

March 6, 1997

## A NEW PARADIGM FOR U.S.-RUSSIA RELATIONS: FACING THE POST-COLD WAR REALITY

In an attempt to encourage the development of democracy in Russia after the fall of communism, the Clinton Administration granted American economic and political support to President Boris Yeltsin on issues ranging from arms control to the war in Chechnya. But these concessions have brought few reassurances that Russia intends to become America's friend and ally. Even though the Clinton Administration repeatedly has indicated its goodwill, the fledgling partnership that developed between Russia and the United States after the end of the Cold War has long since receded into history. More often than not, Russian-American relations have resembled a one-way street that leads only to Moscow. It is time for the Administration to develop a new paradigm to govern its relations with Russia—a policy that, like a blinking yellow light in an intersection, could be called “proceed with caution.”

**The Era of Romantic Engagement.** During the Clinton Administration's first term, such fundamental U.S. foreign policy principles as protecting democracy and safeguarding American strategic security interests were forfeited for benefits the Administration believed it could gain from its uncritical embrace of Boris Yeltsin. By overemphasizing support for Yeltsin, the Administration neglected other democratically oriented Russian leaders and generated anti-American sentiments among important segments of the Russian elite. The Administration focused almost exclusively on the Russian elections while disregarding the Russian government's frequent violations of individual rights and freedoms—from its control of the media to its failure to protect the people from organized crime that effectively is “privatizing” the criminal justice system. The Administration also accepted the Russian government's explanation of its brutal treatment of the secessionist republic of Chechnya. Moreover, despite multibillion dollar economic support from the U.S., the International Monetary Fund (IMF), and the World Bank, the Kremlin has not efficiently and speedily implemented the much-needed economic reform package.

The Clinton Administration's first term also allowed Yeltsin's government to violate important arms control requirements of the Chemical Weapons Convention (CWC)<sup>1</sup> and the Conventional Forces in Europe (CFE) Treaty, and to forego ratification of the START II agreement. Such violations seriously undermine the prospects for efforts to develop a long-term cooperative relationship with Moscow.

**The End of Romanticism.** The romantic era in U.S.-Russian relations has ended, and the attempt to ameliorate Russia's outward behavior by politically embracing Boris Yeltsin is not working. It is time for a fundamentally new approach. The Clinton Administration and its new foreign policy team need to recognize that the balance of power in Eurasia changed irreversibly with the collapse of the Soviet Union as Russia's economy proceeded to deteriorate. The Soviet Union never had the economic might to match its military muscle, but Russia today lacks even the latter. The Russian government has lost the ability—at least for the present—to project conventional power effectively outside its borders, as the recent debacle in Chechnya demonstrates. In dealing with Russia, the U.S. government should be guided by the understanding that Russia is a weakened "great power" that is searching for its place in the post-Cold War world while attempting in the meantime to redefine its relationships with the U.S., China, and Europe.

This new environment requires new security arrangements for East Central Europe and Eurasia that reflect post-Cold War realities, including a projection by the West of its area of stability further east. The North Atlantic Treaty Organization (NATO) should be expanded to include Poland, the Czech Republic, and Hungary. Beyond that, the Baltic states and Ukraine need a lifeline to the West. The U.S. and its allies therefore should initiate closer political and military relations with these countries. In addition, the vital corridor to the Caspian Sea and Central Asian oil and gas resources via Georgia and Azerbaijan must be secured. Ties with these two Caucasian countries must be given a much higher priority in the second Clinton Administration.

The Clinton Administration can no longer afford to support the Russian government indiscriminately. It is important that U.S. policy be framed by a realistic understanding that since 1992, Russia has been neither friend nor foe to America. While the forces that will shape Russia's future are, to a great degree, internal and governed by deeply entrenched problems, the Western powers—especially America—will have a significant impact on those forces depending on what stand the Administration chooses to take or fails to take in the next few years.

**Three Principles for U.S. Strategy Toward Russia.** The new U.S.-Russian relationship should take into account the previously poor level of Russian receptivity to American concerns. With this in mind, bilateral ties should be guided by three principles:

**Principle #1: Reciprocity.** The one-way relationship that governed U.S. actions for the last four years should be rebuilt so that Russia accommodates American concerns in addition to receiving its flow of benefits. The generous levels of multilateral economic support Russia has received during the last five years should have been dependent on Russia's international behavior. The Clinton Administration must put

---

1 Bill Gertz, "Russia Dodges Chemical Arms Ban," *The Washington Times*, February 4, 1997, p. A1.

American security and economic interests, such as expanding NATO, developing theater missile defenses, halting nuclear and missile proliferation, and opening up markets for foreign investment, above its open support for the current leadership in Russia. In all financial and military undertakings, Washington must let Russia know that it will "proceed with caution."

**Principle #2: A nexus between reforms in Russia and Western economic support.**

The generous financial support extended by the West to the post-communist government of Russia includes over \$27 billion in credits since 1992 and the rescheduling of over \$130 billion in debts. While certain gains in the reform process have been achieved, market transformation in Russia has stalled. Further multilateral support, which the U.S. government spearheads and which often involves the President, the Vice President, the Deputy Secretary of State, and other top officials, should be focused more on structural reforms such as breaking up monopolies, agricultural reform, legal reform and the promotion of the rule of law, and military reform and downsizing.

**Principle #3: A more equitable balance of power in Eurasia.** Since the end of the Cold War, Russia has become a weak regional power in need of Western assistance. At the same time, the Russian government makes unfair security demands on its neighbors—for example, by trying to block Poland, the Czech Republic, and other countries from joining NATO. This behavior is reminiscent of efforts by the Soviet Union and the Romanov Empire to carve out spheres of influence and assure that Soviet or imperial Russian security interests prevailed over those of neighboring countries. In return for continued U.S. and multilateral economic aid, favorable debt rescheduling, and future foreign investment, Russia should recognize the seriousness of U.S. and European security and economic interests. Issues such as Moscow's acceptance of NATO expansion, agreement on theater missile defense, and termination of any Russian involvement in the Iranian military buildup should be pressed more firmly in diplomatic negotiations.

**The Important Policy Agenda.** To establish a policy that proceeds with caution in relations with Russia, several key issues should be addressed by the Administration and the new foreign and defense policy team. Specifically, the U.S. should:

- **Refrain from making too many concessions to gain Russian acceptance of NATO enlargement.** Moscow vehemently opposes NATO expansion. It demands veto power over the addition of new members to the alliance and seeks the signing of a special treaty that would make Russia an arbiter of NATO decisions and policies. This is dangerous. While Moscow should be allowed to play an important and equitable role in European security, it should not be granted veto power over NATO membership or allowed to become a judge of NATO's policies.
- **Draw Russia, Ukraine, the Baltic states, and Trans-Caucasus countries closer to NATO.** This can be done by expanding participation in the Partnership for Peace program for non-NATO countries. In parallel with NATO enlargement, Brussels needs to strengthen its ties with Moscow and Kyiv (Kiev). The security of the Baltic states and Georgia, Azerbaijan, and Armenia—the countries forming the vital corridor to the Caspian Sea—must be enhanced. Military cooperation and joint peacekeeping programs, arms sales, and assistance with military reforms, as well as closer ties be-

tween officer corps, will build trust and enhance the security of U.S. friends in the region.

- **Step up pressure on Russian nuclear proliferation activities.** Russia is selling the “crown jewels” of its military-industrial complex, such as guided missile cruisers, modern aircraft, and nuclear weapons technology, to the People’s Republic of China (PRC), a country flagrantly engaged in nuclear and missile technology proliferation. Russia also has signed an agreement to sell two nuclear power stations to Iran. This must stop. The U.S. must work to change the International Atomic Energy Agency guidelines to make the transfer of nuclear power technology to Iran illegal.
- **Support the independence of the Baltic States and the Newly Independent States (NIS).** The secure independence of these countries is the only guarantee that Russia will not recreate itself as a full-fledged empire. The U.S. should support efforts by the NIS to develop foreign and domestic decisionmaking mechanisms, train their civil service, and build market institutions. It also should increase its security cooperation with these states while demanding that Russia withdraw its troops from Moldova and Georgia.
- **Reject Russian demands that the 1972 Anti-Ballistic Missile (ABM) Treaty be broadened.** The U.S. has a vital interest in defending itself against missile attacks by rogue states and terrorists, as well as against accidental launches, through the deployment of missile defense systems. Russia is suggesting that the ABM Treaty must be amended to prohibit these systems. The Clinton Administration should proceed with the development of theater missile defenses without asking Moscow’s permission.
- **Object to Russia’s unilateral violations of the 1990 Conventional Forces in Europe (CFE) Treaty.** In 1996, Russia increased the numbers of tanks, artillery, and other heavy equipment deployed on the borders of the Baltic states and in the Northern Caucasus beyond the agreed-upon limits—a clear violation of the CFE Treaty. Rather than accept Moscow’s violation, as the Clinton Administration proposed, Washington should hold Russia in violation of the treaty. Such increases in forces un- duly threaten Russia’s neighbors and should not be tolerated.
- **Support efforts by Russia and other NIS countries to fight organized crime and corruption.** The corrosive fusion of organized crime, government corruption, and a new entrepreneurial class in Russia and Eurasia threatens the prospects for democratic governance throughout the region. To counter the criminal activities of the Russian and Eurasian “mafias” more effectively, it will be necessary to prevent money laundering and the investment of the tainted proceeds of illicit activities in the West.<sup>2</sup>
- **Work closely with the Russian government to enhance economic reforms and improve the investment climate.** Western and Russian private-sector investment—not money provided by the U.S. government or multilateral financial institutions—is the only way to improve the living conditions of the Russian population successfully. However, the structural reforms needed to attract such investment have stalled. The

---

<sup>2</sup> Ariel Cohen, “Crime and Corruption in Eurasia: A Threat to Democracy and International Security,” Heritage Foundation *Backgrounder* No. 1025, March 17, 1995.

Administration should condition further support for the lending programs of the World Bank and the International Monetary Fund on development and implementation of a comprehensive structural reform package which can reinvigorate the Russian economy.

**The Role of the U.S. Congress.** Congress also can play an important role in defining the future of U.S. relations with Russia. Specifically, in order to support the recommendations listed above, Congress should:

- **Introduce transparency as a condition for obtaining Nunn-Lugar funding for defense conversion and disarmament.** The Russian Defense Ministry and its related enterprises currently receive over \$900 million a year in U.S. funds for disarmament and defense conversion programs. But the U.S. has not been given access to Russia's accounting documents so that it can verify that funds have been used appropriately. So far, the Clinton Administration has failed to insist on such transparency, leaving the door open to possible Russian abuses of U.S. aid. Congress should do one of two things: 1) make Nunn-Lugar funding conditional upon transparency or 2) discontinue this support immediately.
- **Fund interparliamentary exchanges.** The legislative bodies of Russia and the U.S. should maintain an open channel of communication to foster an ongoing dialogue on important issues, such as arms control, bilateral assistance, and energy. These exchanges were initiated in Congress by Representative Curt Weldon (R-PA) and are supported by in the Russian Duma by Foreign Relations Committee Chairman Vladimir Lukin, the former Ambassador to the United States.
- **Initiate hearings on U.S. access to oil and gas resources in the Caspian Sea basin and Central Asia.** The increasing instability of the Middle East makes the tremendous energy reserves in Central Asia more important for U.S. and Western economic development. While increasing its direct involvement in the Middle East, Russia has attempted to control both development of these resources and the transit of oil to Western markets. The Senate Foreign Relations and Energy Committees should conduct joint hearings on coordinating and streamlining U.S. policy to safeguard access to these resources.
- **Conduct hearings on Russian borrowing in international securities markets.** The potential financial and national security risks associated with Russia's access to the world's securities markets should be studied. Russia's high financial risk puts U.S. investors holding Russian paper in jeopardy. Hearings on this issue in the Senate and House Banking and Commerce Committees should include testimony from the Securities and Exchange Commission, the Central Intelligence Agency, the Federal Reserve, and the FBI's Counterintelligence and Treasury Financial Crime Division, as well as from independent experts.

## RUSSIA'S IMPORTANCE TO U.S. STRATEGIC INTERESTS

**A Threat in Strength and Weakness.** Russia has been a major factor in the security of Europe since the second half of the 16th century. Throughout the 18th and 19th centuries, Russia expanded against weakening powers like Poland, Sweden, and the Ottoman Empire, acquiring thousands of square miles of territory and dominating millions of non-

Russians in the process.<sup>3</sup> It also gained tremendous territories throughout Asia, eventually spanning 11 time zones and becoming the world's largest country. Russian troops took Berlin in the Seven Years War of 1787 and marched through the streets of Paris upon the defeat of Napoleon in 1814. To a great extent, World War I started as a result of rivalry in the Balkans between Russia and the Austro-Hungarian Empire.

In addition to being an aggressor in Europe over the centuries, Russia played an important role as the balance against other powers that sought pan-European domination. Russia's role in the defeat of Napoleon and Hitler are cases in point. Though exhausted by World War I and the Civil War, communist Russia almost took Warsaw in 1920, and then captured Eastern-Central Europe with the defeat of Nazi Germany in 1945. The Allies, fatigued by World War II and still engaged in the war against Japan, consented to Russian domination of the region at the 1945 Yalta and Potsdam conferences.

Russia's geopolitical location in the heart of Eurasia has made it both a European and an Asian-Pacific power. Moscow remains a key player in the Caucasus and in Central Asia. At its peak, during the Soviet era, it was capable of projecting power in the Middle East and, to a lesser degree, in South Asia. Even today, Moscow is attempting to maintain active involvement in the Persian Gulf and other areas of the Middle East. A moderate economic recovery in the future could boost Russia's foreign policy activism. At its peak strength, Russia was capable of threatening the international security and economic systems; even today, as a failing state, it remains a serious source of destabilization.

**A Bridge to Beijing.** Russia's longest frontier border is with China. While Russia is taking steps to build a strategic relationship or "bridge" to Beijing, the U.S. may need Russia's cooperation to balance the PRC's attempts to reach global nuclear superpower status.<sup>4</sup> Currently, 8 million Russians live between Lake Baykal in Siberia and Vladivostok. Ethnic Russians are emigrating from the region and seeking opportunities west of the Ural mountains. At the same time, according to Russian sources, up to 500,000 Chinese laborers are immigrating into the Russian Far East from northern provinces of China.<sup>5</sup> Eventually, Russia may be confronted with serious Chinese demands that it open its vast and scarcely populated Far Eastern provinces to Chinese immigration.<sup>6</sup> If the U.S. is forced to play a balance of power game against a resurgent China, Russia—in the event it overcomes its current political and economic crisis—could be a valued ally.

**A Source of Nuclear Proliferation.** To discount the importance of Russia as a key factor in European and Eurasian politics would be imprudent. Russia is the world's largest source of poorly guarded nuclear weapons and the technologies needed to produce them, as well as chemical and biological arms. During a November 1996 U.S. trip, former Rus-

- 
- 3 For a concise description of Russia's expansion and its ramifications, see Ariel Cohen, *Russian Imperialism: Development and Crisis* (Westport, Conn., and London: Praeger Publishers, 1996), esp. Chapter 2.
  - 4 Russian government foreign policy analysts view China as "Russia's strategic rear," and the view has been reciprocated in an attempt to build a counterbalance to the U.S.-dominated political and economic world. See Vsevolod Ovchinnikov, "A World of Equals," *Rossiiskaya Gazeta*, January 15, 1997.
  - 5 Interview, Duma Foreign Relations Committee, July 1996.
  - 6 Scott Parrish, "Rodionov: U.S. Drive for Hegemony Threatens Russia," *OMRI Daily Digest*, December 30, 1997. Many leading Russian politicians, including Minister of Defense Igor Rodionov and the Chairman of the Duma Foreign Relations Committee, Ambassador Vladimir Lukin, have expressed fears regarding Chinese designs on Russian territory.

sian National Security Council chief General Alexander Lebed warned that the Russian nuclear arsenal is inadequately guarded and poses an international danger.<sup>7</sup> Thousands of world-class specialists capable of designing and producing these deadly systems reside in Russia and the NIS, and more have been going to China to work in the PRC's nuclear modernization program.

**An Energy Cornucopia.** Russia contains the world's largest known resources of oil and gas. The combined Soviet reserves were larger than those of Saudi Arabia. After its independence, the Russian Federation remained a significant exporter of oil. From the North Caspian depression to Western Siberia to Sakhalin, Russia and Eurasia are capable of providing a considerable percentage of global fossil fuel consumption in the next century. Moreover, Russian energy companies such as Lukoil and Gazprom play an important role in the race to control the production and transportation of oil and gas from the Caspian Sea region and Central Asia. Turbulence in the Middle East may make these resources more important to the economic stability of Western nations.

**A Haven for Organized Crime.** U.S. and Western interests are at great risk if Russia and the NIS continue to become an 11-time-zone haven for criminal organizations. These organizations, known popularly as the "mafia," already have co-opted at least part of the old Soviet police and secret services. They also have access to the region's newly privatized and abundant natural resources. For example, numerous media reports indicate that organized crime controls a significant portion of Russia's output of aluminum. This has been possible in Eurasia due to the merger of the criminal underworld with the new private business sector and the government. In the 21st century global economy, this criminal conglomerate will find it easy to export its tainted wealth and associated violence around the world, and law enforcement agencies in the Western nations will be tasked with containing this new international crime threat.

**The Threat of a New Russian Empire.** Until recently, the U.S. has been very lenient toward Russian intervention in ethnic conflicts in the "near abroad" (for example, in Abkhazia and the Trans-Dniester region in Moldova). It has tolerated Moscow's threats against the Baltic states. The Clinton Administration even went so far as to support Boris Yeltsin's aggressive and disastrous policy in Chechnya. This lack of willingness to halt Russian imperialism may come back to haunt the U.S. in the near future.

While Russia's achievements in democratization since 1989 are significant, the failures of the contemporary Russian state can work to turn back the clock. The possible emergence of an anti-Western, nationalist Russia with a considerable nuclear arsenal cannot be ruled out. A revanchist, anti-democratic Russia could strengthen its existing system of alliances with China and Iran and pursue an aggressive policy toward its weaker neighbors, especially if economic, political, and democratic reforms fail completely and if those who favor democracy fail to elect a new and highly re-electable leader to succeed Boris Yeltsin. Whether this occurs will depend largely on the ability of the current leadership to deal with Russia's multiple fiscal and structural crises.

---

7 Mathis Chazanov, "Lebed Warns on Nukes," Associated Press wire report, November 20, 1996.

Preventing the emergence of a new Russian empire in the lands of the former Soviet Union should be a priority for the U.S. and its allies. The future of Russia's democracy and the security of Central and Eastern Europe are at stake.

## RUSSIA'S FOREIGN POLICY: ASSERTING GREAT POWER STATUS IN AN AGE OF WEAKNESS

As Moscow seeks to regain international recognition as a great power in the aftermath of the collapse of communism and the disintegration of the Soviet empire,<sup>8</sup> its foreign policy increasingly has diverged from cooperation with the West. Nevertheless, it would be erroneous to conclude that all of Russia's rulers have been or will be unilaterally hostile to the West. In reality, members of the Russian ruling elite are split on this issue. While the majority of those in power regard themselves as culturally European and Westernized,<sup>9</sup> holdovers from the communist era like Foreign Minister Evgenii M. Primakov, Nuclear Industry Minister Victor Mikhailov, and Commonwealth of Independent States (CIS) integration minister Aman Tuleev remain proponents of the old Soviet-style outlook, rhetoric, and behavior. To some extent, the split is generational: Anti-Western sentiments are more prevalent among those whose careers developed during the Soviet era and who are now in their 40s, 50s, and 60s than among those who are younger.

At the same time, however, the top leaders in Russia still define the tone of the bureaucracy to a considerable degree. An example of the "old guard" in action can be seen in the Kremlin's moves to consolidate its influence in the Commonwealth of Independent States, which Foreign Minister Primakov clearly perceives as a top priority for his ministry and for the Russian state apparatus at large. Under Primakov, Moscow is creating strategic alliances with Beijing and Tehran, and forming a sphere of influence in the former Soviet area known in Russia as its "near abroad." While much is being heard about the "multipolar world" and the "coalition of equals" that Russia supposedly is building,<sup>10</sup> such an arrangement has the potential to become an anti-U.S./Eurasian coalition. Such an alliance could pose a serious threat to the security interests of the U.S. and its allies in Europe, the Middle East, and the Pacific Rim.<sup>11</sup>

Russia has undertaken several other steps that create friction with the U.S. as well. These include staunch opposition to NATO expansion, the sale of advanced weapons and nuclear technology to Iran and China, support for Saddam Hussein, threats of economic sanctions against the Baltic states and Ukraine, heavy-handed behavior in the former Soviet area, non-ratification of START II, covert production of advanced chemical weapons in violation of the CWC Treaty, and opposition to American development of even limited missile defense capabilities.

---

8 For a description of the Soviet collapse, see Cohen, *Russian Imperialism*, esp. Chapter 4.

9 Anatole Shub, *Russian Elites Discuss Russia's Place in the World*, Office of Research and Media Reaction, USIA, R-9-96, December 1996, p. 6.

10 Scott Parrish, "Primakov Reviews Foreign Policy in 1996," *OMRI Daily Digest*, January 9, 1997.

11 It is worth noting that leading observers of Russia, including former U.S. Ambassador to Moscow Thomas R. Pickering, have expressed doubts about the feasibility of such an alliance because of numerous potential conflicts and contradictions between its members.



**Nyet to NATO.** Russia continues to oppose the expansion of NATO. After recent meetings in Moscow with new U.S. Secretary of State Madeleine Albright, President Yeltsin and Foreign Minister Primakov stated their strong opposition to NATO expansion. Primakov and Prime Minister Chernomyrdin even compared NATO enlargement to Hitler's *Drang nach Osten*, the conquest of Eastern Europe and invasion of the USSR in 1938–1941. Such rhetoric poisons post–Cold War relations. As a countermeasure, Moscow is demanding revision of the Conventional Forces in Europe (CFE) Treaty to allow an increase in the amount of heavy equipment that can be deployed on the borders of its western and southern neighbors. Moreover, in a move reeking of the Cold War era and its rhetoric, the leading commanders of the Russian military published an “open letter” to Boris Yeltsin urging that the capitals of any new member states be targeted with nuclear weapons.<sup>12</sup>

These shrill declarations have failed to excite the Russian public. Many Russians do not see NATO expansion as a threat. Over 50 percent of Russians polled in the fall of 1996 said that they either were not afraid of NATO expansion or lacked information on the issue.<sup>13</sup> If the West were to undertake a more focused public information campaign on this issue, Russia's opposition to NATO expansion could be softened considerably. Russia urgently needs to enter into a meaningful dialogue with NATO and Washington to address its real—not rhetorical—security concerns and to allow for peaceful expansion of the alliance.

**Duma Stalls START II.** Russia thus far has balked at ratifying and implementing the START II Treaty signed by Presidents Bush and Yeltsin in January 1993 and ratified by the U.S. Senate in 1995. The Duma, preferring to keep its strategic nuclear deterrence capability at a higher level than stipulated in START II, clings to this vestige of Cold War superpower status. Finally, in September 1996 Russia scuttled an already negotiated agreement on speed limitations for theater missile defense, demonstrating that it will go to great lengths to torpedo U.S. missile defense efforts.

**Pressure on the “Near Abroad.”** Over the last year, Russia increased its pressure on the Baltic states, particularly Estonia. While border treaty negotiations between the two countries have been concluded, Moscow refuses to sign the treaty in hopes of preventing Estonia from joining the European Union and NATO. Foreign Minister Primakov threatened to impose economic sanctions against the Baltic states under the pretext of protecting the Russian minorities there. The Moscow newspaper *Segodnya* has characterized the Kremlin's policy toward its Baltic neighbors as “resembling crude blackmail.”<sup>14</sup> The European Union's Human Rights Commissioner and other experts have examined the question of Russian minorities and found no violations of human rights which would justify such sanctions.

---

12 “Russian Admirals Want President to Respond to NATO Expansion,” *Interfax*, January 20, 1997, as reported by the Center for Defense Information.

13 Shub, *Russian Elites Discuss Russia's Place in the World*, pp. 32-33.

14 Scott Parrish, “Primakov Threatens Baltics With Sanctions,” *OMRI Daily Digest*, January 10, 1997.

By artificially building tensions in the Baltic states, Russia shows just how dangerous and heavy-handed it can be. Moscow's Baltic policy has antagonized not only Russia's neighbors, but also the Scandinavian countries and the European community at large.

**Belarus.** While President Yeltsin was incapacitated by prolonged hospitalizations for quintuple bypass surgery and pneumonia, the wheels were set in motion to merge Russia with Belarus, with the apparent support of hard-line Belarus President Alexander Lukashenka. The annexation of Belarus would bring Russia's border back to Poland, would greatly expand Russia's frontier with Latvia and Lithuania, and would lengthen the Russian-Ukrainian border by hundreds of miles. An annexed Belarus could become Russia's strategic bridgehead into Central Europe. Russia could station its tactical nuclear weapons there in response to NATO enlargement, as demanded by many in the Russian military.

But while some Russians and citizens of Belarus may be enthusiastic about the unification, many are not. Most of the Russian people are aware that this venture comes with a multibillion dollar price tag. The Belarussian economy is in shambles, with economic reforms choking under Lukashenka's reactionary rule, and Russia is in no condition to start picking up the pieces or paying the bills. Two prominent reformers, Yegor Gaidar and Boris Fedorov, resigned from the Yeltsin administration in January 1994 over this issue. If the annexation occurs without a firm response from the West, the precedent may be set for a series of risky foreign policy ventures in the "near abroad," endangering the independence of Russia's neighbors.

**Ukraine.** Russian relations with Ukraine remain tense. On December 5, 1996, the upper house of the Russian parliament (the Council of the Federation) proclaimed that the Crimean port of Sevastopol was a "Russian city." A total of 12 days of Ukrainian and international protests elapsed before the Russian Foreign Ministry disputed the claim.<sup>15</sup> While the conflict seemingly remains focused on the control of Sevastopol and the division of the Black Sea Fleet, its underlying roots go deeper into the post-imperial psyche of the Russian political elite. More than 75 percent of Russians polled do not accept separation of the Russian and Ukrainian peoples and believe that, sooner or later, reunification will take place.<sup>16</sup> Recent focus groups conducted to assess the attitudes of the Russian elite indicated that the Ukrainians are seen as "little Russians" and "younger brothers" of the Russian nation.<sup>17</sup>

**Caspian Sea Resources.** Russia continues to press for a greater say in the exploitation of the oil and gas fields in the Caspian Sea region. It is cooperating with Iran to demand recognition of the Caspian Sea as a lake, which would mean that all the countries along the Caspian Sea shoreline could claim a share in the oil reserves now located in the territorial waters of Azerbaijan and Kazakhstan. Turkmenistan has been pressured into supporting the Russian-Iranian position. With the war in Chechnya settled (at least for now), Russia also is renewing its demands that the flow of oil from the Caspian Sea be directed

---

15 Scott Parrish, "Foreign Ministry Rejects Claim on Sevastopol," *OMRI Daily Digest*, December 18, 1996.

16 See *USIA Opinion Analysis M-240-96*, December 23, 1996.

17 Shub, *Russian Elites Discuss Russia's Place in the World*, pp. 16-17.

to its own Black Sea ports rather than routed through Georgia and Turkey. This would give Russia greater control over exports of Azerbaijani and Kazakhstani oil reserves.<sup>18</sup>

**Tensions with Turkey.** Russia's relations with Turkey continue to be tense. Turkey, which supports the independence of the Turkic-speaking state of Azerbaijan, wants the oil pipeline from the Caspian Sea fields to go through its territory (via the Republic of Georgia). Ankara also accuses Moscow of providing a safe haven for Kurdish separatists from the Kurdish Communist Party (PKK). Russia, meanwhile, has claimed that Turkey trained and supported at least some Chechen separatists. To make matters worse, the recent Russian sale of an advanced anti-aircraft missile system (the S-300) to Cyprus against a backdrop of growing Turkish-Greek tensions resulted in a flurry of protests from Ankara.<sup>19</sup> This arms transfer must be seen in the context of Russia's vociferous opposition to NATO expansion. Moscow would not mind if Greece—a fellow Orthodox state that Russia traditionally has supported since the 19th century—exchanged blows with Turkey, Russia's historical enemy. Such a war would create unprecedented tensions in the NATO alliance and would hardly be in keeping with Western interests.

**The New Thrust South.** Russia is attempting to regain its influence in the Middle East, and apparently is more willing to denigrate the U.S. as a way to do this. In 1996 alone, Moscow sold Iran two nuclear reactors capable of generating enriched uranium and plutonium. Tehran also received a large number of Russian state-of-the-art military systems, including battle tanks and three Kilo-class submarines capable of paralyzing oil shipments in the Gulf area. Foreign Minister Primakov and his Iranian counterpart, Ali Akbar Velayati, denounced U.S. troop deployments in the Persian Gulf as "undermining regional stability" and called for cooperation against the American presence in that vital area.<sup>20</sup>

Moscow has emerged as the leading defender of Iraq's Saddam Hussein, despite participating in the anti-Saddam coalition during the Gulf War. In addition to leading the charge at the United Nations to allow a food-for-oil deal for Baghdad, Russia is spearheading efforts to lift sanctions against Saddam Hussein's regime altogether.<sup>21</sup> Iraq owes Russia over \$7 billion for past weapons shipments and economic assistance, and Moscow hopes to recover this debt by enabling Iraq's oil to flow once again to the world market.

**Moscow and Beijing: Together Again?** One of the principal elements of Russia's new foreign policy has been to build a "strategic partnership" with China. During 1996, over 3,000 Russian nuclear scientists moved to China to work on modernization of the PRC's strategic nuclear program. Russia signed agreements to transfer to China its advanced gas centrifuge technology, used in uranium enrichment, and nuclear missile tech-

---

18 Ariel Cohen, "The New Great Game: Politics of Oil and Gas in the Caucasus and Central Asia," Heritage Foundation *Backgrounder* No. 1065, January 25, 1996.

19 Scott Parrish, "Russia, Cyprus, Conclude Arms Deal," *OMRI Daily Digest*, January 6, 1997, and "Russian Officials Slam Western Objections to Cyprus Missile Deal," *OMRI Daily Digest*, January 9, 1997.

20 Scott Parrish, "Primakov in Tehran," *OMRI Daily Digest*, December 30, 1996.

21 Andrew Meier, "Primakov Doctrine Aims at Global Role for Russia—with or without Yeltsin," *Pacific News Service*, September 24, 1996. Primakov has personal ties to Iraq's Saddam Hussein (as well as to Libya's Muammar Qaddafi and the PLO's Yassir Arafat) from his days as Leonid Brezhnev's top Middle East expert in the 1960s and 1970s.

nology to build multiple independently targeted reentry vehicles (MIRVs), which can arm a single missile with up to 12 warheads. Russia also has agreed to sell the technology to build Sukhoi-27 fighters with mid-air refueling capabilities, as well as advanced missile-armed destroyers, to the Chinese navy. This massive technology transfer will allow China to leapfrog generations of weapons research and development, saving Beijing tens of billions of dollars. It also will give the PRC the ability to threaten the U.S. mainland and American allies in the Pacific. Moreover, taking into account the Chinese propensity for selling weapons to unstable regions, Russian technology embodied in Chinese systems could find its way to Iran, Syria, and other rogue states. This military cooperation with the emerging Pacific superpower has been hailed in Russia as a lifeline for the failing military-industrial complex, and "billions of dollars" in future sales of military technology have been announced.<sup>22</sup>

The recent flurry of high-level diplomatic activity indicates that a stronger Chinese-Russian alliance is in the making. In December 1996, this activity included a trip by Russian Foreign Minister Primakov and First Deputy Prime Minister Alexei Bolshakov to Beijing; while China's Prime Minister Li Peng visited Moscow and was received by President Yeltsin and Prime Minister Chernomyrdin. A visit by Chinese President Jiang Zemin to Moscow was announced for April 1997. Characteristically, Moscow and Beijing describe their cooperation as a strategic partnership for the 21st century that is aimed at creating a "world of equals," presumably a partnership of nations opposed to a unipolar world dominated by the United States.

Russia bills its rapprochement with Beijing as a response to the announced plans to expand NATO. Nevertheless, many in Russia understand that, in any arrangement with the emerging Asian giant, Russia can play only a junior partner's role. Moreover, China cannot offer Moscow either the foreign investment capital or the advanced technology that Russia needs to help its economy. In fact, China now competes successfully with Russia for foreign investment dollars. Large multinational companies invest over \$30 billion a year in China but only \$2 billion in Russia. The anti-Western sentiments of Primakov and Li Peng are not necessarily shared by everyone in Moscow and Beijing. Each country has groups of reformers who advocate much closer ties to the U.S.

## RUSSIA'S DOMESTIC CRISES

The Russian government has not come to terms politically with the loss of the Soviet empire. Many bureaucrats and military officers would like to re-establish Russia's sway over the neighboring regions that once were part of the Soviet Union. However, there are huge gaps between Russia's desires and her capabilities. Continued internal crises and a lack of funds act as a reality check on these imperial dreams. Russia's involvement in Moldova, Chechnya, Abkhazia, Tajikistan, and other "hot spots" constitutes a policy of imperial overextension. This kind of expensive and adventurist foreign policy has led to the collapse of the Russian state twice during this century, in World War I and during the late 1980s to early 1990s.

---

22 Scott Parrish, "Russia, China Sign Defense Agreement," *OMRI Daily Digest*, December 12, 1996.

Russia today suffers from a deep systemic crisis. The federal government in Moscow has nearly broken down because of the state's inability to ensure transfer payments and salaries to the oversized government sector and the military. Fiscal instability, caused by pervasive corruption and the collapse of the tax collection system,<sup>23</sup> is generating frustration in the military and strikes among state employees who have not been paid for months.

The Russian economy can hardly support a foreign policy based on hemispheric ambitions. Although inflation has been brought down to a level of 20 percent to 25 percent per year, this was accomplished by delaying salary disbursements in the public sector. Moreover, foreign and domestic investment has failed to materialize because of Russia's unfriendly business environment and high levels of crime and corruption, and capital flight continues at a rate of up to \$20 billion a year. Because Russia lacks the tax base needed to rebuild and reform its military, its options in using force are limited.

The military remains unreformed, bloated, demoralized, and ineffective. Far from being monolithic, it consists of a multitude of uniformed services outside the General Staff's chain of command—including the largest of these "shadow armies," the Interior Ministry's troops, the border guards, and the Kremlin guard. The Russian military's failure to attain victory in Chechnya, combined with corruption at the highest levels, dwindling budgets, and the appalling living conditions of both officers and enlisted personnel, have brought the army to its lowest point since its defeat in World War I. While the military cannot become an effective tool of Russian power projection without fundamental reform, it remains a formidable force in the states of the "near abroad." These countries, most of them much smaller and economically weaker than Russia herself, cannot field the kind of effective militaries that could provide adequate defense against Russian aggressive designs.

Law enforcement is collapsing as well in Russia, leaving the business sector and the citizenry unprotected in the face of the burgeoning organized crime epidemic. The legal system is experiencing tremendous difficulties in the fundamental transformation from a controlled economy to a market-based environment. The communist-dominated Duma continues to stall the necessary progressive legislation. Without functioning legal and court systems, the Russian economy is forced to operate in a virtual legal limbo. Because the court system is cash-starved, it fails to enforce the laws and its own rulings. Practical matters of justice and dispute resolution have fallen largely into the hands of the opportunistic Russian "mafia."<sup>24</sup> This situation intimidates foreign investors and stimulates capital flight, while ordinary Russians feel alienated from a government that is failing to ensure their physical security and democratic freedoms.

---

23 According to Russian Ministry of Finance sources, in the fall of 1996 the Russian tax service failed to pay salaries to its own tax collectors (who then felt forced to take bribes to support their families).

24 Cohen, "Crime and Corruption in Eurasia."

## U.S.-RUSSIA RELATIONS: LEARNING FROM THE PAST

The Clinton Administration's first-term policy toward Russia, when formulated in 1992 and 1993, appeared to be sound. The Administration declared that the U.S. would support democratic reform and economic transformation in Russia because it believed that a democratic and prosperous Russia would emerge from these reforms to become a reliable American ally and partner. But this policy quickly deteriorated into unquestioning support for Boris Yeltsin and his new administration to the detriment of other reformers; increasingly alienated, many of Russia's leading democrats and nationalists came to see the Clinton Administration as unabashedly partisan and prejudiced.

Washington even endorsed or consented to Yeltsin's harsh actions against the previous parliament (the Supreme Soviet) in September and October of 1993, his squeezing of reformers Yegor Gaidar and Boris Fedorov out of his cabinet in January 1994, the military interventions in Moldova and Abkhazia, and the brutal war in Chechnya which started in December 1994. President Clinton even went so far as to compare the bloody and unnecessary intervention in Chechnya to the American Civil War.

The White House disregarded the flood of available evidence that organized crime and corruption were flourishing in Russia and had reached the highest levels within the Yeltsin administration. In addition, the Clinton Administration let Russia get away with blatant violations of international arms control treaties, from the CFE to the Chemical Weapons Convention, while continuing to furnish often ill-administered direct foreign aid and lobbying assistance for massive IMF loans in the absence of a coherent and comprehensive economic policy package for Moscow.

Assisted by the U.S. Agency for International Development (AID), a new class of well-connected bankers and entrepreneurs emerged in Moscow whose abuses of power undermined the very reforms the U.S. was underwriting. Meanwhile, Administration officials, from the President to the Vice President and Deputy Secretary of State in charge of Russian policy, neither demanded the continuation of economic reform nor insisted on a *quid pro quo* for U.S. assistance and cooperation. As the Russian administration becomes increasingly anti-American, the Clinton White House has little to show for the billions it has spent in Russia since 1994.

## DEVELOPING A NEW STRATEGY

America needs to develop a new paradigm for its relations with Russia. Old stereotypes stemming from Cold War modalities or ethnic prejudices should not apply to the development of post-Cold War policies toward Moscow. The Russian state and its elite have abandoned communist ideology and global (but not hemispheric) power aspirations. Russia is not now a classic anti-status quo power; and it is not capable of gearing up for a global confrontation with the U.S. Therefore, the 1950s policy of containment is hardly appropriate. However, it is not prudent to deny or forget a thousand years of Russian history, replete with wars of imperial aggrandizement, the Russification of ethnic minorities, and absolutist, authoritarian, and totalitarian rule. Russian history also has witnessed devastating invasions from the East and the West, as well as foreign occupations, all of which have helped to make Russians leery of foreign involvement.

In the 21st century, the processes of globalization will challenge the nation-states worldwide. Sub-state regions, ethnic and religious groups, and even large corporations will compete with national governments for power. These frictions will be particularly acute in Russia, which has yet to establish its post-Soviet identity and make the transition from a mass production economy based on smokestack industry to the information processing age. There is an ongoing debate in Russian society as to what "Russia" is, and therefore what it means to be Russian. Deep divisions over ethnicity and religion are evident.

The Russian elite is struggling to develop a coherent set of foreign policy strategies and objectives. In Russia, as in China, there is today a tension between the need to maintain access to Western capital, technology, and information resources and the desire to revive the great power status and identity of the past. The split between Westernizers, who want Russia to integrate and cooperate with the West, and Eurasianists, who hope that Russia will play a separate role in the Eastern hemisphere, is widening. The West has a unique opportunity to secure cooperation and integration in exchange for access to capital, technology, and managerial expertise. The West, especially the U.S., needs to provide major input in these debates to help affect their outcome. So far, it has done too little.

Taking this into account, U.S. policy toward Russia should be rebuilt to de-emphasize giveaways designed to transform Russia with kindness. The new paradigm should be based on vigilance, support for democratic change, and defense of U.S. goals and interests on questions of security. Washington needs to secure a peaceful and productive long-term relationship with the world's largest country; but these ties must include genuine security cooperation as well as cooperation on strategic arms, the need to deploy missile defenses, a broad dialogue and cooperation between Russia and NATO, recognition of the need to restrain the proliferation of weapons of mass destruction, and respect for the sovereignty of the non-Russian republics in the region.

The U.S. must develop a policy toward Russia that is based on overarching principles and interests, not on the fate of individual politicians. Today, U.S. policy is identified too closely with the status of Boris Yeltsin, Prime Minister Victor Chernomyrdin, and the ruling group in the Kremlin. This could make relations with alternative power centers problematic should the Russian administration change in the future.<sup>25</sup> As Yeltsin loses power, Washington needs to refrain from endorsing any particular politician. The choice of who should become the next President should be truly a choice made by the Russian people.

The Clinton Administration, in working with Russia to develop a new relationship built on vigilance and constructive pragmatism, should be guided by several clearly articulated principles. Specifically, the Administration should:

- **Refrain from making too many concessions to gain Russian acceptance of NATO enlargement.** Moscow cannot be granted special status in NATO because of its new "democracy" or "great power" credentials. The security of new members cannot and will not be compromised. At the same time, however, while NATO enlarge-

---

<sup>25</sup> Ariel Cohen, "As Yeltsin's Health Fades, the Succession Struggle Intensifies in Russia," Heritage Foundation *F.Y.I.* No. 122, October 7, 1996, and "Lebed Dismissed But Not Tamed," Heritage Foundation *Executive Memorandum* No. 465, October 23, 1996.

ment will occur, reasonable measures can and should be taken to address Moscow's concerns. The U.S., especially the newly appointed Secretaries of State and Defense and their staffs, should maintain a constant dialogue with Russia on NATO expansion and European security, pointing out possibilities for Russian-NATO cooperation. For instance, security cooperation with Russia, including its participation in the Partnership for Peace program (for example, in a joint NATO-Russian peacekeeping brigade as proposed by the Clinton Administration), should be welcomed by the Kremlin. In addition, the West could pledge not to base nuclear weapons on the territory of new members in exchange for Russia's guarantee that it will not base nuclear weapons in Belarus or target European capitals, as some Russian military leaders have suggested.<sup>26</sup> NATO also could promise not to deploy foreign troops in an offensive order of battle in Central-Eastern Europe and not to build new infrastructure, at least for a period of five years.<sup>27</sup>

The NATO countries should launch a massive public information campaign to improve public opinion in Russia, including that of Russia's elite, by explaining the benefits NATO expansion can offer Russia and advocating cooperation between NATO and Russia. A majority of the Russian public does not perceive NATO expansion as a threat. But neither are they adequately informed about the democratic nature and purely defensive goals of this alliance.

- **Draw Russia, Ukraine, the Baltic states, and Trans-Caucasus countries closer to NATO.** This could be done by expanding participation in the Partnership for Peace program for non-NATO countries. The U.S. and NATO should project their zone of peace and stability further East to include countries which are not becoming NATO members, primarily the Baltics, Ukraine, and Trans-Caucasus. Russia also could benefit significantly from drawing closer to the West. Thus, a new post-Cold War balance of power in the region would be achieved.

The West can offer to help the Russian, Ukrainian, and other NIS military establishments and governments develop the methods of accountability and transparency needed for good civil-military relations in a democracy. Joint peacekeeping operations and military exchanges, including training in each other's academies and observation of maneuvers, should be expanded to build trust between the military establishments and officer corps on both sides. The U.S. and NATO could establish military-to-military communications protocols to make possible better contact with Moscow, Kyiv, and other capitals in the region, including contact between the ministries of defense and field commanders of both sides. In some cases, modernization of obsolete military hardware, including selective arms sales, can be undertaken.

- **Step up the pressure on Russian nuclear proliferation activities.** The U.S. should take whatever unilateral steps are needed to prevent Iran, Iraq, and other rogue states from gaining nuclear and chemical weapons capabilities from Russia. Eventually, the U.S. may be forced to undertake a wide-ranging military operation against Iran to pre-

---

26 "Russian Admirals Want President to Respond to NATO Expansion," *Interfax*, January 20, 1997.

27 The U.S. should simultaneously demand that Russia provide guarantees that it will respect the territorial integrity and sovereignty of neighboring members of the OSCE.



vent Tehran from obtaining nuclear capabilities and from threatening Persian Gulf oil supplies. Russia, North Korea, China, and other suppliers of nuclear and missile technologies to Tehran should be given unambiguous notice that the U.S. sees the arming of Iran as a hostile activity, the continuation of which could force Washington to consider barring exports of vital technology like supercomputers to Russia.

In the meantime, the Missile Technology Control Regime (MTCR)<sup>28</sup> and other voluntary controls on dual use technology sales to these countries should be enforced vigorously by the State Department and the Pentagon. Other options, such as an increase in Russian uranium sales to the U.S. and access to civilian space launch markets, should have been explored with Moscow in the past. These efforts, had they occurred, could have brought about a voluntary cancellation of the reactor deal. The U.S. also should press Russia to curtail its nuclear technology transfer to China.

- **Support the independence of the Baltic States and the Newly Independent States.** The survival, sovereignty, and territorial integrity of all NIS countries are important to future peace and prosperity in Eurasia. Should Russia move to transform the CIS into a unitary state or a federation tightly run from Moscow, the process could consume tremendous resources and cause new conflicts—perhaps even bloodier than before, since the ruling elite in the NIS certainly can be expected to defend their sovereignty.

The U.S. should recognize the important roles that Eastern Europe and countries in the heart of Eurasia play in regional stability, especially in view of potential future tensions with China and Iran. The Clinton Administration should strengthen its ties with Ukraine, the Baltic states, and countries in the Caucasus and Central Asia. Washington should raise the issues of Moldovan and Georgian territorial integrity with the Kremlin. The Clinton Administration should demand that Russian troops be withdrawn from Moldova and that Russian support for Abkhaz separatists be ended.

As the NIS inherits elements of the old Soviet bureaucracy—often with ties and loyalties to Moscow—the U.S. should support the development of expertise in their foreign and domestic policy decisionmaking bodies, the education of their new class of civil servants, and increased security cooperation. Selective technical assistance in privatization, legal reform, and the building of securities markets, a banking sector, and the other institutions needed for a market economy also should be provided.

While the U.S. should support the territorial integrity of the Russian Federation, the Administration should be more vociferous in denouncing the brutal methods used by the Russian military to handle internal dissent as evidenced in Chechnya. The Russian people vehemently opposed that war, which caused 90,000 casualties and half a million refugees. While hostilities have ceased for now, they may resume in the future. Today, Chechen independence is becoming a reality. The Clinton Administration should support bilateral Russian–Chechen and OSCE efforts to resolve the Chechen crisis peacefully in order to prevent a renewal of bloodshed and ensure stability in the strategic North Caucasus region. If it is to integrate successfully into the

---

28 MTCR is similar to the Coordination Committee on Multilateral Export Controls (COCOM) regime of the Cold War era.

new world community, Russia must abide by the community's rules of conduct, including international laws and customs.

- **Reject Russian demands that the 1972 Anti-Ballistic Missile (ABM) Treaty be broadened.** In Geneva last September, Russia agreed to sign an agreement which would allow the development of low-speed theater ballistic missile defenses; but then it balked at the last moment, and the issue remains unresolved. Russia suggests that the ABM Treaty must be amended to cover theater missile defense—a position that clashes with America's need to develop effective systems to protect its troops and allies from ballistic and cruise missile attacks. The U.S. also needs to develop missile defenses to protect its territory from potential attacks by rogue states and terrorists, as well as against accidental launches. By agreeing to the development of theater missile defense, Moscow could demonstrate its commitment to security cooperation with Washington. If it resists, the U.S. should announce a date certain for withdrawal from the ABM Treaty and refuse to negotiate a START III strategic weapons limitation agreement until START II is ratified.
- **Object to Russia's unilateral violations of the 1990 Conventional Forces in Europe treaty.** From 1995 through 1996, in a clear violation of the CFE Treaty, Russia vastly increased the numbers of tanks, artillery, and other heavy equipment on the borders of the Baltic states and in the Northern Caucasus. But while hard-liners in Moscow call for regaining domination of the NIS by force,<sup>29</sup> Russia is not threatened by any of its neighbors. Russia's violation of the CFE Treaty raises understandable fears in capitals from the Baltic to the Black and Caspian Seas. The U.S. erred when it failed to object strenuously to this unilateral Russian action and to hold Russia in violation of the CFE Treaty. Either Russia's breaches of the CFE Treaty must be corrected, and its troops reduced to the levels stipulated by the treaty, or new limits must be agreed upon with all sides participating in the negotiations as a part of post-NATO enlargement force level adjustment.
- **Support efforts in Russia and other NIS countries to fight organized crime and corruption.** Russia and the NIS have become safe havens for local organized cadres of criminals with close ties to government officials and the nascent business class. In addition, foreign organized criminal syndicates, from the Colombian Medellin and Cali drug cartels to the Sicilian Mafia (La Cosa Nostra), have made strong inroads in the region. To stem the tide of international crime, U.S. law enforcement agencies should cooperate, to the degree possible, with trustworthy and reliable law enforcement personnel in the East. Tracking, monitoring, and penetrating Russian and NIS criminal rings, especially those dealing in weapons, technologies of mass destruction, and narcotics, should be priorities.

In addition, American law enforcement agencies should monitor East-West financial transactions more closely. Deposits that originate in the NIS should be screened carefully and the legitimacy of the earnings established. Investments in Western prop-

---

29 Ariel Cohen, "Russian Military Hard-Liners' Doctrine: In Their Own Words," Heritage Foundation *F.Y.I.* No. 104, May 30, 1996.

erties, securities, and companies should be scrutinized closely if the origin of funds is suspicious or unverifiable.

Technical assistance should be provided and should be focused on writing comprehensive criminal and procedure codes; enhancing the judiciary, the courts, and the organized crime fighting methods of the police; and developing conflict-of-interest doctrines and enforceable civil service ethics codes.

- **Work closely with the Russian government to enhance economic reforms and improve the investment climate.** Only Russians can make their country more hospitable to domestic and foreign investment, and only private-sector investment can turn the economic situation in Russia around, making the people more inclined to support future market reforms. But this investment will not materialize if the business climate remains harsh and inhospitable.

A comprehensive reform package in Russia is long overdue. Boris Yeltsin's election to a second presidential term did little to address the structural deformations and lack of institutional development of the market. Russian businessmen, consumers, and Western investors paid a high price for these delays. A comprehensive reform package should include:

- Further privatization of government-owned assets, breaking up of monopolies, and introduction of competition into Russia's moribund industries;
- Agricultural reform, abolition of ineffective Soviet-era collective farming, creation of a real estate and land market, and establishment of land registries;
- Comprehensive tax reform, significant tax rate reduction and simplification, and enforcement of uniform tax collection;
- Wide-ranging legal reforms, including the enhancement and enforcement of property rights, a working intellectual property rights regime, a strengthened court system, a vigorous rule of law campaign, and an anti-corruption drive;
- Introduction of a workable and vastly expanded production-sharing agreement (PSA) law in the energy sector that will attract considerable Western investment; and
- Military reform and downsizing, as well as further decrease of military expenditures as a share of the gross national product.

U.S. assistance could include technical expertise on tax reform, agricultural reform and the privatization of the land, the development of market institutions such as stock exchanges, a Russian Securities and Exchange Commission, and banking regulatory institutions. Russia needs immense help in reforming its legal system to make the courts, not organized crime, the venue for effective dispute resolution in many areas, including domestic and foreign investment. Without a working legal system grounded in transparent and predictable laws, and without reliable dispute resolution, U.S. and Western investors will balk at dealing in Russia.

## THE STRATEGIC ROLE FOR CONGRESS

There are several steps the newly elected 105th Congress can take to improve America's policy toward Russia. Specifically, Congress could:

- **Introduce transparency as a condition for obtaining Nunn-Lugar funding for defense conversion and disarmament.** While the intent of the Nunn-Lugar program—paying for the dismantling of Russian nuclear weapons—was laudable, results to date leave much to be desired. Critics have questioned the program's lack of transparency and accountability, and the Pentagon thus far has not provided sufficient answers. Russia's state-run defense industry claims it has no funds to dismantle the weapons under the START I treaty, yet Russia's government continues to make multibillion dollar arms deals with Iran, China, and other countries. Moreover, Moscow receives over \$900 million a year in U.S. assistance for disarmament and defense conversion but provides the U.S. government with no access to the accounting documents and end-use applications of that funding. The Clinton Administration, by not insisting on more transparency, has allowed the Russians to get away with such abuses as the financing of civilian production lines in military plants without the simultaneous dismantling of military production. U.S. assistance also has allowed the Russians to channel budgeted funds to nuclear modernization programs. Either the U.S. Congress should make Nunn-Lugar funding conditional upon the access, transparency, and accountability of the Russian program, or else it should discontinue funding if Russia refuses to comply.
- **Fund interparliamentary exchanges.** The legislative bodies of Russia and the U.S. should maintain an ongoing dialogue and keep a channel of communication open on such important issues as arms control, diplomatic cooperation, exploration of space, energy, and bilateral exchanges. Lawmakers in both countries will benefit significantly from getting to know each other and seeing each other's systems at first hand. Such bilateral exchanges currently are in place with Japan and Mexico. Exchanges have been initiated in Congress by Representative Curt Weldon (R-PA) and are supported in Russia by Duma Foreign Affairs Committee Chairman Vladimir Lukin.
- **Initiate hearings on U.S. access to oil and gas resources in the Caspian Sea basin and Central Asia.** In view of the increasing instability of the Middle East, the U.S. may need to find alternative sources of oil and gas for the 21st century. The tremendous hydrocarbon reserves in the Caucasus and Central Asia are becoming more important. While increasing its direct involvement in the Middle East, Russia has attempted to control both the development of these resources and the transit of oil to Western markets. The Senate Foreign Relations and Energy Committees should conduct joint hearings on streamlining and balancing U.S. policy toward all countries in the region, and on safeguarding American access to these areas to ensure the flow of oil to the West in the next century.
- **Conduct hearings on Russia's ability to borrow in international securities markets.** Russia, one of the major debtors in global financial markets, has a national debt exceeding \$130 billion. In November 1996, Russia floated a \$500 million Eurobond issue with a five-year maturity; and it intends to float at least an additional \$1.3 billion in 1997. Gazprom, Russia's powerful gas monopoly, and the municipalities of Moscow and St. Petersburg also are planning to borrow by issuing commercial paper

in Western markets. In addition to the more than \$14 billion in current IMF loans, these government-borrowed funds may be used to back new hostilities in the "near abroad," to finance the ballistic missile modernization program, and to export nuclear reactors to Iran. At the same time, the collapse of Russia's tax system, combined with capital flight out of the country, may jeopardize Russia's ability to repay its debts. In short, Russia today is a high financial risk, and this could jeopardize U.S. investors who hold its paper.

Congressional hearings should focus on the potential financial and national security risks associated with Russian access to international securities markets. Hearings by the Senate and House Banking and Commerce Committees should include testimony from representatives of the U.S. Securities and Exchange Commission, the CIA, the Federal Reserve, and the FBI's Counterintelligence and Treasury Financial Crime Division, as well as from independent experts.

## CONCLUSION

The Clinton Administration and Congress need to realize that today's Russia—with a gross domestic product only slightly higher than Indonesia's and lower than Mexico's, and a living standard like Brazil's—is not the global power its predecessor, the Soviet Union, was. The approach taken by the Clinton Administration during its first term, which was aimed at encouraging Russian "good behavior" with massive bilateral and multilateral assistance, has failed. Signs of this failure can be seen in the sale of nuclear reactors to Iran and modern weapons systems to China, and in Russia's strategic weapons and arms control treaty violations. The Administration's exclusive support of President Yeltsin at the expense of other democratic forces in Russia, like its proclivity to equate new election procedures with democracy, has made the United States a partisan pro-Yeltsin factor in Russia, generating resentment among many in the Russian elite against any American interference in internal Russian politics.

The Clinton Administration and its new foreign policy team should apply the principle of reciprocity in U.S. relations with Russia. Friendly behavior should be rewarded, while levels of bilateral and multilateral economic assistance should be linked to Russia's foreign and security policies. This linkage should apply to U.S. support for International Monetary Fund and World Bank loans, foreign aid, and Russia's own debt rescheduling. In order to qualify for massive multilateral financial aid, Russia should implement a comprehensive economic reform package designed to make the economy competitive, generate growth, increase living standards, and attract foreign investment.

A secure and peaceful balance of power in Eurasia must be established. To achieve this goal, the NATO-Russian partnership should be strengthened and a cooperative relationship that allows all parties to consult on European security should be developed. At the same time, however, any such concessions to Moscow as allowing Russia the power to veto NATO membership or decisionmaking must be avoided. Expansion of NATO is vital and should include the three Central European states; and close political and military relationships should be developed between the alliance and non-members, such as the Baltic states, Ukraine, and the Trans-Caucasian countries of Azerbaijan and Georgia. To guarantee the security and inviolability of its own territory, the U.S. also should proceed

with its anti-proliferation efforts and with the development of missile defenses, preferably with full Russian cooperation.

Future U.S.–Russian relations must be conducted as a two-way street, not as another one-way thoroughfare with a perpetual green light for Russian demands and red light for American concerns. But the Clinton Administration should proceed down this road with caution. When dealing with Russia, the U.S. must remain constructively engaged, supportive, pragmatic—and vigilant at all times.

Ariel Cohen, Ph.D.  
Senior Policy Analyst

## HERITAGE STUDIES ON LINE

*Heritage Foundation studies are available electronically at several on-line locations. On the Internet, The Heritage Foundation's world wide web home page address is [www.heritage.org](http://www.heritage.org). Bookmark it for new information daily.*