

BROOKINGS

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Corruption, Assisting Rogue Regimes”**

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The Future Course of the U.S.-Russia Relationship

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Introduction

Madame Chairman, Representative Berman, distinguished members of the committee, thank you for the opportunity to speak with you today on U.S.-Russian relations. With your permission, I will submit a written statement for the record and summarize it now.

The U.S. relationship with Russia has been and will, for the foreseeable future, remain a mix of issues on which the two countries can cooperate and issues where their positions conflict. The goal for Washington should be to make progress on those issues where U.S. and Russian interests coincide while protecting American positions and managing differences where interests diverge.

The Obama administration's "reset" policy has improved the U.S.-Russian relationship. By any objective measure, the relationship is stronger today than it was in 2008, the low point in U.S.-Russian relations after the collapse of the Soviet Union. This does not mean the relationship is without problems. Washington and Moscow disagree on issues such as missile defense in Europe, Syria, the post-Soviet space, and democracy and human rights within Russia.

On May 7, Vladimir Putin will return to the Russian presidency. This should not entail a change in the strategic course of Russian foreign policy, though the tone and style will likely differ from that of Dmitry Medvedev. Mr. Putin will have to confront domestic political and economic challenges that may affect his foreign policy choices: he could resort to the traditional Russian tactic of depicting a foreign adversary to rally domestic support as during his election campaign, or he could pursue a more accommodating foreign policy so that he can focus on issues at home. We do not yet know.

It remains in the U.S. interest to engage Russia where engagement can advance American policy goals. In doing so, the United States will at times have to be prepared to take account of Russian interests if it wishes to secure Moscow's help on questions that matter to Washington. For example, U.S. readiness to accommodate Russian concerns in negotiating the New START Treaty contributed to Moscow's decision to open new supply routes for NATO to Afghanistan and to support a UN Security Council resolution that imposed an arms embargo on Iran.

Looking forward in its relations with Russia, the United States should pursue further reductions of nuclear arms, including non-strategic nuclear weapons; continue to explore a cooperative NATO-Russia missile defense arrangement; seek to work jointly to deal with the proliferation challenges posed by North Korea and Iran; and consult on steps to bolster security and stability in Central Asia as the NATO coalition prepares to withdraw its military forces from Afghanistan. The United States should explore ways to increase trade and investment relations with Russia, which could help build a foundation for a more sustainable relationship. While Moscow's decisions about its business and investment climate—for example, to strengthen rule of law and tackle corruption—are the most important factor in this regard, Congress should now graduate Russia from the provisions of the Jackson-Vanik amendment, an action that is long overdue.

On questions where positions diverge, such as Syria, Washington should press its case. Differing views of the post-Soviet space represent the potential flashpoint most likely to trigger a major U.S.-Russia crisis; Washington should consult closely with Moscow in a transparent way to manage differences over that region. With regard to democracy and human rights within Russia, the U.S. government should continue to voice its concerns, consider ways to assist the growth of civil society in Russia, and maintain contact with the full spectrum of Russian society. But Washington should recognize that its ability to affect the internal situation in Russia is limited.

The Reset

The Obama administration in February 2009 announced its intention to reset the U.S. relationship with Russia. The past three years have witnessed significant progress in U.S.-Russian relations, including:

- The New START Treaty was signed, ratified and entered into force. Russia is the only country capable of physically destroying the United States. New START strengthens U.S. security by reducing and limiting Russian strategic offensive forces while allowing the United States to maintain a robust and effective nuclear deterrent. The treaty requires data exchanges, notifications and other monitoring measures that provide significant insights into, and predictability about, Russian strategic forces. That allows for better-informed decisions by the Defense Department as to how to equip and operate U.S. strategic forces. The treaty also strengthens the U.S. hand in encouraging other countries to tighten global non-proliferation norms.
- Russia has permitted a significant expansion of the amount of materiel, including lethal military equipment, and personnel that transit through Russia or Russian airspace to the NATO operation in Afghanistan. Russia today is considering making available an air base in Ulyanovsk to support refueling and the transit of non-lethal military equipment to Afghanistan. This kind of support has resulted in significant cost savings for the U.S. military. Moreover, these supply routes mean that the United States and NATO do not have to depend solely on transit through Pakistan.

- Russia has supported measures to tighten pressure on Iran, in order to persuade it to abandon its program to acquire a nuclear weapons capability. This includes the Russian vote in June 2010 for UN Security Council Resolution 1929. Among other things, that resolution provided for an embargo on arms transfers to the Iranian regime. Despite some ambiguity as to whether or not the resolution applied to air defense systems, Moscow subsequently announced the outright cancellation of a previously agreed sale of the S-300 air defense system to Tehran. When I worked on these issues in the U.S. government during the first George W. Bush term, no one would have contemplated Russia taking such action.
- Russia has, with U.S. support, secured entry into the World Trade Organization. This should benefit American companies, as it will further open the Russian market to U.S. exports and require that Russia play by the rules of a trade regime to which U.S. business is comfortably accustomed.

By any objective measure, the U.S.-Russian relationship is stronger today than it was in 2008. Then, sharp differences over the future of strategic arms limitations, missile defense in Europe, NATO enlargement and Georgia dominated the agenda. Relations between Washington and Moscow plunged to their lowest point since the end of the Soviet Union. The bilateral relationship had become so thin that there are no indications that concern about damaging it affected in any way the Kremlin's decisions regarding military operations against Georgia. The Russian government saw little of value to lose in its relationship with Washington. That was not a good situation from the point of view of U.S. interests. It is different today. There are things in the U.S.-Russian relationship that Moscow cares about, and that translates to leverage and even a restraining influence on Russian actions.

This does not mean that all is going well on the U.S.-Russia agenda. Although the rhetoric is less inflammatory than it was four years ago, missile defense poses a difficult problem on both the bilateral and NATO-Russia agendas. The countries clearly differ over Syria. Moscow's misguided support for Mr. Assad—which stems from the fact that he is one of Russia's few allies and from the Russian desire to pay NATO back for what they consider the misuse of March 2011 UN Security Council Resolution 1973 on Libya—have led the Kremlin to an unwise policy. It is alienating the Arab world and will position Moscow poorly with the Syrian people once Mr. Assad leaves the scene.

The democracy and human rights situation within Russia remains difficult and troubling. The problems are epitomized by the flaws in the recent parliamentary and presidential elections, the appalling treatment of Sergey Magnitsky and others, and the unresolved murders of journalists such as Anna Politkovskaya.

Mr. Putin's Return

Vladimir Putin will make his formal return to the Russian presidency on May 7. The presidential election process that culminated on March 4 was marked by the absence of a level playing field, process flaws and reports of fraud on election day. The turnout and

vote count reported by the Central Electoral Commission in some regions strained credibility. All that said, Mr. Putin remains the most popular political figure in Russia. While ballot box-stuffing and other fraud may have inflated his vote count to the official figure of 63.6 percent, there is no compelling evidence that he did not clear the 50 percent threshold required for victory.

The democratic situation within Russia has regressed since Mr. Putin entered the national scene. But politics in Russia today are different from what they were just six months ago. An opposition has emerged, however disparate it might be, which appears to reflect the concerns of the growing urban middle class. The presidential election returns in Moscow were striking: Mr. Putin fell below 50 percent. His instinct now may well be to repress the opposition, but the old tactics will not work as they did before. One of the biggest question marks about Mr. Putin's next presidential term is how he will respond to and deal with an opposition whose sentiments are likely to spread.

As for foreign policy, Washington has grown comfortably accustomed to dealing with Mr. Medvedev over the past three years. Mr. Putin's return portends a more complicated U.S.-Russian relationship, but there is no reason to expect that relations will plunge over a cliff. There are a number of considerations to bear in mind regarding Mr. Putin and Russia's approach to the United States.

First, Mr. Putin as prime minister was nominally number two to Mr. Medvedev, but no one doubts who held real power in Moscow. As the American Embassy reportedly put it, Mr. Putin played Batman to Mr. Medvedev's Robin—a comparison that Mr. Putin undoubtedly enjoyed in private. He kept a close eye on things. It is inconceivable that the New START Treaty, expanded supply routes through Russia for NATO forces in Afghanistan, and Moscow's support for an arms embargo on Iran would have happened had Mr. Putin opposed them. There is no reason to assume that his return to the presidency will mean a major change in the strategic course of Russian foreign policy. We should expect a significant degree of continuity.

Second, the tone of the bilateral relationship will likely change. Mr. Putin spent his formative years in the 1980s as a KGB officer. As his rhetoric during the election campaign made clear, he holds a wary skepticism about U.S. goals and policies. For example, his comments suggest he does not see the upheavals that swept countries such as Georgia, Ukraine, Tunisia or Egypt as manifestations of popular discontent but instead believes they were inspired, funded and directed by Washington. This may seem like a paranoid view, but Mr. Putin has made so many allusions to it that it is hard to conclude that he does not believe it. That is a complicating factor for the bilateral relationship.

Mr. Putin's experience as president dealing with the Bush administration, moreover, was not a happy one. In 2001-02, he supported U.S. military action against the Taliban, including overruling his advisors to support the deployment of U.S. military units into Central Asia; shut down the Russian signals intelligence facility in Lourdes, Cuba; agreed to deepen relations with NATO; calmly accepted the administration's decision to withdraw from the Anti-Ballistic Missile Treaty; and agreed to a minimalist arms control

agreement that fell far short of Moscow's desires. In his view, he received little in return. His perception is that Washington made no effort to accommodate Moscow's concerns on issues such as the future of strategic arms limits, missile defense deployments in Europe, NATO enlargement, relations with Russia's neighbors in the post-Soviet space or graduating Russia from the Jackson-Vanik amendment. The reset, after all, took place during Mr. Medvedev's presidency.

Third, Mr. Putin faces tough issues at home, both economically and politically. The Russian economy and government revenues remain overly dependent on exports of oil and natural gas. The Russian state budget remains pegged to the price of oil. While Mr. Medvedev called for economic modernization and diversification, there are few signs of progress or of a realistic plan to achieve those aims. Corruption remains rampant. The lack of confidence in the economy is reflected in the fact that Russia experienced capital outflow of \$84 billion last year. And Mr. Putin made a striking number of electoral promises, including higher salaries, rising pensions and greater defense spending, that will need to be funded. While sustained high oil prices could allow him to avoid tough calls, economic questions could face him with a major challenge.

Moreover, politics today in Russia have changed. For the first time in his experience, Mr. Putin will have to deal with the outside world without being confident that he has a rock-solid political base at home. It will be interesting to see how that affects his foreign policy choices. Soviet and Russian leaders in the past resorted to the image of a foreign adversary—all too often the United States—to rally domestic support, and one can see aspects of that in Mr. Putin's campaign rhetoric. But the constituency to whom that appeals is already largely on Mr. Putin's side. Will that ploy resonate with an increasingly unhappy urban middle class? He may conclude that he can focus better on his domestic challenges if his foreign policy results in more positive relations with countries such as the United States. We do not yet know.

Fourth, Mr. Putin has shown himself to be realistic, particularly when it comes to money. A major article that he published in the run-up to the election described a large military modernization program designed to reassert parity with the United States. But during his first presidency, when huge energy revenues flowed into the Russian government budget from 2003 to 2007, he chose not to increase defense spending significantly. Instead, the extra money—and there was plenty of it—went to build international currency reserves and a “rainy day” fund on which the government drew heavily during the 2008-09 economic crisis. Having a large arsenal of weapons did not save the Soviet Union. Mr. Putin understands that. If circumstances force him to make tough choices, he may prove pragmatic and not necessarily choose guns over butter.

Fifth, Mr. Putin likely will not fully show his hand regarding the United States until 2013. He expects to be around for another six and possibly twelve years. He may see little harm in waiting six months to learn who will be his opposite number in the White House.

The upshot is that Mr. Putin's return can and probably will mean more bumpiness in the U.S.-Russia relationship. He will pursue his view of Russian interests. On certain issues,

those will conflict with U.S. interests, and Washington and Moscow will disagree, perhaps heatedly. His style will differ markedly from Mr. Medvedev's, and Mr. Obama may come to miss his meetings with his friend, Dmitry. But Mr. Putin is not likely to seek to turn the relationship upside down or take it back to the grim days of 2008. For all the rhetoric, Washington should be able to deal with him on a number of issues.

A Policy Agenda for the U.S. Relationship with Russia

Looking forward, a positive relationship with Russia can advance U.S. interests, even if Washington and Moscow differ on some issues and if the United States is frustrated about corruption and the democracy and human rights situation in Russia. Russian support remains critical to achieving key Washington policy goals such as sustaining pressure on the nuclear rogue states and supporting coalition military operations in Afghanistan. There are a number of issues on which Moscow can play a spoiler role if it believes the United States is not paying due regard to Russian interests.

Improving U.S.-Russian relations further may prove more difficult than it has been in the past three years, as the easier questions have been settled. Nevertheless, Washington should seek to work with Russia on a number of issues.

First, Washington should engage Moscow on a further bilateral round of nuclear arms reductions, this time including strategic and non-strategic nuclear weapons, whether deployed or non-deployed, under a common ceiling in a follow-on agreement to New START. A sublimit on deployed strategic warheads could restrict those nuclear weapons of greatest concern. While Moscow currently shows little enthusiasm for further nuclear cuts, it may have incentives to deal. Such an agreement would promote a more stable balance at lower levels of nuclear weapons. It would respond to the concern expressed by the Senate in its resolution of ratification for New START that non-strategic nuclear weapons be addressed. And it could produce cost savings, freeing up defense resources to fund operations that the U.S. military is far more likely to engage in than nuclear war.

Second, Washington and NATO should continue to pursue a cooperative missile defense arrangement with Russia. That prospect is currently stalled by Moscow's demand for a legal guarantee that U.S. missile defenses in Europe not be directed against Russian strategic missile forces. While it is reasonable for the Russians to be concerned that missile defenses could affect the offense-defense relationship, that is a concern for the future. It is very difficult to see the U.S. plan for missile defenses in Europe over the next decade posing any serious threat to Russian strategic missiles.

NATO should leave the door open for cooperation and provide transparency about its missile defense capabilities and plans. A cooperative missile defense arrangement would be a significant achievement. It would remove one of the thornier issues from the U.S.-Russia and NATO-Russia agendas; provide for a better defense of Europe than just a NATO system alone; and give the Russian military greater transparency about U.S. and NATO missile defense capabilities. Such transparency could help assure Moscow that those missile defense capabilities pose no threat. Such cooperation, moreover, could

prove a “game-changer” in attitudes by making NATO and Russia genuine partners in defending Europe against ballistic missile attack.

Third, Washington should seek to work closely with Russia in the Six Party process on North Korea and the UNSC Five-plus-One talks with Iran. Russia may have only marginal influence in the Six Party talks, but it has absolutely no interest in a nuclear-armed North Korea. The Russians have been helpful in the Six Party process in the past.

Iran presents a more complex question. The Russians do not want to see Iran with nuclear weapons, but the level of urgency about this question in Moscow is less than it is in Washington. For the United States, a nuclear-armed Iran is a nightmare scenario. Russia, on the other hand, has had a more normal relationship with Tehran over the past 35 years. For the Russians, an Iran with nuclear weapons would be a very negative development, to be sure, but they believe—correctly or not—that they could cope with it, much as the United States has sought to deal since 1998 with an openly nuclear Pakistan. Moscow probably will not go as far as Washington would like in further pressuring the Iranian government, but that does not diminish the fact that the Russians have come a long way in supporting mandatory UN sanctions. The West would not want to see Moscow ease up on the measures it has adopted to date.

Fourth, continued cooperation on Afghanistan remains very much in the U.S. interest. The United States and NATO need Moscow’s assistance for continued ease in moving equipment and personnel to—and, as NATO begins to draw down, from—Afghanistan. Even in the best of circumstances, Afghanistan is likely to remain an unsettled and fragile state after 2014. The Russians are concerned that instability there could spill over into Central Asia. It would make sense for Washington to intensify consultations with Moscow on steps that might be taken to bolster the stability of the Central Asian states that border Afghanistan.

Fifth, Washington should seek to expand the trade and investment part of the bilateral relationship with Moscow. It remains significantly underdeveloped for economies the size of those of the United States and Russia. Expanded economic relations would not only generate new export possibilities, but could provide economic ballast to the broader relationship, much as the economic ties between the United States and China provide a cushion for that relationship. The U.S. government should work with Moscow to facilitate a successful Russian entry into the World Trade Organization.

Achieving a boost in bilateral trade and investment links, however, will depend more than anything on steps that Moscow takes to improve the business and investment climate within Russia. While the growing Russian market attracts American companies, many are put off by the absence of rule of law, rampant corruption, corporate-raiding and complex tax, customs and regulatory systems. The cases of Hermitage Capital and Sergey Magnitsky sadly testify to the daunting challenges of doing business in Russia, and lead investors and trading companies to turn to other markets. If the Russian government wants to modernize its economy and enjoy the benefits of full integration into the global economic system, it will have to come to grips with these problems.

One thing that Congress can do to improve economic relations is to graduate Russia from the provisions of the Jackson-Vanik amendment and grant Russia permanent normal trade relations status. That will increase U.S.-Russian trade; one estimate suggests that American exports to Russia could double. If, on the other hand, the amendment is still in place when Russia accedes to the World Trade Organization this summer, American companies that wish to export to Russia will be disadvantaged. They will not be able to make use of WTO tariff benefits or trade dispute resolution mechanisms. Other countries' exporters to the Russian market of 143 million people will gain a comparative advantage over their American counterparts.

Moreover, Russia long ago met the requirements of Jackson-Vanik. The amendment was approved in 1974 to press the Soviet Union to allow free emigration for Soviet religious minorities, particularly Soviet Jews. In the early 1990s, Russia opened the flood gates for emigration, and hundreds of thousands of Russian Jews left. The only people who had problems securing emigration permission were a small handful who had had access to classified information; in most cases, they were permitted to leave after a few years. While the overall trend on human rights in Russia has been negative since Mr. Putin first became president in 2000, the government has not restricted the freedom to emigrate.

Jackson-Vanik has thus achieved its aims with regard to Russia. It no longer offers the United States leverage with Russia. The American Jewish community over a decade ago expressed its support for Russia's graduation. The leaders of Russian opposition groups support graduation. Its continued application will hurt American business and diminish the impact of threats of future Congressional sanctions against Russia. Should Congress consider sanctions in the future, the reaction in Moscow is likely to be: Why bother to comply? We met the requirements of Jackson-Vanik in the mid-1990s and 15 years later still remain under its sanction.

Coping with Problem Issues

While the U.S.-Russian agenda holds issues where cooperation is in the U.S. interest, there are other questions where the policies of Washington and Moscow conflict. That will continue to be the case for the foreseeable future. Where interests diverge, the U.S. government should make its case, seek ways to encourage change in Russian policy, and be prepared to manage differences that persist.

Washington and Moscow, for example, disagree sharply over Syria, where the Russians have unfortunately attached themselves to an autocrat whose days may well be numbered. U.S. diplomacy should seek to persuade Moscow to adopt a different course, one that would be better for the people of Syria and for Russia's interests in the region.

U.S. and Russian interests differ in the post-Soviet space, the region that is most likely to generate a major crisis in bilateral relations. Moscow seeks to gain influence over its neighbors, using mechanisms such as the Customs Union with Kazakhstan and Belarus. The Russians seek deference from other states in the post-Soviet space on issues that they

define as affecting critical Russian interests. One example is staunch Russian opposition to the enlargement of NATO or the European Union into the post-Soviet space. Russian policies often seem to have the effect of pushing neighboring states away from Moscow, but the Russians have not changed course.

The United States takes a different approach, rejecting the notion of a sphere of influence and supporting the right of each post-Soviet state to choose its own course. Some tension between the two approaches is inevitable. Washington should expect the kinds of tit-for-tat exchanges that have occurred in the past, such as when a U.S. Navy ship visit to Georgia was followed by a Russian warship calling on Venezuela. Given the difference in approaches, it would be wise for Washington and Moscow to consult closely and be transparent with one another on their policies in the post-Soviet space, so as to avoid surprises and minimize the chances that a clash of interests could escalate.

One other difficult issue is the democracy and human rights situation within Russia. While Russian citizens today enjoy considerably more individual freedoms than they did during the time of the Soviet Union, it is equally true that they enjoy fewer freedoms, are more subject to arbitrary and capricious state action, and have less political influence than during the 1990s, however chaotic that period was.

Democratic and human rights values are properly a part of U.S. foreign policy. The U.S. government has long raised human rights concerns with the Russian government and should continue to do so. It is difficult to envisage bilateral relations with Russia becoming truly “normal” while these problems persist.

U.S. officials should continue to make clear American concerns publicly and privately with Russian officials, including at senior levels. The U.S. government should, as it does now, maintain a policy of denying visas to those Russian officials associated with the Magnitsky case. This is a tool that the executive branch might consider applying in other egregious cases. Washington should consider other ways in which it might assist the growth of a robust civil society in Russia. And U.S. officials should maintain contact with the full spectrum of Russian society. It was an important signal that, during his one visit to Moscow as president, Mr. Obama met with a broad range of civil society activists, opposition leaders and other non-official Russians.

Unfortunately, the Russian legislative branch has been virtually absent in the discussion of democracy and human rights within Russia. Members of Congress and senators might consider how they might directly engage their Russian counterparts on these issues.

Washington should bear in mind, however, that its ability to affect internal change in Russia is limited at best. Real, lasting political reform must come from within. Hopefully, the opposition movement that has emerged over the past four months will strengthen, will not be suppressed by the government, and will grow into a vehicle through which ordinary Russians can gain a greater say in their politics and governance. There are ways in which the United States can encourage this on the margins, but this is an issue that Russians themselves must drive.

Madame Chairman,

The United States should continue to explore ways to work with Russia to advance American interests and to build a more positive, sustainable bilateral relationship. Doing so will increase American influence with and in Russia. It would be unwise for Washington, out of anger over differences over Syria or democratic backsliding within Russia, to hold back on working with Moscow on issues where cooperation can accomplish things of benefit to the United States. The U.S. government should be able to cooperate on issues where interests coincide while confronting Russia on other questions and making clear its democracy and human rights concerns—Washington should be able to walk and chew gum at the same time. Doing less would mean passing up opportunities to make Americans safer, more secure and more prosperous.

Thank you.

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United States House of Representatives
Committee on Foreign Affairs

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, per House Rules.

1. Name: Steven Pifer	2. Organization or organizations you are representing: The Brookings Institution (affiliation only)
3. Date of Committee hearing: March 21, 2012	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. Please see attached	
7. Signature: 	

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Attachment to Pifer "Truth in Testimony" Disclosure Form

4. Federal grants, contracts and honoraria to Pifer related to Russia, post-Soviet space and arms control issues:

- National Intelligence Council associate retainer at rate of \$5000 per year (March 2009-August 2010; February 2012 to present)
- Department of State/Foreign Service Institute honorarium for roundtable participation, \$350 (March 2009)
- Headquarters, USAF honorarium for workshop participation, \$500 (May 2010)
- Headquarters, USAF honorarium for workshop participation, \$500 (June 2011)
- National Intelligence Council honorarium for NIE outside expert review, \$750 (July 2011)
- Army War College honorarium for workshop and paper, \$1000 (September 2011)
- Army War College honorarium for workshop and paper, \$1000 (October 2011)
- Department of State honorarium for Germany speaking tour, \$900 (November 2011)

5. Federal grants and contracts to Brookings related to Russia, post-Soviet space and arms control issues:

- National Intelligence Council for work on the nature of power, \$151,316 (September 2011-August 2012)