

U.S.-Russia Relations:
The Perils of Putin

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Diplomatically and on the negotiating front, the U.S.-Russia relationship is essentially in limbo. Russia is waiting for the clock to run out on the Clinton administration and is positioning itself for whatever U.S. administration follows. U.S. policymakers, burned by the failure of reforms and reluctant to make any moves during an election, are busy deflecting domestic criticism of Democratic presidential candidate Al Gore's handling of the Russia portfolio in the partisan Cox Commission Report. At the same time, Russia is pursuing an active foreign policy strategy of its own, reinvigorating old relationships with former clients such as Iraq and North Korea, and establishing "strategic partnerships" with nations such as China and India to counter the U.S.-dominated superpower world.

Domestically, the past is quickly catching up with the present. In a few short months, the tenuous gains made by Russia's fragile democracy during the past ten years have been shaken and seriously weakened by policies intended to strengthen the state and the occupants of the Kremlin as the sole proprietors of power and information in Russia. While the influence of the opposition parties contracts, the battle between the Kremlin and the media intensifies, creating an atmosphere inhospitable to the free flow of ideas. Perhaps even more ominous for Russia's future, the long-term effects of the Soviet hangover--the disintegration of the aging infrastructure on land and sea, a health care crisis, shrinking population, increasing drug and alcohol abuse, and sporadic violence--are raising fears among Russian leaders and citizens of an impending cataclysm. Abroad, these trends are accentuating Russia's decline in the eyes of the world.

President Putin's efforts to strengthen the state may cause him to act in the only way his background and upbringing permit him, with no larger vision of the purposes to which enhanced state power might be used or misused. Some still hope that he may be consolidating political power in order to set the stage for an ambitious, radical economic reform plan that will create an independent and efficient free market. Or it may be that Russia's path will prove to be much closer to a Chinese, rather than Western, model--one that retains and strengthens the elements of a market economy, while destroying or controlling any power, political or economic, that represents a potential threat to the state. We do not yet know enough about how Putin will govern Russia to say for sure.

Economically, 2000 is shaping up as Russia's most prosperous post-Soviet year, with a projected gross domestic product growth rate of 5.5 percent. Indeed, the positive macroeconomic forecast has buoyed Russia's hope of trimming its reliance on

international financial institutions and reducing its foreign debt. Foreign investors, while still skittish about Russia, are hoping Putin's economic team will implement the radical economic reform measures proposed by German Gref. But Russia has had windows of opportunity before and let them slip away.

U.S. –Russia Relations on Hold

Relations between the U.S. and Russia are on hold, in large part due to the U.S. presidential campaign and an understandable reluctance to enter into any major decisions or agreements with the outgoing administration. This has already affected Russia's willingness to negotiate on the key issue of ballistic missile defense, but it has also impacted other arms control discussions, as well as cooperation with NATO.

The Clinton administration, meanwhile, has been on the defensive over Russia policy for much of the past year. On September 22, the Cox Commission released its report, *Russia's Road to Corruption: How the Clinton Administration Exported Government Instead of Free Enterprise and Failed the Russian People*, which accuses a "troika" of Clinton administration officials, Vice President Al Gore, Deputy Secretary of State Strobe Talbott, and Treasury Secretary Lawrence Summers, of implementing policies that fostered corruption and criminality and retarded Russia's free market and democratic development. In the Commission's view, Clinton Administration policies also damaged U.S. national security by not doing enough to secure Russia's nuclear arsenal. The report, issued only by Republican members of the House in the heat of the U.S. presidential campaigns, has been strongly criticized for exaggerating U.S. responsibility for Russia's problems and for underestimating the true difficulty of Russia's transition.

Today, much like in the mid-eighties, the bilateral relationship is focused on strategic issues and reminders of the Cold War, such as spying allegations. Although programs providing economic assistance, democratization, and technical assistance continue at reduced levels, they have taken a backseat, at least temporarily, to foreign policy and strategic issues in discussions between Moscow and Washington. Indeed, the record of the past ten years of Russian reform and the dramatic change in the global economy have challenged many of the initial assumptions about Russia's transformation and the U.S. ability to influence it. Moscow is no longer asking for U.S. advice or economic help, and Washington is unsure of what kind of help it could or should provide. The incoming U.S. President, whoever he may be, thus confronts a Russia dramatically different from the one that the Clinton administration faced in 1993; U.S.-Russia relations will have to adjust accordingly.

This daunting task is made ever the more complicated by a newly assertive Russian foreign policy in areas of its traditional interest, such as Iraq, Iran, North Korea, and Libya, and a new diplomatic initiative towards China and India. Russia's neighbors, the states of the former Soviet Union, are perhaps the most concerned over Russia's new posture.

Indeed, the actions of the new Russian administration at home and abroad have raised many new questions about Russia's future direction or role in the world. For instance, in advance of the G-8 Summit in July, President Putin made the first visit by a Russian head of state to North Korea since the fall of the Soviet Union. Putin sought to portray himself as a global statesman by injecting himself into the North-South Korea reconciliation process, displaying Russia's might in its traditional sphere of interest, and, most importantly, undercutting U.S. rationale for a ballistic missile defense program by seeking a compromise from North Korea on its missile development program. To the private aggravation of U.S. policymakers, President Putin arrived in Okinawa with a compromise proposal in hand and trumpeted this achievement in front of the world's cameras. (This "triumph" was somewhat short-lived, however, as Kim Jong-il subsequently downplayed the seriousness of his proposal.)

Political grandstanding has not prevented U.S.-Russian discussions on important issues; or will a presidential campaign keep the U.S. from trying to influence Russian policies. President Clinton's comments on free speech to President Putin at the G-8 Summit almost certainly played a key role in allowing media chief (and Putin antagonist) Vladimir Gusinsky to leave the country, proving that high-level discussions can still bear fruit. Additionally, U.S. efforts to involve Russia in seeking a peaceful outcome to the post-election crisis in Serbia, an area of traditional Russian influence, are likely to continue.

An area that the U.S. or other western countries have little influence in, however, is the ongoing war in Chechnya. The war has turned into what many feared it would, a protracted hit-and-run guerrilla war in the mountains. While Russian authorities continue to downplay the forces of the rebels and blame other nations, especially Afghanistan's Taliban rulers, for supporting the guerrillas, Russian soldiers continue to die in ambushes. There is still a tremendous refugee problem, which will be exacerbated by the coming winter in the Caucasus. Since Moscow has installed its own government in Grozny, there is scant chance of a political solution anytime soon. While the war has disappeared from world headlines, at home the Russian public may be growing uneasy with the government's failure to bring their boys home. In a recent poll conducted by the Public Opinion Foundation, 43 percent of Russians characterized the current actions in Chechnya as a "partisan war" while only one percent believed it was an action "against terrorists," the justification Putin used early on in the war and which originally aroused strong sentiments for it.

Putin's Reorganization of Power

Institutional Reform. President Putin has dramatically reshaped the power structure in Russia. Boris Yeltsin had allowed power to devolve away from Moscow to the regions and to elected bodies. But in the end, Yeltsin's revolution failed to create either a viable political structure or a functioning economic system. The results, instead, were half-formed structures that barely functioned. Putin, realizing the contradictions and deficiencies inherent in this order of things, has sought to reshape this structure--not in order to continue in the direction of Yeltsin's changes, but to make way for a new model

of top-down governance. With amazing speed, Putin has largely achieved his aims: he can now fire regional governors who oppose him essentially at will; the Federation Council (Upper House of the Parliament) has been dissolved; and seven regional presidential envoys, answerable only to Putin, have set up administrative offices all across Russia's expanse. Moreover, for all practical purposes the Duma functions as a rubber stamp, since the support of the Communists and Edinstvo (Unity), the political creation of the Kremlin, guarantees Putin a solid majority on almost any issue. The virtual elimination of any viable opposition to his rule has been achieved without constitutional reform, without any kind of referenda, and with little citizen input. The formal organization of power in Russia has been streamlined into what some Russians now call a "managed democracy."

Clearly, the Russian governing structure needed reshaping. During the Yeltsin era, the mishmash of contradictory national and regional laws, the often-uncooperative relationship between Moscow and regional governors, and the general logjam between the Kremlin and the Duma often paralyzed Russia. Yeltsin's rule also had another deep flaw--the immense influence wielded by a few oligarchs--but it nevertheless represented an attempt to sweep away the sclerotic networks of the Soviet era and create at least the rudiments of a pluralistic society.

Putin's new system will probably be more efficient and more easily controlled from the center, enabling him to actually pass legislation and carry out initiatives. Under the right circumstances, this could create the political stability his Russia sorely needs and help spur economic development. Yet, by its very nature, a top-down system only rarely allows feedback from below. Given Russia's weak attachment to civil society and its tradition of centralized power, the new system is unlikely to create the institutions and foster the civil society necessary to foster anything resembling a pluralistic democracy anytime soon.

The Return of the Security Services. Putin has not only been replacing the vessels of power, but also those who stand on deck. In 1991, Muscovites tore down the statue of Felix Derzhinsky, the father of the Soviet secret police, in a spontaneous outpouring of revulsion at the Soviet police state he helped create. However, rather than withering away, as was hoped by Westerners and many Russians alike, the Soviet secret services reinvented themselves. After the collapse of Communism, many went into business in the private sector. Having spent the Yeltsin years on the fringes of political life, former and present security officers have now regained prominent positions in government. Increased pressure on businesses, politicians, and journalists has largely coincided with the increasing power of the Federal Security Services (FSB) and the military in the Putin Administration, directed from the Security Council headed by Sergei Ivanov, a former FSB Deputy Chief.

An article in the *Kommersant-Vlast* in late July describes the emerging new relationship between various state institutions, the media, and the economy stating, "the prosecutors, police, and tax collectors are working together with the FSB agents, although they pretend to be working separately...The Gusinsky affair already proved that all

investigations are like this--agents from the FSB's Lubyanka headquarters are right behind the prosecutors, and nobody is hiding it."

Putin and the Media

Since the March elections, pressure on the media has increased, directed primarily against Vladimir Gusinsky, owner of the only independent television network in Russia (NTV) and Boris Berezovsky, owner of a 49% share in ORT, the state television channel.

Media Most. Government efforts to wrest control from Vladimir Gusinsky of Media Most, the holding company for NTV, Ekho Moskvi, as well as many newspapers and magazines, continue. During September, as the negotiations between Media Most and Gazprom, Media Most's creditor, intensified, several documents leaked to the public, including "Protocol Number Six," signed by Minister for Press and Information Mikhail Lesin, which appeared to grant Gusinsky immunity from prosecution in exchange for the sale of his media empire. This document created a political scandal, causing even the normally pro-government newspaper *Izvestia* to comment wryly that "either the Russian Federation Constitution has been repealed and we have not been told about it, or there is a special secret protocol to it under which basic rights and freedoms come into effect only after a special agreement has been signed..." Gazprom-Media has now turned to the courts in an effort to recoup its debt and to gain control of the company. Sberbank, another Media Most creditor, has also joined the fray, demanding full and immediate payment on a \$100 million loan. According to Deputy Prosecutor-General Vasily Kolmogorov, Vladimir Gusinsky has been summoned back to Moscow to face new criminal fraud charges.

ORT. Despite his key role in Putin's election, Boris Berezovsky has also been under severe pressure from the Kremlin. He claims, like Gusinsky, to have been told by the Kremlin to either relinquish his shares in ORT, the national television station, or go to prison. An unlikely crusader for transparency in government and press freedom, Berezovsky resigned his Duma seat in protest over what he deemed "anti-democratic" actions by the President and now says he will attempt to develop an opposition to Putin in Russia and abroad. Rather than surrender control to the state, Berezovsky has come up with a novel idea to keep a modicum of independence for ORT. He has said he will give his 49 percent share in the television station to 30 or so journalists, academics, and political notables, including the anti-Kremlin ORT TV commentator Sergei Dorenko, whose program has now been taken off the air.

A New Information Security Doctrine. While there is still active criticism of the government in the media--witness the public reaction to the government's response after the Kursk tragedy--there is also a great deal of support for taking on the oligarchs and continuing the anti-media campaign. On September 9, President Putin signed a 48-page "information security" doctrine, a document which had been under discussion in government circles for years, but which Yeltsin never approved. Among the threats to Russia's national security it cites are "the squeezing of Russian news agencies and mass media out of the domestic information market and the increased dependence of the

spiritual, economic, and political spheres of Russia's social life on foreign information structures." In addition, the state is to decide what information is "socially important" and to "protect society from distorted and inaccurate information."

This new doctrine represents a mindset more in accordance with past Soviet policies than with the realities of the new information age, and could prove a basis for further actions against both domestic and foreign mass media operating in Russia. Indeed, under the guise of national security, other former Soviet countries have clamped down on free speech, intimidated journalists, and taken over media outlets. Azerbaijan, for example, has a "Law on State Secrets" that its government uses as a pretext for moves against the press and opposition politicians. Armenia and Kazakhstan have similar laws. The question is, will Russia be any different? In a recent poll conducted by the All-Russian Center for the Study of Public Opinion, 52% of the 1,500 Russians polled at the end of September said that freedom of expression should not be curbed for the sake of the country's salvation. As few as 30 per cent said it should.

Other Media Pressure. While the fights over Media Most and ORT are the two most prominent examples of government efforts to control the media, other, less visible efforts to muzzle independent media outlets in Russia's regions have been undertaken by regional governors interested more in positive press than investigative journalism. According to a September 10 article in *The Washington Post*, the FSB has also been making arrangements with several regional media outlets to censor themselves. Under these agreements, the FSB agreed to provide information to the public "without giving any commentaries." Any negative information about the FSB cannot be published or broadcast until the FSB is contacted and "competent bodies look into it." According to one source, 30 of 37 media outlets have agreed to the FSB demands, heightening fear and self-censorship among regional journalists.

Limits on the Government's Power

Although the power of the Kremlin and the central government is increasing, some state bodies and strong public sentiment impose limits on state efforts to control independent individuals and institutions. One of the few bright spots in Russia is the court system's defense of the rights of citizens and information outlets; another is the continuing public support for freedom of the press.

In August, Communications Minister Leonid Reiman issued a phonetapping decree--"On Installation of Technical Means of Operational-search Measures for Telephone, Mobile, and Wireless Communications Networks and Personal Radio Transmitters"--which demanded that all internet service providers and telecommunications operators install, at their own expense, monitoring devices in their networks and grant the FSB access to all information that passes on their networks. To the consternation of the Kremlin, this regulation was declared illegal by the Russian Supreme Court on September 26.

On September 13, the Supreme Court also upheld a lower court's acquittal of former naval officer Alexander Nikitin on espionage charges. In a last-ditch effort to hold Nikitin

criminally liable for espionage, the Prosecutor-General's office had brought the case to the Supreme Court. The ruling finally put an end to Nikitin's saga--a four year concerted effort by the government to punish Nikitin for publicizing the sorry state of the Russian navy.

Russia's Economy

Although the blueprint for Russia's economic recovery, authored by Russian Minister of Trade and Economic Development German Gref, was made public five months ago, a legislative package in support of radical measures in the economy has yet to be sent to the Duma. Other than the much-needed tax reform, which has set income tax rates at a flat 13% rate, Russia's fundamental economic challenges--to guarantee private property rights, stop capital flight and corruption, develop a reliable banking system, and encourage domestic and foreign investment--remain. President Putin has affirmed on several occasions that the market is the best engine for Russia's economic growth and that foreign investment is required to jumpstart economic revival. Rather than letting the marketplace find its own course, however, Putin clearly wants to harness the market to revive Russian power and influence. It is unclear if Putin is ready to create conditions for the successful operation of free markets, and, in particular, to limit state interference and decisionmaking in economic activities.

Luckily for Putin, the current burst in economic growth gives the government some breathing space to sort out these broader issues. The year 2000 is shaping up to be Russia's most prosperous since the fall of the Soviet Union. In the first half of 2000, gross domestic product (GDP) grew by 7.5%, and GDP growth is forecast at an average 3-4% over the next five years. Industrial production and private sector wages are up, while inflation is down. In the first half of 2000, personal consumption has increased by 7.8 percent, and capital investment by 14 percent. Central Bank reserves have increased twofold. Russia registered a trade surplus of \$35 billion in 1999, and that number is expected to double this year. On a balance sheet, Russia's economy today appears to be stronger and headed in the right direction. However, as Putin himself said in his July State of the Nation address, the economy is being buoyed largely by external factors--especially the high price of oil and import substitution caused by the 1998 devaluation, leaving Russia exposed to an external shock or an internal production crisis.

Russia's economy is very difficult to analyze based on macroeconomic indicators alone, which often do not account for major segments of the economy--the so-called virtual, or shadow economy--or weaknesses in specific sectors or regions. It is useful to recall that Russia also enjoyed macroeconomic good news for two years prior to August 1998.

In the longer term, Russia's economy must make quantum advances in order to participate fully in the world economy or become a full and equal member of the G-8. These fundamental reforms must include, as Putin himself stated, the creation of a business atmosphere attractive to foreign investment. In 1999, Russia only attracted approximately \$3 billion in foreign investment, out of a global total of \$827 billion. While 2000 promises to be better, many foreign investors remain skittish about Russia.

A Crumbling Infrastructure

Russia has experienced a litany of tragedies in the last three months. The pride of the Russian submarine fleet, the Kursk, sank in the Barents Sea on August 12, killing all on board. For many in Russia and abroad, the subsequent delay in undertaking rescue efforts and President Putin's seeming inaction accentuated the perception of Russia's physical decline from a world superpower to a prostrate nation. On August 28, the world's second tallest structure, the Ostankino Television tower in Moscow, caught fire, killing at least four and knocking out telecommunications and television around the capital. On September 13, Unified Energy Systems (UES), Russia's national power supplier, cut electric services to a Russian strategic rocket forces military base for non-payment of utility bills.

Russia has a very real and present problem: a national infrastructure in need of massive repair. According to some estimates, Russia will need approximately \$2.5 trillion in investment during the next 25 years to revamp the existing infrastructure, including industrial plants, railroads, and defense equipment, that somehow continues functioning way beyond projected life spans. Judging from confused lines of authority during the Kursk affair and the chaos caused by the Ostankino TV tower fire, Russian authorities may not be able to cope with the consequences of these breakdowns, or alleviate the impact on affected populations. Certainly, a large segment of the Russian population feels this way. In a recent poll conducted by the All-Russian Center for the Study of Public Opinion, 60 percent of the population said they feared chaos and the collapse of the country. Considering that plants which produced and now store fissile materials and biological and chemical weapons depend on this same outdated infrastructure, it may very well become a significant headache for Russia's neighbors and the United States.

Conclusion

President Putin says he wants to integrate Russia into the global economy and protect its democratic institutions and civil society. The key question is whether his efforts to consolidate power through institutional reform will help or hinder Russia's economic and societal transformation. To some Russians, he symbolizes action and decision where before there was inertia and caprice; to others, he is a throwback to the past, using old methods to revive a national vision out of sync with the demands of a modern society. In the West, his actions and rhetoric have raised concern about the future of Russia's democracy. Certainly the most important message that the advanced democracies can send Russia is that pluralism, an unfettered economic system, press freedom, and democracy are not obstacles to the development of an economically vibrant and politically strong Russia but integral to that transformation. As of now, it is not clear that Putin has gotten the message.

**Tapio Christiansen assisted in the preparation of this report.*

Chronology of U.S.-Russian Relations July-September 2000

July 3, 2000: Media Most head Vladimir Gusinsky states that his recent arrest was intended as a message to U.S. President Bill Clinton, who had appeared on one of Gusinsky's radio stations. Gusinsky said that the "great danger" is that President Putin will seek to create "manageable democracy" and that Russian society is too weak to stop it.

July 10, 2000: Foreign Minister Ivanov unveils Russia's new foreign policy doctrine stressing that Moscow will favor a pragmatic approach aimed at helping the country overcome internal economic difficulties.

July 18, 2000: President Putin and Chinese President Jiang issue a statement appealing to the international community to take "all necessary measures" to prevent the U.S. from establishing a limited national missile defense system.

July 19, 2000: State Duma overrides the Federation Council's earlier veto of the bill allowing Russia's president to dismiss regional leaders and disband local parliaments. Russia's president can now dismiss governors of oblasts and presidents of republics for violating federal laws.

July 21, 2000: At the G-8 Summit in Okinawa, Presidents Putin and Clinton discuss North Korea's proposal to abandon its missile program in exchange for help in launching space satellites.

July 27, 2000: Russian prosecutors drop fraud charges against Vladimir Gusinsky.

July 28, 2000: Foreign Minister Ivanov meets with Iraqi Deputy Prime Minister Tariq Aziz in Moscow. Ivanov rejects a U.S. statement that such contacts are inappropriate, saying "Russia is a sovereign and independent state that determines itself with whom and on what scale to maintain relations."

Aug. 7, 2000: President Putin signs legislation which restructures the Federation Council and increases his power over the leaders of the country's regions by depriving them of their seats in the upper chamber by 2002, and requiring them to appoint envoys to Moscow.

Aug. 14, 2000: The Kursk submarine sinks in the Barents Sea.

Aug. 17, 2000: Prime Minister Mikhail Kasyanov reaches a deal to restructure Russia's Soviet-era debt with the members of the London Club. Under the agreement, London Club members will swap Russia's Soviet-era debt for new Russian Eurobonds.

Aug. 22, 2000: After days of inept rescue efforts, delayed appeals to foreign rescuers, and apparent government indecision, the Putin administration announces that all 118 sailors on board the Kursk had perished.

Aug. 27, 2000: The Ostankino TV tower catches fire, knocking out television and telecommunications around Moscow.

Sept. 1, 2000: President Clinton announces he will leave the decision of deployment of a national missile defense system to his successor because the technical uncertainties and diplomatic costs are “too great now.”

Sept. 5, 2000: Boris Berezovsky accuses the Kremlin of pressuring him to give up his shares in a state-controlled television station or face imprisonment.

Sept. 7, 2000: President Putin urges world leaders at the United Nations to hold an international conference in Moscow to ban weapons in outerspace, a prohibition that could clash with plans for a U.S. national missile defense system.

Sept. 9, 2000: President Putin signs the new information security doctrine drafted by the Security Council.

Sept. 9, 2000: *The Moscow Times* publishes the results of an exhaustive investigation of the March presidential elections. The lengthy report alleges that election results were falsified and that, at the very least, if the ballot had been conducted fairly, Putin would not have won the first round of the election outright.

Sept. 13, 2000: The Presidium of the Supreme Court rejected an appeal by the Prosecutor-General’s Office to reopen the case of retired navy captain and environmentalist Aleksander Nikitin.

Sept. 21, 2000: The Cox Commission releases a partisan report on U.S.-Russia relations that speaks of U.S. policy failures towards Russia during the Clinton administration and blames Vice President Gore, among others, for too closely supporting Russia’s “young reformers.”

Sept. 27, 2000: The Russian Prosecutor-General’s Office officially charges U.S. businessman and former navy officer Edmond Pope with espionage.

Sept. 28, 2000: The U.S. government sues Harvard University for \$120 million, alleging that four individuals associated with the school defrauded a foreign aid program intended to help transform Russia into a capitalist nation.

Sept. 29, 2000: President Putin bows to pressure from the powerful Russian military lobby and back-pedals on an earlier pledge to make speedy cuts to the bloated Russian Army and transform it into a modern, professional force.