

RUSSIA BALANCE SHEET

NEWS RELEASE

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THE RUSSIA BALANCE SHEET

The relationship between the United States and Russia, though vitally important to global stability, has long been fraught with tension. Because of Russia's strategic and economic importance; the United States cannot afford, especially at a time of global economic crisis, to continue its detached approach of recent years. The arrival of new (and youthful) leaders in both countries, both of whom say they want to move beyond old arrangements at a time of turmoil, offers a unique opportunity for the two countries to reengage more cooperatively.

In their new book *The Russia Balance Sheet*, coauthors Anders Åslund and Andrew Kuchins provide comprehensive, balanced, and accurate information on all key aspects of Russia and discuss the implications for US-Russia relations. They present a cohesive framework for understanding the intersection of economic reforms and integration, domestic politics and society, foreign business partnerships, and energy demands. Based on this foundation, the book suggests, Russia and the United States can adopt constructive policies for the future.

The Russia Balance Sheet identifies six areas of desired cooperation between Russia and the United States: Iran and missile defense; European and regional security, including Afghanistan; arms control; commercial relations; energy policy; and democracy and human rights. The United States and Russia have a long history of cooperation in the area of arms control. It was thus no surprise that Presidents Barack Obama and Dmitri Medvedev chose that issue as a starting point in an effort to re-energize the relationship at their first meeting in London on April 1, 2009. They agreed then to start negotiations on a new arms control treaty that would go beyond the 2002 Strategic Offensive Reductions Treaty (SORT) and would replace the 1991 Strategic Arms Reduction Treaty (START I), which expires in December 2009.

Differences remain over many issues, however, including US plans to deploy a missile-defense shield in Eastern Europe, Russia's military intervention in Georgia in 2008, and plans by the North Atlantic Treaty Organization (NATO) to expand deeper into what Russia considers its sphere of influence. The war in Georgia showed the continued importance of security concerns in Europe and heightened tensions more than any time since 1991. The authors assert, on the other hand, that because the United States has broad global security responsibilities, Washington should take the lead in helping

Europe recast the definition of its own security. A prime goal of the United States must be to guarantee the sovereignty and territorial integrity of other states in Europe. President Obama stressed this goal in his remarks at NATO's recent 60th anniversary summit in Strasbourg, saying that it is important for NATO allies to reengage with Russia and for the independence of neighboring states to be respected.

Despite Russia's impressive economic recovery over the last decade, it has a long way to go in order to re-emerge as one of the world's great powers. The Russian government's "Russia 2020" economic growth plan strives to make Russia the fifth largest economy in the world. Since the beginning of the global financial crisis, Russia has dismissed the dangers of the impact of the worldwide turmoil on its own economy. Recently, however, Moscow has faced up to the reality and allowed its exchange rate to be subject to currency markets. Russia had earlier engaged in the worrisome practice in recent years of renationalizing major businesses, but the crisis has forced the Russian government to ease that unfortunate policy.

Nevertheless, the economy remains highly vulnerable to circumstances beyond Russian control, primarily the fluctuating price of oil. Russia cannot continue to depend to the extent it has recently on its resource wealth, which is prone to booms and busts. The lower oil prices fall, the more difficult it will be for Russia to achieve its ambitious Russia 2020 goals, especially if it continues to maintain the status quo and avoid more vital new reforms. Russia needs to swiftly implement substantial and comprehensive economic reforms. First, it should accede to the World Trade Organization (WTO) to secure its successful international integration and an improvement of its legal standards. Second, to ease infrastructure bottlenecks, the Kremlin needs to introduce transparent procurement procedures for major investments. Third, property rights must be reinforced, and renationalization must be stopped if Russia is to ease the problems in banking sector and energy production.

President Obama appears to have created a new atmosphere with Medvedev after the strained Bush-Putin years, and his administration must seize the initiative to define both its policy toward Russia and the agenda for the many multilateral meetings already planned, especially as unanticipated events will inevitably affect any agenda. The authors propose the following next steps for the Obama administration:

- The Obama administration must establish an explicit Russia policy rather than subordinating concerns about Russia to other issues. Elevating Russia in importance should enable the administration to make necessary tradeoffs and follow up on its promises to "reset" the relationship. President Obama plans to lead Russian policy from the National Security Council (NSC). An inter-agency group for Russia has been created under the leadership of the NSC's senior director for Russia. Determination of a Russia policy should be the task of this group and should take the form of an NSC directive.
- The new Russia policy should be in place by May–June 2009, and an NSC directive on Russia should be adopted before then. President Obama himself should then make a public statement on his policy and, if appropriate, present a series of constructive proposals to improve the atmosphere. Ideally, President Obama would declare his intention to persuade the US Congress to graduate Russia from the trade restrictions in the Jackson-Vanik Amendment to the Trade Act of 1974.

- At the first full-scale summit between Presidents Obama and Medvedev in July 2009, the two presidents should recommit to fulfilling the April 2008 Sochi Declaration and to reestablishing a broader organized cooperation mechanism between the two countries, comparable to that of the Gore-Chernomyrdin Commission of the Clinton administration, to promote action and accountability.

The Russia Balance Sheet

Anders Åslund and Andrew C. Kuchins

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ABOUT THE AUTHORS

Anders Åslund, a senior fellow at the Peterson Institute since 2006, is a leading specialist on Russia and postcommunist economic transformation with more than 30 years of experience in the field. In the mid-1980s, he worked as a Swedish diplomat in Moscow, which led him to boldly predict the fall of the Soviet communist system in his book *Gorbachev's Struggle for Economic Reform* (1989). He was one of the chief economic advisers to President Boris Yeltsin's reform government (1991–94) and concluded in *How Russia Became a Market Economy* (1995) that Russia had made its market choice. In *Russia's Capitalist Revolution* (2007) he explained why Russia's market reform succeeded and democracy failed. He has written a total of nine books, also including *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia* (2007) and *How Ukraine Became a Market Economy and Democracy* (2009). He is the editor or coeditor of 13 books. He also teaches at Georgetown University. He was the director of the Russian and Eurasian Program at the Carnegie Endowment for International Peace (2003–05) and codirector of the Carnegie Moscow Center's project on Post-Soviet Economies.

Andrew C. Kuchins is a senior fellow and director of the Russia and Eurasia Program at the Center for Strategic and International Studies (CSIS). He is an internationally renowned expert on Russian foreign and domestic policies who publishes widely and is frequently called on by business, government, media, and academic leaders for comment and consulting on Russian and Eurasian affairs. Recently published books, articles, and reports include *Economic Whiplash in Russia: An Opportunity to Bolster U.S.-Russia Commercial Ties?* (2009); "Putin's Plan," *Washington Quarterly* (Spring 2008); *Alternative Futures for Russia to 2017* (2007); *Russia: The Next Ten Years* (2004); and *Russia after the Fall* (2002). From 2000 to 2006, he was a senior associate at the Carnegie Endowment for International Peace, where he was also director of its Russian and Eurasian Program in Washington (2000–2003 and again in 2006) and director of the Carnegie Moscow Center in Russia (2003–05). He has also held senior management and research positions at the John D. and Catherine T. MacArthur Foundation, Stanford University, and the University of California at Berkeley. Kuchins currently teaches at Johns Hopkins School of Advanced International Studies (SAIS) and has also taught at Georgetown and Stanford Universities.

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