

U.S.-Russia Relations after PNTR: the Long View

Friday, November 30, 2012

Cannon House Office Building Caucus Room

Panel 1:

Representative Adam Smith (D-WA), U.S. House of Representatives

Ambassador Carla Hills, CEO, Hills & Company; former U.S. Trade Representative

Chair: **Scott Miller**, CSIS Senior Advisor and William M. Scholl Chair in International Business

Keynote Address:

Senator Richard Lugar (R-IN), U.S. Senate

Panel 2:

Dr. Zbigniew Brzezinski, Former National Security Advisor; CSIS Advisor and Trustee

Chair: **Dr. Andrew Kuchins**, Director and Senior Fellow, CSIS Russia and Eurasia Program

Panel 1:

Representative Adam Smith (D-WA) began by discussing U.S.-Russia relations in the new multipolar world. Russia is one of many rising power centers in the international system with which the U.S. has a strong interest to cooperate, having already worked together on nonproliferation initiatives, counterterrorism, and Afghanistan. However, there is also a great deal of animosity in the relationship. Russia sees itself as a great power and this perception has created significant friction between Washington and Moscow. We must continue to look for areas where the United States and Russia can engage constructively and get along. It is for the aforementioned reason that the passage of Permanent Normal Trade Relations (PNTR) legislation is so important. PNTR will advance the U.S.-Russia relationship in a mutually beneficial direction. It will benefit both countries from the economic perspective while also beginning to address the issues of the rule of law, government and business transparency, and property rights in Russia. Overall, PNTR is a positive step forward because the more that the United States and Russia have in common in economic and trade terms, the less likely we are to find ourselves in conflict in other policy areas.

Ambassador Carla Hills began by discussing U.S.-Russia relations following establishment of PNTR. There is certainly a long way to go in the economic and political relationship between the United States and Russia. Russia maintains high barriers to trade and investment, an opaque political and economic system, and rule of law not up to U.S. standards. We are making progress, however, and the accession of Russia to the World Trade Organization (WTO) and the extension of PNTR will be of great benefit to the United States. In economic terms it will cut tariffs by approximately 25 percent, open up services sectors, including the financial, entertainment, and telecommunications sectors, end restrictive licensing on the encryption of software, and eliminate Russia's strict sanitary and phytosanitary restrictions on farm products, a major U.S. export to Russia. Overall, U.S. trade with Russia is expected, at a minimum, to double over five years. Aside from the economic benefits, Russia's accession has provided clarity on its trade regime, ensuring through negotiations that its policies meet WTO standards. Additionally, the liberalization of the trade system should benefit Russia in terms of the rule of law and the transparency of the economic and political system. All of these potential benefits, however, will not be realized if

Congress does not move quickly to pass PNTR and repeal the Jackson-Vanik amendment, a Cold War-era relic that continues to unnecessarily hamper the U.S.-Russia relationship.

Scott Miller began the discussion by engaging **Ambassador Hills** on the question of how consumer sovereignty will affect political and economic relations between the United States and Russia. The passage of PNTR will cause Russia's economy to grow through greater consumption, including consumption of American goods. Additionally, the U.S. companies and entrepreneurs doing business in Russia will bring their values to bear on the Russian economic and political system, causing positive, if incremental, change. In fact, young educated Russians tend to view American companies much more favorably than Russian companies.

Scott Miller then engaged **Representative Smith** on the question of the role of commercial diplomacy in U.S.-Russia relations. Commercial diplomacy is absolutely critical, as it helps to build a stronger relationship and advances our economic interests in Russia, a major market. Of course, Russia's WTO accession means that the United States will now face considerably more competition. However, the United States is uniquely positioned to thrive under conditions of commercial competition, due to the emphasis of U.S. firms on quality. The ability of U.S. companies to sell quality products and foster brand loyalty amongst Russian consumers places the U.S. in an advantageous position. Additionally, true economic competition will work to foster change in the Russian system itself in areas including transparency, the rule of law, and property rights.

The first question asked **Representative Smith** to comment on what impact the recent expulsion of USAID from Russia will have on the U.S. development community's future efforts in Russia. This should not have a huge impact, given that the Russian economy has shifted from development to commercial and business relations with the U.S. One downside to this shift is that some traditional avenues for U.S. engagement with Russian, such as development, might suffer, though this deficit could easily be made up through collaboration in other issues areas. **Scott Miller** added that Russia has tremendous needs in infrastructure, which could facilitate further joint ventures between the U.S. and Russian development communities.

The second question asked the panel to discuss the issue of women in business in Russia. Sexism and other cultural norms could pose challenges to the advancement of women in Russian business. However, the exposure to the U.S. business community and its values on this issue will place those firms with sexist practices at a disadvantage and potentially encourage better business practices. While this change will not happen overnight, the value systems of U.S. companies have proved time and again to be contagious. One of the primary reasons that American firms are viewed more favorably than Russian firms by young Russians is their lack of sexist or gender-based hiring practices.

The third question asked the panel to discuss how PNTR and Russia's WTO accession will affect the ability of U.S. companies to do business in an economic and political system that remains corrupt. Just as in the case of China's WTO accession, these problems will not be eliminated overnight. However, the WTO provides the U.S. government and U.S. business interests with a forum through which grievances can be aired and complaints can be filed. Also, the transparency and non-discrimination standards agreed to upon WTO membership will move Russia in the right direction, potentially affecting other parts of the economy and political system as well. Overall, Russia must decide to make the internal changes necessary to foster an economic environment more favorable towards foreign investment and business. Importantly, Russia is certainly more likely to move in a positive direction as a part of the WTO than outside of it.

The fourth question asked the panel to discuss how the U.S. private and public sectors can encourage higher business standards in Russia. U.S. business associations and other private sector organizations can help to formulate norms of business conduct for U.S. firms in Russia, publicize those standards within the

Russian business community, and speak out effectively when those standards are not met by Russian partners. Additionally, interaction between Russia and the United States in the WTO will provide both countries with a forum in which to constructively engage on issues of business and trade policy while both states benefit economically. It is important to note that Russia joined the WTO in the pursuit of its own interests, most notably economic expansion and respect within the international system consistent with Putin's vision of Russia as a great power.

Keynote Address: Senator Richard Lugar (R-IN)

Senator Richard Lugar (R-IN) began by emphasizing that the U.S.-Russia relationship remains critical, especially in the areas of nuclear non-proliferation, energy security, counterterrorism, and various regional issues. However, he argued, the U.S. must proceed cautiously and realistically, understanding that the relationship will often be difficult. Russia has not altered its hard line on many international issues, refusing to comply with the 2008 agreement on Georgia, using heavy-handed energy politics in its diplomacy, and frequently opposing the U.S. in the United Nations Security Council on Syria and Iran.

Despite these strains, the U.S. Senate will soon move to establish Permanent Normal Trade Relations (PNTR) with Russia, creating an important milestone in U.S.-Russia relations. The U.S. hopes that PNTR, as well as Russia's membership in the World Trade Organization (WTO), will lead to reforms in the country's trade and investment policies, in light of major capital flight and devaluation of Russian assets in the past year. Along with PNTR, the U.S. Congress is set to pass the Sergei Magnitsky Rule of Law Accountability Act of 2012, which is necessary for holding Russia accountable for its internal political crackdown. The Senate is currently debating on whether the law will focus exclusively on Russia or be applied globally.

The U.S. had a window of opportunity to become a partner with Russia at the end of the Cold War, focusing on nuclear security cooperation. During the last two decades, the Nunn-Lugar Cooperative Threat Reduction Program has allowed the U.S. to seize this opportunity. Nunn-Lugar has been a triumph measured in more than numbers. It has also been a day-to-day enterprise involving hundreds of Americans and Russians working together to expose Russian military facilities to international safety standards.

Nunn-Lugar has recently come under fire due to Russia wanting to renegotiate the agreement, especially its primary tenet, the elimination of strategic offensive arms. Terminating this aspect would put the whole program into question. In addition, Russia called into question the Highly Enriched Uranium Purchase Agreement and sought to shut down the International Science and Technology Center. These recent developments signal that the window of opportunity in U.S.-Russia relations is closing again.

Nunn-Lugar is not the only forum for nuclear security cooperation between the U.S. and Russia. The New START treaty, negotiated between Presidents Obama and Medvedev, focuses on transparency. However, if other programs such as Nunn-Lugar are allowed to expire, New START becomes the only vehicle for strategic dialogue between the U.S. and Russia. In this context, President Obama must engage Moscow at the highest levels to ensure the future success of our non-proliferation cooperation with Russia and to preserve Nunn-Lugar. For those in the weapons dismantlement industry in Russia, this is purely a jobs issue. While current negotiations on this issue appear to be at a standstill, it does appear as if Russia does want to constructively engage and continue discussion on this issue.

Panel 2:

Dr. Zbigniew Brzezinski, Former National Security Advisor; CSIS Advisor and Trustee

Chair: **Dr. Andrew Kuchins**, Director and Senior Fellow, CSIS Russia and Eurasia Program

On the dynamics of the U.S.-Russia relationship, Dr. Brzezinski commented that the United States does not perceive Russia as an enemy and disagreements between the two states, of which there are many, can be overcome through engagement and negotiation. However, Putin is a self-imposed prisoner of imperial nostalgia who ties the greatness of Russia to the extent to which it can reassert hegemonic dominance in the former Soviet space. This outlook is connected to the myriad internal problems which plague Russia, as Russia cannot address its economic or political woes with such an imperialistic mindset.

Over the long term, the prospects for the U.S.-Russia relationship are positive. Russia is changing in spite of Putin and there is a growing sense of discontent and malaise within society that bodes well for political changes in the future. Additionally, and this is very subjective, something appears to be ailing Putin either physically or psychologically – there is a sense that something is troubling him. He has turned from an almost comically virile leader into a less vigorous, somewhat frail figure.

Dr. Kuchins added that at the Valdai International Discussion Club in October 2012 Putin appeared disengaged and seemed to possess a less positive energy than in previous years. He also seemed less in command of his policy portfolio than in the past and deliberately did not engage when asked about his vision for his legacy.

Dr. Brzezinski commented that the Obama administration should engage the Putin government over the next four years on the basis of our national interests and seek to negotiate constructively with them to resolve disagreements and differences. At present one cannot entertain any grand notion of a historical resolution of differences between these two states. However, the more basic issue is the emergence of two contradictory social momentums currently altering the Russian landscape. The first is the awakening of an intense, narrow-minded Russian nationalism that is found both within the population at large and in the government. The second is the growth of a more pluralistic, open, and internationally-minded middle class. In the short run the growth of nationalism provides momentum for such imperialist enterprises as the Eurasian Union. Yet that initiative seems doomed over the long term as few states are likely candidates for willing membership.

The more important point is that the rise of an internationally-minded middle class demonstrates that for Russia to thrive it must be more closely associated with the West. Otherwise, the threat of a dynamic China along its border will loom even larger. The fact remains, however, that the influence of this socioeconomic shift may only come to the forefront after Putin leaves power.

Dr. Brzezinski provided his thoughts on how he would direct Russian foreign policy in Asia were he given the chance to do so. Initially, it would be tempting to attempt to exploit the current frictions between the United States and China. However, this is a narrow opportunity because Russia is not in a position in which it can help China to any great degree. The real long-term issue for Russia is its international development and modernization. The economic system in Russia is currently characterized by resource dependence, debilitating corruption, and pervasive capital flight. These tendencies could create tension with China if China continues on its current growth path and the critical Russian Far East remains economically and demographically stagnant. Russia has a far greater opportunity to pursue the development of the Russian Far East through cooperation with the West and engagement with the

Western-oriented subset of Russian society that has been growing in recent years. Still, however, such a development strategy would need a foundation of democracy in order to be effective.

Dr. Kuchins commented that President Putin's biggest problem is that traditional drivers of economic growth, which has bolstered his popularity and, conversely, created the movement that now opposes him, have dissipated in recent years. Thus to ensure his long term political prospects he must fundamentally change course. **Dr. Brzezinski** agreed, noting however that such a shift is by no means a certainty. There is not a clearly defined alternative to Putin, as socio-economic trends have not yet crystallized into political orientations.

Dr. Brzezinski discussed whether President Obama will benefit from increased flexibility on the issue of missile defense in his next term and if President Putin is likely to be flexible on this issue as well. President Putin has dug himself into a hole on this issue and will likely not be able to be flexible. Obama will have very little latitude because any agreement that appears even mildly concessionary will be greeted with backlash. Additionally, the Central European countries involved in the missile defense plan will not take kindly to another change in the U.S. position. The only flexibility that remains is that based on common sense. The United States must take pains to demonstrate technologically that the missile defense system is not directed at the Russians. It should be noted that Russian interest on research and development in ballistic missile defense systems could be used to secure concessions, provided the United States is willing to deal as well.

Dr. Brzezinski lastly commented on how Russian relations with China influence the Russian position on missile defense. China's reaction would only come into play if China felt that the missile defense system constituted an effort by the U.S. and Russia to gang up on them. However, they do not seem to fear such a development and have, in fact, demonstrated remarkably restraint in recent years vis-à-vis their nuclear posture towards the United States and Russia.

Discussion

The first question asked **Dr. Brzezinski** to comment on the expansion of NATO after the dissolution of the USSR and to assess its impact on both U.S. and European relations with Russia. NATO expansion was not rushed during that period; in fact, it took place over two decades. Overall, this expansion has been a very positive development, with NATO acting as a guarantor of security. Without NATO, the states in question would be vulnerable, complicating U.S.-Russia relations to this day. With NATO, the United States and Russia have not had one major dispute over the membership of these states. Furthermore, the states of Europe were in favor of NATO expansion. It is not surprising that Russia has been disappointed that they are no longer able to dominate the former Soviet Union. That, however, does not detract from the success of NATO expansion in that region.

The second question asked **Dr. Brzezinski** to give his opinion on who is likely to lead Russia after Putin and to comment on how their domestic and foreign policies might be different. It is not possible to provide a single name. However, it will be someone emblematic of the aspirations and values of the new middle class. In this sense, this leader will be very different from Putin, who remains a product of the KGB system that promoted a very traditional, imperial notion of what makes a healthy state.

The final question asked **Dr. Brzezinski** to comment on the prospects for the development of an Eastern Russia with close ties to China, Japan, and South Korea. The primary question here is whether or not Russia will be able to successfully maintain its presence in the Russian Far East and develop it demographically, economically, and politically. Russia will have a better chance to reenergize the Russian Far East if it turns to the West to do so, as strong Western ties will make the region more attractive to

investors and neighbors alike. If the region remains isolated or if Russia pursues an unrealistic, unhistorical Asian strategy, the chances of success will be much smaller.