

## The Global Financial Crisis: Consequences for Russia and its Region

### ***Reset or Overload?: U.S.-Russian Relations in the Obama-Medvedev Era***

**Dr. Stephen E. Hanson  
Herbert J. Ellison Professor of Political Science  
Vice Provost for Global Affairs  
University of Washington**

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The early months of the new administration of U.S. President Barack Obama have been marked by a concerted effort to “push the reset button” in U.S.-Russian relations (to use the favored phrase introduced by Vice President Joseph Biden at a speech in Munich). Secretary of State Hillary Clinton tried to concretize this symbolic new start by presenting her counterpart, Russia’s Minister of Foreign Affairs Sergei Lavrov, with a large red button on which the word “reset” was written in English, along with what she thought was the same word in Russian (albeit in Latin letters, rather than Cyrillic). Unfortunately for the symbolism of this meeting, the actual word on the red button was not “*perezagruzka*,” meaning reset or reboot, but rather “*peregruzka*”—overload.

But perhaps the mistranslation was a subconscious expression of a deeper truth? The tasks facing the Obama administration in trying to cope with the very serious downturn in U.S.-Russian relations during the last few years of the Bush administration are genuinely overwhelming. As I will argue in this talk, one of the most important obstacles to the U.S. attempt to “reset” U.S.-Russian relations is in fact the “overload” of divisive issues confronting the two countries today. When we survey the state of the bilateral relationship in a range of issue areas—Russia’s contentious interactions with most if not all of its neighbors; the uncertain future of arms control and military relations between the U.S. and Russia; and the philosophical chasm that has opened up between Russia and the West on issues related to democratic values and human

rights—it quickly becomes clear that the path to mutual U.S.-Russian understanding will be a long and arduous one, at best. If one then examines the effects of the global economic crisis on Russia's corrupt and insecure political system, the prospects for a real breakthrough over the next few years appear to be daunting indeed.

By far the biggest problem facing the Obama administration is the unsettled nature of geopolitics in contemporary “Eurasia”—a term we can think of as encompassing not only the twelve former Soviet states (excluding the Baltic republics), but also unstable neighboring regions such as Xinjiang, Afghanistan, Pakistan, Iraq, and Bosnia-Herzegovina. The biggest problem, of course, is how to deal with the aftermath of Russia's invasion of Georgia in August 2008. Although Russia claims to be following the letter and even the spirit of international law by recognizing the independence of both Abkhazia and South Ossetia in the wake of that invasion, there can be no doubt that a dangerous new precedent has been set in the region according to which unilateral military intervention by Russia can be contemplated as an instrument of foreign policy in the region. The fact that no other state in the world, save Nicaragua, has seen fit to endorse the Russian position on Abkhaz and South Ossetian independence means that a deep paradigmatic divide has opened up between Russia and the international community on the legitimacy of post-Soviet border arrangements more generally. Even the joint communiqué issued by Presidents Obama and Medvedev after their first face-to-face meeting in London in April admitted the two sides' disagreement not only about the causes and consequences of the Georgian war, but even about the “sequence of events” that took place as it unfolded.

The situation on the ground in the Caucasus remains very volatile, and renewed fighting in the region could erupt at any point. More worrisome still, Russia's relationships with its neighbors are unstable nearly across the board. The desire to reverse the results of “colored revolutions” in both Georgia and Ukraine—which are clearly seen by Kremlin policymakers as plots by anti-Russian forces in the West—is still a top Russian priority. Ukraine's continuing political instability has tempted prominent Russian politicians to speak about retaking Crimea, and perhaps other parts of Ukrainian territory, under Russian control. Prime Minister Putin, citing Western

economic doctrine, also now officially claims the right to charge “market prices” for gas delivered to all of its post-Soviet neighbors. Thus we are unfortunately likely to see new “gas wars” between Russia, Ukraine and Belarus, with dangerous consequences for gas customers in Eastern and Central Europe. Russia’s relations with NATO continue to be difficult as well. Russia continues vehemently to oppose any further expansion of NATO to include either Georgia or Ukraine, and recent NATO exercises with Georgia have been seen as a direct violation of Obama’s pledge to work toward better U.S.-Russian ties. True, Russia has pledged to work cooperatively with NATO and the U.S. in the war against the Taliban in Afghanistan, but at the same time the Kremlin has directly encouraged the ouster of the U.S. from its military base in Kyrgyzstan, which has played a key logistical role in supplying U.S. forces in the Afghan campaign. Central Asia more generally remains a volatile region of corrupt dictatorships, one or more of which may topple as a result of mounting economic discontent. Despite formally warm relations with China, most Russian elites and ordinary people alike fear that the demographic decline in the Russian Far East means an inevitable future annexation of that territory for Chinese expansion. Technically, Russia still remains at war with Japan, since the two countries have not settled the territorial dispute that would finally bring an end to their enmity in World War II. And Russian leaders have claimed special geopolitical interests in the Arctic region, given the abundance of energy and mineral resources there as well as the new shipping lanes that may open up as a result of global warming and the further melting of the Arctic ice cap. In sum, there is not a single country in Russia’s immediate neighborhood which it can unproblematically claim as an ally—unless one includes Abkhazia or South Ossetia in this category.

When one turns one’s attention to arms control issues, the agenda is similarly packed. Nearly every major element of the architecture of international arms control is about to be renegotiated or to become legally void over the next few years. The START I treaty expires as of December 2009, and while both Obama and Medvedev have pledged to have a new treaty in place before that expiry date, the technical questions involved in ensuring mutual verification of nuclear warheads, acceptable rules for counting warheads in storage, rules for MIRVed missiles, and so on are so complex that such a compressed timetable seems rather unrealistic. Moreover, Prime Minister Putin

has made it increasingly clear that he sees no way to reach accord on arms control with the U.S. unless the question of missile defense—especially the tracking and anti-missile systems planned for deployment in Poland and the Czech Republic—is included in the general discussion. But even though President Obama himself is clearly lukewarm about missile defense, which he pledges to support only to the extent that it is cost-effective and militarily viable, it will be very hard for the U.S. simply to abandon these commitments without getting some direct and visible concessions from Russia in return. Beyond START I, too, lurks the complex problem of strengthening the Nuclear Nonproliferation Treaty; a new international conference of the NPT membership is scheduled for 2010. By 2012, the last vestige of direct arms control between the U.S. and Russia—the three-page “treaty of Moscow” signed by Presidents Bush and Putin in 2002—is also set to expire. The growing divide between Russia and the West on issues of NATO expansion mentioned above intersect with these various arms control debates in ways that are obviously not helpful for a calm, reasoned discussion of mutually beneficial solutions.

The “overload” of U.S.-Russian relations becomes even more evident when one adds to this long list of problems the seemingly insuperable divide between the Putin-Medvedev leadership and most North American and European leaders on issues of human rights and democracy. By any objective standard, Russia’s current regime is a straightforward dictatorship. Elections are blatantly manipulated to ensure victory for the pro-Kremlin party, United Russia; the media is increasingly tightly controlled; independent journalists are harassed and, in several quite prominent cases, killed; NGOs are accused of espionage and subjected to arbitrary regulations that drive all but the most courageous democratic activists out of business; the court system is openly used to settle personal scores against opposition figures and independent entrepreneurs; and direct criticism of Prime Minister Putin is almost never expressed openly. Yet Russian elites and ordinary citizens alike remain largely allergic to Western criticisms of the Russian regime. U.S. and European praise for the “democratic” orientations of leaders like Gorbachev and Yeltsin, who are seen (understandably) by ordinary Russians as having dismantled Russia’s great power status and destroyed its economy, has solidified the sense in Russia that Western concerns about “democracy”

are a cynical plot to undermine Russia's territorial integrity. Putin, conversely, has until recently presided over booming economic growth—precisely while he rolled back the liberalization efforts of his two predecessors. Finally, the Bush administration's willingness to countenance arbitrary arrests and detentions in the U.S., "extraordinary renditions" of "enemy combatants" to serve time in foreign prisons, and even the use of what most nations consider torture to extract confessions from suspected terrorists, has done enormous damage to America's image in Russia as a defender of democratic values. So the frequent charge in pro-Kremlin media outlets that the U.S. and EU apply "double standards" in criticizing Russia's democratic failures still has a large and receptive audience among Russian citizens.

These three major areas of tension and disagreement between Russia and the West would be challenging in any context. In the wake of the global economic crisis that began in the fall of 2008, however, Russian policymakers face particularly trying domestic circumstances that make it even harder for them to reach enduring agreements with the very Western countries—particularly the U.S.—which Russian elites and media outlets blame for the economic recession. The list of economic problems facing Russia today is remarkably long. The price of oil, which is still the central underpinning of the Russian economy, dropped in six months from \$140 to about \$40 per barrel, with predictably deleterious effects on Russian government revenues. Russia's currency reserves dropped in the same period from nearly \$600 billion to about \$350 billion, as Putin spent money to bail out key Russian businesses and banks as well as to shore up the ruble. The ruble-dollar exchange rate, nevertheless, dropped from about 23:1 to nearly 39:1 in early February 2009. The Russian stock market plunge was one of the worst in the world, losing about 70% of its value in about half a year. Capital flight, which had slowed to a crawl in 2007 and early 2008, reemerged with a vengeance, with \$130 billion leaving the country in the fourth quarter of 2008 and an additional \$29 billion in January 2009 alone. And while Russian sovereign debt was not a serious problem in this period, due to the repayment of most Soviet-era and Yeltsin-era state debt during Putin's two presidential terms, Russia's major companies had gone on a debt spree in the same period; as a result, an estimated \$150 billion was due to be repaid to foreign creditors in 2009, with no clear

source of revenue in many cases to cover such payments. Finally—and most consequentially for the stability of the Putin-Medvedev regime—unemployment in Russia was rapidly increasing as a result of the drops in Russia’s energy, mineral, and industrial exports; reputable experts predicted a rate of 15% or above by the end of 2009, and in Russia’s biggest industrial cities, millions of workers had lost their jobs.

To be sure, the drastic decline in Russia’s economy had leveled off a bit by the winter of 2009. The price of oil recovered to over \$50 per barrel, and the ruble-dollar exchange rate in turn rose to 32:1. Russia’s hard currency reserves largely stabilized, and capital flight slowed to a trickle, since the most speculative capital had already left the country. Were the global economy to recover significantly, Russia might weather the crisis and emerge with its basic political and economic system intact. However, the problem of rising unemployment in Russia’s industrial heartland was sure to continue for many months—and perhaps years—to come. To the extent that the Putin-Medvedev regime owed its popularity to Putin’s past association with economic growth, new challenges to the legitimacy of Russia’s leaders seemed inevitable. Nor was it clear exactly how the rather bizarre leadership “tandem” could be preserved in its initial form. Given Putin’s formal responsibility as prime minister for Russia’s disastrous economic performance and Medvedev’s formal responsibility for foreign policy responses to the overtures of the Obama administration, the temptation for the latter to distance himself from his former mentor were obvious—even to Medvedev and Putin themselves, who nevertheless continued to deny the increasingly common rumors of a split between them.

To summarize, then, the effort to “reset” U.S.-Russian relations in the new Obama administration, however necessary and desirable, has come at a tricky time in world history, to say the least. How might the Obama leadership avoid getting “overloaded” by such a long list of geopolitical, social, and diplomatic challenges?

First, it is crucial to focus not only on improving relations with Russia’s leaders through summitry and diplomatic gestures—as did both the Bill Clinton and George W. Bush administrations—and focus seriously on increasing the ties between ordinary Russians and ordinary Americans. As Russia’s political and economic institutions come

under severe challenge, and discontent about unemployment, inflation and corruption continue to grow, Russian society is now more likely to drive Russian policy that at any time since the collapse of the USSR. Russian entry into the WTO along with sustained efforts to improve bilateral trade and investment, plus significant increases in funding for educational and citizen exchanges between the U.S. and Russia, are thus more important than ever.

Second, the principle that all 15 former Soviet states are truly sovereign, with the right to determine their own foreign policies, cannot be abridged. The “good news” about the outcome of the Georgian war—albeit rather attenuated by continuing instability on the ground—is that Russia did not decide to occupy most of Georgia or even to annex Abkhazia and South Ossetia to the Russian Federation. Instead, Russia claims that its recognition of Abkhaz and South Ossetian sovereignty is parallel to the recognition of Kosovo by the U.S. and much of Europe. If this game of “tit for tat” stops here, the central principle of the post-Soviet geopolitical settlement—namely, that Russia accepts its new internationally-recognized borders in return for its recognition as the diplomatic heir of Soviet assets abroad and its status as a permanent member of the U.N. security council—can still be preserved. Conversely, any further revision of post-Soviet borders—in Crimea, for example—would introduce dangerous uncertainty about state sovereignty throughout greater Eurasia, with truly incalculable consequences for global security.

Third and finally, the time has come for the U.S. to develop a Russia policy that is genuinely about Russia and Eurasia—and not about some other goal favored by American policymakers. Loose talk in some quarters about how we might strike a deal with Putin and Medvedev primarily in order to gain their help on issues such as Iran’s nuclear policy—perhaps by formally renouncing further NATO expansion, or by unilaterally discarding missile defense in Europe—is not only unrealistic, but also reinforces the widespread idea among Russians that their country is seen as a mere pawn on the global chessboard, and that neither the great power status of Russia nor the well-being of Russian citizens themselves is truly important to U.S. policymakers. Early indications are that key individuals in the new Obama administration understand

the imperative to take Russia seriously in U.S. foreign policymaking. But given the overload of inherited problems summarized in this talk, no one should be deluded into thinking that the road ahead will be smooth, straight, or short.