

(Re)Engaging Russia in an Era of Uncertainty

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SUMMARY

- The rising costs of economic and political uncertainty in Russia are bringing a new, if tentative, willingness in Moscow to engage in real policy analysis.
- As it reels from a series of shocks, Russia risks falling further behind a world that is rethinking trade, security, nuclear nonproliferation, climate change, and other priorities.
- Western capitals seeking real engagement with Russia would do best to place relations with Moscow on an institutional, rather than a personal, footing.
- As the Kremlin struggles to formulate clear positions on emerging issues, Western policy makers must work with Russia's independent voices to ensure that the country's interests are duly represented at global policy tables.

For much of the past decade, Russian leaders and their counterparts across the world exuded great certainty and confidence in their decisions. Most are now much less certain about where they stand and where the world is going than they were even two years ago, and those who make decisions in Russia—as well as those who make decisions about Russia—are no exception. Economic, security, and governance crises have upended even the best-planned strategies, and the impact has perhaps been most devastating in Russia, where policy making has long lacked a strate-

gic outlook. Yet uncertainty also opens doors and presents opportunities for actors around the world to engage fruitfully with Russia in ways that were not possible in the recent past.

Context: The End of Certainty

The dominant trend of the preceding decade in Russia has been one of increasing certainty. As prices of oil, gas, and other extractable commodities grew, so did Russia's economic and fiscal strength. By early 2008, a country that ten years earlier defaulted on international debt had amassed sovereign reserves in



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excess of \$500 billion. Gross domestic product grew every year beginning in 1999, and Russia's banking, retail, and real estate sectors boomed. Russian elites and average citizens alike became more confident about their future, as business tycoons built industrial empires around the world and young professionals took out loans to buy cars and homes.

Together with the disappearance of the economic uncertainty of the 1990s went the political uncertainty that had characterized post-Soviet Russia prior to the ascent of Vladimir Putin. Gradually, all of the institutions on which competitive politics is built—the media, parties and civic organizations, federal and regional legislatures, and elections themselves—were brought under tight central control. Elites who had turned the battle for power and privilege into open warfare when Boris Yeltsin was president agreed to compete behind closed doors for the redistribution of the state's considerable and growing resources (and the access to rents that those resources provided). Those who did not agree to this new arrangement (notably Boris Berezovsky, Vladimir Gusinsky, and Mikhail Khodorkovsky) were swiftly removed. Since the 1999 parliamentary election in which the current ruling United Russia party made its debut, the outcome of no major election in Russia—at either the national or local level—has ever been seriously in doubt.

Much as it did on Wall Street and in Washington, this confidence and certainty led to a degree of hubris and masked serious deficiencies. The Russian economy remained rife with infrastructural and regulatory bottlenecks and, according to McKinsey & Company, ended its most robust period of economic growth in history with labor productivity at 26 percent of U.S. levels and costs of investment some 3.5 times as high as in China. Such problems could be safely disregarded so long as there was plenty of liquidity, but they meant that most of the investment in the country over the decade was designed

to profit from the liquidity itself rather than to modernize the underlying infrastructure. As a result, Russia ended the decade with an economy less diverse and more concentrated than when the decade began.

Other structural difficulties afflicted the political sphere. The Kremlin's strategy for centralizing power—bringing media and political parties under control, emasculating legislatures, and eliminating the direct election of regional governors—also had the effect of cutting off feedback mechanisms. Combined with policy makers' increased propensity to rely on in-house expertise rather than on independent analysis, this strategy led to a series of disastrously miscalculated reforms, most prominently the 2005 reform of welfare benefits, which sparked massive public protests. The result has been a nervous aversion to large-scale reform as such and a growing gap between the official policy discourse and reality on the ground, particularly in Russia's regions. A similar dynamic undermined Russia's foreign policy, as Moscow's inability to propose forward-looking, integrative projects to its neighbors and other partners led to a gradual loss of influence in Russia's own backyard. Moscow compensated for this loss with a counterproductive combination of resource nationalism and, eventually, outright belligerence.

In 2008, the era of certainty came to a spectacular end. The limitations of the Kremlin's domestic and foreign policies became evident even before Russia was hit by the global financial and economic crisis. In July 2008, repeated ham-handed intervention in the economy—evidently aimed more at the redistribution of resources among the elite than at any public policy goal—eviscerated investor confidence and sent stock markets plummeting. In August, Russia went to war with Georgia, and then unilaterally recognized South Ossetia and Abkhazia, without the support even of its closest allies. And another ill-timed “gas war” with Ukraine—which

left consumers in Central and Southeastern Europe without heat in the winter—backfired, severely damaging Gazprom’s finances while finally forcing the European Union into consolidated action. Unnerved, the remaining international investors pulled out of Russia’s stock markets, sending shares down 80 percent in January 2009 from their May 2008 highs. All of these calamities represented failures of analysis and the triumph of tactical thinking over strategic thinking in Russian domestic and foreign policy making. They also made it impossible to hide the deep structural weaknesses in the foundations on which twenty-first-century Russian power has been built.

By 2009, the onset of the global economic and financial crisis had exacerbated these problems. Despite significant reserves, the Russian government was unable to protect the currency and head off massive drops in production, incomes, and employment. It has become increasingly difficult for the Kremlin, meanwhile, to keep the peace within the ruling elite. And Russia’s ability to marshal its control over valuable natural resources as a tool of international influence is looking increasingly in doubt. For Russian citizens, the impact of the country’s economic downturn, with its domestic and international causes, will have pushed some 5 million people into poverty by the end of 2009, according to World Bank estimates. As a result, for the first time in a decade, both elites and ordinary Russians face mounting uncertainty about their own future and that of the Russian state.

Key Challenges

If this uncertainty is to be prevented from devolving into conflict (even more so than it already has), two key challenges will need to be addressed in the immediate future: regenerating the policy space that atrophied during the commodity boom and reintegrating Russia’s policy community into a changing world. In other words, if the United States, Europe,

and even such neighbors as Ukraine, Kazakhstan, and China are to develop workable strategic relationships with Russia, Moscow itself has to become more strategic in the way it develops and pursues its policies.

REGENERATING THE POLICY SPACE

Independent, expert analysis is needed most in times of crisis. During the boom years, the Russian government could afford to rely on its own, in-house expertise and ignore the input of others. This trend followed naturally from the Kremlin’s monopolization of the political space, including political parties, the Duma, and regional executives and legislatures, and it pervaded the policy establishment, from the security apparatus to the ostensibly more “liberal” economic ministries and agencies. In both the domestic and foreign policy arenas, however, policy makers are beginning to recognize the rising cost of mistakes. Slowly and cautiously, the government has begun opening itself up to outside opinion, creating new organizations such as the Institute of Contemporary Development, where policy options are debated and critiqued by experts generally in opposition to the government, and allowing more contentious debate during legislative hearings.

Truly reopening the policy space for dialogue and debate, however, will require rebuilding trust and goodwill among public officials and nongovernmental experts, as well as re-instilling the habits of transparency and peer review that have been forgotten over the preceding decade. And this has to be done precisely when the stakes are highest, because the costs of failure—what happens if the wrong policy choices are made—are potentially catastrophic. This is at once a challenge and an opportunity: There is no shortage of pressing domestic and foreign policy problems to be addressed, and the habits of participation and participatory policy making will be best reinforced through a process that has a direct impact on policy.



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REINTEGRATING INTO A CHANGING WORLD

As Russia has gained strength in the first decade of this century, the Kremlin announced its return to the global scene with a newfound assertiveness. Often, what the Kremlin interpreted as resistance or opposition to Russian interests was little more than confusion on the part of Russia's Western partners as to where Moscow's interests lay.

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The war with Georgia and the ensuing wars of words with the West have made it increasingly clear that Russia's foreign policy establishment understands the world differently than do its Western counterparts. In Western capitals, meanwhile, policy makers are quietly complaining about a "lost generation" of Russian leaders, auguring twenty years of confrontation before constructive relations with Russia may be possible.

As the crisis forces Russia to turn inward once again and address domestic policy challenges, this gap threatens to both widen and deepen. While Russia remains actively engaged in discussions of military security, it has failed to take a seat at the table on issues of great concern to much of the world: financial regulation, climate change, the "responsibility to protect," and various pressing global social issues. When the crisis ends, the Russian state may find itself in a world it no longer understands.

The problem, moreover, is not limited to the official policy community. In large measure because global issues have not been a part of the Russian policy agenda, the independent Russian expert community has also failed to become engaged. As a result, while

discussions of climate change, financial regulation, and the like do take place in Russia and in Russian, the underlying conceptual vocabulary is often radically different from that used in global discourses. Russian perspectives on global issues thus become exactly that—Russian, rather than global. When Russian experts are, in rare instances, able to take part in global discussions, both they and their interlocutors are frequently frustrated by their inability to understand each other. The outcome is an unfortunate and self-reinforcing tendency for the conveners of global debates not to invite Russians, and for Russians not to want to participate. Despite being a major world capital, Moscow has become intellectually provincial.

As with the challenge of regenerating the policy space, this, too, must be addressed precisely when the stakes are highest. Even as governments come to terms with their own economic crises at home, the international community is gradually working its way through a full agenda of global issues and reforms. Russia has already made it clear that it will not take active part in the Copenhagen climate talks and that it opposes UN initiatives on the responsibility to protect. Where Russia has made proposals—on European security and global financial regulation, for instance—they are so far out of sync with global thinking that they have not provoked a productive response. There is only a limited amount of time in which to address this challenge before Russia withdraws and begins, again, to place itself at odds with the international community.

A New Approach to Engagement: Obama vs. Biden

If these challenges are to be overcome, they will have to be addressed head-on by Russians and, eventually, by Russia's leaders. But there is much that the United States and Europe can do to ease the process; indeed, if certain steps aren't taken by Moscow's Western inter-

locutors, it may prove much more difficult for Russia to make real progress.

The first question Western leaders will have to answer is whether they prefer to take the Obama approach to handling Russia or the Biden approach. President Barack Obama, on July 6–7, 2009, made a pitch-perfect visit to Moscow, where he was a gracious guest without lapsing into the buddy-buddy emotiveness of his predecessor. He acknowledged American concerns about Russian policy without lecturing and reaffirmed the agenda of democratization without preaching. He explained where the redlines were on missile defense and NATO enlargement but made it clear that Washington itself would not push just for the sake of pushing. In his commencement address at the New Economic School in Moscow—one of his four global policy speeches, alongside those in Prague, Cairo, and Accra, and the only one in which he sought to address a single country rather than the world as a whole or a large part of its population—he spoke of Russia’s greatness and grandeur and called on its people and its leaders to rise to meet the country’s challenges in a manner befitting the best of their heritage and history.

Two weeks later, Vice President Joe Biden told the *Wall Street Journal* that Russia could be expected, sooner or later, to acquiesce to American pressure on arms control, regional politics, and other issues because “they have a shrinking population base, they have a withering economy, they have a banking sector and structure that is not likely to be able to withstand the next fifteen years, they’re in a situation where the world is changing before them, and they’re clinging to something in the past that is not sustainable.” The reaction from Moscow—spoken loudest through belligerent rhetoric regarding Georgia and Ukraine—has been clear and, to an extent, predictable.

The reality is that there is more truth to the facts of Biden’s approach than to those of Obama’s, but the president has the edge in his

analysis. Moscow is aware of its own weakness, and there are no advantages to be gained by Washington (or other capitals) reiterating the point. The solution, likely, is in the combination of honesty and tact that make up pragmatism. The Obama administration’s best

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approach, then, is to seek accommodation from the Russians where possible and, where no accommodation is possible, at least avoid unnecessary confrontation.

This principle of “first, do no harm” may prove significantly harder for Europe than for the United States. When Russia is uncooperative on American interests such as a new treaty on nuclear disarmament, Washington can simply walk away. Europe, however, cannot; there is simply too much substance to the relationship between Europe and Russia, including national and human security, energy and economics, and trade and travel. Admitting the hopelessness of negotiations means resigning the continent to a deterioration in the status quo in which treaties are abandoned, strategic talks falter, and trade wars are an annual struggle. Confrontation seems almost inevitable.

Institutions and Strategies

The biggest difference between Obama’s meeting with Dmitry Medvedev and all of the previous summits since Margaret Thatcher told Ronald Reagan in 1985 that Mikhail Gorbachev was someone he could “work with” was the White House’s clear (if unspoken) signal that this is not going to be a personal relationship. The ability of Reagan and then of George H. W. Bush to work with Gorbachev, of Bill Clinton to work with Boris Yeltsin, and of George W. Bush to work with

Putin all resulted in the failure to develop a durable relationship between the United States and Russia. If Obama's "resetting" of the relationship is to succeed, it will be because the relationship ceased to be personal and instead became institutional, based on treaties, membership in international organizations, and cooperation in global initiatives.

It is far from certain that this institutionalization will succeed. And, again, the task is both much more difficult and much more important for Europe. A shift to an institutionalized relationship between Russia and the European Union requires further institutionalization of the EU itself. The European

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Commission's remarkably coherent response to the last round of the Russia-Ukraine gas wars showed the fruit that institutionalization could bear by forcing Gazprom to a negotiating table it would otherwise have avoided and extracting important concessions, not to mention making significant progress on the Nabucco pipeline project from Turkey to Austria. But such efforts may yet turn out to have been a flash in the pan.

Channeling the relationship into institutional frameworks would deprive the Kremlin of the ability to speculate on the uncertainties of personal relationships and may eventually lead to a more substantive dialogue. But, as discussed earlier, Moscow is currently ill-equipped for substantive dialogue on long-term issues. Given the dramatic changes Russia has undergone in the past twenty years, this failure can, to a degree, be forgiven. The West's failure to strategize is in many ways more problematic. The Kremlin's rather vacant and self-serving proposals for change notwithstanding, when it talks about the bankruptcy of the post-Cold War order and the need for new strategic architectures governing everything from security to trade, it has a point. In the twenty years since 1989, more blood has been shed on the European continent than in the 40 years prior to the fall of the Berlin Wall. And the era of unfettered integration led to such catastrophic imbalances that the world stands on the edge of economic collapse. Pretending that no significant change is needed is unhelpful at best.

To the extent that the global economic crisis and the crises of security around the world—whether on Europe's eastern fringes, in the Middle East, or in South Asia—require a new strategic approach, it is incumbent upon the United States and Europe to lead the way. This is true in part because only the United States and Europe have the power to bring about fundamental change, whether

economically or militarily. In addition, the West is home to the best independent analytical talent and the only political systems that actively and systematically engage that talent in the drafting of policy.

Were governments in the West to declare their readiness for change and inaugurate a process of analysis and review that would underpin that change, much could be gained from leaving a door open to Russia. For now, the Kremlin has signaled its lack of interest in most pressing global policy forums. But Western governments (and civil societies) should not overinterpret those signals. Russia's independent analysts from across the country's political spectrum need to be made welcome at those tables. Doing so, in the absence of official policy makers, will empower and legitimize Russian civil society as the conduit of ideas and engagement with the global agenda.

Eventually, Russia is likely to return to global policy discussions, if only because the cost of staying away will become too great. Until that happens, Russia will be on its own to develop its own readiness to participate and to assimilate the messages and initiatives it encounters. A degree of opening up to outside analysis and opinions will happen—and, indeed, is happening already—independent of any broader political opening or democratization, as Russian policy makers begin to recognize the limits of their own expertise and the rising costs of mistakes.

How Western governments conduct themselves in this context will be of critical importance. Bringing Russians to the table, and bringing various policy debates to Russia—even if the Kremlin is reticent—will empower Russia's best analysts. But if the West shuts the door to a currently uncooperative Russia, it will postpone Russia's own opening. Worse, if

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the West seeks to exploit Russia's absence for its own competitive advantage, a future democratic Russia will rightly feel it has been mistreated, and Russia's nationalists and isolationists will once again win the day. Eventually, Russia's interests will have to be taken into account, and there is no reason that moment has to wait until the Kremlin learns to express them clearly and constructively. Indeed, the best way to help Russia learn may be not to wait at all. ■

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RESOURCES

Visit www.CarnegieEndowment.org/pubs for these and other publications.

Getting Russia Right, Dmitri Trenin (Washington, D.C.: Carnegie Endowment for International Peace, 2007).

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