



**U.S.-Russia Relations:
Putin Picks a Successor**

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Now that the world is finally coming around to understanding the man Vladimir Putin and what it is he represents, he appears to be stepping down – sort of. In December, Putin named his preferred successor, longtime aide and fellow Petersburger Dmitri Medvedev. While George Bush proclaims to have understood Putin after their first meeting in 2001, most Russia observers in the U.S. have been arguing over Putin and what his government represents for the better part of eight years. Does he represent a true change for Russia (a democratic change for the better) or is he steering that nation back to more historically familiar, repressive patterns? Now that the Kremlin has come forward with its own explanation, and has been bandying about the term “sovereign democracy,” the question of what Putin and the Kremlin represent is no longer hard to decipher. Russia has chosen a path that is by no means unique: a mercantilist, authoritarian form of democratic government that is very familiar to Asia watchers. What is becoming apparent is that, if anything, the U.S. form of democracy is the unique model, difficult to copy and long in development. Russia and other infant democracies may arrive one day, but “sovereign democracy” is here for the time being in Russia.

Meanwhile, the designation of Medvedev as the preferred successor to the presidency could be seen as a plus for the U.S. Many leading Western analysts view him as an economic liberal; most importantly, he has no known background in the intelligence or the security services. But the fact that he is a relative political lightweight leaves the door open for the return of Putin, or his retention of power as the kingmaker behind closed doors, or even as prime minister.

Duma elections and domestic politics

United Russia emerged as the victorious party in the Dec. 2 Duma elections in Russia, garnering 64 percent of the popular vote. This came as no surprise, given that this is the so-called party of Putin (he has no actual party affiliation) and Putin maintains approval ratings close to 80 percent. None of the more Western-leaning, politically liberal opposition parties garnered the necessary 7 percent to maintain seats in the Duma. Instead, the “opposition” remains the Communist Party, which registered 11 percent of the votes for a not-so-close second place. Western election observers from the OSCE (Organization for Security and Cooperation in Europe) were limited to 50. In contrast,

during the 2003 Duma election, 450 OSCE observers were allowed to monitor voting. Although U.S. and European officials bemoaned this fact, Russia's response was an indignant refusal to allow "outsiders" to interfere in Russia's internal politics.

A week after the elections, the heads of four different parties, including United Russia, forwarded to Putin their recommendation for a presidential candidate in the March 2008 elections. Their pick: Dmitri Medvedev, first deputy prime minister and Putin's political protégé from St. Petersburg. Like Putin, Medvedev worked for then-St. Petersburg Mayor Anatoly Sobchak in the early 1990s. Sobchak was a political liberal and a strong supporter of Boris Yeltsin in the early days of Russian democracy. Upon being informed that Medvedev was the preferred candidate of the pro-Kremlin parties in the upcoming elections, Putin responded, "I completely and fully support this proposal." And thus was born the candidacy of Dmitri Medvedev.

Russia watchers in the West are now scrambling to uncover the motivations and tendencies of the young Medvedev. Without going into a long, detailed description of his childhood, education, and career path, suffice it to say that Medvedev is not a member of the *siloviki*, the group of Petersburg Chekists who – like Putin – spent their early professional years cutting their teeth with the KGB, army, or the internal security services of the Soviet Union. Medvedev's name has been bandied about for more than a year as a potential successor to Putin, along with a more familiar name, former Defense Minister and current Deputy First Prime Minister Sergei Ivanov. Ivanov is a bona-fide member of the *siloviki*, and was a higher ranking member of the KGB when Putin served there. In recent weeks there has emerged a series of stories detailing a power struggle within the upper echelons of the *siloviki*. Recognizing the potential for an ugly political struggle, Putin may have chosen Medvedev because of his lack of a political power base independent of Putin himself. In Russia today a connection to Putin is the most powerful and secure power base. Based on this we can surmise that we will not have seen the last of Vladimir Putin after the elections next spring. In fact, two days after having been declared the preferred successor, Medvedev proposed that Putin become prime minister, should Medvedev win the March election. Putin has not demurred, and in fact has given every indication that he will accept Medvedev's proposal.

As for the U.S., Medvedev's impending (although by no means assured at this point) succession should be seen in a more favorable light than some of the other heretofore leading candidates, including Ivanov. Again, Medvedev has *relatively* strong quasi-liberal economic and political credentials (the word *relatively* is stressed), and he has given every indication that he is disposed to working cooperatively with the U.S. and Western Europe. Additionally, Medvedev has not been on record speaking harshly or poorly of the U.S., unlike Ivanov, Putin, and a number of other leading political figures in Russia. If Putin does continue to serve the Russian government, then at least official Washington knows with whom it is dealing, and we do not have to rehash the old "Who is Putin?" questions over the next four years.

Strategic issues

An inability to sit and rationally discuss viable cooperative efforts in the implementation of a missile defense system has left leaders in Moscow and Washington red in the face. In early October, Secretary of State Rice and Secretary of Defense Gates traveled to Moscow to meet their Russian counterparts in a 2+2 meeting focusing on the missile defense system that Washington proposes to establish in Eastern Europe. This issue has vexed the two sides for several years now, and events this fall did little to convince onlookers that the two governments can get on the same page in the near future.

At the June G-8 summit in Heiligendamm, Germany, Putin proposed the U.S. use a Russian radar facility at Gabala in Azerbaijan. Putin was hoping to dissuade the U.S. from establishing two bases in Poland and the Czech Republic. Bush promised to study the “interesting” proposal, and the two discussed the matter further at Kennebunkport in late summer. At the October 2+2 meeting in Moscow, the U.S. side announced its decision to go ahead with the construction of the European facilities while indicating that the completion of the facilities would be tied to the emergence of a legitimate missile threat from Iran. In other words, the U.S. would be prepared to put off completion of the system until it had firm proof of an Iranian ballistic missile program, thus giving the Russians impetus to help head off any incipient Iranian missile program. Secretary Gates again extended this offer two weeks later in a talk given in Prague. U.S. Assistant Secretary of State for Europe Daniel Fried also insisted that the U.S. would scale-down missile defense plans in Europe were Iran to halt its nuclear enrichment and ballistic missile programs.

The Russian side was quick to respond two days later: “We are not satisfied with any of their proposals,” Russian Defense Minister Anatoly Serdyukov said at a NATO meeting in the Netherlands. Putin was a little more blunt – as is his wont – comparing the plans for a U.S. missile defense system in Eastern Europe to Soviet intentions to install ballistic missiles in Cuba in the early 1960s.

Talks centering on the Conventional Forces in Europe Treaty (CFE Treaty) were hardly more successful. In December, as expected, Putin signed a law suspending Russia’s participation in the CFE. The moratorium was announced in July, and six months passed, as the treaty stipulates, before the suspension went into effect. In fact, the U.S. and the individual members of NATO have not ratified the amended treaty (signed originally in 1990 and amended in 1999), saying that Russia has failed to follow through with specific clauses, primarily concerning the stationing of Russian troops in Moldova and Georgia. The Russian government, however, argues that further changes to the treaty should be made based on recent NATO membership additions, such as the Baltic republics. There have been indications that the U.S. Congress may be willing to finally ratify the CFE, but Russia would have to step up and honor the 1999 Istanbul amendments.

Two more regional issues of strategic significance in U.S.-Russian relations that linger are the unresolved status of Kosovo and the impasse over Iran’s nuclear program. Both issues are tied up in UN politics, but Moscow and Washington lead the two competing

camps in that organization. NATO forces have administered Kosovo since the military campaign there in 1999. Now, both Kosovo and NATO feel that the time is right for independence. Russia opposes this out of deference to its Serbian allies. Russian leaders are also worried about a precedent being set for Chechen independence. The differences between Moscow and Washington are clear on this issue, although some U.S. officials – perhaps unconvinced of Kosovo’s readiness at this juncture – have indicated a willingness to bargain with Moscow over this issue. A recent poll taken in Russia indicated that Kosovo is felt to be the most important international issue among Russians. This demonstrates the sensitive nature of Balkan politics for most Russians. The failure to come to an agreement on Kosovo could jeopardize U.S.-Russian cooperation over Iran. Iran continues to play Russia and the West off one another. Russia recently delivered long-promised nuclear fuel for the Bushehr reactor in southern Iran, something Putin promised when he visited Iran in October. Putin was the first Russian or Soviet leader to visit Iran since Joseph Stalin in 1943.

The defense establishments and the militaries of the two nations did engage in amicable exchanges over the past quarter, including a war-gaming session between defense officials in Moscow in late October. But the top Russian general, chief of the Gen. Staff Yuri Baluyevskiy, continued to publicly criticize Washington’s decision to construct a missile defense system, and did so during his visit to Washington in December.

Economics and energy

For those with a stake in the Russian economy, Putin’s apparent decision to remain involved in the Russian political scene was no doubt viewed as a good sign. In the last quarter it was reported that U.S. investments in Russia had reached \$67 billion in August. Russia’s foreign currency reserves total over \$400 billion, which does not include the \$130 billion stabilization fund derived from energy exports. At current rates the Russian government is adding close to \$170 billion annually to its coffers. Although U.S. energy firms have received the most attention in Russia, hundreds of U.S. companies are thriving with their businesses in Russia, including Ford Motors, GM, Microsoft, Boeing, and other blue chip and smaller firms. Putin’s determination to see through a smooth transition with Medvedev – or whoever may win the election – would seem to bode well for stability in the Russian economy. For this reason, many U.S. investors are happy about the current situation, no matter how the State Department or Freedom House may feel about the progress of democracy in Russia.

The news has not been all good, however, for U.S. firms. Early in 2007, the Anglo-Dutch oil giant Shell and its two Japanese partners (Mitsubishi and Mitsui) were forced to sell their controlling stake in the Sakhalin-1 project to the state-owned firm Gazprom. Exxon-Mobil has a 30 percent stake in the Sakhalin-2 oil and gas project (with partners from Japan, India, and Russia), and thus far has been commended by analysts and observers on how it has not only run the project itself, but on how it has kept the Russian government and the various ministries off its back. But recent indications are that Gazprom wants a stake in the project (Exxon-Mobil’s Russian partner is the oil firm Rosneft, which has a 20 percent stake in the project). The first disagreements between

Gazprom and the Sakhalin-2 consortium surfaced earlier this year concerning gas exports to China. Exxon-Mobil wants to build a pipeline to export natural gas to northern China while Gazprom wants all the natural gas produced on Sakhalin to be used for domestic consumption. Exxon-Mobil and the other consortium members would prefer to sell the gas to China at market prices. But Gazprom has its own plans for gas exports to China from fields in Eastern Siberia. Additionally, the price of natural gas in Russia is due to rise 25 percent early in 2008 and will reach international market prices by 2011. Gazprom's top management launched a broadside against Sakhalin-1 partners in December. Deputy Chairman Alexander Ananenko was quoted as saying, "We have received an extremely negative experience of foreign participation in exploration projects in Russia's East," and that foreign management of the projects is an "infringement of Russia's national interests." Not to be overlooked: Dmitri Medvedev is chairman of the board for Gazprom. Should Exxon-Mobil get into a fight with Gazprom over Sakhalin-1, it wouldn't be a fair fight.

Russia's intentions to dominate the national energy sector have not impeded cooperation with the U.S. in nuclear energy. In December the U.S. House of Representatives passed a bill authorizing \$178 million for nuclear safety programs in Russia. A part of the Cooperative Threat Reduction (CTR) Program, the allocation would help fund storage, transportation, and the destruction of nuclear weapons material across Russia.

Asian Issues

North Korea remains the primary focus of U.S.-Russian cooperation in East Asia. Signs coming from the Korean Peninsula in the wake of the electoral victory for South Korean President-elect Lee Myung-Bak have been positive. When the Six-Party Talks resume, Moscow has indicated that it will continue to cooperate with Washington and Seoul in seeing North Korea follow through on any commitments. There are indications that the Kremlin is becoming tired of Pyongyang's machinations and wishes to see this issue resolved so Russia can see economic benefits from an economically viable North Korea.

Japan and Russia continued their never-ending fruitless dialogue this past quarter. Japan remains committed to several energy projects in Russia and has seen its investment in Russia expand exponentially, especially in Moscow and St. Petersburg. Russian Foreign Minister Lavrov visited Tokyo in October to discuss Japanese-Russian investment projects and the Six-Party Talks. There has long been speculation in Japan that Putin would remain on in some capacity as a "Russian Deng Xiaoping." Some people in Japan are convinced that only Putin will be in a position to resolve the long-standing territorial dispute. This speculation is sorely lacking in its understanding of domestic politics in Japan and Russia.

In November Indian Prime Minister Manmohan Singh visited Moscow in an effort to jumpstart relations, which have stagnated over the past decade. The two governments signed agreements on space cooperation, investment, anti-narcotics trafficking efforts, transnational crime cooperation, and a deal on the possible joint development and production of multi-role transport aircraft. The Indian government has become an

observer in the Shanghai Cooperation Organization, and like the Kremlin is somewhat wary of Chinese inroads in Central Asia.

Pending Issues

The most important issue in the next quarter will be the Russian presidential election. For now, all signs point to a successful Medvedev candidacy, but anything could happen. A Medvedev presidency, as indicated, would be no worse for U.S.-Russian relations than has been the Putin presidency, but if the *siloviki* somehow manage to gain a stronger voice in the next administration things could get worse.

Meanwhile, U.S.-Russian relations remain barely cordial, but the two governments do recognize the mutual strategic interests that tie them together. But with presidential elections in both countries in 2008 and as the Iranian and missile defense impasses continue to linger, there is no telling how long a further and significant deterioration in relations can be avoided.

Chronology of U.S.-Russia Relations October-December 2007

Oct. 12, 2007: U.S. and Russian defense officials hold talks in Berlin on the status of the Conventional Forces in Europe (CFE) Treaty.

Oct. 12, 2007: U.S. Secretary of State Condoleezza Rice and Defense Secretary Robert Gates meet their Russian counterparts in Moscow to discuss various issues, including U.S. plans for a missile defense system in Eastern Europe.

Oct. 14, 2007: Russian state television airs a glowing documentary on the life and work of Franklin Delano Roosevelt.

Oct. 15, 2007: Vladimir Putin arrives in Tehran for a summit of Caspian nations. He meets Iranian President Mahmoud Ahmadinejad.

Oct. 19, 2007: Russia repays the remaining \$343.25 million of its agriculture debt to the U.S. ahead of schedule. Much of this debt accumulated during the last days of communism and in the early 1990s.

Oct. 22, 2007: George Bush telephones Putin and urges Russia to help persuade the Iranian government to give up its uranium enrichment efforts.

Oct. 23, 2007: At two different talks on the same day, President Bush (Washington) and Defense Secretary Gates (Prague) give two differing interpretations of the strategy behind the missile defense system in Eastern Europe.

Oct. 23, 2007: In a visit to Tokyo, Russian Foreign Minister Sergei Lavrov discusses the Korean nuclear issue and the Northern Territories dispute with Japanese government officials. He also takes time to criticize U.S. plans for a missile defense system.

Oct. 26, 2007: At an EU-Russia summit in Portugal, Putin compares the U.S.-led efforts to establish an anti-missile defense system in Eastern Europe to Soviet efforts to deploy nuclear missiles in Cuba in the early 1960s.

Oct. 30, 2007: High-ranking U.S. and Russian defense officials begin a two-day war gaming session in Moscow. The focus is on peacekeeping operations.

Oct. 30, 2007: The Central Electoral Commission (CEC) of Russia announces that only 50 election observers from the OSCE (Organization for Security and Cooperation in Europe) will be allowed to witness elections to the Russian Duma in December. In 2003 450 observers from the OSCE witnessed the Duma elections.

Nov. 7, 2007: The Russian Duma unanimously votes to suspend the CFE Treaty. The moratorium will take effect Dec. 12.

Nov. 11-12, 2007: Indian Prime Minister Manmohan Singh visits Moscow and meets President Putin. The two governments sign agreements on space cooperation, financial investment, drug trafficking and transnational crime, and a deal on the joint development and production of multi-role transport aircraft.

Nov. 19, 2007: The U.S. and Russian governments reach a deal on the safe disposal of 34 tons of plutonium.

Nov. 21, 2007: At an election rally in Moscow, Putin criticizes “outsiders” who interfere in Russia’s domestic politics. This is a thinly veiled call out of the U.S. and Western Europe.

Nov. 24-25, 2007: The Russian government arrests and jails opposition leaders who have organized protests in Moscow and St. Petersburg a week in advance of Duma elections.

Nov. 27, 2007: FM Lavrov visits Washington, DC and meets top U.S. officials. While there he criticizes U.S. plans for a missile defense system in Eastern Europe.

Dec. 2, 2007: Duma elections in Russia result in an overwhelming victory (64 percent) for United Russia, the party supportive of Putin.

Dec. 3, 2007: Gen. Yuri Baluyevskiy, chief of the Russian Armed Forces General Staff arrives in Washington to meet his counterpart Adm. Michael Mullen, chairman of the U.S. Joint Chiefs of Staff.

Dec. 12, 2007: Russian moratorium on the CFE Treaty officially takes effect.

Dec. 13, 2007: The U.S. House of Representatives passes a defense policy bill authorizing \$178 million for nuclear security in Russia.

Dec. 18, 2007: A shipment of nuclear fuel arrives in Iran from Russia.