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NAPLES THROUGH YELTSIN'S EYES: WHAT TO EXPECT FROM RUSSIA AT THE G-7 SUMMIT

INTRODUCTION

Following recent practice, Russian President Boris Yeltsin will attend the July 8-9 Naples summit meeting of the Group of Seven (G-7) largest industrialized states. Yeltsin leaves for Italy optimistic that the Russian economy is improving, and for good reason: Inflation in June dropped to 5.5 percent from 8.1 percent one month earlier and there is a growing sense of normalcy about the political situation.¹ But the economic hardships the Russian people face as the country continues its democratic and market reforms are such that few are giving much thought to Yeltsin's trip. Thus, it is fair to ask what Yeltsin's expectations of the G-7 summit are.

Both the Russian government and public opinion understand that there is a limit to what the G-7 can do to assist Russia. Indeed, previous G-7 commitments of assistance have not always been honored. For example, in Tokyo last year, the G-7 established a \$3 billion Special Privatization and Restructuring Program to provide, among other things, technical assistance and trade credits. Thus far, only half of that amount has been disbursed. This is consistent with Western aid programs in general from the Russian perspective: much is promised, little delivered.

This is not to say there is nothing Boris Yeltsin will expect from the G-7 to ensure a smooth summit and to nurture its developing relationship with Russia. From Yeltsin's perspective, the G-7 leaders will best assist the process of political and economic reforms in Russia and contribute to international stability if they:

- ✓ **Avoid moves and declarations that could be seen as downgrading Russia's status and humiliating Yeltsin at the Naples Summit.**
- ✓ **Repeal restrictions on free trade with Russia.** This would include a commitment by the G-7 that Russia should join the General Agreement on Tariffs and Trade.
- ✓ **Declare that Russia's membership in the G-7 economic forum is inevitable once free market economic policies are fully in place and results are evident.**

1 "Yeltsin Upbeat on Economy," *REF/RL Daily Report* No. 123, June 30, 1994, p. 1.

- ✓ **Establish an international, privately subsidized insurance fund to deal with the unemployment in Russia.**
- ✓ **Target aid to the Russian private sector.** The role of the national bureaucracy in distributing the money received should be limited.
- ✓ **Establish closer formal ties with other international organizations.** These include the European Union, NATO, and the Conference on Security and Cooperation in Europe (CSCE).

THE NAPLES SUMMIT IN CONTEXT

President Yeltsin comes to Naples having demonstrated his commitment to closer cooperation with other European organizations. On June 22, his Foreign Minister, Andrei Kozyrev, signalled Russia's desire to work constructively toward European security when he signed the NATO Partnership for Peace (PFP) in Brussels. Within days, Yeltsin himself travelled to the Greek island of Corfu to formally establish a Russian partnership with the European Union. Looking forward to the G-7 summit, Yeltsin told military academy graduates, in a Kremlin speech on June 28, that Russia's foreign policy is "gaining momentum."

Both of these partnerships are important first steps toward Russia's full integration into the international community on an equal footing. But they must be considered in the context of certain trends in Moscow that influence foreign policy decisions such as this. First, there is growing nostalgia among Russians for the former Soviet Union's superpower status, and an attendant inferiority complex regarding Russia's diminished role in the world. It is this nostalgia that gave rise to the nationalist sentiment expressed in the December 1993 parliamentary elections.

The second trend affecting Russia's foreign policy decisions, and which Yeltsin might express to his G-7 counterparts, is the deep disappointment with Western financial assistance. This disappointment has two strands: 1) very little has actually been delivered compared with what has been promised; 2) that which has been delivered has been generally ineffective. In 1992, for example, the G-7 announced a \$24 billion support package. While Russians are grateful of the food and medical assistance such packages have included, very few would be able to say how such large sums have actually affected their lives.

President Yeltsin will expect his G-7 partners to consider these trends when shaping their declarations at the Naples summit. His priority interest will lie in achieving "equal footing" for Russia at the summit to demonstrate its superpower status and its *de facto* (if not formal) membership in the club of the most highly developed and influential countries of the world. In doing so, he may recall the voices of others who have expressed very specific objectives for the summit. In a May interview with Radio Liberty, for example, Deputy Prime Minister and Economics Minister Alexander Shokhin, whose portfolio includes foreign economic relations, indicated that if Russia's status were not improved, Moscow could reject proposals to take part in such summits in the future. He argued that the G-7 was established for dealing with the global problems of the modern world and that the processes underway in the former Soviet Union are of global nature and cannot be controlled without Russia's participation.

Subsequent comments from other Russian officials have been more moderate, signifying the realization that to become a full-fledged member of the "club" would require time and effort; specific timetables and ultimatums would be inappropriate. In a June 20 interview in Italy, just

prior to a visit to the United States, Prime Minister Victor Chernomyrdin announced that "Russia is not forcing its way into G-7." In commenting about the degree to which Russia might complement the G-7, he noted that "Russia has made good progress," but acknowledged that transformation of the group into a "G-8" is a task for the distant future, beyond the Naples summit. While he saw no difficulties in discussing political issues that are commonly on the table at such summits, he recognized the existence of economic difficulties that Russia must overcome before a transformation into a "G-8" could take place. Although saying that this would be "the goal of the next stage," he did not specify whether Moscow expected to overcome obstacles by the time of next year's summit, to be held in Canada. It seems highly improbable, though.

FORGING AN EQUAL PARTNERSHIP

Given these limited expectations, and given the reality that many of the G-7 leaders' meetings in Naples will take place without him, there are nonetheless ways in which President Yeltsin will expect the G-7 to take advantage of the momentum established by the Russian partnerships with NATO and the European Union. He believes correctly that the G-7 will itself want to strengthen its growing ties with Russia, assist it in its market transformation, and thereby further strengthen Yeltsin and Chernomyrdin as they strive for a consensus in Russia that looks rather more outward than inward. Therefore, President Yeltsin will want to see his G-7 counterparts:

- ✓ **Avoid moves and declarations that could be seen as downgrading Russia's status and humiliating Yeltsin.** Of course, much in this regard has already been accomplished by the simple fact of Yeltsin's presence in Naples. But opponents of Yeltsin will watch closely for his presence at the official functions and participation in joint declarations and communiques to determine the status accorded the Russian leader. To many in Russia, these issues of prestige are more important than any substantive results that may or may not be produced by the summit.

Aside from the economic issues that the G-7 heads of state will discuss, the agenda is certain to include consideration of the crisis in the former Yugoslavia and the nuclear standoff in North Korea. Yeltsin's absence from such discussions would give his opponents a chance to challenge his position at home by accusing him of his failure to "protect the Russian national pride" and of playing second fiddle to the Western powers. Even discussions and declarations regarding economic issues absent Yeltsin, particularly those surrounding assistance to the newly independent states (NIS) of the former Soviet Union, might be seen in this light. Yeltsin will expect G-7 leaders to be aware of this and try to avoid even the appearance of his being relegated to a subordinate or limited role. Given Chernomyrdin's earlier statements about Moscow's awareness that summit expectations are rather limited, G-7 leaders can be confident in their inclusion of Yeltsin without having to make unrealistic concessions to him.

- ✓ **Repeal restrictions on free trade with Russia.** Much of the G-7 economic agenda will be centered on aid packages to the newly independent states. But Yeltsin will advise the G-7 leaders to also consider ways of promoting NIS independence from foreign aid. The best method, of course, is unrestricted access to the global trading system. To this end, Yeltsin would like G-7 leaders to state their unequivocal commitment to encouraging Russia's entrance into the General Agreement on Tariffs and Trade (GATT). The increase in international trade that would result from this would generate employment in

Russia, as well as create hundreds of thousands of export-related jobs in North America, Western Europe, and Japan.

As a demonstration of his own commitment to this goal, Yeltsin might ask President Bill Clinton to make the symbolic but nonetheless important move of announcing his intention to pursue formal repeal of the 1974 Jackson-Vanick Amendment. This amendment made Soviet access to U.S. trade credits dependent upon emigration of Soviet Jews. Since then, of course, the political and economic situation in Russia has changed dramatically and the conditions on which the law was based no longer exist.

Jackson-Vanick provisions were waived by President George Bush in 1990, and much of it was undermined with passage by the U.S. Congress of the so-called F.R.I.E.N.D.S.H.I.P. Act (Public Law 103-199) in December 1993. Nonetheless, many in Russia see the amendment's very existence, in the absence of formal repeal, as a club held over their heads by the U.S. It remains a sore point in Moscow that Yeltsin might choose to address with President Clinton.

- ✓ **Declare that Russia's membership in the G-7 economic forum is inevitable once free market economic policies are fully in place and results are evident.** No responsible reform politician in Russia expects rapid expansion of this group into a G-8. They understand that Russia has no effective market economy and that the free market there is in a difficult transition period. It is not integrated in the international economic system and its influence on the global economy can hardly be compared to that of any of the G-7 countries. Gross domestic product (GDP) and average living standards in Russia are not on par with any of the G-7 member-states, either.

Echoing Prime Minister Chernomyrdin, influential members of the State Duma (lower house of parliament) have acknowledged as much. Grigory Yavlinski, head of the democratic reform bloc "YABLOCKO," told Radio Liberty that Russia has no ground on which to stake its claim for equal status with "economic giants." In so doing, he focused on Russia's pending 1994 \$28 billion debt payment as a significant obstacle, given that the Russian government has not yet made a commitment to pay this amount. In fact, a growing budget deficit and industrial output that has declined nearly 30 percent in the past year alone will likely preclude payment of a substantial percentage of this debt.

Given the responsible recognition of these realities in Moscow, Yeltsin will not likely present any demands to the G-7 leaders for imminent Russian membership. But "imminent" and "inevitable" are different things. Yeltsin might suggest that the G-7 would lose nothing and gain goodwill and trust if they acknowledged that Russia's importance and global influence make her membership in the G-7 "inevitable" or "a matter of time," pending her completed transformation to a functioning, productive free market economy.

- ✓ **Establish an international, privately subsidized insurance fund to deal with the unemployment in Russia.** Past summits have linked G-7 assistance to macroeconomic reforms, and Yeltsin will expect the leaders to do the same this year. But Yeltsin has already indicated that he would like to see a different approach. On April 27, the Yeltsin government requested the International Monetary Fund (IMF) to allow funds designated to stabilize the ruble to be used instead for social safety net programs.

Yeltsin will likely ask the G-7 to support this approach to foreign assistance. To be sure, monetary issues are important and will continue to be a priority for both the Rus-

sian government and the international economic community. But Yeltsin will expect the G-7 to acknowledge the work he and Chernomyrdin have already done in this regard: inflation for 1994 is down dramatically from a year ago. At the same time, he shares their belief that there is a limit to what governments can do. He accepts the critical role the private sector must play in easing the hardships common Russians are facing in the face of the reforms.

To this end, he might well discuss with the G-7 the creation of a privately subsidized unemployment insurance fund to provide a social safety net to Russia's unemployed. There are a variety of mechanisms by which this might work, including joint Russian/G-7 management of the fund. However, if it is to proceed, the issue should be taken seriously by Yeltsin's colleagues at Naples.

- ✓ **Target aid allocations to the Russian private sector.** Yeltsin will encourage his partners to carefully scrutinize the size and objectives of IMF and other international lender' assistance packages. But experts in Moscow realize there is a limit to the changes in internal procedures the IMF can make and retain its lending credibility. For example, U.S. Treasury Secretary Lloyd Bentsen's recent proposal to lift the lending limit to Moscow, which is currently 68 percent of Russia's share in the Fund, might be too major a change. Notwithstanding these difficulties, Yeltsin will express his appreciation and continued support for such demonstrations of favorable Western attitudes toward Russian assistance.

Yeltsin might also be expected to ask the G-7 to target their assistance to the Russian private sector. He understands the need to limit the role played by the national bureaucracy in distributing foreign assistance to the Russian private sector where it can be used as an impetus for economic growth.

- ✓ **Establish closer formal ties with other international organizations** The end to the bi-polar confrontation of the Cold War has resulted in new types of conflicts, contradictions, and interactions. Civil wars, the North-South relationship, an emerging geo-economic triangular partnership between North America, the European Union, and Japan, and other post-Cold War realities pose new challenges for the foreign and economic policy of the G-7. A clear perception of Russia's role in this system is needed.

At Naples, Yeltsin might expect G-7 leaders to commit to trying to influence the activities of the most efficient international institutions and start to provide for a degree of "interlocking" among them. This process has actually already begun. For example, in 1993 G-7 governments applied considerable pressure on the International Monetary Fund to recognize Russia's unique circumstances when considering whether or not to approve loans. Given Russian belief in the importance of coordinated activity among various international institutions, Yeltsin might encourage this pattern to be continued in other fields. He might argue that the G-7 take its decisions with an eye toward stimulating the activities of such agencies as the IMF, the GATT, and the Organization of Economic Cooperation and Development (OECD) in the economic field, and the United Nations, the Conference on Security and Cooperation in Europe (CSCE), NATO, and the European Union in political and security matters.

To the degree that Yeltsin already has demonstrated his readiness to establish constructive relations with these institutions, such an approach by the G-7 would help integrate Russia into the international community as an equal partner. Russia has been an enthusiastic participant in

the CSCE since the break-up of the former Soviet Union. Moreover, Yeltsin's decision to join NATO's Partnership for Peace (PPF) and to develop a partnership with the European Union demonstrates his commitment to the broader objective of European integration.

CONCLUSION

It is improbable that the Naples G-7 summit will be a breakthrough in establishing an equal partnership between the West and Russia; too big a legacy of the Cold War and too many unsolved political and economic issues exist in and among all the countries. Further, Russia was deprived of equal participation in the progress of Western civilization during the decades of totalitarian rule after October 1917; she has a lot of catching up to do. A certain period of time will be needed in order to transition from limited cooperation with the West to full-scale equal partnership. In this respect, Yeltsin will expect the Naples summit to contribute to further confidence-building and bridging the gap between history and the future.

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