



U.S.-Russia Relations:

Economic Crisis brings Relative Calm to Relations

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As documented in this chapter during the last quarter (and over the last several years), U.S.-Russian relations have deteriorated to post-Cold War lows. Given the number of distractions over the last few months, relations stabilized somewhat in that the usual number of caustic barbs hurled across the oceans was limited. The leaders of the two nations are increasingly preoccupied with finding solutions to the economic ills affecting their respective nations and the entire world. As the Obama administration comes to office there seems to be a determination to reestablish a working relationship with the Kremlin, something that was obviously lacking during the August crisis when Russian troops invaded Georgia. President-elect Obama and future Cabinet members – as well as members of Congress – have publicly stated the need to recalibrate relations with Russia, starting with arms control.

The economic crisis

At the beginning of the fall, as the equity and real-estate bubbles were rapidly deflating in the U.S., Russian leaders, fresh from their battlefield triumphs in the Caucasus, took turns announcing that the economic crisis was a bitter fruit that had been sown in the U.S. and that it was primarily there that the hard times would be felt. As recently as October, there were public assurances given by both President Dmitry Medvedev and Prime Minister Vladimir Putin that the crisis would not affect Russian citizens too badly. Initially it appeared that those most affected in Russia would be the richest; those billionaire oligarchs whose holdings in mineral and energy firms declined with the decrease in world demand for resources, and then whose stock fortunes took a plunge beginning in May, when the main Russian stock index lost more than 75 percent of its value.

But the collapse of oil prices happened in such dramatic fashion that the entire economy and the confidence of the Russian leadership were badly shaken. The price of oil dropped from a high of \$140 per barrel in July to \$35 per barrel in December (it now hovers around \$40 a barrel). The ruble fell more than 25 percent against the dollar (many Russians convert their rubles into dollars upon being paid), and even more against the euro. The inflation rate continues to rise and threatens to eclipse the 15-20 percent rate should oil fall below \$30 per barrel. Perhaps most importantly to the Kremlin, official currency reserves, which topped \$600 billion at the end of the summer, have fallen by more than \$160 billion as the Central Bank tries to prop up the ruble. Add in the costs of the war in Georgia and the government's budget surplus is rapidly

diminishing. In December, Russia's economy officially entered into recession, as output in some key sectors dropped 20-30 percent. Even state-run behemoth Gazprom – seen as the symbol of Russia's newfound wealth and its status as an energy superpower – is negotiating a government bailout. Ordinary Russians, even those without a stock portfolio, are feeling the crunch as prices rise, banks run short of cash, and their savings diminish, or even disappear.

Even the seemingly unassailable position of Vladimir Putin is under some scrutiny as Russian citizens are starting to ask difficult questions. Demonstrations in the Russian Far East aimed at an unpopular tax on car imports (many people there rely on cheap, used Japanese imports), led to riots and left many seasoned observers wondering whether they were exceptions or a precursor to further unrest across the country. What exactly does this mean for the United States? It means that the new administration may be dealing with a less confident Russia, unlike the emboldened nation that has shown its face over the past few years. Although this could be a good thing, it could also mean dealing with a government unable to deliver arms control treaties or strategic agreements concerning Iran, missile defense, North Korea, and other pressing issues.

Strategic issues

The autumn started out much as the summer ended, with both sides engaged in name-calling. President Medvedev took the occasion during a speech delivered at an economic forum in France to criticize the U.S., using familiar terms such as “unilateral,” “irresponsible,” and “egotism.” Medvedev blamed not only the global economic crisis on the U.S. (perhaps fairly), but also the war in Georgia, the impasse in the Middle East, and Kosovar independence. Medvedev's half-hour speech reminded observers of Putin's infamous Munich speech of February 2007, in which the former president lambasted the U.S. in front of an American delegation led by Secretary of Defense Robert Gates. Medvedev's speech was the last of the harsh rhetoric, however, to be heard at the highest levels. On a subsequent trip to Washington in November, he was much more diplomatic and extolled the Bush administration for bringing together the world's leaders to discuss the economic crisis. On a subsequent trip to Venezuela (more below), Medvedev declined to join President Hugo Chavez in criticizing the United States.

The Russian leadership also praised Washington three weeks later when NATO announced at a summit of foreign ministers that it would not yet grant MAP (Membership Action Plan) status to Georgia and Ukraine. This does not mean that the two nations will not be granted membership, but for now some NATO countries (namely France and Germany) are opposed. The NATO foreign ministers did, however, give unanimous support to the planned deployment in Eastern Europe of a missile defense system. Still a focal point of disagreement between Moscow and Washington, the development of this missile defense system continues to cause tension. Hours after Barack Obama had won the presidential election in the U.S., President Medvedev announced that Russia might place short-range *Iskander* missiles in the Russian city of Kaliningrad in order to “neutralize” a planned U.S. missile-defense system in Eastern Europe. The timing was such that many considered the announcement a shot across the bow of the incoming Obama administration. Although Medvedev later apologized for the bad timing, he continued to stick by this plan. Meanwhile, in a speech in Estonia, Secretary of Defense Gates, a Russian expert himself, characterized the Russian announcement as “unnecessary and misguided.” A retired Russian general said in an interview that the *Iskander* plans were mere

bargaining chips for the Kremlin. “This decision is political. From a military point of view, it would be difficult to imagine a scenario, in which such missile systems could be used,” Maj. Gen. Vladimir Dvorkin (ret.) was quoted as saying.

NATO ministers were disturbed by Russia’s continued refusal to comply with the Conventional Forces Europe (CFE) Treaty, a status that has existed since the end of 2007. The conflict in Georgia has exacerbated the situation as Russian forces in the Caucasus are supposed to be covered by the treaty. Convenient for the Kremlin that Russia was not in compliance as their forces poured into Georgia. Conversely, the Russian leadership continues to point to NATO expansion as the primary reason for the breakdown of the CFE. How can Russia look away, they ask, while a big, powerful alliance continues to expand around Russia’s borders?

Arms control

The CFE Treaty is but one aspect of the complicated state of arms control between the Kremlin and Washington. The two issues of greatest concern for the leaders of both nations are NATO’s plans for a missile defense system in Eastern Europe and the lapsing START-1 Treaty.

In response to continued plans to deploy parts of a missile defense system in Poland and the Czech Republic, the Russian government has unveiled a series of counter-measures in the wake of numerous diplomatic failures over the past few years to try and convince the U.S. to halt the development and eventual deployment of such a system. As mentioned, the announcement of the *Iskander* deployment to Kaliningrad seems nothing more than a political power play to try and bring the Obama administration to the bargaining table. It might just work as early indications are that Obama and some of his advisors are lukewarm to the missile defense system, unless it is proven to be workable and reliable. It is said that President-elect Obama would consider only deploying such a system once it has been successfully tested. Meanwhile, Russia’s Strategic Missile Force chief, Col. Gen. Nikolai Solovtsov, announced that Russia will commission over the next year a new type of intercontinental ballistic missile, the *RS-24* missile equipped with multiple nuclear warheads.

While the Kremlin may have the missile defense system at the top of its discussion agenda with Washington, the U.S. is clearly focused on the renewal (or at least revision, if not replacement) of the START-1 Treaty, which is due to expire at the end of 2009. The original treaty was signed in 1991, and although it has been modified since, it essentially places a limit on the number of delivery vehicles to 1,600 for each side. START-2 negotiations were halted by Russia in 2002 in response to the U.S. decision to withdraw from the 1972 ABM Treaty. The 2003 Treaty of Moscow calls for warheads to be decreased to between 1,700 and 2,200 for each side. The problem for Washington appears to be the actual delivery vehicles. The Pentagon wants to be able to deploy an unlimited amount of delivery vehicles (which include heavy bombers and submarines, as well as ICBMs), which could then be armed with conventional munitions in order to act as quick strike systems against unconventional forces/enemies (i.e., terrorists or rogue states) across the globe. The desire to have a new treaty has been clearly expressed at all levels and in all corridors of government in Washington. Before he had been tapped to stay on as secretary of defense for the Obama administration, Robert Gates stated in October that he would advise the incoming administration to enter into negotiations for a new

nuclear arms agreement with Russia, one focused on warheads (i.e. not delivery vehicles) but with enough flexibility to be revised in the event of new threats. The State Department sent two delegations to Moscow in November and December to try and reach a compromise on both the ABM system and the START-1 Treaty. Distinguished Sen. Richard Lugar also took his try at convincing the Russians about the need for a replacement for START during a trip to Moscow in December. Other luminaries such as Henry Kissinger (who visited with both Medvedev and Putin in Moscow in early December) and Sam Nunn have voiced strong support for moving ahead with Moscow to reach an agreement sooner, rather than later.

For now it appears that Russian leaders are awaiting the Obama administration before entering into serious discussions about arms control. The two recent U.S. negotiating teams (mentioned above) led by Under Secretary of State for Political Affairs William Burns and Under Secretary of State for Arms Control and International Security John Rood were essentially turned away in Moscow. Reports have suggested that the Kremlin could be amenable to compromises, which would undoubtedly include the missile defense issue (for example, signing a new START treaty in return for U.S. assurances about the ABM system in Eastern Europe). There is even talk of Russian specialists potentially being allowed to work alongside U.S. counterparts at the sites in Poland and the Czech Republic.

A recent development that could complicate these matters was the pre-Christmas announcement that Russia was selling sophisticated surface-to-air missiles (reportedly to include the long-range *S-300* missiles) to Iran. *S-300s* would represent a significant leap in qualitative defense capability for Iran as they can defend against ballistic missiles. Both the U.S. and Israel immediately demanded explanations from the Russian government, but the Kremlin would neither deny nor confirm the story.

Eurasia, East Asia, and Latin America

There is another, important issue that has remained somewhat under the radar: the increasingly difficult problem of supplying NATO forces in Afghanistan overland through Pakistan. Pakistani authorities were to close the Khyber Pass in mid-December after militants carried out a massive attack on a convoy, destroying 260 vehicles on two consecutive nights outside Peshawar. More than 80 percent of the supplies necessary to support 50,000 NATO troops in Afghanistan are sent by truck convoy from the port of Karachi through the Khyber Pass to Afghanistan. With the expected addition of 20,000 U.S. troops in 2009, the logistical situation could become even more difficult to sustain, given increasing violence in Pakistan and in the tribal areas across the border in Afghanistan. This is where Russia and any number of Central Asian states come into the equation.

The violence in Afghanistan and the inability of the Pakistani government to guarantee the safety of supply convoys means that new convoy routes have to be considered. Given the potential for further political chaos in Pakistan, war between India and Pakistan, and other unforeseen difficulties, NATO and the U.S. are now looking to open supply routes through Central Asia into northern Afghanistan. There are numerous options beginning with a route through Russia, Kazakhstan, and Uzbekistan into Afghanistan. Though this is potentially the most politically stable route, it would be a long journey – as much as three times the distance as the Pakistan

route and subject to bad roads and winter terrain. Two additional routes include Black Sea transit to Georgia, through the Azeri port of Baku, across the Caspian to the Kazakh port of Aqtau, and then through either Kazakhstan or Uzbekistan. A fourth, more intriguing route would include the Caspian journey, but to the Turkmen port of Turkmenbashi and thence overland to Afghanistan. This last route, it should be noted, would be the shortest, though perhaps the most politically difficult, given the troublesome nature of U.S.-Turkmen relations. Whichever route NATO chooses, Russian support will be vital and it will be worth observing how far Russian cooperation with the U.S. and NATO will go on this issue.

Russian concern about U.S. intentions in Central and South Asia as well as the U.S. naval presence in the Black Sea during the Georgian conflict was no doubt part of the reason for the high-profile visit by President Medvedev to Latin America in November. Medvedev visited Peru (to attend the APEC forum), Brazil, Venezuela, and Cuba. The Russian leadership wished to send signals to Washington that it too could enhance its diplomatic profile in the backyard of a former adversary. Medvedev's visit to Venezuela coincided with joint Russian-Venezuelan naval exercises in the Caribbean. Between 2005 and 2007, Venezuela spent roughly \$4.4 billion on Russian-manufactured arms. The Russian delegation also negotiated key energy deals with firms in both Brazil and Venezuela. Brazil expressed interest in acquiring 120-150 Russian fighters worth a total of \$3-3.5 billion. The Brazilian government, however, made it clear that it would not purchase Russian armaments without an accompanying transfer of technology to bolster its indigenous defense production base, which is not unsubstantial. The reaction of the U.S. to Medvedev's visit to Latin America was muted, especially as details – including friction between the Russian and Venezuelan delegations and the less than stellar nature of the naval exercises – began to emerge.

Russian arms manufacturers have been eagerly developing markets in another traditional U.S. clientele base in Southeast Asia. Earlier in the fall, Thailand announced that it would be purchasing *Mi-17 Hip* helicopters for civilian and military dual-usage. In December, Indonesia took delivery of the first two of its *Su-30MK2* fighter jets purchased from Russia. When completed, the contract will be worth \$300 million for Sukhoi. Upset about some of the activities by Russian arms dealers, in October, the State Department announced sanctions against Rosoboronexport (the Russian state arms trader) along with a dozen other firms from China, Sudan, Venezuela, and other countries for their alleged roles in supplying sensitive technology to Iran, North Korea, and Syria.

The recent economic difficulties have not lessened the scope of the massive development plans by the Russian government for the Russian Far East, including the ambitious plans for the East Siberian-Pacific Ocean (ESPO) oil pipeline. “We are not going to put off our *strategic plans* [emphasis added],” Prime Minister Putin announced in November. In 2007, the Kremlin pledged to allocate up to \$21.7 billion to fund development projects in Eastern Siberia and the Far East by 2013 and \$326 billion by 2025. This is part of a clear strategy to re-engage Russia diplomatically and economically (and to bolster its military capabilities) in Northeast Asia. Meanwhile, Russia's relations with her Northeast Asian neighbors remain cordial, but hardly warm and constructive.

Looking Ahead

In Russia, the leadership appears to be awaiting Barack Obama, not wishing to make any type of binding agreements with the outgoing administration of George Bush. President-elect Obama has indicated that improving relations with Moscow will be high on his agenda. Therefore, it will be interesting to see how things develop between the two nations over the first few weeks and months of 2009. Arms control issues can be expected to be at the top of the diplomatic agenda. Over the next few weeks it will be made known whether Russia did in fact sell *S-300* missiles to Iran. Should this be the case, there will be tension between Russia and both the U.S. and Israel. Lastly, as NATO considers new supply routes for International Security Assistance Forces in Afghanistan, it will be worth watching how much the Kremlin will decide to cooperate.

U.S.-Russia relations seemed to have reached their nadir in August 2008. The year 2009 looks to be a bit more promising, but perhaps only in that relations seem to have nowhere to go but up.

Chronology of U.S.-Russia Relations October-December 2008

Oct. 5, 2008: On a visit to Kazakhstan, U.S. Secretary of State Condoleezza Rice states that the United States has no intention of undermining Russian interests in Central Asia or drawing Kazakhstan into the U.S. sphere of influence.

Oct. 8, 2008: Russian “peacekeeping” troops are withdrawn from buffer zones near South Ossetia and Abkhazia. These troops had been patrolling the areas since the end of Russian-Georgian hostilities in August and are replaced by European Union observers.

Oct. 8, 2008: Addressing the first annual World Policy Conference in Evian, France, Russian President Dmitry Medvedev blames “paranoia” in the U.S. for undermining global security.

Oct. 8, 2008: Russian First Deputy Foreign Minister Andrei Denisov states that Russia has no objection to U.S. military bases in Central Asia.

Oct. 8, 2008: Japanese *F-15* fighter jets intercept two Russian *Tu-22M3* strategic bombers who come close to Japanese airspace over the Sea of Japan.

Oct. 14, 2008: U.S. Congressman Howard L. Berman, chairman of the House Foreign Affairs Committee, travels to Moscow and meets his Russian counterpart Konstantin Kosachev, chairman of the State Duma International Affairs Committee. The two discuss relations in general, but focus on Georgia and Iran.

Oct. 17, 2008: During a visit to Bishkek, Kyrgyzstan, Assistant Secretary of State Richard Boucher reiterates Washington’s commitment to preserving Ganci Air Base at Manas.

Oct. 21, 2008: In Helsinki, U.S. Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, meets his Russian counterpart General Nikolai Makarov, chief of the Russian General Staff.

Oct. 22, 2008: In response to U.S. plans to deploy a missile defense system in Eastern Europe, Russian Strategic Missile Force Commander Col.-Gen. Nikolai Solovtsov announces that the Russian military will commission a new type of intercontinental ballistic missile.

Oct. 23, 2008: State Department imposes sanctions on Russian arms monopoly Rosoboronexport along with a dozen other firms from China, Sudan, Venezuela, and other countries for their alleged roles in supplying sensitive technology to Iran, North Korean, and Syria.

Oct. 28, 2008: Secretary of Defense Robert Gates says he would advise the next president to seek a new nuclear arms agreement with Russia that provides for further reductions in nuclear warheads.

Nov. 4, 2008: Barack Obama is elected 44th President of the United States.

Nov. 5, 2008: In a state-of-the-union speech delivered hours after the election of Obama, President Medvedev says Russia might place a short-range *Iskander* missile system in the Russian city of Kaliningrad, wedged between Poland and Lithuania, in order to “neutralize” a planned U.S. missile-defense system in Eastern Europe.

Nov. 5, 2008: On a visit to Tokyo, Foreign Minister Sergey Lavrov says that Russia is closely monitoring the development and deployment of missiles in Asia, an apparent reference to joint U.S.-Japan efforts to develop ABM systems.

Nov. 7, 2008: The State Department admits that the Georgian attack in South Ossetia in August was a grave error, but that it did not justify Russia’s large-scale intervention.

Nov. 7, 2008: GM has a ribbon-cutting ceremony at the opening of an auto plant in St. Petersburg. President Medvedev attends.

Nov. 8, 2008: President Medvedev telephones Barack Obama to congratulate him on his victory.

Nov. 12, 2008: Under Secretary of State William Burns visits Moscow. He is the first high-ranking U.S. official to visit Moscow since the August war with Georgia.

Nov. 13, 2008: During a visit to Estonia, Secretary of Defense Gates says that Russia’s announcement of its intention to place additional missiles in Kaliningrad one day after Obama’s election was “unnecessary and misguided.”

Nov. 15, 2008: President Medvedev arrives in Washington, DC at the invitation of President George Bush to attend global economic discussions with other world leaders at the G20 meeting.

Nov. 19, 2008: On a visit to Washington, Polish Foreign Minister Radek Sikorski announces that his government will extend new confidence-building proposals to Russia on the U.S. anti-missile system planned for Eastern Europe.

Nov. 20, 2008: Prime Minister Putin announces that he is postponing a planned visit to Japan.

Nov. 21-27, 2008: President Medvedev tours Latin America, first stopping in Lima, Peru for an APEC Leaders Meeting, and then visiting Brazil, Venezuela, and Cuba. Several Russian warships also make port calls to the latter two countries.

Nov. 28, 2008: After the U.S. government yields to pressure from NATO allies and decides to put a hold on NATO membership for Georgia and Ukraine, President Medvedev praises the Bush administration.

Dec. 7, 2008: In a talk on the weekly television show *Meet the Press*, President-elect Obama stresses that the U.S. needs to “reset” relations with Russia.

Dec. 15, 2008: In talks meant to refocus efforts on getting the START-1 Treaty renegotiated before its 2009 expiry, Deputy Foreign Minister Sergey Ryabkov meets Under Secretary of State for Arms Control and International Security John Rood in Moscow.

Dec. 16, 2008: Deputy Assistant Secretary of State for European and Eurasian Affairs Matthew Bryza accuses Russia of failing to abide by an agreement on removing its troops from Georgia.

Dec. 16, 2008: Sen. Richard Lugar arrives in Moscow to begin talks with Russian officials on the expiring START-1 arms control treaty.

Dec. 22, 2008: The Russian state-controlled arms firm Rosoboronexport announces that it will be selling *S-300* long-range surface-to-air missiles to Iran.

Dec. 26, 2008: Russian aircraft manufacturer Sukhoi delivers two multi-role fighter jets to the Indonesian armed forces as part of a \$300 million contract.

Dec. 29, 2008: First Deputy Foreign Minister Andrei Denisov says that the Russian offer for the U.S. military to jointly use the Gabala radar station in Azerbaijan is still valid.