



# Backgroundunder

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## Executive Summary

No. 1252

February 17, 1999

## THE WATERSHED IN U.S.–RUSSIA RELATIONS: BEYOND “STRATEGIC” PARTNERSHIP

*ARIEL COHEN, PH.D.*

The ascendancy of Prime Minister Evgeny Primakov, former Foreign Minister and once head of the Russian Foreign Intelligence Service, in Moscow should alarm Washington. Because of President Boris Yeltsin’s ill health, Primakov is acting as de facto president and is positioned to be a serious contender in the next presidential elections. His policies, supported by a communist-nationalist majority in the legislature, are being implemented by a cabinet that includes, as key economic policymakers, leaders of the Communist Party and former high-ranking Soviet officials. Under Primakov, Moscow is reverting to a zero-sum approach toward Washington that is more adversarial and reminiscent of Russia’s czarist and Soviet roots. Yet Russia continues to demand U.S. support for economic assistance from the West.

The Clinton Administration, which until recently considered Russia policy the crown jewel of its diplomacy, personalized its support of Russian reforms by backing President Boris Yeltsin. Consequently, it overlooked serious flaws in Yeltsin’s policies. Important economic and political reforms that would promote the transition to democracy and a free-market economy either were not attempted or were badly bungled. Corruption and mismanagement in attempts to privatize state enterprises were ignored.

President Clinton supported Yeltsin even when the war in Chechnya led to the deaths of 90,000 Russians, and when the government failed to pay millions of Russians. Now Primakov’s efforts to establish a “strategic triangle” with China and Iran to counterbalance America’s superpower status, as well as his opposition to U.S. efforts to rein in rogue regimes in Iraq and Serbia, are bringing President Clinton’s policy weaknesses to a head.

Russia is more economically desperate and politically unpredictable than at any time since the collapse of the Berlin Wall in 1989. It has transformed its post-communist policies from those of an aspiring ally of the West to those of an aspiring rival. Neither friend nor foe, Russia today often challenges U.S. leadership and policy, setting itself up as a potential—and sometimes real—counterbalance to American influence.

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Russia is providing China with pivotal assistance to modernize its strategic weapons systems, is selling ballistic missile and nuclear technology to Iran, defends Saddam Hussein in the U.N. Security Council, and supports Slobodan Milosevic on the issue of Kosovo. The Duma persists in rejecting the Strategic Arms Reduction Treaty II (START II) on nuclear weapons. And the Russian government, with support from the Clinton Administration, clings to the terms of the 1972 Anti-Ballistic Missile (ABM) Treaty between the former Soviet Union and the United States. The threat from Primakov's policies became clearest last October, when Russia conducted its first massive nuclear war games since the end of the Cold War.

In sum, Russia's actions today are becoming more anti-American and anti-status quo. As House International Relations Committee Chairman Benjamin Gilman (R-NY) has observed, "Our policy toward Russia appears near collapse."

A watershed point in U.S.-Russia relations has been reached: The idealistic hope for a democratic Russia that has driven Administration policies must be reconsidered, and a new approach based on realistic assessment of U.S. interests must be adopted. If the Administration does not address the threat to U.S. and global security that Russia's activities represent, America's relations with Russia will deteriorate. Containing or isolating Russia, however, is not the solution. Despite Primakov's hostile policies, the Russian people are not America's enemy.

The Administration must design a more effective policy to keep Russia engaged, to demonstrate to its people that America cares about their future, and to promote reforms that allow Russia to integrate into the international community. At the same time, U.S. assistance and cooperation should be conditioned on Russia's willingness to cooperate with America. U.S. support on such issues as the rescheduling of Russia's massive foreign debt

should be linked to Russia's actions on issues affecting U.S. security, interests, and values.

Specifically, the United States should:

- Recognize that Russia has abandoned its policy of strategic cooperation with the U.S. and use all available leverage, including the denial of international economic assistance, to encourage positive changes in Russian foreign and domestic policy.
- Establish conditionality between debt rescheduling and progress in Russia's economic reforms and international activities. Russia must demonstrate that it can behave responsibly in the economic and security areas before the United States and the international community agree to reschedule its debt.
- Focus assistance on technical advice and support if Russia proves to be cooperative. To integrate fully into the global community, Russians need market-oriented, analytical, business, and legal skills. Businesses, universities, and nonprofit organizations should be encouraged to offer academic and professional training in Russia. Russia also needs help in building institutions of democracy and civil society.
- Conduct a bottom-up re-evaluation of U.S.-Russia policy through a congressionally appointed blue-ribbon panel that includes former U.S. policymakers who have not been involved in devising and conducting U.S. policy toward Russia in the past six years.

While Russia's integration into the international community should remain an important goal of U.S.-Russia relations, Russia also must be encouraged to make the necessary changes to avoid its further decline.

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## THE WATERSHED IN U.S.–RUSSIA RELATIONS: BEYOND “STRATEGIC” PARTNERSHIP

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Today, Russia is both politically and economically unstable, and contributes more to the proliferation of weapons of mass destruction than at any point since 1992.<sup>1</sup> Russia's policies are more anti-Western than at any time since the rise of Mikhail Gorbachev and the *glasnost* and *perestroika* campaigns of the late 1980s,<sup>2</sup> and its leaders are unwilling to coordinate their policies with the United States despite massive and ongoing support from the Clinton Administration.<sup>3</sup>

Now Moscow is flexing its military arm at the United States: Last October, Russia conducted its first nuclear war games since the end of the Cold War, apparently to demonstrate its opposition to

NATO intervention in Kosovo.<sup>4</sup> President Boris Yeltsin even threatened a world war should the United States use massive force against Saddam Hussein.<sup>5</sup> The Clinton Administration failed to respond directly to these affronts to U.S. interests.

The ascendancy of the government led by Prime Minister Evgeny Primakov, former Foreign Minister and once head of Russia's Foreign Intelligence

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1. The risk of officials' contributing to weapons proliferation was highlighted in 1995, when former head of the Russian National Security Council Oleg Lobov helped the Japanese sect Aum Shinrikye acquire Sarin gas manufacturing technology in order to produce chemical weapons in Russia in exchange for \$79,000. See Vladimir Abarinov, "Pervyi smertnyi prigovor chlenu 'Aum Senrikye,'" *Izvestiya*, October 24, 1998, p. 3.
2. "Russia Adrift, with 'Moribund' President, Bankrupt Government," *Foreign Media Research Reaction Daily Digest*, United States Information Agency, October 28, 1998, pp. 3–6.
3. Paul A. Goble, "Russia Has Lost Its Way, With Our Help," *USA Today*, September 2, 1998, p. A15.
4. J. Michael Waller, "As Moscow Asks Washington for Millions of Tons of Free Grain, It Practices a Nuclear Attack on the United States," *Russia Reform Monitor*, American Foreign Policy Council, October 27, 1998, p. 1. The military exercise was also reported in *Izvestiya* on October 7, 1998.
5. Charles Trueheart, "U.S. Flanks Covered in Latest Showdown," *The Washington Post*, November 13, 1998, p. A38.



Service, signals the failure of U.S.-supported free-market and democratic reform efforts in Russia. Because of President Yeltsin's ill health,<sup>6</sup> Primakov is acting as the de facto president and is positioned to become a serious contender in the next presidential elections.<sup>7</sup> His policies, which have harmed U.S. interests in the past, are supported by the communist-dominated legislature (the Duma) and will be implemented by a cabinet that includes leaders of the Communist Party or former high-ranking Soviet party officials as key economic policymakers.<sup>8</sup>

For example, under Primakov, Russia is providing China with pivotal assistance in modernizing its strategic weapons systems; is selling ballistic missile and nuclear technology to Iran; defends Saddam Hussein in the United Nations Security Council and is trying to lift sanctions against Iraq; and supports Slobodan Milosevic on the issue of Kosovo. Primakov is working to build a "strategic triangle" with China and Iran to oppose the leading role of the United States on global issues.<sup>9</sup> The Duma persists in its intransigent rejection of the Strategic Arms Reduction Treaty II (START II) on nuclear weapons, and the executive and legislative branches of the Russian government, with Clinton Administration support, cling to the terms of the 1972 Anti-Ballistic Missile (ABM) Treaty between the Soviet Union and the United States.

This historic turn, both in relations with the United States and in the process of Russian democratization, is the result of bungling on the

part of Boris Yeltsin and his young reformers, as well as the staunch resistance of former and current communists—the *nomenklatura*. But it also is due to strategic flaws in the Clinton Administration's approach to Yeltsin and Russia,<sup>10</sup> once one of its foreign policy crown jewels.

The Administration chose to ignore the gap between its declarations of support for Yeltsin's leadership abilities and Yeltsin's failures as a leader of reforms. It created the impression that the transition in Russia was moving along smoothly, even though it was not. As Representative Benjamin Gilman (R-NY), chairman of the House International Relations Committee, succinctly observed last September:

I believe our government has not only been lied to by high level Russian officials, but has ignored important signals over the last few years that all is not well, both in Russia and in our relationship with its government.... The success story of our foreign policy... [as] was portrayed by our administration just two years ago has now changed into the dismal failure of our foreign policy that appears to be today.... Our policy toward Russia appears near collapse.<sup>11</sup>

The hard truth is that Administration-supported reforms in Russia became mired in the corruption and inefficiency of the Russian government under an ailing Boris Yeltsin. In addition, President Clinton's policy of giving Yeltsin unquestioned support

6. In addition to quintuple bypass, open-heart surgery in the fall of 1996, Yeltsin reportedly suffers from recurrent respiratory problems, circulatory problems, and bleeding ulcers.
7. Other leading candidates include communist leader Gennady Zyuganov, Moscow mayor Yurii Luzhkov, Krasnoyarsk governor Alexander Lebed, and Yabloko party leader Grigory Yavlinsky.
8. These include First Deputy Prime Minister in charge of economic policy Yurii Maslyukov, the former head of the Soviet Union's state planning program (Gosplan); a pro-inflation, Soviet-era central banker, Gennady Gerashchenko; and Deputy Prime Minister for agriculture Gennady Kulik. See Evgueni Volk, Ph.D., "Who's Who in Primakov's New Russian Government," Heritage Foundation *Backgrounder* No. 1232, November 6, 1998.
9. Martin Sieff, "Primakov Puts Russia in a Strategic Spot; Ties to India, China Check U.S. Hegemony," *The Washington Times*, December 27, 1998, p. A10. For analysis of Primakov's world view, see Ariel Cohen, "The 'Primakov Doctrine': Russia's Zero-Sum Game with the United States," Heritage Foundation *FYI* No. 167, December 15, 1997.
10. Jim Hoagland, "U.S. Contributed to Primakov's Ascension," *Chicago Tribune*, September 18, 1998, p. 29.
11. Martin Sieff, "House Committee Slams U.S. Policy on Ailing Russia," *The Washington Times*, September 18, 1998, p. A13.

is yet another example of the personalization of American diplomacy that has plagued U.S. foreign relations for far too long. Prominent examples include America's support of the Shah of Iran before his overthrow by Ayatollah Khomeini in 1979, political investment in the regime of Ferdinand Marcos of the Philippines, and backing President Suharto of Indonesia in 1998.

The United States should abandon its policy of accommodation and propitiation and use all its available leverage, including international economic assistance, to encourage a positive change in Russian foreign and domestic policy. Clearly, U.S. relations with Russia under Primakov will deteriorate even further, especially as the threat of further economic collapse grows stronger.<sup>12</sup> Sober reality, not idealism, should drive the U.S. calculus in its relationship with Moscow.<sup>13</sup>

A watershed point has been reached: The idealistic view of the democratization of Russia that prevailed in the early post-Cold War period needs to be reconsidered, and a new approach adopted. This new approach should include both recognition of Primakov's quasi-adversarial stance toward Washington and the development of a system under which the granting of Western assistance, such as the rescheduling of Russia's foreign debt, is linked directly to Russia's responsible international behavior on key American interests.

To be sure, a new containment or isolation of Russia is not the solution. Despite the hostile policies of Primakov, who is supported by the Soviet-era foreign policy elite, the Russian people are not America's enemy. The Administration must design a more effective policy to keep Russia engaged, to demonstrate to the Russian people that America cares about its future, and to promote democratic reforms that will allow Russia to integrate fully into the international community.

## ERRORS OF JUDGMENT AND POLICY

Several diplomatic missteps by the Clinton Administration over the past six years have led to its foreign policy failures with Russia.

First, until recently, the Administration's top policy decision-makers chose to disregard evidence that Russia's economic and political transition to democracy was going awry. For example, Deputy Secretary of State Strobe Talbot stated last fall: "I don't think it is either accurate or smart to say that Russia has fundamentally changed course.... I don't believe...that reform in Russia has come to an end and therefore U.S. policy has failed."<sup>14</sup>

Second, the Administration supported Yeltsin's macroeconomic policies, which correctly focused on price liberalization and privatization but neglected the institution-building steps necessary to create a modern market economy. As a result, what many called a "wild capitalism" emerged that resembles the mob rule in Chicago during the 1920s more than the orderly and transparent Western markets of the 1990s. The Clinton Administration did little to counter the bad name these occurrences gave to free-market reforms.

Third, the Administration was unable to persuade Russia to establish the rule of law and retool its legal system to serve a market economy more effectively. In Russia, courts lack effective means to enforce contracts, and this causes foreign investors to avoid Russia and forces the flight of domestic capital to more secure locations. Consequently, organized crime gained a foothold and then a chokehold of all facets of dispute resolution. And although some market-oriented legislation was drafted (albeit haphazardly), the laws passed were not properly enforced.

Fourth, both the Clinton and Yeltsin adminis-

12. Sujata Rao, "Cabinet Approves Plan for Economy," *Moscow Times*, November 3, 1998, as reported on Johnson's List No. 2457 at <http://www.cdi.org/russia> as of November 3, 1998.

13. Ariel Cohen, "U.S.-Russian Relations at the Moscow Summit: Time to Face Reality," Heritage Foundation *Backgrounder* No. 1217, August 26, 1998.

14. Tyler Marshall, "U.S. Policy on Russia Seen as Failure by Some Experts," *Los Angeles Times*, September 19, 1998, p. A6.



trations failed to understand that Russia's entrepreneurs, politicians, and managers simply lacked the important modern economic and business know-how to carry out the necessary reforms. Few Russians during the Soviet era had the opportunity to study Western-style economics, finance, management, or public administration that would have prepared them for the transition. Even fewer were allowed to travel to the West to get a first-hand look.

In the pre-communist era, Russia's leaders understood the importance of Western education.<sup>15</sup> Before the 1917 Bolshevik coup, hundreds of thousands of Russians were educated in European universities, bringing vital skills and Western outlook to their homeland. China today sends tens of thousands of its students to the West to study. Yet the Russian government has not attempted to close the knowledge gap and prepare its labor force to function in open markets. Nor has it tried to attract Western universities to open campuses in Russia to teach business, economics, public policy, or political science courses.

This lack of exposure to free-market policies and experience added to the effects of Moscow's failure to hire or retain Western educated labor. Low salaries in the civil service also led to an exodus of English-speaking Russians to the private sector—especially to Western firms and non-governmental organizations (NGOs). Those who remained often were forced to accept bribes.

The Clinton Administration has given little attention to the corruption that plagued the Yeltsin government. Rampant embezzlement by public

officials cast doubts on the post-communist style of government and on corporate management. Even Russia's Strategic Rocket Forces succumbed to this practice, which placed Russia's strategic nuclear weapons at risk of poor maintenance and outright plunder.<sup>16</sup> Practices such as cannibalizing business assets and resources, commonplace under Gorbachev, survived the end of the Soviet Union and spread in post-communist Russia in this corrupt environment. Managers of privatized enterprises often sold machinery and raw materials, sending the proceeds to private offshore bank accounts and then running their companies into bankruptcy.

Remarkably, U.S. and multilateral assistance agencies failed to reverse or even to significantly challenge these practices. Since 1994, the United States has been sending a handful of officers from the Federal Bureau of Investigation to Moscow and other capitals in the former Soviet Union to act as legal attachés (*legats*) and train the Russian Interior Ministry (MVD) on how to combat such corruption; but it was too little, too late. Corruption continues, even when some of the most outrageous abuses have been exposed in the Russian media. Last fall, for example, the reformist Yabloko party leader, Grigory Yavlinsky, and several of his party's most prominent Duma members sent a letter to Prime Minister Primakov in which they accused most senior members of Primakov's cabinet of rampant graft.<sup>17</sup> The Interior Ministry is looking into these charges, but Primakov has brushed off the allegations.<sup>18</sup>

Uncritical endorsement of some of Yeltsin's most outrageous actions convinced many Russians that

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15. However, the social sciences, economics, and humanities components of its education system were largely destroyed by the communists.
16. J. Michael Waller, "Moscow Launches PR Blitz for More Nuclear Missiles," quoting allegations of corruption against Lt.-Gen. Vyacheslav Meleshko, former head of the Strategic Rocket Forces Supply Directorate, by the *Komsomolskaya Pravda*. Meleshko was never convicted. See *Russia Reform Monitor*, November 3, 1998.
17. Julie A. Corwin, "Yabloko Charges Government with Corruption," *RFE-RL Newslines*, Vol. 2, No. 212 (November 3, 1998), p. 1. See also Chloe Arnold, "Yavlinsky Adds to Accusations of Corruption," *Moscow Times*, November 3, 1998, p. 1. Ministers mentioned in the letter include, among others, First Deputy Prime Minister for economic policy Maslyukov, First Deputy Prime Minister for regional policy Vadim Gustov, Deputy Prime Minister for agriculture Gennady Kulik, Deputy Prime Minister for Russia's social safety net Valentina Matviyenko.
18. Julie A. Corwin, "Corruption Charges Continue," *RFE-RL Newslines*, Vol. 2, No. 214 (November 1998), p. 2.

the recommendations and policy objectives of the United States were not credible. The Clinton Administration unwisely supported Yeltsin during the war in Chechnya, in which over 90,000 Russian soldiers and civilians were killed. President Clinton went so far as to equate the war with the American Civil War during his visit to Russia in May 1996 (implying, perhaps, that Boris Yeltsin could be viewed as Russia's own Abraham Lincoln).<sup>19</sup> In supporting this war, however, the United States appeared grossly callous to the Russian people who opposed the carnage, and its declarations on human rights seemed hypocritical.

President Clinton supported Boris Yeltsin in the 1993 confrontation with the Russian Parliament and the 1996 elections. The Clinton Administration lobbied the International Monetary Fund (IMF) and the World Bank to provide credit to Russia to facilitate Yeltsin's re-election. It encouraged European countries, primarily France and Germany, to extend credit to Yeltsin before the 1996 elections. And it rarely reached out to anyone who disagreed with the Russian president. Together, these actions convinced the majority of the Russian body politic of America's partisanship and led many to believe the increasingly unpopular Yeltsin was an American tool.

## THE IMF'S FAILURE

The International Monetary Fund, with encouragement from President Clinton, extended over \$26 billion to Russia in credits from 1992 to 1998 to encourage economic reform and promote stability. The Russian financial crisis of August 1998—in which the ruble was effectively devalued by over 300 percent—demonstrated the failure of the U.S.-inspired IMF lending approach toward Russia on three levels.<sup>20</sup>

- The IMF conducted an inadequate risk assessment, a routine precaution bankers take even when disbursing much smaller loans. Conse-

quently, the IMF overestimated the growth rate in Russia's gross domestic product (GDP) every year since 1994.

- The IMF committed to a lending package to Moscow based on the assumption that the Russian government would put in place agreed-upon, pro-market, and economically sound policies—policies that it either could not or would not implement. This is analogous to a situation in which a borrower misrepresents how the proceeds of a loan will be applied. It is also similar to a situation in which a banker, in a dereliction of duty, inaccurately assesses the business viability of a loan applicant and knowingly accepts inaccurate information about a client's business activities.
- The IMF dealt with specific individuals, such as former Prime Minister Sergei Kirienko and debt negotiator Anatoly Chubais, who soon disappeared from the political scene. This is similar to a large company's losing its top management immediately after securing a loan that was not made conditional based on the current management team or circumstances.

Thus, the IMF failed in its due diligence procedures and violated its fiduciary duty to the shareholders that fund and support its lending policies—its member governments and the taxpayers who finance them. Russia is now mired in an economic morass. The only financial achievements of the Yeltsin administration—a once-stable currency and a low inflation rate—have evaporated. The political toll on the future of democracy and open markets in Russia will be great, especially because the nascent middle class has lost its savings, small businesses have suffered, and millions of workers and pensioners have not been paid for many months.

Before the August 17, 1998, devaluation of the ruble, Russia had asked the international commu-

19. Eric Margolis, "Chechen Blood Is on Our Hands," *Foreign Correspondent*, August 8, 1996, at <http://www.bigeye.com/080896.htm>.

20. Ariel Cohen, "Russia's Meltdown: Anatomy of the IMF Failure," Heritage Foundation *Backgrounder* No. 1228, October 23, 1998. See also David E. Sanger, "A Fund of Trouble," *The New York Times*, October 2, 1998, p. A1.

nity to provide additional financial support beyond the \$22.5 billion promised on July 13, 1998. This additional assistance was predicated upon Moscow's implementation of its previous commitments to economic reform—commitments that the Primakov government and the Duma now find totally unacceptable. To date, the IMF, the World Bank, and the Group of Seven (G-7) nations refuse to extend the additional assistance.

## **BORIS YELTSIN'S FAILURES**

President Yeltsin's past seven years in office produced a mixed record. Russia enjoyed an unprecedented freedom of political debate, both in the media and in party politics. People were allowed to start small and medium-sized businesses. Travel abroad, which had been severely regulated under communism, skyrocketed. Religious expression thrived. A new middle class appeared. However, Yeltsin's government in Moscow bungled the necessary economic reforms and engineered a privatization process that many Russians and foreign investors quickly perceived as opaque and unfair. And it allowed crime and corruption to rise to unprecedented levels.

The privatization efforts failed either to make Russian enterprises effective and competitive or to improve economic conditions for workers. In many enterprises, the Soviet-era management was allowed to remain after privatization. The government prevented foreign investors from bidding on the most attractive privatized assets—for example, in the so-called loans-for-shares scheme of 1995, when government-favored businessmen grossly mismanaged the auction process and established control over billion-dollar assets by paying only a fraction of their actual price.

### **Failure on the Political Front**

For all his talk of reform, Yeltsin failed to deal

effectively with two institutions desperately in need of change—the military and the internal security services, which includes the police, the internal secret police and auxiliary military forces under the Ministry of Interior, the Border Guards, and the Ministry of Transportation. These institutions are demoralized, riddled with corruption, inefficient, and large, keeping over 1.5 million people in uniform. Paychecks for their employees often are delayed.

In addition, the security service has failed to resolve even the highest profile murders—those of dissident priest Father Alexander Men; television anchor and ORT TV channel director Vlad Listyev; investigative reporter Dmitrii Kholodov; Chairman of the Russian Business Round Table and prominent banker Ivan Kivelidi; Deputy Justice Minister Anatoly Stepanov; Vice Governor of St. Petersburg Lev Manevich; Duma member Galina Starovoitova; three other Duma members; and many other well-known bankers, businessmen, and law enforcement officials.<sup>21</sup>

Tragically, Boris Yeltsin missed an historic opportunity to overcome the legacy of communism, expose and widely publicize its political and economic track record, and assess the price that the ex-Soviet peoples and the world paid for the Marxist-Leninist experiment.<sup>22</sup> The communists bankrupted the Soviet treasury in their search for military supremacy, squandered immeasurable natural resources, and in the late 1980s stole gold reserves and generated hyperinflation.

Yet the new government that came to power after the dissolution of the Union of Soviet Socialist Republics instituted no purge of those communists from its ranks, and no effective ban was placed on the Communist Party. Yeltsin did little to de-legitimize communism as a political ideology through the education system, so Russian curricula in history and social sciences remained largely what they had been under the Soviet

21. Victor Yasmann, Senior Associate of the American Foreign Policy Council, maintains 490 names in his "martirologue" data base of prominent Russian crime victims.

22. On the importance and failure of de-communizing Russia, see Fareed Zakaria, "The New American Consensus: Our Hollow Hegemony," *The New York Times*, November 1, 1998.



regime. Neither textbooks nor instructors were replaced in Russia, as they were in East Germany and the Czech Republic.

Court proceedings against the Soviet Communist Party were attempted in the aftermath of the 1991 communist putsch, which dragged on through 1992. But these hearings failed; the case was dismissed. Ultimately, many former communist *apparatchiki* were able to remain at the core of the Yeltsin regime or to regain a position in Primakov's government, as did former members of the Soviet secret police, the KGB.<sup>23</sup> The encouraging ascendancy of democracy-oriented leaders in the government after the end of the Cold War had been arrested.

Thus, early enthusiasm over the collapse of communism, which provided Yeltsin with a vast reservoir of trust and support from the Russian people, was squandered before it could be transformed into a political consensus for the much-needed political and economic reforms. And very little was done to prevent nationalists from rising to prominence.

### **Failure to Implement Economic Reform**

Yeltsin's failures on the political front translated into failures on the economic front. Lacking firm leadership, Russian reforms fell prey to crony capitalism, corruption, capital flight, and burgeoning crime. The Yeltsin reforms lacked the sophistication, scope, or discipline of the Leszek Balcerowicz program instituted in Poland and the Vaclav Klaus reforms in the Czech Republic. They provided neither the efficiency seen in Germany's privatization efforts nor the enthusiasm for economic liberalism demonstrated by the government of Estonia. No sustained public education effort was made to explain the rationale of the necessary and difficult

reforms to the Russian people, or to advise them on the best ways to adapt to the new situation.

Moreover, the necessary legal reforms failed to materialize. There was an overall lack of motion toward a market-oriented dispute resolution system and the rule of law, a debilitating absence of functioning bankruptcy and anti-monopoly mechanisms, poor protection of shareholder rights, and inadequate measures concerning corporate governance. According to many Russian and Western sources, a business operating in today's Russia has to pay up to 30 percent of its gross proceeds for protection—either to the mob or to local “law enforcement” officials.<sup>24</sup> Lucrative state-owned properties were sold in return for presidential campaign contributions and media support. Small wonder, then, that foreign investment largely failed to materialize and capital flight gained momentum.

The Russian government facilitated the loss of confidence in Yeltsin's administration by allowing an accumulation of wage arrears in the public and private sectors, including the military, law enforcement agencies, and pensioners; irresponsible borrowing of more than \$70 billion, which caused Moscow to default on its obligations; budget deficits and failure to produce a workable, realistic budget; a punitive, arbitrary, and corrupt system of taxation; and over-regulation of trade and industry with arbitrary licensing.

### **RUSSIAN CHALLENGES TO U.S. FOREIGN POLICY**

Until August 1998, the Clinton Administration repeatedly ignored Russia's irresponsible international activities and domestic failures, and continued to give economic and moral support to Boris Yeltsin even in the face of policies that clearly

23. Among the recent additions: General Nikolay Bordyuzha, former commander of the Border Guards, who is Secretary of the Russian National Security Council and Head of Presidential Administration; Leningrad KGB officer Vladimir Putin, head of the Federal Security Service (domestic secret police) in August 1998; Yurii Kobaladze, former Soviet operative in Great Britain and Russian Foreign Intelligence spokesman, who is Deputy Director of the TASS news agency; and Grigory Rapota, intelligence officer currently in charge of Rosvooruzheniye, a Russian arms exporter.

24. For a comprehensive treatment of the subject, see Frank Cillufo, “Russian Organized Crime,” Center for Strategic and International Studies, Washington, D.C., 1997.

undermined U.S. interests.

The Administration sought to delink Russian international behavior and national security issues from Western assistance, including multilateral loans and credits. It claimed, for example, that IMF lending to Russia was strictly an economic issue and should not be influenced by foreign policy and national security considerations.<sup>25</sup> To encourage Russia to behave responsibly, the Administration lobbied the IMF to provide a \$22.5 billion assistance package to Russia in July 1998. Perhaps Russia's worrisome stockpile of 20,000 nuclear weapons, including more than 6,000 intercontinental ballistic missiles (ICBMs) and other weapons of mass destruction, had some effect on the Administration's decision. In any event, the IMF complied.

The Middle East. Over the past few years, despite objections from the United States, Moscow has been supplying Iran with ballistic missile and nuclear technology.<sup>26</sup> This assistance allowed Iran to build the Shahab-3 intermediate range ballistic missile, which is capable of striking targets throughout the Middle East, including Saudi Arabia and Israel. It could enable Tehran, in just five to ten years, to develop ICBMs (and possibly nuclear weapons) that are capable of striking America's East Coast.

Moscow has supported the rogue regime of Saddam Hussein in the United Nations and has attempted to weaken the work of the disarmament commission (UNSCOM) and lift sanctions against Iraq for the benefit of Russian companies. Moscow currently is negotiating a \$3 billion sale of modern weapons to Syria, despite Damascus's Soviet-era unpaid debt of \$12 billion for previous weapon supplies. Prime Minister Primakov is planning to play a major role in the Middle East by supplying

Syrian President Hafez al-Assad with modern Sukhoi-27 fighter bombers, T-80 tanks, and S-300 state-of-the-art anti-aircraft missiles.<sup>27</sup>

START II. To date, the communist-nationalist majority in the Duma refuses to sign the START II treaty, which would bring down Russia's arsenal of strategic weapons significantly and unburden its budget.<sup>28</sup> According to Defense Minister Marshal Igor Sergeev, Prime Minister Primakov, and First Deputy Prime Minister Yurii Maslyukov, START II is in Russia's national interest. Yet, as a condition of signing the treaty, the Duma is insisting that the United States comply with the obsolete ABM treaty, which denies America the ability to deploy anti-ballistic missile defenses to protect U.S. civilians and troops.

China. Russia is selling its most advanced military systems to China, which increases Beijing's ability both to intimidate Taiwan and, potentially, to prevent the United States from projecting power in the Taiwan Strait. Moscow, for example, supplied China's People's Liberation Army with sea-launched supersonic cruise missiles for their *Sovremenny*-class destroyers. These missiles are capable of sinking the U.S. AEGIS missile cruisers. Russia also sold Beijing Sukhoi-27 fighters, as well as guidance systems for ICBMs and uranium-enriching equipment for building more efficient nuclear warheads.

Kosovo. Moscow has supported Serbian nationalist-socialist leader Slobodan Milosevic in the Bosnia and Kosovo conflicts. Russia's top military officials threatened to give military assistance to Serbia, and they oppose NATO air strikes in Kosovo as well as further NATO enlargement.

Cyprus. Moscow signed an agreement to supply advanced anti-air S-300 missiles to the

25. Roger W. Robinson, "The Meaning of the Russian IMF Bailout," in Ariel Cohen, Marshall I. Goldman, John P. Hardt, and Roger W. Robinson, "The Meaning of the Russian IMF Bailout," *Heritage Lecture* No. 626, October 27, 1998, p. 10.

26. Konstantin Eggert, "Meteor' dlia ayatoll," *Izvestia*, October 21 and 22, 1998, p. 6. This is the most extensive investigative publication on Russian-Iranian cooperation.

27. Douglas Davis, "Russian Arms Deal Aims to Boost Syrian Arsenal," *Washington Jewish Week*, February 4, 1999, p. 17.

28. Julie A. Corwin, "Duma Sets Conditions for START II Ratification," *RFE-RL Newslines*, Vol. 2, No. 212 (November 3, 1998), p. 2.

Republic of Cyprus—a move that could contribute to a war between NATO allies Turkey and Greece—but the government of Cyprus put the agreement on hold after Turkey and the United States protested.

### **Future Threats to Russian Stability**

Russia's level of cooperation with the United States on foreign policy issues seems to be inversely proportional to its economy's performance: The worse the Russian economy is doing, the louder Moscow complains about Washington.

The government under Prime Minister Primakov is unlikely to resolve the country's deep economic problems. Most of Primakov's top decision-makers were senior officials in the Gorbachev administration. The remaining few reformers were part of the Yeltsin–Chernomyrdin team. The Primakov cabinet's policies of printing money, subsidizing decrepit heavy industry, and manipulating the ruble exchange rate have done little to improve Russia's economic situation, nor will they. Furthermore, if the money supply is inflated, the Russians will feel cheated, much as Germans did under the Weimar Republic.

Currently, inflation is running at 140 percent per year, and it may rise even higher. A weak ruble in a country that imports over 60 percent of its food (80 percent in Moscow) will be disastrous. Food imports already are subject to heavy tariffs that inflate food prices and cause shortages. Russia's major crop failure in 1998 severely limited the domestic food supply. According to Russian economic observers and the media, were it not for the Western food aid program, Russia would be facing near-famine in the winter of 1999.

In light of the country's fiscal insolvency, high unemployment, and severe food shortages, three political scenarios are likely to occur in Russia:<sup>29</sup>

1. Muddling through. This presupposes a contin-

uation of Russia's slow and painful decline. The parliamentary elections scheduled for 1999 likely will give the communists, leftists, and nationalists a Duma majority; and the presidential elections in the year 2000 (or earlier, if Boris Yeltsin leaves office) may put either Prime Minister Primakov or Moscow's Mayor Yurii Luzhkov into office. Under this scenario, an economic breakthrough is unlikely, but total chaos should not occur either.

2. An anti-constitutional seizure of power. This could involve an authoritarian ruler who gains control under the guise of re-establishing law and order<sup>30</sup> (a Russian "Pinochet scenario," as it is called in Moscow). It is hard to say whether a prospective authoritarian leader necessarily would take a strong anti-Western stance; he might be interested in attracting Western aid and foreign investment.

A more threatening version of this scenario would be a coup led by a charismatic—and potentially totalitarian—ruler who could unite a "red-brown" coalition of hard-line communists and extreme nationalists. If conditions were sufficiently unstable in Moscow, a coup might be supported by at least some of the demoralized military and internal security forces, and even by some of the Russian people. This variation—the establishment of a hard-line nationalist and/or communist dictatorship—could emerge against a backdrop of popular discontent and despair and could occur during or shortly after the disintegration of the current government. If free-market forces are fully discredited in the eyes of most Russians, ultra-nationalism could be seen as a "third way." The extremist communists, such as General Albert Makashov, Duma Security Committee Chairman Victor Ilyukhin, and *Zavtra* newspaper editor Alexander Prokhanov,

29. For an excellent analysis of Russia's current situation, as well as intelligent predictions for the future, see Vladimir Shliapentokh, "The Truth About Russia: A Liberal Society Is Not to Be Had in the Near Future," Center for Strategic and International Studies *Post-Soviet Prospects*, Vol. 6, No. 4 (September 1998), p. 1.

30. Leon Aron, "After the Crash," American Enterprise Institute *Russian Outlook*, Fall 1998, p. 1.

and the neo-Nazis have reintroduced racist, anti-Semitic, anti-Muslim, and anti-Caucasian sentiments into the mainstream debate in Russia.

According to Moscow political insiders and media, certain elements of the security services have supported and nurtured neo-Nazi organizations because they serve to scare the West and Russian voters. The more dangerous these groups appear to be, the more the Russian people will support the status quo under Yeltsin and Primakov. Additionally, the buildup of radicals further justifies the “law and order” function of the secret service.

3. Disintegration. For the current government to disintegrate, increasing and protracted conflicts in various regions of Russia must occur. Some regions already have started to erect protective walls; they have refused to pay taxes to the federal budget, have imposed unauthorized taxes and customs duties, and have begun to accumulate their own hard currency and gold reserves. With the shortages of fuel, train and airline connections around Russia could be affected, and local military units could rally behind anyone who seemed capable of feeding them. This would result in a quasi-feudal system. Under this scenario, the weakening of central control would endanger the command and control of the Russian nuclear arsenal, and the government would be unable to regulate the proliferation of weapons of mass destruction.

These disturbing scenarios should be of great concern to Washington and other Western decision-makers. Russia still harbors the second largest nuclear arsenal, as well as large stockpiles of chemical and biological weapons and the technology and expertise to produce more. Clearly, it is in America’s interests to encourage the necessary political and economic reforms to prevent an unconstitutional coup or disintegration from occurring.

### **WHAT THE U.S. SHOULD DO**

The failure of the Russian government to imple-

ment efficient market reforms and prevent Russia’s spiraling economic meltdown does not mean the United States should refrain from engaging Moscow. U.S.–Russian bilateral ties, links with Western Europe, and involvement in organizations like the Organization for Security and Cooperation in Europe (OSCE), NATO, the World Trade Organization, and other multilateral organizations are important to show that the West cares about Russia’s future and is keeping the door open for its integration into international community.

But engagement is not a one-way street. U.S. assistance and cooperation should be conditioned on Russia’s willingness to cooperate with America. To deal with the challenges posed by Russia’s political and economic situation, the United States should:

- Recognize that Russia has abandoned its policy of strategic cooperation with the U.S. and use all available leverage, including the denial of international economic assistance, to encourage positive changes in Russian foreign and domestic policy. Russia under Prime Minister Primakov is no longer cooperating with the United States on important foreign policy and national security issues. The Russian government has rejected the ratification of the START II Treaty, insists on adhering to the old ABM treaty between the United States and the Soviet Union, and objects to NATO enlargement. Moscow has ignored U.S. concerns over Russia’s contribution to the Iranian ballistic missile development. And cooperation with Russia on such issues as Kosovo has been extremely difficult.

The United States should abandon its policy of accommodation and propitiation, and create a matrix of linkages that govern its relationship with Moscow. The Administration should use all available leverage, including the denial of international economic assistance, to encourage positive changes in Russian foreign and domestic policy that promote genuine market reforms and the rule of law. As long as Soviet-era leaders remain in power and the “old thinking” prevails, this task will not be easy.



Sober reality, not idealistic hopes of rapid democratization, should drive the U.S. calculus in relations with Moscow.

- Establish conditionality between debt rescheduling and progress in Russia's economic reforms and international activities. Russia must demonstrate that it can behave responsibly in the economic and security areas before the United States and the international community agree to reschedule its debt. Russia owes the West over \$200 billion in sovereign loans, bank loans, and treasury bills (GKOs). With its budget and tax system in shambles, senior economic policymakers already have declared that Russia will not be able to pay these debts on schedule. In negotiating the consequences of this defaulting on international obligations, as well as additional foreign assistance packages to Russia, the United States and its Western European allies must insist that Moscow demonstrate responsible behavior in the economic, foreign policy, and national security areas. For example, Moscow must stop challenging the United States and its NATO allies over Iran, Iraq, Kosovo, the ABM treaty, START II, and NATO enlargement. Furthermore, to ensure that economic failure and default do not reoccur, both a comprehensive reform package and a competent team that is capable of implementing it need to be put in place.
- Focus assistance on technical advice and support if Russia proves to be cooperative. Not everyone in the Russian elite is anti-American or anti-Western. Many Russians still hope their country will continue to follow a path to democracy and a free market. A strengthening of democratic and market institutions and a transfer of technical market-oriented and legal skills must occur. Future assistance to Russia should not include massive financial packages, which are inefficient, but should focus instead on non-proliferation activities, supplying emergency medical and food aid, and developing markets and the nonprofit sector. These efforts should be focused on private Russian groups and could

include academic and professional training; institutional development of markets; pro-market and pro-democracy policy work by business associations, think tanks, and universities; cultural exchanges; and conference activities.

- Conduct a bottom-up re-evaluation of U.S.–Russia policy through a congressionally appointed blue-ribbon panel. Such a panel should include outside experts who can analyze the failures of the Administration's past policies and recommend future policies. The panel should recognize the tectonic shift in attitude that the new government under Primakov exhibits toward the United States. It should scrutinize U.S. responses to such concerns as Russia's supplying of weapons to such states as China, Iran, Iraq, and North Korea; the failure of U.S. and multilateral economic assistance; Russia's behavior over Kosovo and NATO enlargement; and the Duma's continuing obstruction of START II ratification.

The panel's recommendations must call unambiguously for a new paradigm in U.S.–Russian relations that is based on a realistic assessment of the current relationship, a commitment to assist Russia in building democracy and developing a market economy, a recognition of Russia's financial limitations, and an appreciation of the desire of the Russian people to integrate into the global community. The Administration should ensure the immediate implementation of the panel's recommendations. Such a panel could include former U.S. policymakers who have not been involved in devising and conducting U.S. policy toward Russia during the past six years.

## CONCLUSION

Congress and the Clinton Administration should re-examine U.S. policy toward Russia, especially in light of America's economic, diplomatic, geostrategic, and national security interests. Such a re-evaluation was mentioned in speeches last October by Secretary of State



Madeleine Albright and Deputy Secretary of State Strobe Talbot.<sup>31</sup> Washington now is forced to realize that Russia cannot be changed overnight and that financial support will accomplish little unless Russia takes the steps to help itself. Faced with the disastrous results of the 1998 bailout by the International Monetary Fund, the Administration also may finally understand the limits of multilateral financial assistance.

Responsibility for Russia's problems should be attributed primarily to the policies of the Yeltsin administration and the International Monetary Fund.<sup>32</sup> But it also must be linked to the policies of the Clinton Administration. The reforms and

individuals supported by the Administration have failed. No further multilateral assistance can save Russia's economy unless domestic conditions for economic development and foreign investment are put in place. And while Russia's integration into the international community should remain an important goal for the United States, Moscow also must be encouraged to make the necessary changes to avoid further decline.

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31. U.S. Department of State, Office of the Spokesman, Address by Secretary of State Madeleine K. Albright to the U.S.–Russia Business Council, October 2, 1998, and Speech by Deputy Secretary of State Strobe Talbot, Stanford University, October 29, 1998.

32. Fred Hiatt, "Who Lost Russia," *The Washington Post*, September 20, 1998, p. C7.