute over the Ukrainian presidential elections vividly illustrated the fragile and shallow nature of the U.S.-Russian relationship. Highly touted in both Washington and Moscow as a "strategic partnership" in 2001, the relationship has drifted and the gap between glowing rhetoric and thin substance has grown. This shallowness leaves U.S.-Russian ties bereft of constituencies wider than leaders and a few highly placed government officials and increasingly vulnerable to growing choruses of skeptics. In the United States, Russia is often relegated to secondary foreign policy status at best. Russian political elites, for their part, are quick to draw on latent reservoirs of anti-Americanism to gratuitously criticize U.S. behavior. When major policy differences emerge, as over war in Iraq in 2002-2003 and recently over Ukraine, all too easily the U.S.-Russian relationship spirals into "crisis," and the threat of a "new Cold War" looms.

This sense of drift and the impression that U.S.-Russian relations were heavier on rhetoric than substance motivated the authors in the summer of 2004 to try to develop a common strategic vision about why this relationship matters a great deal now, why it will matter in the future, and how to ensure that its potential can be fulfilled. The present report represents a joint Russian-American effort that has been initiated by the Carnegie Endowment for International Peace, which is uniquely placed with offices in both Washington and Moscow, and the Polity Foundation, a well-known Moscow think tank. The report emerges from many discussions and consultations in Moscow and Washington over the summer and fall of 2004 with leading government and non-governmental experts. While a number of outstanding people have contributed anonymously to this effort, the three authors bear sole responsibility for the text. Our initial goal for this report is to convince senior officials on the U.S. side that Russia matters a great deal for American foreign policy goals and to describe to Russian officials how a deeper relationship with the U.S. can advance the Russian agenda. We also hope that the report can serve as a discussion paper in various fora in both countries to promote the development of broader and deeper constituencies for advancing U.S.-Russian relations.

We should clarify at the outset two aspects of the way we address the U.S.-Russian relationship. First, our emphasis is on state-to-state relations. Secondly, we take an interests-based approach to the U.S.-Russian relationship, but we must clarify what we mean by that. We believe a false debate has emerged in recent years that artificially separates interests from values. How a state defines its national interests reflects its values — they are inextricably bundled together, but they are not immutable. "National interests" are not free standing, eternal categories akin to received wisdom. Rather, they are contested through political channels. Hence, rather than speaking of a "values gap," it is our contention that disagreements between Russia and the U.S. reflect differences in how we frame and define our interests.

We also want to state at the outset that the relationship continues to suffer from a deficit of trust. We believe the best way to overcome this deficit is genuine cooperation over time on concrete issues that we identify in our common interests. We will endeavor to be as realistic as possible in identifying areas for near- and mid-term cooperation as well as in identifying obstacles. It is essential that we not paper over differences with overly optimistic assessments and recommendations.

We seek to present how Russia and the United States understand their broader interests in international relations, to what extent those goals and interests overlap and how in the coming years we may be able to increase that overlap. While they appeared like adversarial twins in the second half of the 20th century, now the difference in role and position between the United States and Russia are great. America's business is increasingly the entire world; Russia's focus is mainly on Eurasia.

Before we move to a discussion of how to upgrade the relationship to better satisfy each country's core needs, we need to recognize the truly revolutionary change that has occurred since the end of the Cold War. This is necessary because this change is now too often being taken for granted. However, no matter how bitter the occasional disappointments, or how wide the existing disagreements, the U.S. and Russia have ceased to be adversaries.

Having recognized the achievements of the late 1980s, we also need to draw the bittersweet lessons from the post-Cold War engagement. They can be briefly summarized as follows:

- 1) U.S.-Russian relations are no longer central to the international system, or even (albeit to a different degree) to either country;
- 2) Washington's ability to influence Russian domestic developments and Moscow's ability to influence U.S. foreign policy are very limited;
- 3) U.S.-Russian relations are essentially asymmetrical, not merely in the sense of the disparity in the roles the two countries are playing on the world stage, but even more so as far as their current and future needs and interests toward each other are concerned.

Thus, while Russia and the U.S. are no longer real threats to one another, they have not become solutions to each other's needs. This positive "conversion" is not being completed due to some real and major differences and conflicts of interest. Even more important perhaps are obstacles linked to flawed perceptions. To wit: major constituencies in both countries see few possibilities for mutual engagement until the other side changes itself (in the case of Russia) or its ways of international behavior (the case of the U.S.). We, however, take the view that to get the maximum of the relationship for each nation, one should concentrate on what's possible in the near term as well as to promote what is desirable in the longer term. Thus, for the purposes of this report, we propose to treat Russia and America "as they are" and as they are likely to evolve in the short-to-medium term.

The United States' position of military and economic predominance will likely endure at least through the first quarter of the 21st century. But how the U.S. chooses to exercise its power and what the mix will be between unilateral versus multilateral methods remains an open question. To the extent that multilateral measures prevail, and we believe U.S. efforts should be carefully balanced in this direction, the Russian Federation must be one of the principal partners on security and to a lesser extent on economic issues.

It equally needs to be recognized that no other country can achieve overall military and economic parity with the U.S. in the next two decades or so. In principle, there is an alternative to U.S. primacy, which is America's withdrawal unto itself; but this, for the foreseeable future, would more likely usher in international chaos than international harmony. America's position in the world system is not, in itself, an obstacle to Russia's goal of raising its profile and influence in global affairs.

Russia, for its part, is largely preoccupied with the enormous task of domestic reconstruction and integration into the global community. The outcome of Russia's ongoing process of transformation will influence greatly how Russia defines its interests and what capacity it will have to pursue them. In our view, Russia's transformation demands a strong and comprehensive cooperative relationship with the United States.

The differences between political systems of the two states do not preclude cooperation and even true partnership. Russia's transformation into a mature law-based market democracy is a multi-generational project over which the United States, the European Union and others hold little leverage. However, each country pursues security and economic cooperation because it views this in its national interests, not as a reward for meeting certain criteria for domestic political and socio-economic development.

Russia and the United States can surely proceed without a solid partnership with the other; but a

strong partnership would help them achieve their national goals more fully, and sooner. This assumption forms the starting point of the present report. In the next section of the report we will describe broad foreign and security policy goals for Russia and the United States and, conceptually, how a strong partnership may serve these interests. In the final section we will address more concretely how to advance our common interests over a number of policy issues.

§ 1.

U.S. and Russian foreign policy goals and the bilateral relationship

In order to understand to what extent U.S. and Russian national interests overlap, we need to take a broader look at how each country views its highest priorities in foreign and security policy.

RUSSIAN INTERESTS

Russia's principal foreign policy interests can be organized under the following categories: 1) global order and integration; 2) global, regional and territorial security; and 3) economic growth and development.

Global Order and Integration:

- To be viewed as a great power – economically viable, technologically advanced, socially attractive and politically influential;
- To secure Russia's position in the group of the industrial democracies (G-8) as well as to raise Moscow's influence in leading global and regional decision-making processes;
- To achieve maximal integration on acceptable terms in international multilateral institutions tasked with managing world affairs.

Global, Regional and Territorial Security:

- To maintain sovereignty and territorial integrity of the state;
- To defeat terrorist and separatist groups and shut off their sources of support;
- To promote peace and stability on its borders and prevent armed conflict in neighboring territories;
- To prevent the emergence of non-friendly regimes along its border as well as to strengthen military structures and coalitions friendly to Russian interests;
- To prevent illegal migration, drug trafficking and illegal trade in arms;
- To work cooperatively to stop the proliferation of weapons of mass destruction.

Economic Growth and Development:

- To facilitate an external environment that promotes economic growth and development at home;
- To conclude very soon negotiations for Russia's WTO entry;
- To advance its business and economic interests in foreign markets and to attract investment into the Russian economy;
- To create beneficial terms for extraction and export of natural resources, energy in particular but not at the cost of mortgaging the future of the Russian people;
- To strengthen economic integration among its CIS neighbors and create a regional free-trade zone;
- To diversify its economy away from the current high dependence on natural resource exports.

U.S. INTERESTS

We will discuss U.S. interests principally as they pertain to three somewhat different categories: 1) international security; 2) world economy and U.S. economic growth; and 3) global order and integration.

International Security

- To eradicate international terrorist forces through reducing financial and weapons flows that support them, strengthening capacity with allies and partners who share this goal and promoting policy change, or as a last resort regime change, in states that do not;
- To prevent the proliferation of weapons of mass destruction (WMD) through a combination of strengthening the international non-proliferation regime and counter-proliferation efforts with allies and like-minded partners;
- To prevent the emergence of a peer competitor on the military and security front that could challenge U.S. primacy.

World Economy and Economic Growth

- To maintain a sufficiently strong dollar in order to balance the needs to attract massive foreign investment in U.S. treasury notes to finance U.S. debt and, on the other hand, to promote the competitiveness of U.S. exports;
- To maintain stable supplies of oil and gas at reasonably stable prices in order to sustain robust economic growth;

- To promote U.S. advancements in high technology and information technologies critical for both economic growth and military preeminence.

Global Order and Integration

- To promote the spread of democratic values and institutions and free markets as a major underpinning of global order and integration;
- To shape international and regional multilateral institutions to advance U.S. economic, security and political objectives.

WHY AMERICA NEEDS RUSSIA

Even if one believes that the world is unipolar today, it will most likely not remain so into the second quarter of this century even assuming that the U.S. will continue to prosper. China and India, with far larger populations, are rapidly developing. The European Union, with its total population and combined economy larger than those of the U.S., is gradually becoming a more unitary actor. In this evolving field, countries like Russia (also Japan and possibly Brazil) will also be significant actors. It will take a long time for others to close the gap on U.S. military power, but even today the limitations of U.S. power are more clearly distinguishable as the war in Iraq and its aftermath are straining U.S. capacity.

In the early 21st century, the global system is being challenged not by a pretender to world domination, but rather by anti-systemic forces (Islamist radicals using terrorism as their method, WMD-wielding and/or missile-armed rogue regimes, rise of anarchy in the failed and failing states). This asymmetric challenge is the principal source of threat now and in the near-to-medium term. In the longer term, however, more traditional power conflicts could resurface. The Cold War-era system of static defense-oriented alliances is not well adapted to the new tasks. America needs to reach out to friends old and new, including the regional "principals."

The U.S. is deeply committed through alliance and other partnership arrangements to promoting peace and security in Europe, Northeast Asia and the Middle East. The Russian

Federation either directly or through alliance relationships with CIS states has major security interests and varying capabilities in each of these regions. A strong Russia that shares similar goals in these regions is obviously very much in U.S. interests.

Formally, Russia will not become "part of the West" in the short term: It will stay outside of the Euro-Atlantic structures. A principal outcome of the Russian transformation beginning in the 1990s for the international system is that Russia will pursue a non-antagonistic, but essentially independent policy vis-à-vis the United States. Russia will not be subsumed within a wider Europe or institutionally integrated into the U.S. system of alliances. But a pragmatic and solid relationship with Russia will contribute significantly to ensuring the sustainability of peace and security in these regions.

To strengthen regional security across Eurasia, understanding about the rules of the game in the former Soviet Union is necessary. Russia wields considerable influence around its periphery for reasons of history, geography, culture, economics and politics. It controls the critical transportation routes in and out of landlocked Central Asia; it is an export market for the economies of Central Asia, the Caucasus, Belarus and Ukraine; it is the key destination for millions of migrants in search of work from these countries, as well as the source of vital remittances from migrant workers to their families.

The Russian military may still be recovering from the impact of economic and political reforms of the 1990s and the dislocations of that era, but it remains the most potent armed force in the region with substantial presence on the territory of the former Soviet Union. While Russia alone does not have the means to bring stability and security to states of the former Soviet Union, its support for, or at the very least acquiescence in, the efforts of the U.S. to do so is the necessary precondition for success in such a difficult undertaking.

Russia also possesses very significant niche capabilities aside from geography that could serve to advance broader U.S. foreign policy goals. First is its status as a permanent mem-

ber of the UN Security Council where Russia's veto power demands greater diplomatic attention from the United States on key policy objectives, as was demonstrated in the UN debates about authorizing a U.S. led coalition effort in Iraq two years ago.

Second is Russia's status as the only military and civilian nuclear power comparable to the United States. Since preventing the proliferation of nuclear, biological and chemical weapons is a fundamental priority for the U.S., it is essential that Russian weapons and weapons materials are very safely secured and that Russia work closely with the U.S. and other international leading powers to strengthen the non-proliferation regime.

Third, although Russia's economic power and its overall trade relationship is not large enough to have a very large impact on most major economic goals with the United States, Moscow's status as an energy superpower possessing the largest overall hydrocarbon (oil and natural gas) reserves in the world is increasingly significant for U.S. policy and commercial interests.

WHY RUSSIA NEEDS AMERICA

At the onset of the new century, Russia finds itself in a challenging geopolitical position. To its west Europe is both expanding and becoming a more unified and powerful actor. To its east and south two potentially huge global players are emerging and rapidly developing — China and India. Directly to its south Russia is flanked by a set of relatively weak states that geographically link it with the heart of the Islamic world. While Europe and eventually China are likely to be Russia's most significant economic partners, Moscow will probably find that the U.S. will continue to be most important for either the advancement or frustration of its geostrategic interests. The U.S. is the only power capable of producing tangible reactions to an array of challenges in different parts of the globe. The key challenge is not at all to paralyze America, but rather to determine how to harness U.S. power to promote Russian interests.

While Russia seeks to play the role of an autonomous systemic power and to advance its economic development, in order to be successful

under existing conditions of U.S. global preeminence, Moscow must pursue a strong relationship with Washington.

By contrast, isolation from the U.S. and the EU presents Russia with a danger of economic, technological, informational and security marginalization. In this light, an answer to the question "With whom should the Russians side?" takes clear shape: Without giving up its identity or sovereignty Russia must move toward advanced and responsible countries, located mostly on both coasts of the Atlantic. Only by opting for this course will Russia be able to advance its core goals to grow its economy and its international influence. The Russian establishment is gradually coming to a realization that the menu of development models is rather limited. Generally speaking, there is only one successful model that has proved its worth in the developed Western countries as well as in Asia (Japan). A drive to success presupposes that nations generally follow a set of universal prescriptions, born mostly out of Western experiences.

Russia's role in the club of great powers will depend principally on its capacity for sustained economic growth, its ability to identify and articulate national interests and to effectively mobilize national resources to promote them. Since Russia has already become a member of most international groupings with the exception of the WTO and perhaps the OECD that it has declared interest in joining (it is not seeking membership in either NATO or the EU, with which it has special arrangements *sui generis*), the principal challenge is greater integration and influence in formal and informal groupings. U.S. support for such integration at times may be crucial.

Economically, Russia needs advanced technologies and modern managerial practices, which often come with foreign direct investment. Russia attaches primary significance to cooperation with the U.S. in science and technologies in a wide range of areas: environment, health care, agriculture, manufacturing, transport and telecommunications. Russia is also eager to increase the mobility of researchers, to get access to U.S. management and technological expertise and to break through to the U.S. market.

WHERE DO OUR INTERESTS OVERLAP AND WHERE DO THEY CONFLICT?

The driving factors now and in the foreseeable future that will promote closer U.S. and Russian interests will be mainly in the security and energy realms. Within the realm of security issues, we broadly share interests in combating terrorism and preventing proliferation of weapons of mass destruction. But despite a rhetorical shared common interest of peace and stability across Eurasia, our competing visions and goals in the former Soviet states, as the recent presidential elections in Ukraine displayed, prevent deep cooperation.

The United States and the Russian Federation have experienced the largest-scale terrorist attacks of any nation in the last five years. Radical Islam-inspired terrorist groups will continue to present major threats to Russia and the United States (not only, of course) and a tremendous challenge for policymakers for years and decades to come. Despite differences between Washington's and Moscow's approaches to terrorism there exists a common interest in preventing anti-systemic forces from taking over parts of the Greater Middle East. Especially on Russia's southern rim, Washington and Moscow have common interests in preventing the emergence of Islamist-based terrorism. Common interests of Washington and Moscow in regional stability were most evident in defeating the Taliban in Afghanistan.

Despite differences on how best to deal with WMD proliferation, and the differences in the degree and intensity of threat perception, there is no Russian or American interest in seeing more nuclear-armed states emerge. Both countries have an interest in averting the proliferation of weapons of mass destruction and, particularly, in preventing the advent of nuclear weapons in North Korea and Iran, which would unleash an arms race in Asia and make the use of nuclear weaponry highly probable. Recent terrorist acts in Russia should redouble concern in Moscow and Washington about ensuring the security of Russia's vast nuclear weapons and materials complex.

As they are today, the major focal points of U.S. and Russian foreign and security policies will

continue to be Europe, the Greater Middle East and Asia. Geographically speaking, the U.S. is the key "outside" player in the regions while Russia is the key "inside" player. There is a large difference in overall power capabilities, but over time the asymmetry should diminish somewhat. Already we have seen in recent years Russia's influence reassert itself, primarily through economic and political means. While the U.S. and Russia may continue to harbor competitive instincts in the former Soviet states, Europe and Asia, the two countries share a broader interest in regional stability and development.

The unprecedented American involvement in countries and regions on the Russian periphery has confronted the emergence of a powerful consensus among Russian politicians about the need to consolidate Russia's neighborhood. For its part, the U.S. will not compromise its commitment to the independence of these states. Cooperation is the preferable option, for an all-out competition for influence between Russia and the U.S. on security questions involving these third parties would hurt the interests of both and — most importantly — undermine the fragile gains the region has made since independence, leading to possible degradation of some post-Soviet states.

Russia and the United States also share a common interest, broadly speaking, in a strong and effective Russian state playing a more significant role in international affairs more broadly and in key multilateral international organizations. As previously noted, U.S. support for Russia's further integration into/with multilateral political, economic and security structures — from the G-8 to the WTO to NATO and others — will be crucial. But the conceptions of what should constitute a "strong and effective" Russian state in the eyes of the Putin and Bush administrations are diverging. Efforts by the Putin administration to make state power more effective by consolidating central authority are viewed by U.S. and European governments and elites as growing

authoritarianism that has troubling foreign policy implications.

On the energy front, the stark fact is that the U.S. is the largest consumer of hydrocarbons and Russia is the biggest producer and has the greatest reserves. Russia has never been a major direct supplier of oil and gas to the U.S. as it has been for years to Europe, but its importance as an energy supplier to both the U.S. and Europe is certain to grow in the next decade. And even if Russia is not a direct supplier, the U.S. benefits from lower oil and gas prices resulting from increased global supplies from Russia and elsewhere.

Russia is no longer economically dependent on the IMF and loans from other international financial institutions dominated by the U.S. From now on Russia is principally interested in its access to global financial capital and foreign direct investment by transnational corporations. Certainly U.S. companies and financial institutions will be important for Russia, but they will be competing with Europeans, Asians and Russians themselves for the most attractive investment opportunities in Russia. We do see potential unrealized opportunities for U.S.-Russian economic cooperation in fields of high technology, including space.

Russia's eastern perimeter, Siberia and the Russian Far East, contains extraordinary energy, mineral and natural resource wealth. The relative underdevelopment of these territories, which have now become open to the outside world, presents Moscow with enduring policy challenges. The United States has important long-term interests as well in ensuring that these regions develop and prosper as part of the Russian Federation and that the natural resource wealth is developed. Here the United States and Russia share a major common interest in promoting a continued peaceful rise of China as a responsible regional and ultimately global power.

§ 2.

How to upgrade the relationship: a work agenda

As Russians and Americans, we should view relations with the other party in terms of national needs. The U.S. does matter a lot to Russia's development, and Russia matters quite a bit to the functioning of the global order. That is in itself a good basis for an upgrade. At the same time, the course of action outlined here is based on no illusion about U.S.-Russian partnership. We are not anticipating the establishment of a U.S.-Russian alliance relationship in the short term. Along with China, Russia is one of few major countries besides the United States that does have and will have an independent foreign policy on, if not a global, then at least a multiregional scale. However, this should be viewed as a fact rather than an obstacle. The asymmetry of strength will endure, and it will continue pushing the U.S. to ignore many of Russia's concerns, thus fueling knee-jerk anti-Americanism among the Russian elites and the electorate. As for Russian political and legal institutions and its economic system, the time when they become congruent with contemporary notions of a genuine democracy and market economy is clearly some way off.

Our work agenda rests on an assessment of U.S. and Russian interests, means available to both sides for achieving them and areas where such interests may overlap. The United States and Russia cannot afford to find themselves on the path of collision, while collusion remains out of the question. The answer then is patience, coupled with practical steps; consultations and transparency about policies; clarity about the "red lines"; and compromise where core interests are not at stake. We need to concentrate on what's realistically doable now and in the foreseeable future. Each country makes a choice on the basis of prioritizing its various interests. When interests are compelling enough, such cooperation should not be held hostage to the pace of Russia's domestic evolution or the United States' making its foreign policy more multilateral. To the extent that we can successfully cooperate on more issues, trust will grow, and our perceptions of our interests and how they are in effect tied to values may grow closer as well.

1. SECURITY COOPERATION

International Terrorism

Russia's perception of terrorist threats to its security and territorial integrity after Beslan has grown dramatically. The United States and its European allies must also be more concerned about the possibility of an uncontained terrorist threat to Russia and possibly themselves emerging from Chechnya and the Northern Caucasus. The greatest favor the Russians can do to assist U.S. efforts in the "war on terror" is to better ensure Russia's own security. There is no question that a weak Russia is not in the U.S. interests.

The United States and its allies and partners can and should make greater efforts to offer concrete help to the Russian government in the following areas: 1) much fuller sharing of intelligence information relating to known terrorist groups; 2) material and technical support to better secure Russian borders, airports, other trans-

portation infrastructure and nuclear power stations, as well as nuclear and chemical weapons and materials (Nunn-Lugar); 3) more assistance and support of international efforts to close off sources of financing from abroad for terrorist groups on Russian territory; and 4) training and possibly direct operational assistance in the search and capture of terrorists. Even modest success at U.S.-Russian cooperation to address threats to Russian security can go a long way in helping to break down the barriers of distrust. The recent signing of a memorandum between the FBI and the FSB goes in the right direction, but more needs to be done. There is no doubt in our minds that some of the threats to Russia, including the one from Chechen terrorists such as Shamil Basayev are threats to U.S. interests as well. But all of this has to be in a context of Russia's moving toward resolution of instability in Chechnya and the Caucasus.

Perhaps more than any other nations, the U.S. and Russia have very compelling interests in ensuring that weapons of mass destruction do not fall into the hands of international terrorists. This became the focal point of U.S. security policy after 9/11 as it should now in post-Beslan Russia. It is an established fact that al Qaeda has actively sought for years to acquire the capacity for a catastrophic nuclear terrorist attack. The two most likely targets for such an attack at this point are probably either the U.S. or Russia, home to the world's largest arsenals of weapons and materials.

For this reason the U.S. and Russia must redouble their efforts in cooperation in anti-terrorism and non-proliferation. And it is essential that these goals be viewed in tandem as we develop more extensive intelligence sharing and other cooperative efforts. Russians and Americans have achieved a great deal in past years on counter-terrorism cooperation (notably Afghanistan) as well as nuclear security (notably the Cooperative Threat Reduction efforts), but now it is imperative that we take the step together to link up our non-proliferation and nuclear security cooperation with counter-terrorism. Despite both countries' basically agreeing that the possibility of terrorists acquiring weapons of mass destruction represents the most urgent and dire threat, to date there is no link between intelligence sharing on counter-terrorism and

nuclear security nor any link between these two areas as we set priorities. So far the NATO-Russia Council has made some progress here as the Emergency Incident Response Cooperation efforts were designated as a counter-terrorism activity. Russia's decision to join the Proliferation Security Initiative (PSI), which puts constraints on shipments of WMD, delivery systems and WMD-related equipment to and from countries capable of proliferating is a very useful step.

Nuclear Weapons and Non-Proliferation

Reducing the possibility of nuclear materials and technologies from leaking to both state and non-state actors will continue to be a major goal for Russia and the U.S. in the near-to-medium term. But it would be a mistake to frame our nuclear cooperation narrowly around this goal — that would reflect an anachronistic perception of Russia as a country plagued by financial collapse and organizational dysfunction characteristic of the 1990s. Looking into the next decade or so, our joint goals should be more broadly framed to bring greater transparency and security to our bilateral nuclear relationship, as well as to work together to revitalize the nuclear non-proliferation regime. As the world's largest and most experienced nuclear powers, the United States and the Russian Federation must share the greatest responsibility in strengthening the regime; otherwise, it will collapse.

Currently both Russia and the U.S. are sending negative signals to the rest of the world about their credible commitment to nuclear non-proliferation. Because of erosion of its conventional weapons capability, Russian military doctrine has become more dependent on its nuclear deterrent, emphasizing the utility of battlefield nuclear weapons. Meanwhile, the U.S. is researching the development of a new class of "bunker-busting" nuclear weapons. However, the opposite makes more sense. Assigning a lower priority to nuclear deterrence in the post-Cold War world would give the United States and Russia credibility in their efforts to curb and roll back WMD proliferation. This would also have a positive effect on the other nuclear powers and help enlist their support for the effort to curb proliferation.

The Russians and Americans have dropped each other from the lists of potential war enemies, but

have not changed the lists of targets to be subjected to nuclear strikes. This is not a derivative of aggressiveness, though, but a stimulus for further cuts in strategic offensive weapons. Under the 2002 Moscow treaty, Russia and the U.S. have reserved far too many warheads for themselves (1,700 to 2,250). These numbers must be drawn down. The treaty should be prolonged by at least five years, to 2017, with START-I inspection and other confidence-building measures remaining in force.

More importantly, nuclear deterrence strategies need be modified. Launch on warning should be safely and verifiably abandoned. De-alerting should be progressively expanded and verified. At the same time, America and Russia need to define principles of deterrence with respect to third-party nuclear strikes, threats of WMD use by rogue regimes or cases of "failed" nuclear states.

In the next few years, the issues of Iranian and North Korean nuclear programs are likely to dominate the international security agenda. Moscow and Washington need to act jointly to ensure that Tehran and Pyongyang are verifiably nuclear weapons-free and that all their relevant activities are subject to most stringent international controls. Washington and Moscow need to work together to prevent the emergence of Iran as a nuclear power armed with long-range missiles. The best way to do this would be a combination of unrelenting international pressure on Tehran and serious efforts to embed Iran into a future regional security system for the Persian Gulf region. In North Korea, the way to solve the problem is to encourage Pyongyang to move toward gradual reform and more contacts with the outside world.

Other common initiatives should include:

- The Missile Launches Data Exchange Center initiated in 1998 needs to be activated, and its functions expanded.
- Russia and the U.S. can jointly strengthen the Missile Technology Control Regime (MTCR) to prevent transfer of dual-use items and make the countries that currently abstain from joining the MTCR promptly accede to it.
- The U.S. and Russia should expand counter-proliferation mechanisms and norms to include internationally sanctioned inspections backed by military force.

- Russia and the United States should agree on development, deployment and use of missile defense information and combat systems. Cooperation in this area can proceed on a virtually equal basis.
- The U.S. and Russia should proceed to develop new-generation nuclear reactors featuring safety of operation and minimal weapons-grade materials content.
- International standards of accounting, physical protection, safe transportation, storage and disposal of excess nuclear weapons materials need to be determined. Financial and technical support for these measures may be provided in the framework of the Global Partnership Program.

**2. THE POST-SOVIET SPACE:
COMMON INTERESTS AND CONFLICTS**

As evidenced by the developments in Ukraine, the post-Soviet space presents particularly knotty challenges for a U.S.-Russian partnership agenda. American (and European) visions and policies in the post-Soviet space continue to clash on many accounts with those of Russia.

Since the Russian leadership is determined to assume the preeminent role in the post-Soviet space, and cares far less about the world beyond the CIS, a hypothetical U.S.-Russian understanding about their respective interests and the rules of the road is the only firm basis for a harmonious relationship. Russia and the United States must be satisfied that the CIS states freely accept the other country's role without any coercion. Failing that, Russia and America can only agree to limit the scale and intensity of their disagreement. Stability in the newly independent states is clearly preferable to divisive chaos. However, reciprocal and false images — of American encirclement in Russia and of Russian neo-imperialism in the United States — are a real challenge that has to be dealt with.

We are not calling for a "strategic compromise" on Ukraine, which we deem both unnecessary and illusory. The future of Ukraine is for Ukrainians to decide, and no agreement on spheres of influence is acceptable or possible. Instead, we call on the Russian and American leaderships to frankly discuss their relevant policy agendas in the NIS and install firebreaks ensuring that no conflict of interest in these states leads to a resumption of Cold War-

like tension between Moscow and Washington, which would outweigh any gains one might hope for in the region.

Very indicative of the current impasse are also U.S. and Russian differing views on the "frozen conflicts" in Abkhazia, South Ossetia (both in Georgia), Transdniestria in Moldova and Nagorno-Karabakh. The danger of conflicts unfreezing in a violent way was evident this past summer in South Ossetia. While acknowledging that each situation has unique features, the basic difference in approach lies in the Russian preference for maintaining the status quo, at least by comparison to military solutions, and Moscow's view of the central authorities and the separatist enclaves as more or less equal parties. This contrasts with U.S. and EU prime emphasis on restoring the sovereign integrity of Georgia and Moldova. Closely tied to this question is the ongoing existence of Russian military bases in Georgia and Moldova.

We believe that the U.S. and Russia should reaffirm their commitment to a peaceful settlement of the disputes; that they continue to support the territorial integrity of Georgia and Moldova and reach agreement with those countries on matters pertaining to the Russian military presence there; and that the U.S. proceeds on the understanding that no lasting settlement in Moldova or Georgia is possible without full-scale Russian involvement that is part of an international effort acceptable to all parties in the conflict. Solutions to conflicts in both countries can best be reached under a common state formula, which fully guarantees the rights and freedoms of the parties concerned. As for Nagorny Karabakh, Russia and the U.S., as two of the co-chairs (along with France) of the Minsk group, should do their utmost to prevent the resumption of this potentially most dangerous conflict in the South Caucasus, which would seriously threaten U.S. and Russian interests.

Apart from differences, there are significant common interests. The United States has established bases in Central Asia, as well as provided direct military assistance to Georgia, and NATO is working with Central Asian and Caucasian states through the Partnership for Peace program. The CIS countries are reviving the Collective Security

Treaty Organization and expanding their bilateral military ties with Moscow in those regions as well.

Differences notwithstanding, both Russia and the U.S. face the same threat: the emergence of Islamist-based terrorism. Therefore, they have a vital common interest in preventing terrorist forces from taking root in any new places. All other issues are secondary.

Despite this clear and present common interest, to date we have not explored the possibility of linking up these bilateral and multilateral security relationships. If in cooperation with CIS states Russian capacity to provide security in contiguous regions grows, the United States (as well as European and other international partners) should work closely with Moscow and regional governments in various multilateral formats to promote better intelligence sharing, training of regional police to meet international standards and military reform, as well as cooperative socio-economic development strategies to open these regions to the global economy. This kind of cooperation would reduce the chances that these territories will be destabilized and/or become safe havens for terrorists.

This dialogue and — ideally — shared understanding about the rules of the road need not, and should not, be interpreted as an attempt by Russia and the United States to carve the former Soviet lands into spheres of influence. In fact, both countries are only part, albeit a critical part, of the international engagement of these states. But this does not obviate the need for a process, a forum for consultations about U.S. and Russian concerns, interests and activities. To do otherwise would only lead to miscommunications and misperceptions — of which there is no shortage in any event — and complicate what is bound to be a sensitive process.

We hope that expanded dialogue would eventually lead to regular communication between designated liaison officers with U.S. and Russian military forces in Central Asia. Optimally, there must be joint threat assessment updates, joint exercises and joint strategies of dealing with the new threats from the region. We also recommend regular informal consultations between Russian

and U.S. diplomats in Central Asia and the Southern Caucasus to discuss the potential for conflicts and disturbances in the region.

Of particular importance is cooperation against drug trafficking from Afghanistan across Central Asia to Russia and Europe. Despite the fact that both Moscow and Washington are hostile to the drugs trade, they have not been able to develop common approaches to the issue. Given the link between the narcotics trade, support for radical and terrorist groups and regional stability, this needs to be given much higher attention in both capitals.

Clearly Chechnya cannot be treated in a fashion analogous to the frozen conflicts elsewhere in the CIS, and it is not realistic now to expect U.S.-Russian cooperation to resolve the Chechnya issue. Russia will deal with the problems of the Northern Caucasus alone, with outsiders welcome to help in the reconstruction process once security is restored to the region. As the Russian government seeks to stabilize the region, the United States needs to show more understanding for these efforts and the huge problems Moscow faces there. But as with the frozen conflicts, the Russian government must appreciate that the United States and the international community will continue to be concerned with security issues in Chechnya as well as real or alleged violations of international law.

The United States needs to recognize that Russia has legitimate concerns about the fate of fellow ethnic Russians dispersed throughout the former Soviet lands. It is also natural that as Russia recovers economically, its influence in surrounding states will increase. Russian businesses are expanding into the neighboring countries thus eliciting concerns about strategic penetration of the neighboring states. But the primary responsibility for these deals rests with the host countries themselves.

3. U.S.-RUSSIAN ECONOMIC RELATIONS

Russia's still weak legal and financial infrastructure coupled with the great geographic distances between Russia and the U.S. have limited the development of economic ties that could serve as a stronger foundation for bilateral relations. U.S.-

Russian trade ties remain fairly underdeveloped. U.S.-Russian bilateral trade in 2003 amounted to \$7.1 billion, making the U.S. Russia's seventh largest trade partner, while Russia was in 38th place among U.S. trade partners. The U.S. continues to be one of the largest direct investors in Russia, although overall foreign direct investment remains very low relative to other transitional economies in east central Europe. The arrest of Mikhail Khodorkovsky and the likely destruction of the Yukos oil company have chilled, at least temporarily, the development of more extensive energy ties, one of the key areas with considerable economic potential in the long term. There are, of course, considerable limitations on the roles of the U.S. and Russian governments in promoting economic ties, but a number of issues require attention.

The creation of a normal economic environment in Russia — which includes observance of property rights (including intellectual property), non-corrupt business and government practices and transparent and non-discriminatory law enforcement — is the necessary condition to American (as well as Russian) investment into the Russian economy. Even taking into account its status as a transitional, middle-income country, Russia underperforms on corruption and rule of law. But we should also point out that for a country of its income level, it may overperform on a number of macro-economic indicators, and we only urge the Russian government to maintain its impressive policy record on this account.

The U.S. government remains very supportive in principal of Russia's near-term entry into the World Trade Organization. After concluding negotiations with Europe and China in 2004, the Russian government now focuses more attention on reaching accord with the U.S. Key obstacles in Russia's negotiations with the U.S. about WTO accession remain liberalizing the Russian service sector, especially in banking and insurance, as well as Russian legislation on intellectual property rights. Disputes about imports of U.S. chicken parts and meat products have occupied a disproportionate amount of time between our trade negotiators.

At the risk of sounding like a broken record, we strongly recommend finally revoking the totally

anachronistic Jackson-Vanick amendment. Although this piece of legislation does not really substantively affect the trade relationship, it is a major psychological irritant for the Russians. Taking it off the books would signal to the Russians that the Bush administration is willing to spend political capital on Russia, and that the U.S. Congress does not harbor anti-Russian inclinations.

Russia has never been a major direct supplier of oil and gas to the U.S. as it has been for years to Europe, but this is likely to change to some extent in the next decade. The principal U.S. interest will be in seeing more Russian oil and gas hitting international markets sooner rather than later. Major expansion of Russian pipeline systems, as well as further exploration and more rapid development of new oil and gas reserves in challenging climactic and geological conditions in more eastern and northern regions of Russia, will be necessary to ensure Russia can be an energy superpower for decades to come.

Despite the importance of diversifying the sources of growth in the Russian economy, we believe Russian interests also lie in seeing these energy resources developed sooner rather than later. After all, global economic dependence on fossil fuels as the principal energy source will begin diminishing at some unknown point during this century. Diversification of the Russian economy need not come at the expense of limiting growth of the energy sector. The challenge for the Russian government and industry in partnership will be to ensure that the revenue generated from energy resource development will be allocated and invested wisely to promote long-term economic growth for the benefit of the Russian population. There is a role to play for foreign companies that bring advanced technology and modern managerial expertise. Recent agreements in the fall of 2004 involving Total and Conoco Phillips with Russian companies Novatek and Lukoil suggest that attracting foreign involvement in the development of Russian energy resources remains a priority for the Russian government. In an environment that has greatly changed since 2002, when presidents Bush and Putin blessed the U.S.-Russian energy partnership, both countries need to seek realistic ways to revitalize that idea under new conditions.

Eastern Siberia and the Russian Far East form one area of energy development that may be cast in the strategic interests of both Russia and the United States. There are massive untapped resources here. Much of the attention in the past two years has been over the proposed oil pipeline from Angarsk in the Lake Baikal region to either Nakhodka on the Russian Pacific coast and/or to Daqing China. But other key developments include Sakhalin oil and gas projects that will begin shipping oil and gas in 2005/2006. The Russian government must make an important strategic decision about the development of the huge Kovykta gas field in 2005, one of the largest in the world. If the Russian government and Gazprom reach an agreement with Russia Petroleum, a subsidiary of TNK-BP, to build a pipeline to serve the Chinese and Korean markets, this could unlock the development of further resources that eventually would make Russia's Asian (including U.S.) oil and gas export capacity nearly as large as its capacity now to Europe.

While energy may ultimately be Russia's biggest export to the U.S., there are a number of success stories in other areas and considerable potential. U.S. high-technology firms have long been attracted to Russia because of its relatively high level of mathematical, scientific and technological training and capacity. Major U.S. companies active in Russia include Boeing, Intel, Motorola, Sun Microsystems, Silicon Graphics and others. In aerospace, we can point to the ongoing work on the International Space Station as well as Sea Launch. However, the generally unstructured nature of Russian hi-tech industries and their lack of market experience raise serious obstacles to cooperation. As to outsourcing, Russia faces there stiff competition from other countries. By contrast, some Russian enterprises are increasingly using strategic alliances for access to financial resources and marketing potential, while they bring to the table technology, human resources and patents. We also see big Russian companies purchasing major U.S. assets (Interros/Stillwater Mining, Severstal/Rouge Industries, Lukoil/Getty). Russia's rapidly growing consumer sector presents many attractive investment opportunities as well.

Two high-tech fields where Russia has considerable niche capacity, legacies of large investments

during the Cold War, are space exploration and ballistic missile defense research and development. Building on our cooperation on the ISS and the launch of international satellites, joint exploration of space is the kind of issue that can capture the imagination of generations young and old, as well as concretely serve our joint national interests. Involving Russian engineers and high-tech enterprises on missile defense research is also the kind of cooperation that can possibly help engender deep trust and build constituencies for a strong partnership.

It may be worthwhile to start thinking about bilateral free trade zones like the one the U.S. has with Israel, Chile or Singapore. Such an arrangement could become the backbone of constructive economic ties — from investment to technologies to export controls. In any case it is desirable to work out some advanced status of economic relationship or at least to set a goal to reach such a status in the future. Russia's economic growth goals will be greatly aided if the country's business climate starts to attract foreign investment and foreign professionals bringing advanced technological experience.

4. MULTILATERALISM AND WORLD ORDER

During its low ebb of international power, Russia naturally sought to enhance the role of multilateral institutions where it has traditionally had a leading role such as the UN, the OSCE and others. Now, as a once again rising power, Russia has sought to increase its voice in a number of multilateral forums including especially the G-8 and, to a lesser extent, NATO. The U.S. should insist, however, that Russia be held to the same standards of entry and acceptable behavior as other members of various clubs, so as not to weaken the credibility of the institutions themselves, which would be to no one's benefit.

The U.S. is also guilty in many cases of a "have your cake and eat it too" approach to multilateral institutions. To some extent it is natural for any state to abide by norms and procedures of multilateral institutions when doing so is perceived to be in its natural interest and to defect from such norms when it is not. But the U.S. also should take more seriously its responsibility to strength-

en global order that is reinforced by multilateral institutions. It should also be in U.S. interests to redesign multilateral institutions for greater effectiveness. After the end of the Cold War, this has not been a major U.S. priority. But anticipating the changing structure of power suggests that it should be. Redesigning global and regional multilateral institutions is already a popular idea in Russian policy circles.

The Russian government for its part has become concerned that such institutions as the OSCE and the Council of Europe are biased against Russian interests. Moscow is questioning its own former penchant for multilateralism.

In these circumstances, and ahead of the G-8 summit scheduled for 2006 under the Russian chairmanship, it is imperative that the U.S. and Russia discuss ways to improve the institutions of world governance, from the United Nations to the G-8. The Putin administration looks to hosting the G-8 summit in 2006 as a real signature moment of its leadership, and it represents an opportunity for the U.S. government to take leadership in working with their Russian colleagues to set the agenda.

5. INSTITUTIONAL MECHANISMS FOR RELATIONSHIP MANAGEMENT

The presidential relationship remains the key strategic asset. The presidents are more supportive of closer cooperation between the two countries than probably 90 percent of their respective bureaucracies. The bureaucracies need to be brought into closer and more productive relationships.

The White House-Kremlin channel between the U.S. National Security Council and the Russian Federation's Security Council has been the principal operational-level tool, and we recommend that it be institutionalized but certainly not be the only tool available to decision makers. The two governments have very able leaders, such as Sergei Ivanov and Condoleezza Rice, who can be key assets for pushing the U.S.-Russian relationship forward.

We do not propose a remake of the Gore-Chernomyrdin commission, but the reactivation

of the strategic stability group linking the U.S. Department of State/Department of Defense and the Russian Ministry of Foreign Affairs/Ministry of Defense makes sense. To be able to achieve tangible results, this group needs intellectual support from smaller working groups on specific issues (some standing, others ad hoc, including officials and non-officials alike). Composed of individuals having much experience with and confidence in their respective partners, these groups can be of immense help.

To highlight the importance of the struggle against terror, we propose the creation of a pioneering new institution, a Joint Intelligence Committee, whose members would be drawn from the security communities of both nations and whose task would be to exchange ideas and information on a regular basis and to develop new avenues of Russian-American security cooperation.

A few things can be done at the national level. Thus, we see a need to restore a unit within the U.S. Department of State to oversee relations with Russia separate from the rest of Europe. This would allow the U.S. government to better focus on a country whose importance to the United States is likely to grow, not to decrease, in the next

10-15 years. We also see a need to upgrade the strategic analysis/prognosis/planning function of the Russian Federation Security Council, which would allow the Kremlin to develop a longer-term perspective for its U.S. policy.

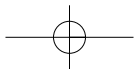
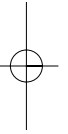
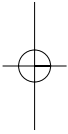
We also propose strengthening inter-parliamentary relations. Key to that would be strong personal links among the principal parliament members and key staff of the U.S. Congress and the Russian Federal Assembly.

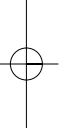
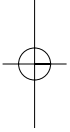
Finally, it would also be useful to establish a joint U.S.-Russian civic forum to oversee and promote the bilateral relationship from the vantage point of a non-governmental institution. This forum would also act as a focal point for public efforts in both countries to build nationwide constituencies in Russia and America in support of a closer bilateral relationship to serve each country's core interests. The political and business communities, the media, cultural figures and academics should be able to weigh in on the policy-shaping debate. With the Cold War being history for over a dozen years, there is no sense in the Russo-American relationship continuing to be reduced to Kremlin-White House contacts alone.

§ 3.

Conclusion

We are not proclaiming the dawn of a new era. What we are calling for is a renewed commitment from the United States and the Russian Federation to view the strategic importance of this relationship in a more positive light, which is fully consonant with their national interests. Shedding Cold War legacies has been, at times, a very frustrating experience for policymakers in Washington and Moscow over the last generation. While it is our firm belief that we have moved a long way away from the knee-jerk confrontational relationship that the USSR and the United States cultivated for decades, too little effort is being made by both of our governments and broader policymaking communities to ensure that this relationship can better serve our national interests. We hope that this paper generates more attention to how that can be done while we improve channels of cooperation to ensure that when our interests collide they do not take down the whole relationship.





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