

COMMENTARY

Where Should U.S. Policy toward Russia Go from Here?

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Emotions are riding high in Washington, but the United States must very carefully consider and calibrate its response to prevent a complete breakdown in the U.S.-Russian relationship that would seriously damage a number of its core security and foreign policy interests around the world. We are on the precipice of a twenty-first century Cold War that could easily prove to be more dangerous and unstable than the one the United States survived and won in the last century. Alliances are more rickety, interests more cross cutting, so behavior is less predictable, and the possibility for miscalculation considerably greater.

The events of the past month illuminate the dangers and costs of miscalculation. Under duress, President Mikheil Saakashvili badly miscalculated in attacking South Ossetia, resulting in the destruction of the Georgian military, massive damage to the Georgian economy, over 100,000 internally displaced persons, and unknown consequences for his political career. The Kremlin's brutal response including occupying large parts of Georgian territory outside South Ossetia and Abkhazia and then rapidly recognizing the independence of the separatist regions has left Russia diplomatically isolated. The Bush administration was caught napping, and its policy toward Russia and Eurasia is in tatters. U.S. credibility around the world has suffered another powerful blow. Regardless of the administration's claims otherwise, U.S. security guarantees have been devalued.

The temptation to lash out to punish the Russians is powerful, especially during the heat of a presidential campaign. Unfortunately, however, we are caught in an action/reaction downward spiral in which those advocating a more hostile and confrontational relationship in both Russian and U.S. political circles are the beneficiaries. We experienced this dynamic during the Cold War when Russian and U.S. "hard-liners" saw their interests and agendas strengthened during rocky periods. Whether the hawks' policy prescriptions in Moscow and Washington today are in the national interests of Russia and America is a dubious proposition.

The United States should also take note that the "invisible hand" of the market is doling out some significant pain to the Russian economy that will only grow if current trends continue. Already, the Russian stock market has lost more than 40 percent of its value since its peak in May, and about 15 percent of that loss has come since August 8. After the war with Georgia, Russia experienced a capital outflow of about \$16 billion in a week, the largest level in more than 10 years. The ruble has lost more than 10 percent of its value in less than a month. In short, Russia's vulnerability to the global investment community has been starkly exposed. And while Russia has been riding high on the massive cash inflow principally from hydrocarbon exports, the conditions for growth are not nearly as felicitous now compared to what Russia enjoyed over the last five years. What looks more like a global recession has turned the commodity price cycle downward, and liquidity shortages have raised the costs of borrowing in capital markets. Russia requires huge investments to modernize its infrastructure, energy sector, and industry, all of which are becoming more costly. Policy mistakes, whether wars or otherwise, that shake investor confidence will more directly prevent Russia from achieving its economic goals. And the best news about this is that recent survey research and econometric analysis confirms that strong economic performance is by far and away the most important factor in the popularity of the Russian government. Even authoritarian governments need to be mindful of the basis of their popularity and legitimacy.

But the United States can't simply sit back and assume that the invisible hand will deliver us to the promised land and the end of history. Nor can it, and nor has it, remain paralyzed in fear of doing something unduly "provocative" in the eyes of the Kremlin. Prompt delivery of humanitarian aid was called for and delivered. Delivery of that aid in U.S. naval ships and NATO's naval presence in the Black Sea also sends a message to Russia of consequences. Promptly approving the \$1-billion aid package for Georgia was also called for. Eventually the United States will need to assist, with its allies, in the rearming of Georgia, but holding off on that until the Georgians conduct a thoughtful needs assessment is also a prudent measure.

Sooner or later, however, we need to reengage the Russians. That this war happened speaks to a failure of communication. Does the United States really understand what are just "red lines" and what are *really* "red lines" in the Kremlin? Evidently it does not, and the costs of not knowing that could be greater in the future. The United States has to think far more carefully about its core

priorities in relations with Moscow. This was unnecessary in the 1990s because Russia was weak and the United States could have it all. That is no longer the case. No doubt Moscow is a bit “dizzy with success” now and overestimating its own strength and U.S. weakness, but there is an ongoing shift in the global balance of power away from a unipolar to a multipolar world. These conditions require more subtle diplomacy and willingness to give and take to accommodate the interests of allies, partners, and even adversaries while not compromising vital interests. And if the United States doesn’t engage soon, the next president may find his options in January 2009 far more limited and unpalatable than they are today.

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