

EXECUTIVE SUMMARY:

Russia: Prospects for a Common Transatlantic Agenda

Aspen Atlantic Group Workshop

April 7-9, 2006

Wilton Park, Steyning, United Kingdom

Introduction

The Aspen Atlantic Group is an initiative of former North American and European foreign ministers, from across the political spectrum. Building on a history of constructive negotiations and issue resolution, these senior statesmen and women are uniquely positioned to leverage their experience and insight to foster a more collaborative transatlantic exchange. The ministers seek to develop concrete, non-partisan recommendations to help both sides of the Atlantic address common global challenges. Through members' in-depth understanding of foreign policy, and continued influence as opinion leaders, legislators, and advisers to governments and political parties, the group has addressed such issues as the reconstruction of Iraq, the fight against terrorism, Middle East peace, humanitarian intervention and reform of the transatlantic architecture.

The Aspen Atlantic Group held four sessions before the most recent conference on Russia. Each meeting has included outside experts from the executive and legislative branches of government, think tanks, academia and the media. Working materials and policy papers are developed by group members and an array of both established and rising policy experts.

The first meeting, held June 6-8, 2003 on the Eastern Shore of Maryland, allowed participants to exchange ideas for revisiting or reforming the institutions and concepts that have served as the foundation of the transatlantic relationship for the past 50 years. Questions of state sovereignty, international law, and the use of force in light of the current security environment were examined. Specific institutional reforms for the UN and NATO were also discussed. The meeting concluded with participants expressing a strong desire to meet again in August where they would have the opportunity to develop concrete recommendations for new institutions and a revitalized framework of cooperation.

The second meeting, held July 31-August 2, 2003 in Aspen, Colorado, focused on the transatlantic architecture, European and American threat perceptions, transatlantic cooperation in the Middle East, and the concept of humanitarian intervention. Of all the threats and challenges to global security that were discussed, Iran generated the greatest amount of disagreement. European participants appeared most sympathetic to Iran's regional security concerns. For example, they were generally skeptical that Iran would use any nuclear capabilities it acquired for warfighting. Conversely, the American attendees warned that Iran might share or leak WMD capabilities and knowledge to terrorist groups. All participants agreed that the focus of their next meeting should be on Iran's nuclear ambitions. Because the meeting took place during a continued and heated policy dialogue regarding Iraq, the former foreign ministers also decided to issue a statement on the reconstruction of Iraq, urging all parties to internationalize the situation on the ground as soon as possible.

The third meeting in the Aspen Atlantic Group series occurred in July 2004. It focused on crafting a common transatlantic agenda for Iran. Key strategic thinkers and senior

statesmen spent three days in the Netherlands examining a variety of international and domestic issues that will shape Iran's future relationship with the transatlantic community. This workshop also included a special keynote presentation by General James L. Jones, Supreme Allied Commander Europe, who briefed participants on the recent NATO Summit in Istanbul.

During the fourth meeting in Vancouver, Canada, in May 2005, the members of the Aspen Atlantic Group and other experts and policy makers from both sides of the Atlantic discussed their recommendations for a package of United Nations reforms, a long-term agenda for recovery and reconstruction in Southeast Asia, and strategies to counter nuclear proliferation. They discussed such themes as the "Responsibility to Protect" and the need for democratic nations to take a leading role at the UN. Allan Rock, Canada's Ambassador to the UN, and Jane Holl Lute, Assistant Secretary General, UN Department of Peacekeeping Operations, delivered keynote addresses.

From April 7-9, 2006, the Aspen Atlantic Group assembled several former foreign ministers—along with experts from Europe, the United States and Russia—at Wilton Park, England to explore the opportunity for future cooperation between North America and Europe in crafting policies toward Russia. The sessions addressed Russia's recent retreat from democratic practices, its relationship with its neighbors, the health of the free-market economy in the country, Russia's dependability as an energy superpower, the West's views on Russia's strategy and tactics in Chechnya, the state of Russia's nuclear security in a post-9/11 world, and Russia's role in the global war against terrorism.

What follows is a summary of the fifth meeting of the Aspen Atlantic Group at Wilton Park in April of 2006.

Issue I—Russia’s Internal Developments

Many signs testify to a weakening of democratic practices, human rights, and the rule of law in Russia. These include the elimination of regional elections for Russian governors, the weakening of opposition parties, the crackdown on NGOs, and the restrictions on independent media broadcasts. Groups like the Council of Europe, the Organization for Security and Cooperation in Europe, Human Rights Watch and Memorial have written numerous reports documenting regime-sponsored intimidation and harassment of activists, law enforcement abuses, and human rights violations by Russian troops operating in Chechnya. The situation could easily worsen, with Russia slipping further away from the Euro-Atlantic community and closer towards authoritarianism, hyper-sovereignty, and imperial nostalgia.

Furthermore, Russia’s formal government institutions have become increasingly less important. The political system has become dominated by small groups of unelected, unaccountable, financially and politically powerful individuals with direct ties to Vladimir Putin or his close allies. Instead of empowering state institutions, Vladimir Putin has empowered personal and corporatist interests and networks. The recent natural gas crisis with Ukraine testifies to their power while simultaneously demonstrating the West’s limited ability to influence their policies.

The biggest political question in Russia today is whether Putin will try to stay in office after 2008. The questions of whether Putin will stay in power, or whether he will designate a “successor,” are discussed with surprisingly little reference to the actual elections. Both Kremlin officials and political analysts appear to expect that political deals among ruling elites rather than Russia’s 107 million voters will determine the country’s next leader. The Russian people are not expected to choose between several serious candidates in a pluralistic election. Instead, they are to rubberstamp the leadership’s decision with their ballots. Political cronyism and de-institutionalization have created an opaque governing system that deviates substantially from any definition of democracy.

In essence, Russia is torn between the principles of liberal internationalism and illiberal nationalism. Putin himself is split between wanting Russia to become a modern Western economy and society, and believing that he needs to control everything. Soviet nostalgia, Russian exceptionalism, and admiration for Stalin are on the rise, while only a small percentage of Russians are concerned with human rights issues.

While the West is acutely aware of the increasingly negative political developments in the country, it lacks sufficient leverage to “push” or “pull” Russia in the direction it desires. Russia’s domestic problems—corruption, Chechnya, and imperial nostalgia—make it harder to achieve Western foreign policy goals. However, trying to isolate Russia by boycotting G-8 summits or taking similar measures makes little sense. Such an approach would reinforce Russians’ feelings of alienation from the West and possibly push them towards other authoritarian countries like China. Appealing to rhetoric about “common values” will not work either given Russians’ belief in the

“specificity” of their institutions and Russians’ unique political vocabulary (e.g., “sovereign democracy,” “managed democracy,” “democracy for the people,” etc.).

The transatlantic community’s growing ambivalence towards human rights and humanitarian law weakens the West’s ability to affect Russian developments. Western leaders legitimize illiberal Russian policies by actions such as the congratulatory letter issued by the EU following the November 2006 Chechen parliamentary elections, which objective observers widely perceived as fraudulent. Many Western analysts, while acknowledging Putin’s flaws, nevertheless characterize him as better than the probable alternatives. Western governments repeatedly give priority to securing Russia’s cooperation against the threats of terrorism and WMD proliferation. This approach is also seen in how Western leaders compromise human rights, international law, and norms against torture in their own efforts to combat Islamic extremists. To truly be able to deal with any negative Russian developments, the West must first get its own house in order and engage in some constructive self-criticism. Otherwise, Russians will feel justified in dismissing Western criticism as manifestations of an unwarranted double standard.

Western leaders must bear in mind that democratization is a complicated and protracted process. It will take years for economic and political developments to expand the size of the electorate acutely concerned with democracy and human rights. The West must end its preoccupation with quick-fix measures such as institution building as a means towards building democracy in Russia. Instead, Western governments and NGOs should pay more attention to long-term processes such as promoting a democratic culture in Russia. They should also focus on engaging all levels of Russian society on concrete, pragmatic issues. We cannot move forward if we stay in the realm of myths and attitudes. Progress can only be made if we engage in the realm of concrete politics.

Issue II—Russia and Its Post-Soviet Neighbors

The fall of the Soviet Union in 1991 brought about the creation of fifteen independent republics that share an intertwined history with greater Russia. In terms of politics, economics, and security, Russia remains the key country within what is still often referred to as the “Post-Soviet space.” Bilateral ties between Russia and its neighbors are both diverse and deep. Developments in Russia invariably affect them, positively or negatively.

The Putin administration has succeeded in regaining some of this influence in Eurasia that was lost during the Yeltsin years, when the region was largely neglected. Yet, discerning a coherent strategy in Russia’s policies towards its post-Soviet neighbors is difficult. Russia exhibits a wide spectrum of behavior towards the other former Soviet republics. This diversity (or incoherence) may reflect the complex interaction of competing interest groups on Russian government policies. Many Russians continue to treat developments in the other former Soviet republics as domestic political matters.

The Kremlin itself views these states through both a domestic and a foreign policy lens. Most Russian leaders see the West’s presence in the post-Soviet space as a challenge to Russian security interests. They consider themselves engaged in a zero-sum game of influence with the EU and NATO in the region. Because the West has at times supported anti-Russia regimes regardless of their commitment to civil rights (e.g., Uzbekistan), many Russians have adopted the view that Russia should support any pro-Moscow regime regardless of its domestic policies. The Putin government appears to consider the prospects of additional pro-Western “colored revolutions” as a challenge not only to its influence in Eurasia but as a potential threat to its own regime.

Moscow’s diverging policies towards its post-Soviet neighbors also result from the varying commercial, diplomatic, and security interests Russia has regarding each country. For example, the Putin administration hopes to preserve regime stability in those countries that have yet to undergo a “colored revolution.” In those countries that have already experienced revolutions, Russia seeks to prevent their moving towards pro-Western institutions that have been perceived to be hostile to Russian interests. Russian efforts to maintain the status quo among its fellow managed democracies will probably succeed in the short run, but these policies will do little to strengthen the long-term stability of these regimes.

Russia has a number of tools to influence developments in the post-Soviet space. First, although Moscow no longer has a clear ideology to export, it does derive substantial soft power from the historical, linguistic, cultural, and even familial ties between Russia and its former republics. Russian leaders enjoy strong and multifaceted personal connections with their fellow ruling elites. Second, Russian businesses are active in every post-Soviet state. Moscow derives much leverage from these economic ties, including its central role as an energy supplier and conduit within the post-Soviet space. Third, Russia plays a large role in determining the outcome of the four “frozen

conflicts” in the region (Nagorno-Karabakh, Transnistria, South Ossetia and Abkhazia). The Russian public largely accepts the government line regarding Russia’s post-Soviet neighbors. For example, polls show agreement that Belarus represents Russia’s greatest ally and Latvia its greatest threat. President Putin’s polling numbers also remain high.

Western governments find it difficult to balance respect for legitimate Russian concerns while sustaining movement towards democracy and globalization in the other former Soviet republics. Kremlin leaders remained unconvinced by Western arguments that Russia would be better off having a set of stable and prosperous countries along its borders even if they have different socioeconomic systems than Russia. In this regard, the interests of the Russian nation and the Putin regime might not coincide, at least from the perspective of those in the West. Westerners may only have a vague strategy and hope of drawing many former Soviet republics closer towards themselves, but this orientation clearly conflicts with Russia’s vision for the region.

A complicating factor is that some important groups in Western countries stress the importance of democracy building in the former Soviet Union while others prioritize commercial interests. The need to secure the support of these governments in the Global War on Terror also constrains Western policies in the region. Although the West might genuinely want to cooperate with Russia on global issues, competing with Russia for influence in its neighborhood could undermine efforts at cooperation in other regions. Calibrating relations with Russia on the one hand and the post-Soviet space on the other has been a source of disagreement, both between “old” and “new” members of the EU, and between the United States and some European countries.

Issue III—Russia’s Economy

Many fear that Russia will follow the path of other countries rich in natural endowments but poor in human resources and liberal democratic traditions. Russia’s increasing dependence on energy exports for both economic revenue and political influence has led some observers to compare its economic profile to that of a resource-rich developing country. Its bountiful natural endowments serve as a core source of national economic wealth, but they also represent a “resource curse.” Like other afflicted countries, Russia has seen the rise of anti-democratic forces, the emergence of an environment hostile to foreign investment, and other highly negative trends.

Although Russia has achieved some of the highest economic growth rates among industrial countries in recent years, its GDP remains much smaller than those of the other G-8 members, closely approximating the size of the Dutch economy. Russia’s ability to sustain these high growth rates remains unclear, particularly if world prices for its oil or gas decline. The country also faces substantial long-term problems from disturbing demographic trends, an inadequate public health infrastructure, and entrenched crony capitalism.

Another question is how the government’s crackdown on domestic oligarchs and its other illiberal practices will affect Russia’s economic performance. The case of Hermitage Capital Management—which disposes of over \$4 billion in investment assets, including the \$2.8 billion Hermitage Fund—highlights the challenges many foreign investors face in Russia. Its core investment philosophy has been to buy companies and assets that have decreased in value due to poor corporate governance, and then employ “shareholder activism” to improve corporate management and, hopefully, the price of the stock. The goal is to induce managers to pay more attention to the interests of shareholders and less to the shady private interests that have come to dominate Russia’s business landscape. The country’s commercial environment has come to be characterized by weak property rights, rampant corruption, and blatant defrauding of shareholders.

Since its inception, Hermitage has consistently outperformed the Russian market, demonstrating the value of its approach. Hermitage’s aggressive protection of shareholders’ rights has naturally antagonized powerful interests that have sought to apply pressure on Hermitage through physical threats, predatory tax claims, and spurious lawsuits. Most notoriously, since November 2005 CEO William Browder has been repeatedly denied the right to re-enter Russia. Although the Russian Ministry of Foreign Affairs cited a blanket justification to exclude individuals deemed threats to Russia’s “national security,” powerful competitors disgruntled with Hermitage’s approach probably misused administrative resources (an all-too-common common practice) to orchestrate Browder’s exclusion.

Putin and most of his administration oppose corrupt commercial practices. As in many countries, however, interest groups with narrower agendas can often determine public policies in certain sectors. In the case of Russia, each year such interest groups manage

to prevent thousands of people from entering Russia. Many of these banned entrants are political reformers, but others merely represent commercial competitors of powerful business people. This typical approach results from Russia's having the rule of man rather than the rule of law. In attempting to resolve bureaucratic problems, most people employ personal ties rather than formal procedures, including by seeking the approval of the "good czar" (i.e., Putin).

Many foreign investors continue to see profitable opportunities in Russia despite the negative publicity surrounding cases such as Hermitage or, more notoriously, Yukos. In the latter case, the authorities dismembered the company after its leader, Mikhail Khudorkovsky, showed an inclination to bankroll the regime's political opponents. Although recent developments may make it harder for Russia to attract new investors, foreign companies already in the country likely will stay there. Foreign portfolio managers make money when countries achieve progress, even if their investment climates merely improve from being "horrible" to just "bad."

Russia's commercial practices, however, may make it harder for the country to achieve its long-sought membership in the World Trade Organization. U.S. trade officials see no reason why a deal resolving American objections to Russian WTO accession cannot be completed this year. Such a bilateral agreement would remove the greatest obstacle to Russian WTO membership, but not the only one. Certain factors, however, make it uncertain whether Congress will vote to grant Russia permanent normal trade relations, effectively applying the same tariffs and rules to Russia as applied to most other U.S. trading partners. In particular, disputes persist over Russia's tariffs on imported aircrafts, its prohibition on branches of foreign banks operating in Russia, and its weak protection of foreign intellectual property rights. Many members of Congress also feel that they too readily allowed China to enter the WTO, and insist that Russia make greater economic concessions in advance of membership.

Perhaps even more important than these specific commercial disputes, Americans do not want to appear to reward Russia by granting WTO membership, or by repealing the largely meaningless Jackson-Vanik amendment linking enhanced trading rights with Russia's emigration policies, at a time when the country's politics look increasingly authoritarian. Members of Congress and other influential Americans worry that WTO membership will just strengthen an authoritarian regime that happens to have great natural resource wealth rather than help push Russia towards more pro-Western economic and foreign policies. At present, WTO membership represents the most important remaining tool of leverage over Russia available to the Congress.

The likely impact of WTO membership on Russia's economic policies is unclear. Membership helped bolster reformers in China but not Japan. Putin and other Russian officials also desire WTO accession primarily for symbolic reasons: it would reinforce Russia's status as a leading world power. Russians complain that they have already changed hundreds of their laws to comply with WTO rules and that Washington is asking Moscow to meet a higher standard than previous WTO applicants. They appear to consider American objections to Russian membership petty if not disingenuous.

Issue IV—Energy Stability and Security

When it comes to energy, Russia remains a superpower. It has the world's largest reserves of natural gas, and by credible estimates, at least the fourth largest reserves of oil. Following a slump in the 1990s, Russian energy production has returned to Soviet levels. Although Russia's energy infrastructure is poorly managed and requires extensive modernization, the country's revenue from its oil and gas exports has grown exponentially thanks to the rise in global energy prices. Russia's energy exports are the single most important factor behind the country's current economic growth. They sustain a large part of the federal government's budget and provide essential resources for other economic sectors.

Russia also derives substantial influence from the network of energy pipelines that crisscross the country. Both oil and natural gas have to be moved to customers, most often through pipelines, giving the politics of Russian energy an inherent geopolitical dimension. Thanks to their shared Soviet legacy, almost all Central Asian oil and gas must pass through Russia to reach European markets. Projects to develop new pipelines serving both Europe and Asia will enhance Russia's leverage by expanding its opportunities to shift exports among energy consuming countries.

The increasing value of Russian energy exports and its pivotal position in energy transit routes have strengthened Moscow's diplomatic influence, with Putin himself citing Russia's energy resources to justify the country's membership in the G-8. The Russian leadership's ability to dangle investment opportunities before Western investors and governments provides Moscow with substantial leverage in its relations with the transatlantic community. In East Asia, China and Japan have been lobbying Moscow for years to induce Russia to build new energy pipelines linking them to Russia's core energy infrastructure. This competition has contributed to disrupting proposals to establish a northeast energy community, which would include the United States, Russia, and other Asian Pacific countries.

Russian oil and gas firms like Lukoil and Gazprom have come under increasing government control under the Putin administration. Gazprom alone already represents the world's largest natural gas producer. It manages Russia's natural gas pipeline network and covers approximately one-fourth of the national government's budget through its tax contributions. The head of Gazprom's supervisory board, Dimitri Medvedev, is among the most powerful politicians in the Kremlin, and is seen as a potential successor to Putin. The state-owned Transneft enterprise retains a monopoly on Russia's oil export pipelines. The United Energy Systems (UES) of Russia also has invested heavily in developing hydroelectric power in Russia and Central Asia. The ownership and decision making processes of these companies is opaque to external observers. Without greater transparency, they will find it difficult to attract the foreign capital needed to revitalize Russia's energy sector or dispel rumors that they have become policy instruments of the Russian state. Kremlin policies that weaken the rights

of private energy firms, and that either ignore or require potential foreign partners to follow Russian ways of doing business, reinforce these problems.

Although most Russians enjoy their newfound status as an energy superpower, some Russian liberals and many foreigners worry about its pernicious political and economic effects. By enriching the state, Russian oil and gas exports enhance the regime's ability to resist foreign pressures for political or economic liberalization. Russian leaders know that Western governments will buy their energy whether they democratize or not. Unlike during the 1990s, moreover, Russian officials no longer need to pay much heed to foreign creditors or to the demands of the International Monetary Fund. The increased export revenue has done little to improve the quality of Russian energy management. In particular, Russia has yet to acquire the foreign capital and technologies needed to modernize its decaying, Soviet-era oil and gas infrastructure.

Many Western analysts agree that the Russian government and energy companies should reduce their costly, market-distorting subsidies for foreign purchasers. They insist, however, that price adjustments should proceed gradually, predictably, and with adequate consultation of all interested parties. Western observers also complain that commercial considerations alone cannot explain differences in the natural prices charged foreign energy importers. They accuse Russian energy managers of manipulating subsidies to reward friendly governments, while punishing regimes pursuing policies opposed by Moscow and coercing foreign countries into surrendering their energy infrastructure to Russian business interests. For their part, Russians complain that the West criticizes them when they maintain subsidies and denounces them when they attempt to eliminate such subventions.

Although Russia and the West have common interests in increasing Russia's energy exports, they understand energy security differently. Russia as an energy supplier wants to control the market and energy pipelines that flow through its territory. In contrast, EU members and the United States, the world's largest energy-importing countries, want to reduce state control and liberalize energy markets. In addition, competition between the United States and the European Union over access to energy invariably leads to tension. These differences probably rule out the development of a common energy policy among the EU, Russia, and the United States. Russia's assistance to Iran's civil nuclear sector presents an immediate impediment to such cooperation. Western governments disagree with both Moscow and each other over the extent to which Russian assistance could help Tehran develop nuclear weapons. They also differ regarding the value of establishing additional north-south energy corridors that would involve Iran.

The January 2006 crisis over Ukraine's natural gas imports highlighted the risks for the EU of becoming increasingly dependent on Russian energy. When Moscow decided to cut-off natural gas deliveries to Ukraine to coerce a price rise, it resulted in widespread energy disruptions in eastern and central Europe. Even before this incident, the Russian government's reassertion of state control over the country's main energy companies, and its refusal to allow private foreign or domestic actors much influence in Russia's

energy sector, have reinforced concerns about the politicization of Russian energy policy. EU leaders have unsuccessfully pressed the Russian government to ratify the Energy Charter, whose provisions would limit state control over Russian energy assets and make Russian energy behavior more transparent. Concerns that pressing Russia too hard might prompt Moscow to redirect future energy exports to other customers have constrained European bargaining in this area.

Besides encouraging changes in Russian energy practices, EU leaders have resolved to improve their internal energy mechanisms and diversify their energy sources, including importing more oil and gas from other countries and (in some cases) relying more on nuclear energy. Thus far, however, the practice of some EU governments of pursuing unilateral energy policies, including seeking separate energy deals with Russia, has allowed Moscow to pursue a divide-and-conquer strategy towards its European customers. In addition, although the existing network of energy pipelines and commercial arrangements make Russia and the EU mutually dependent in the energy realm at present, Russia's expanding energy shipments to Asia will over time further enhance its leverage over its European energy customers.

Both the surging costs of oil and gas and concerns about how the emission of greenhouse gases might be contributing to climate change have been stimulating renewed interest in nuclear energy in Russia, the West, and the developing world. Russia has substantial expertise in the area of nuclear power. It is actively seeking to expand its domestic and foreign civilian nuclear power business, including by restructuring its nuclear energy sector to make it more commercially viable. The Bush administration has singled out Russia as a potential partner in its new Global Nuclear Energy Partnership (GNEP), which seeks to develop a more proliferation-resistant nuclear fuel cycle. Washington and Moscow are currently discussing Russia's possible involvement in the GNEP, and how best to reconcile the two governments' slightly different proposals for internationalizing the nuclear fuel cycle. Potential Russian contributions to the GNEP include sharing its existing technologies and facilities, collaborating on developing more advanced recycling techniques, and supporting other GNEP initiatives.

Issue V—Russia’s Key Bilateral Relationships: Iran, India, China

In recent years, Russia has sustained and nurtured a series of complex relationships with India, Iran, and China. On the one hand, these countries share important economic, political, and security interests in Eurasia—including promoting the region’s energy and economic development, countering Sunni-inspired terrorism, limiting political instability, and curbing smuggling and narcotics trafficking. Russia is also a major arms supplier to all three states and is helping develop their civilian nuclear power programs. On the other hand, the four governments differ on several important issues, including how best to manage relations with Europe and the United States. In particular, India appears much more comfortable with having a substantial Western military presence in the region than the others. However, to varying degrees, each at one time or another has had reservations about the purposes and policies of American power in Eurasia.

It is unclear whether Russia has adopted a strategy of creating a Eurasian bloc to act as a counterweight to the United States and Europe. Many Russians seem to believe that the Shanghai Cooperation Organization (SCO) could serve as the foundation for a new security, energy and economic alliance. Its expanding network of full members (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) and formal observers (currently India, Iran, Pakistan, and Mongolia) gives the SCO substantial geopolitical reach. Russia, China, and India are currently discussing whether to hold unprecedented trilateral military exercises under its auspices. Energy cooperation is also likely to become an increasingly important issue for the SCO. The present lack of international energy institutions linking supplier and consumer countries could provide an opening for the SCO to assume this role. Its roster of members and observers includes some of the world’s largest oil and gas importers and exporters. Frustrations with the Western democracies—especially the successive waves of NATO and EU expansion and transatlantic criticisms of various Russian domestic practices—have spurred Russian interest in cooperating with the authoritarian regimes of China and Central Asia. The threat of further “colored revolutions” has stimulated cooperation among SCO members against their domestic opponents, many of whom are often denounced as terrorists and separatists.

Some analysts, however, do not perceive an overarching Russian grand strategy in Eurasia. They argue that Moscow’s policies towards Iran, India, and China appear largely reactive and opportunistic rather than proactive and deliberate. Most interactions between these countries are carried out bilaterally rather than through multilateral institutions like the SCO. Russian officials still prefer to rely primarily on bilateral ties, in which Russia’s superior size and resources weigh heavily, when managing most Eurasian economic and political questions. When Moscow does work through multilateral institutions, the SCO, where China’s presence constrains Russia’s influence, is often not its preferred body. For example, Russia has been promoting the Collective Security Treaty Organization (CSTO) as NATO’s main security partner in Central Asia. Besides collective defense, the CSTO has sought to counter transnational

security threats such as drug trafficking, arms smuggling, and especially terrorism, the most pressing security concern for member governments.

Russian-Chinese relations have been improving markedly during the last decade. The two countries have settled their 40-year old border dispute, and are now working together to address the burgeoning Chinese population in the Russian Far East. Bilateral trade between the two states has increased exponentially, albeit from a low starting point. Russian military sales to China are a key source of revenue for Russia's overly large defense industry, which still has considerable excess production capacity despite some restructuring and a revival of Russian domestic purchases. Russian analysts do not foresee the emergence of a potential Chinese military threat to Russia for at least the next fifteen years. Nevertheless, these benevolent relations mask an enduring element of historic distrust that continues between Beijing and Moscow

China and Russia cooperate more closely in Eurasia than in any other region. Through the SCO, Russian officials acknowledge China's legitimate interests in Central Asia, while Beijing has an institutional mechanism to promote its objectives in close cooperation with Moscow. Since China shares many important goals with Russia in Central Asia (upholding the political status quo, curbing the growth of Islamic extremism, exploiting the region's energy resources, and balancing U.S. influence), Beijing has been able to benefit from Russian initiatives in these areas and devote resources to other priorities. The two countries' economic activities in Central Asia thus far have been more complementary than competitive. Russian firms have focused on large-scale industrial and infrastructure projects, especially in the energy sector, whereas Chinese entrepreneurs have concentrated on selling cheap consumer goods, often through small-scale cross-border trade. Moscow and Beijing also regularly defend Eurasian governments against Western criticism. Most prominently, Russian and Chinese officials endorsed the Uzbek government's controversial May 2005 military crackdown in Andjjan, echoing Tashkent's allegations that the uprising represented a foreign-inspired terrorist plot aided by Western-backed nongovernmental organizations.

In many respects, India represents an ideal partner for Russia. The two countries share a range of common interests, including managing a rising China, containing Pakistan, and combating Sunni terrorism. At the same time, since no plausible security scenario would require their joint military intervention, they do not need to become formal military allies. Russia has watched anxiously as the United States and India enter into a much closer strategic relationship. Thus far, however, Russian-Indian relations have evolved to accommodate the realities of the post-Cold War world, including the new U.S.-Indian relationship. For example, proposals to increase U.S.-Indian civilian nuclear energy cooperation have helped justify expanded Russian-Indian cooperation in this area.

Iran remains a divisive issue between Russia and the West. From Russia's perspective, Iran has been a good neighbor. The two countries have cooperated to end the civil war in Tajikistan, contest the influence of the Taliban, and curb regional drug trafficking. It

is no coincidence that Moscow is currently pursuing a strategic partnership with Tehran. Russia, Central Asia, and Iran possess approximately two-thirds of the world's reserves of natural gas. In coordination, they could establish a mighty gas cartel that would be on a par with OPEC, whose member states control 40 percent of the world's oil reserves.

In the view of many Europeans and Americans, Russia appears to prioritize military sales and nuclear energy cooperation with Iran over concerns about nuclear nonproliferation or Tehran's ties with terrorism. Thus far, Russia has attempted, without much success, to mediate between Iran and the West on the nuclear issue. Both Russian and Western experts fear that Tehran, emulating North Korean behavior in the Six-Party talks, is engaging in faux negotiations to gain time to develop nuclear weapons capabilities. Yet, any U.S. military strike against Iran would probably evoke a sharply negative reaction in Europe, Russia, and Asia.

Issue VI—Chechnya and the Global Jihad

Russian leaders point to several signs of progress in Moscow's efforts to reestablish stability in Chechnya. The scale of the fighting has diminished since early 2005, especially outside the southern rim of the republic. Chechen fighters have not perpetrated any major terrorist attacks outside the North Caucasus since the late summer of 2004, a major change from the endless string of terrorist attacks in Moscow and other major Russian cities from 2002 through early September 2004. The Russian government plans to fund Chechnya's economic reconstruction, and has sponsored several elections to promote the territory's political revival. Nevertheless, these positive trends need to be treated cautiously. Lulls in the fighting have occurred in the past, only to be followed by renewed surges of violence.

Three developments give particular cause for concern. First, we have seen an increasing regionalization of the conflict. The bloody clashes in Nalchik in October 2005 illustrated how the war has spilled over into neighboring regions, destabilizing much of the North Caucasus. Assassinations of public officials, attacks on police and public buildings, armed clashes with security forces and federal troops, and bombings and terrorist atrocities have occurred with alarming frequency in Dagestan and Ingushetia, and the violence has spread to Kabardino-Balkaria and Karachaevo-Cherkessia as well. This trend has been greatly exacerbated by the brutality of the Russian police and security forces, the soaring rates of unemployment (upward of 40-50 percent), and the heavy-handed crackdowns on moderate Islamic groups in the North Caucasus. Kremlin analysts describe the region as a "smoldering forest fire." Russian officials cite the war's spread as a reason to avoid seeking a political settlement to the Chechen conflict, which they claim could adversely affect other parts of the North Caucasus. In particular, they fear concessions would embolden other radical separatist movements elsewhere in the region.

The emergence of a more radical Chechen separatist leadership has also reduced the prospects for a peace agreement. In March 2005, Russian troops killed the fugitive Chechen president, Aslan Maskhadov, who might have negotiated a settlement short of complete Chechen independence. His death has been followed by the ascendance of a more militant Chechen government-in-exile. Some of its more extremist members, such as Shamil Basaev and Movladi Udugov, have expressed aspirations to establish an Islamic caliphate in all of the North Caucasus.

Developments affecting the pro-Moscow Chechen government, which Western analysts sometimes mistakenly depict as a puppet regime, present another impediment to a negotiated settlement. The brutal Ramzan Kadyrov, whom many compare to Uday Hussein, has become the de facto head of the pro-Moscow government following the assassination of his father. He formally assumed the post of prime minister in early March 2006. The federal Russian forces, who have tried since 2003 to devolve more security responsibilities to the local Chechen authorities, exercise relatively little control over Kadyrov or his Kadyrovtsy militia. Public discontent is forced underground where

it is often channeled through networks of Islamic jamaats. Many in Moscow fear they have created a monster, but see no viable pro-Moscow alternative to Kadyrov or his brutal but strong paramilitary fighters. Polls show that while Russians are most concerned with the economic and military costs of the war, and would like the conflict to end, they exert little pressure on Russian politicians to seek a negotiated settlement.

A conflict involving three violence-prone and highly unpredictable actors—the Chechen guerrillas, the Russian federal forces, and Ramzan Kadyrov’s government and security apparatus—does not easily lend itself to a peaceful solution. Members of each group sees economic and political advantages in the conflict’s continuation. This situation may explain the seeming decline of Western concern over the war. Additional explanations would include negotiation fatigue and the prioritization of other issues regarding Russia.

Nevertheless, differences over Chechnya continue to affect counter-terrorism cooperation, though to a lesser degree than before 9/11. During the 1990s, the Chechen conflict alienated Russia from large parts of the Muslim world. In Europe, Islamic extremists groups in exile cited the Chechen cause to raise funds and recruit new operatives. Many European governments denounced Russian policies in Chechnya, and gave asylum to insurgent leaders. European governments have since moderated their position, complaining mostly about lack of access to information about the situation in Chechnya, or about terrorist incidents elsewhere in Russia. Some Europeans also worry that Putin is citing the need to combat domestic terrorism to justify his increasingly authoritarian rule. Russian officials, however, continue to complain about double standards in the EU and the Council of Europe when it comes to assessing Russian policies in Chechnya. Putin even hints that some Western governments are encouraging terrorism in Chechnya to weaken Russia.

Although few Western leaders profess to endorse Moscow’s view that the situation on the ground has substantially improved or that Russia is contributing to the Global War on Terrorism through its Chechen intervention, they have reduced efforts to induce Moscow to radically change its policies there. Despite pressure from human rights groups, who insist that legitimizing the political process by making it more inclusive and genuine might wean over moderate insurgents and isolate the extremists, there is little indication that the transatlantic community will make bringing peace to Chechnya a priority (as the recent G-8 summit showed). A policy of neglect may work in the short-run, but it risks perpetuating an environment that stimulates the militarization of the local population and terrorist recruitment, impedes regional economic and energy development, and is vulnerable to abrupt vertical or horizontal escalation.

Issue VII—Report Card on Russia’s Nuclear Security

Several Western programs aim to secure Russia’s nuclear weapons, their production and storage facilities, and the nuclear experts and technicians who pose a serious proliferation threat. These projects have helped dismantle Russia’s strategic weapons, enhanced the security and safety of its nuclear weapons and related material, impeded the trafficking of nuclear-related items across Russia’s borders, and redirected former Soviet nuclear enterprises and scientists towards other types of employment. Some recent developments, however, indicate that the existing arrangements are facing difficulties in adjusting to the changing conditions in Russia and the general deterioration in U.S.-Russian relations.

Ironically, the substantial improvement in Russian-American security relations in recent years has actually decreased the prospect for further formal bilateral agreements to reduce both countries’ strategic nuclear weapons. Members of the Bush administration in particular have indicated that they consider such accords largely irrelevant in today’s world, where threats from transnational terrorists and states of proliferation concern have become far more important than fears of a Russian-American confrontation. Despite Moscow’s entreaties, Washington refuses to ratify the Comprehensive Test Ban Treaty (CTBT), and opposes efforts by Russia and others to broaden restrictions on military activities in space. Proposals for more operational arms control—such as lowering the readiness of strategic forces, restricting ballistic-missile-launching submarines (SSBNs) on patrol, and separating nuclear warheads from their means of delivery—also have not gained much support within the administration. Administration representatives argue that implementation of the May 2002 Russian-American Strategic Offensive Reductions Treaty (SORT) should suffice to place the bilateral strategic relationship on a stable basis.

The March/April 2006 issue of *Foreign Affairs* contained an article by Keir Lieber and Daryl Press—entitled “The Rise of U.S. Nuclear Primacy—that argues that the United States has or will soon achieve nuclear primacy over Russia. Although Russian analysts have contested its findings, the essay has galvanized Russian leaders into accelerating their initiatives to strengthen their country’s nuclear arsenal in the absence of additional Russian-American arms control agreements. Russian concerns about U.S. ballistic missile programs, including plans to deploy more ballistic-missile defense assets in Europe, and NATO’s involvement in the post-Soviet region have reinforced Russia’s determination to retain powerful nuclear forces, including a large stockpile of tactical nuclear weapons (TNW). Russia will not even consider eliminating its TNW force until the United States withdraws all its TNW from Europe.

According to Russian analysts, the alliance’s decision to intervene militarily in the former Yugoslavia vividly demonstrated its willingness to employ force to achieve Western political objectives irrespective of Russian objections. They also maintain that NATO’s force structure indicates that collective defense against Russia remains a primary objective. The refusal of some NATO countries to ratify the amended

Conventional Forces in Europe Treaty intensifies Russian anxieties. In not ratifying the Treaty, NATO has convinced many Russians that the alliance wants the option of rapidly deploying forces into eastern Europe. The Russian military establishment believes it must plan for the worst, focusing on potential adversaries' capabilities rather than their intentions, which could rapidly change. Although Russia's integration into NATO as a full member, or the establishment of a joint NATO-Russian rapid reaction force, would help dispel perceptions of hostile intent, neither party appears especially interested in pursuing such an option at present.

Bilateral arms control might reemerge as an issue after a new U.S. administration assumes office in 2009. Primarily for financial reasons, Russian officials want to reduce their offensive nuclear weapons below the level set by SORT. The need to verify SORT will probably induce some additional Russian-American cooperation in the area of strategic weapons. The Treaty lacks its own verification provisions, and both governments have been relying on START I in their absence. This accord—with its extensive data exchange requirements, on-site inspection, and other compliance measures—expires in December 2009. In the absence of a new bilateral agreement, both governments will have to rely primarily on less effective national means of verification after that date. This situation could prove problematic. Observers note that the lack of interim deadlines for reductions means that the SORT warhead limits will both take effect and expire on the same day. Questions also exist about the treaty's lack of detailed verification procedures, the absence of a timetable and rules for warhead reductions, its 90-day withdrawal clause, and other uncertainties associated with the three-page document.

The U.S. National and Russian Academies of Sciences have found an interesting disconnect between perceptions of joint cooperative threat programs and their reality. The perceptions usually focus on the many implementation problems that the programs have suffered over the years. Disagreements persist over access to facilities, flows of funding, and legal protections for both Russians and Americans taking part in project work. The Russians have been concerned about adequate protection for intellectual property; the Americans, about adequate protection against liability for damages. In practice, however, the Academies found much progress as program implementation has become more routine. Without fanfare, American and Russian managers have been able to speed up the pace of projects on the strength of their growing joint experience, rising mutual confidence, and better established procedures. A clear lesson is that, when both sides have institutional interests in success, U.S. and Russian organizations can work together to provide the necessary support for complex projects, often overcoming political resistance. European governments have drawn on these positive experiences when designing their own threat reduction projects under the auspices of the G-8 Global Partnership Against the Spread of Weapons and Materials of Mass Destruction.

In the context of the Academy studies, Russian experts have expressed an aspiration to work more closely with the United States on proliferation problems around the world.

Given the progress that has been achieved on threat reduction projects in the Russian Federation, this notion seems ripe to explore, if only on an experimental basis. Some of these “pilot projects” could be conducted during Russia’s G-8 year, with the goal of testing whether the West and Russia can really perform together in this sensitive arena, outside the boundaries of the Russian Federation. Candidates for such pilot projects include accelerating the pace of highly enriched uranium (HEU) “clean-out” programs from vulnerable research reactors, developing a clear agenda for implementing a possible nuclear agreement with North Korea, and establishing a comprehensive model for an international fuel services program based on Russia’s plans for Iran.

Thus far, disagreements over Iran have impeded substantial nonproliferation cooperation between Russia and the West outside the territory of the Russian Federation. One solution to the current impasse over Iran would be for Russian officials to advise their Iranian colleagues to announce that Iran has reached a natural stopping point in its experimental uranium enrichment program. In turn, Western officials could offer greater support for Moscow’s efforts to negotiate a compromise with Tehran that, while allowing Russia to complete construction of Iran’s controversial Bushehr reactor, would satisfy international concerns about Iran’s nuclear ambitions. An arrangement that would require the return of spent nuclear fuel to Russia and establish a joint Russian-Iranian nuclear fuel production facility in Russia that would not give Iranians’ access to sensitive enrichment and reprocessing technologies would make it much harder for Iran to use a civil nuclear power program to develop nuclear weapons. In addition, Russia and the EU should reaffirm their willingness to cooperate with Iran on developing its scientific resources, including in the area of civil nuclear power, if it abandoned programs that could produce nuclear weapons.

Issue VIII—Russia and the Global War on Terror

Since the 9/11 terrorist attacks, Russia, Europe, and the United States have become strategic partners in fighting global terrorist threats. This unprecedented cooperation has yielded many positive results, starting with intelligence-sharing on Afghanistan, increased law enforcement cooperation, and cooperation in toppling the Taliban regime. It later evolved into a routine dialogue and collaboration between the intelligence, military and law-enforcement bodies of Russia and other members of the counter-terrorism coalition. As a result of this cooperation, Russian and Western security services have been able to detain a number of terror suspects, intercept illegal supplies of dangerous weapons such as surface-to-air missiles, expose links between terrorist and organized crime networks, and better combat the financing of terrorist networks.

Despite this success at the working level, several perceptual differences have complicated counter-terrorism cooperation between Russia and the West. A major if predictable complication is that Russia and the West prioritize terrorist threats differently. For Moscow, the main concern is the situation in the North Caucasus. In Europe, the main challenges relate to homegrown terrorism emanating from multicultural societies. For Americans, finding and destroying terrorist cells abroad, before they succeed in attacking targets on U.S. soil, has been the top priority. Both Russia and the United States view counter-terrorism policies more in terms of a “global war,” while many Europeans dismiss the very concept of a “war” on terror and stress the importance of focusing on the roots of Islamic radicalization. Whereas in Russia and the United States, the military dimension in fighting terrorism is more pronounced (in Russia domestically and in the United States internationally), Europeans tend to view the fight against terrorism as a law enforcement issue. Another difference is that whereas Europeans have a long history of living with terrorism, and Russians are moving in this direction, Americans continue to reject this option.

While Russians and Americans do share some of the same perspectives regarding the War on Terror, differences do exist. As mentioned previously, Russians concentrate their counter-terrorism efforts on Chechnya and the Caucasus while Americans take a global approach. Second, for the United States, terrorist attacks engender criticism of the government for failing to protect its citizens; for Russia, terrorist attacks facilitate a centralization of state power. Third, the United States has been seeking broad international support for an activist, transformational diplomacy; in contrast, Russia’s approach to terrorism remains oriented towards upholding the status quo. In effect, for the United States, counterterrorism is a foreign policy leveler, drawing it back from unilateralism toward multilateral cooperation while supporting multilateral efforts to promote political change in the Middle East. For Russia, counterterrorism is a euphemism for a resurgent realpolitik, a vehicle for regaining the country’s great power status while sustaining stability abroad.

The war in Iraq, which Russia never supported, has complicated counter-terrorism cooperation between Russia and the West (especially the United States). The United

States has lost a great deal of credibility in the eyes of many Russians through its handling of issues like the Abu-Ghraib prison abuse, making it hard to criticize Russia over its counter-terrorism policies in Chechnya. Furthermore, the recent allegations that Russian agents provided intelligence information regarding U.S. invasion plans to Iraqis prior to the initial attack has revived mistrust and further complicated relations between intelligence communities and politicians on both sides. The detrimental effects of the Iraq war continue to disrupt Russian-Western cooperation over Iran.

The mixed results of Western counterterrorist and reconstruction policies in Afghanistan have become another source of tension between Russia and the West. The revival of drug trafficking and Islamic extremist groups in Central Asia has led Russian officials to question the continued utility of Western military deployments in Afghanistan and Central Asia. New geopolitical tensions and rivalries have complicated effective cooperation on the ground in Central Asia to tackle threats of terrorism and religious extremism. While the United States and Europe support the process of democratization on the grounds that it will create more stable societies better able to resist terrorist threats, Russia views “color” revolutions and pressure on the existing regimes (e.g. sanctions against Uzbekistan after the Andijan crackdown) as making the region more vulnerable to terrorist groups.

Under Putin, Russia has launched a campaign to rebuild its ties with the Muslim world. For example, Russia secured observer status within the Organization of Islamic Conference. In addition, President Putin chastised Denmark for allowing publication of the Mohammad cartoons and reached out to the new Hamas government by inviting its representatives to Moscow. Although many experts consider these steps mainly symbolic, they reflect Russia’s new ambition to promote itself as an ally of the Muslim world and as a mediator in their difficult relations with the West. This policy is underpinned both by domestic factors (the Muslim population of Russia is estimated between 10 and 20 million people) and by Russia’s newly assertive and independent foreign policy. When criticized, Russians cite Western cooperation with Pakistan despite its dubious counter-terrorism credentials.

While the current political environment for Russian-Western cooperation in fighting terrorism presents many challenges, areas persist where cooperation remains both possible and desirable. First, the parties can work to improve their national legislation and international legal mechanisms related to the fight against terrorism. For example, the new Russian law defines terrorism without specifying the target. It should stress that noncombatants and civilians are illegitimate targets of terrorist attacks. Second, they can improve the capacity of law enforcement and security services to deal with terrorist threats without violating human rights. Third, mechanisms and procedures for intelligence sharing and information exchange could be improved, both at the bilateral and multilateral levels. Fourth, Russian and Western analysts need to better understand the root causes of terrorism such as demographics, poverty, alienation and marginalization, and human rights abuses. Fifth, the parties should share lessons learned when it comes to crisis response and crisis management. Sixth, Russian and

Western scholars and other non-government analysts could discuss further the problems of terrorism, the effectiveness of anti-terrorist policies, and the relations between security and human rights. Finally, communications between those working on terrorism and on nuclear security need improvement as terrorists present genuine threats to Russia's WMD facilities. Relying on the Russian Security Service (the FSB) to ensure their security is problematic. The success of past terrorist attacks has shown that the FSB is not a well-functioning organization.

Besides these multilateral initiatives, counterterrorism cooperation would probably improve if the parties adhered to some additional guidelines. First, U.S. officials should seek out opportunities to cooperate on counterterrorism in bilateral and multilateral meetings. The goal should be to routinize and professionalize the dialogue, orienting these meetings toward intelligence practitioners and working-level participants. Second, the West should stress the global nature of the Islamist terrorist threat but avoid oversimplified linkages between very different local problems or between violent jihadists and all Muslims. (The irony is that as the Russian government portrayed the war in Chechnya as a counter-terrorist struggle, the reality sadly evolved to match the description.) Third, the West should work through regional and international institutions to strengthen norms against terrorism, especially the prohibition on deliberately targeting civilians. Today, both Russia and the United States have a strong common interest in setting higher international standards. Reaching a global consensus on what terrorism is could help protect human rights. Fourth, the West should push the Russians to confront the question of how terrorism ends. The current dynamic in Chechnya drives the parties towards escalating the violence in a way that could destabilize the Russian state. Solving Russia's terrorism problem is in everyone's interest. Fifth, the United States must avoid focusing on an oversimplified and ahistorical counterterrorist framework, without anticipating other long-standing Russian concerns. Western analysts should not have been surprised when geopolitical considerations led Putin to make his overture to Hamas and attempt to curtail U.S. access to airbases in Central Asia.

Despite their different approaches, Russia, Europe, and the United States have no choice but to cooperate on terrorism issues given the transnational environment in which the terrorists operate, seen most acutely in the nexus between terrorist and proliferation networks. Eliminating terrorism may prove impossible, but increased cooperation among the world's leading countries can limit its scope.

Key Findings

1. Russia and the transatlantic community remain ambiguous about their relationship. President Vladimir Putin is torn between wanting Russia to resemble other Western countries, with a developed economy and advanced society, and his need to control everything like a traditional Russian leader. The leaders of the Euro-Atlantic community want to integrate Russia further into transatlantic institutions, but refuse to offer it full membership in NATO or the EU, fueling Russian paranoia about the West's true intentions in the region. Prominent Americans and Europeans have even called for Russia's expulsion from the G-8. Influential people in both Russia and the Euro-Atlantic countries accuse the other party of undertaking actions that harm their nation's legitimate interests. Cooperative measures continue in such important areas as enhancing the security and safety of Russia's nuclear facilities, curbing global WMD proliferation, and fighting international terrorism. Yet, sharp disputes have arisen over issues related to security (e.g., theater nuclear weapons), political affairs (e.g., the "colored revolutions" in Central Asia), and economic policies (e.g., discriminatory commercial practices). Although a widespread recognition exists that Russians, Europeans, and Americans must cooperate given the transnational environment in which the terrorists operate and the tight nexus between terrorist and proliferation networks, each party has different perspectives on the global war on terrorism and how best to fight it. Putin insinuates that the West is encouraging instability in Chechnya to weaken Russia, while Americans denounce the decision of Russian officials to invite senior Hamas representatives to Moscow. During the 1990s, most Westerners wanted Russia to become a core member of the newly emerging trans-Atlantic community, and believed that many Russians shared this objective. Today, far fewer Americans, Europeans, and Russians hold this common vision.
2. The institutions and tools that Russia and the West used in the past to influence each other have lost most of their effectiveness. In many areas, the dialogue between the parties is broken and few incentives exist to put it back on track. Neither Russia nor the West has decisive sticks or carrots that it is willing to employ to induce major changes in the other's behavior. Russia can no longer credibly threaten to use military force to deter Western political actions it opposes. For example, Western governments have repeatedly ignored Moscow's opposition to NATO expansion and the Anglo-American military intervention in Iraq. For their part, Russian leaders routinely dismiss American and European complaints about the Putin administration's authoritarian tendencies (e.g., the new NGO law), its aggressive tactics in Chechnya, and its efforts to control developments in the former Soviet republics. Russia's revitalized economy and resurgent patriotism, which stresses the "specificity" of Russia's development, have substantially limited the appeal of Western political and economic models. Proposals to deepen cooperation in the areas of defense, energy, or the economy repeatedly run afoul of bureaucratic and other obstacles.
3. Differences over the former Soviet republics and Iran still represent the main sources of tension. Most of the former Soviet republics (except the Baltic countries) share

certain characteristics. In particular, they all have managed democracies, limited economic transparency, and potentially explosive inter-ethnic tensions. Russia remains the most influential country in this region through common historical and cultural ties, economic exchanges, migration patterns, and energy. Russia also derives much influence from its soft power and leverage over the four so-called “frozen conflicts.” The incumbent authoritarian leaders of “Eurasia”—a geographic concept Moscow, Beijing, and other member governments of the Shanghai Cooperation Organization are seeking to revive—see Russia as a major source of support, while Russians still view developments in these countries through a domestic political lens. Russian leaders also see EU and NATO activities in the region as threatening their core interests. Many Russians believe that they and the West are engaged in a geopolitical and commercial “zero-sum” game, with Eurasia (especially Iran and Central Asia) the main arena of competition. The Russian military will not undertake substantial reforms as long as they fear NATO’s expanding influence in the former Soviet republics and its continued commitment to collective defense against Russia. American and European leaders have yet to find the optimal balance between respecting legitimate Russian security and economic concerns in Eurasia and moving these countries closer to Western values and institutions. Russian officials need to recognize that they would benefit more from having a set of prosperous democracies along their borders than from being surrounded by impoverished autocracies.

4. Russian and Western leaders both consider Asia increasingly important. The Chinese market has historically beguiled foreigners; Russians, Europeans, and Americans have been no exception. Businesses from all three regions also see India, with its recent economic reforms, as a lucrative future commercial partner. Putin and other Russian leaders are traveling more to Asia and less to Europe. Many Russians define their global mission as serving as a bridge between civilizations, specifically between Asia and the West. While the EU’s new “silk road” strategy is almost dead, Russia has become the key land-link for European-Asian commerce. The Russian strategic community considers China a key geopolitical ally and purchaser of Russian defense products. Despite its expanding economy and demographic penetration into the Russian Far East, Russian analysts do not foresee a potential military threat from China arising until 2020 at the earliest. Notwithstanding the Atlantic community’s interest in enhancing access to Russian energy sources, Russia will build most of its new oil and gas pipelines towards Asia rather than Europe because that is where demand is forecast to surge. In addition, most of Russia’s new oil and gas fields are located in its eastern territories. At present, Pentagon planners consider a military confrontation with China as a far more likely scenario than a conflict with Russia, though they are uneasy about the expanding Sino-Russian defense cooperation. Conversely, Japanese-American security ties remain excellent while Russian-Japanese ties continue to stagnate. U.S. diplomats and analysts are discussing whether to create a northwest Asia energy and security community in which Russia (and Europe) would have a minor role at best. Russians evince little enthusiasm for the scheme, preferring in practice to play these countries off against one another (e.g., inducing China and Japan to compete for Russian energy exports). In the case of South Asia, however, Russians say they endorse the recent U.S.-Indian rapprochement because it makes it easier for Russia to cooperate

with India on civilian nuclear power and other issues. Russia sees India as an ideal partner given the two countries' range of common interests.

5. Russian-Western economic ties will remain below optimal levels until major changes occur in Russian laws and practices. Putin has curbed some of the worst abuses of the Yeltsin era, but interest groups with narrow agendas can often determine policy in key commercial areas. The protection of intellectual property in Russia is as bad as in China. Russian law enforcement authorities conduct raids but do not imprison offenders for violations. Business rivals still rely on extralegal measures to curb undesired competition, including by brazenly advertising their services on the Internet. A fundamental problem is that Russia favors the rule of man over the rule of law. Rather than rely on formal institutions and litigation, many Russians appeal to personal connections and seek the approval of the "good czar" (i.e., Putin or other Russian leaders) to solve problems. Although Western companies already in Russia likely will try to stay there despite these challenges, these difficulties will probably deter most new firms from entering the Russian market.

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