



RUSSIA:

FACING THE FUTURE

A Report of Carnegie
Corporation of New York

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FROM THE DESK OF VARTAN GREGORIAN

“Wretched and abundant, oppressed and powerful, weak and mighty, Mother Russia!” the poet Nikolai Nekrasov wrote in 1876. His words still capture the nation’s contradictions, which challenge our comprehension of this vast country. I would only add that Mother Russia is totalitarian and democratic, having replaced one with the other by government decree just a decade ago in an astonishingly peaceful, and humbling, revolution. Americans cheered as great hunks of the Berlin Wall collapsed. But as time passed, the public grew increasingly impatient with the continuing struggles of the former superpower.

Our lack of understanding first led to unrealistic optimism that Russia would rapidly complete its metamorphosis. Now, more darkly, our misunderstanding could lead to an equally unjustified pessimism about Russia’s future. That pessimism, in turn, could misguide public policies in both nations for, as Socrates taught us, ignorance is the root of evil.

Amid this climate of “Russia fatigue,” the Carnegie Corporation of New York launched its Russia Initiative as a way to stimulate a fresh, critical appraisal and public discussion of Russia and its transformation. The initiative created four interdependent study groups; each was comprised of leading American and Russian experts from universities, research institutes, businesses, journalism and nongovernmental organizations. The groups analyzed Russia’s current predicaments and trajectory, focusing on the nation’s political, economic, social and national security problems and their cumulative implications. *

Under the direction of Thomas Graham, Alexander J. Motyl and Blair Ruble, one team explored the connections between democratization, creating free markets and political stability. Guided by Bruce G. Blair, Clifford G. Gaddy and J. Andrew Spindler, another team examined how economic decline has undermined Russia's military capacity, while at the same time its security needs drain the economy and thwart reform. Judyth L. Twigg and Kate Schecter led a third group that examined the country's depletion of human resources and its impact on economic recovery and political stability. The final group, led by Robert Orttung and Peter Reddaway, analyzed the overall cohesion and stability of the Russian federation that sprawls across eleven time zones. I invite you to read the enclosed report, which summarizes these experts' findings and recommendations for constructive U.S. policies toward Russia.

We must do our best to understand Russia, as our future depends upon it. Alexis de Tocqueville, that prescient observer, said as much in 1835. Referring to the United States and Russia, he wrote, "Their starting point is different and their courses are not the same, yet each of them seems marked out by the will of Heaven to sway the destinies of half the globe." The knowledge offered here in our Russian Initiative will, I hope, help us on our way toward a peaceful, collaborative destiny.



Vartan Gregorian
President, Carnegie Corporation of New York

* The complete text of the four original reports can be found on Carnegie Corporation of New York's web site, www.carnegie.org

EXECUTIVE SUMMARY

This report focuses on the current paradox of Russia's transformation: After years of peacefully contending with the travails of decline and beginnings of recovery, a quasi-democratic/quasi-market system has emerged in Russia that is curiously stable in the short term, but distorts the processes of further reforms and is ill-prepared to cope with the deep-seated, multi-dimensional socioeconomic crisis that looms on the country's horizon. The purpose of the report is to present a pragmatic appraisal of the basic challenges and trajectory of Russia's transition, and a consistent set of recommendations for bolstering the effectiveness of U.S. efforts to encourage successful transformation. Drawing on the findings of four expert study groups that analyzed the cross-cutting effects of Russia's political, economic, social and national security transition, this report examines the challenges and complexities confronting Russia's path from dysfunctional to sustainable stability, identifying the critical national interests at stake for both Russia and the U.S. in continued progress. It also assesses alternative scenarios for Russia, highlighting both the limits to radical democratic transformation or fundamental authoritarian reversion, as well as the remaining opportunities for modest but progressive change. The report then recommends strategic guidelines for America's "extensive re-engagement" of Russia that avoid the pitfalls of either micromanaging or abandoning the cause of reform, while building on realistic expectations of Russia's internal development in light of the challenges ahead and U.S. priorities. This strategy for "helping Russia help itself" along the path of democratic and market-oriented reform calls for:

- Avoiding unilateralism;
- Reassuring Russia's strategic and economic security;
- Promoting political transparency in Russia;
- Thinking strategically, acting locally;
- Reducing the costs of operating in the Russian market; and
- Improving the welfare of Russia's future generations.

INTRODUCTION

Almost a decade after the implosion of the Soviet Union, contradiction, not coherence, defines the state of Russia's transformation. Caught between the pursuit of democracy and a lapse into authoritarianism, Russia today boasts unprecedented political pluralism while simultaneously lacking the essentials of transparent governance, separation of powers, disciplined political parties, or "rule of law." That the fate of Russia's democratic transition now rests with Vladimir Putin, an ex-secret service officer, symbolizes the irony. So far, Russia's invigorated but enigmatic president has managed to sustain the popular support that capped the country's first democratic transfer of executive power and has installed a remarkably pro-reform government. Yet, he has sought to strengthen weak state institutions by favoring a "dictatorship of law" that relies on the security services to rein in independent-minded regional leaders, financial oligarchs, and media outlets, and that jeopardizes the early achievements of reform.

Russia's socioeconomic predicament also defies easy characterization. After years that featured a collapse of industrial production and successive monetary crises, there are encouraging signs. The economy grew an impressive seven percent in 2000 and the government adopted a balanced budget on schedule for the first time. But this progress occurs against the backdrop of antiquated banking and industrial systems, soaring capital flight, rampant corruption, and opaque property rights and investor protection that continue to mar the prospects for successful transition to an effective market economy. Stranger still, amidst the spectacular degradation of the country's human and social capital—punctuated by the precipitous rise in mortality, drop in fertility, and wave of alcoholism and infectious diseases—most Russians have remained either politically moderate or apathetic, shying away from mass displays of protest.

Not surprisingly, these economic and social problems have affected the Russian military. Dramatic and protracted funding shortfalls have eroded its industrial base, stalled reform, and fostered widespread dissention and demoralization across all levels and services. The sinking of the Kursk submarine in August 2000 exposed the sorry state of Russia's armed forces. Because the military can no longer perform its traditional missions effectively, Russian leaders are more resentful and attuned to perceived international threats, especially from countries in the West that enjoy unprecedented dominance and are prone to advancing their interests without reference to Moscow. With few conventional avenues for reclaiming the country's lost geostrategic stature and redressing its security concerns, Russian leaders have embraced an assertive diplomatic agenda and have become precariously reliant on an over-taxed nuclear deterrent posture. These provocative "quick fixes" contribute to the acrimony in Russian-American relations, and are becoming more burdensome and problematic to sustain in the face of the country's economic austerity.

Such challenges dispelled early hopes for a smooth transition to democracy and market-based systems following the breakup of the Soviet Union. Disillusioned by the protracted and difficult process of reform and wearied by the hardships it has entailed, many Russians now harbor anti-Western sentiments and regard foreign assistance with resentment and suspicion. For their part, Western leaders have become disappointed and fatigued with the denouement in Russia. Skepticism and the impulse to "forget Russia" are common results. The August 1998 financial crisis dashed illusions that Russia could be readily transformed, and precipitated a fundamental shift towards retrenchment in dealing with Moscow. The 2000 presidential election in the U.S. stoked this frustration, prompting a partisan debate over missed opportunities that has left many in Washington questioning the merits of partnership with Moscow and wondering, "Who lost Russia?"

The very contradictions in Russia's political, economic, and strategic behavior, however, suggest that the current gloom about reform shared in the U.S. and Russia is as overblown as was the optimism of the early 1990s. Even the partial

steps taken towards democratization, marketization and integration demonstrate that Russia indeed is not “lost,” and that the obstacles to transformation, while formidable, are not insurmountable. That impediments to liberalization and an efficient economy have sprung up from within Russia also is not surprising, given the harsh and deep-seated legacy of Soviet rule. It is simply misleading to believe that the course of reform could be imposed from abroad or that Russia has been left for America to lose. Consequently, the fundamental and more vexing problem lies not with the evidence of Russia’s erratic behavior or with assigning blame for past failures, but with righting the disillusionment on both sides and taking critical stock of the bilateral relationship.

THINKING ANEW ABOUT U.S. — RUSSIAN RELATIONS

Despite the exasperation with the past and contradictions of the present, policy-makers in Russia and the U.S. can ill afford to lose sight of common ground. For Russia, the relationship with the U.S. is still critical for advancing the country's development. America's capital, military power, influence over financial lending institutions and its dominant presence in the world economy inevitably make good relations with the U.S. vital to its modernization. By President Putin's own appraisal, the costs of abandoning constructive dialogue with the U.S. are unacceptable, and Russia's national interests are best served by integrating into the global community.

Confronting the opposite challenges of responsibly managing and sustaining its unprecedented dominance, the U.S., too, finds its own welfare and security inextricably tied to Russia's success at navigating a constructive course of reform. Unlike during the Cold War, where U.S. security turned on Soviet military strength, American interests today are directly threatened by Russia's internal weakness and incoherence. The economic distress and social trauma in Russia have at once sharply raised the spectre of numerous perils: the dangers of inadvertent or accidental use of nuclear assets; the risks of leakage of weapons of mass destruction (WMD); the environmental hazards of a nuclear meltdown; the threats posed by organized crime and corruption; and the spillover effects of instability at the heart of Eurasia. The relative significance of these dangers is magnified not only because of Russia's proximity to America's vital interests in Europe or issues related to nuclear security, but because the problems associated with Russia's weakness intensify the scale and scope of most other post-Cold War threats confronting the United States. In addition, the U.S. stands to incur significant opportunity costs, in terms of lost markets, resources, and human

ingenuity from Russia's continued exclusion from the international system. An isolated and vulnerable Russia also is more likely to lash out against its weaker neighbors, putting at risk fledgling democracies and global access to strategic resources in Eastern Europe and Eurasia. All of these concerns would become more troublesome for the U.S. should Russian state power continue to atrophy. Thus, the real question now confronting American policymakers is not "whether" but "how" to facilitate Russia's successful transformation into a strong democracy.

The completion of presidential elections in both Russia and the U.S. presents a propitious moment for thinking anew about the complexities of Russia's predicament and creatively about forging a new relationship. No longer captivated by exaggerated expectations or campaign-driven debates, but tasked with devising a new blueprint for strategy, both leaderships are well positioned to reconceptualize an agenda for coping with the "post-honeymoon" phase of U.S.-Russian relations. For the current U.S. administration, the time is ripe to take a hard look at what Russia has become over the past decade, assay its trajectory in light of the challenges ahead, and chart a new course for effectively promoting the stable development of a democratic, market-oriented, and internationally engaged partner.

In reconceptualizing this new stage of U.S.-Russian relations, Americans—policymakers, opinion-leaders, and the general public—must be attuned to three realities associated with Russia's domestic transformation. First, Russia's road to reform will remain long and arduous. After a decade of experience it is evident that the political, economic, and social transformation underway in Russia is of historical proportions and is likely to extend over several more decades, even generations. Unlike what occurred in Western Europe and North America over hundreds of years, Russia is striving at once to create a new national identity, fashion durable political institutions, develop an efficient market economy, and cope with full-scale social renewal at a rapid pace and without resort to bloodshed. Searching for "quick fixes" is instinctive and understandable but unrealistic

and inappropriate for contending with the historical residue of Soviet and Tsarist rule and the deep-seated challenges that lie ahead. Similarly, measuring Russia's progress in terms of the attainment of full-fledged democracy, markets and global integration is shortsighted and unproductive. Because Russia is engaged simultaneously in protracted processes of democratization, marketization, and integration—marked by twists, turns and backsliding— success is relative and reflected by the degree of movement towards these objectives. Therefore, Americans should abjure reflexive impulses for reprimanding or excusing Russia's lapses, and take care to adopt realistic time horizons and benchmarks for evaluating change.

Second, Russia's transformation occurs against the backdrop of the trend towards globalization that is unfolding rapidly at the dawn of the 21st century. Globalization is a revolutionary force, beyond the control of any one state, that increases the interdependence of national polities, economies and societies. Because national policy choices are inextricably interconnected, it is imperative for policymakers in both capitals to devote more resources to grappling with shared problems and opportunities for promoting productive engagement. Crises afflicting Russia therefore should not be analyzed from the perspective of a "zero-sum" game that translates Russia's declining power as an inherent benefit to American and international security. Globalization also renders classic considerations of national security, defined solely in terms of balance of power and relative military strength, anachronistic. America's strength and security now hinge, to an unprecedented extent, on its economic competitiveness, as well as on the ability to mitigate transboundary threats posed by economic dislocation, environmental degradation, spread of epidemic diseases, unsafe or insecure WMD materials, adverse demographic trends and uncontrolled migration that could be unleashed by the further breakdown of the Russian state. Thus, helping Russia today is not a matter of altruism; it is an issue of self-interest and a national security imperative for the U.S. in an increasingly interdependent global system.

Third, the profound problems in Russia's economic, political, and social spheres are interconnected. Observable deficiencies in social cohesion, political effectiveness, economic development, financial transparency and national defense are tightly linked subsets of the overall crisis that besets Russia's massive transformation. Americans must appreciate this interaction and adopt a broad framework for making choices about the substance of future relations. Focusing on single policy angles or compartmentalizing issues with Russia misses both the constructive and disruptive interplay of developments across these various realms. An understanding of the critical synergies among the different dimensions to Russia's reform is required before U.S. policymakers can devise responses that are likely to yield beneficial long-term results for American interests.

Thus, the basic challenge for Americans at this juncture is to take a fresh look at the situation in Russia and to plot a pragmatic but reinvigorated course for engaging Russia and Russians as broadly as circumstances permit. The stakes are too high for succumbing to exasperation with the disappointments of Russia's transition or with previous policy failures, and as a consequence defaulting to strategies of abeyance, damage limitation, abandonment, or alternatively, romantic rescue. To avoid these pitfalls and to better understand the most advantageous forms of engagement for the future, American leaders must embrace a realistic and holistic perspective that takes into account the complexities, challenges, and likely scenarios attendant to Russia's long and rocky transformation from fragile to sustainable stability.

THE DILEMMAS OF RUSSIA'S TRANSFORMATION

At the onset of the new millennium, Russia looks fundamentally different from the expectations and tumult of the early 1990s. Contrary to the hopes of Boris Yeltsin and his allies at home and in the West, the country has not been rapidly transformed into a liberal, federal democracy buoyed by a vibrant market economy and modern living conditions. Nor is Russia today on the brink of collapse, plagued by hyperinflation, embattled by mass social unrest, poised for a Communist reversion, or ripe for disintegration. Instead, Russia is locked in-between these extremes. The situation is curiously stable at present, characterized by a conspicuous rebound from the financial meltdown in 1998 and the emergence of a new system of mutually reinforcing political and economic relationships. Lacking essential features of an efficient market economy or transparent governance, this system nonetheless benefits both current leaders and opposition movements enough so that they do not have incentives to champion radical reform, and has not made the general population desperate enough so far to compel the leadership to undertake such change. But because the system thrives on the arbitrary use of power and distorts the processes of democratization and marketization, it remains highly dysfunctional and precariously positioned to cope with the deep-seated, multi-layered crisis that looms on Russia's horizon.

THE EMERGENCE OF A STABLE BUT DYSFUNCTIONAL SYSTEM

Throughout the 1990s, the Russian leadership was consumed with dismantling the vestiges of the Soviet state and laying the foundations for a democratic and market-oriented society. The crux of this strategy consisted of 1) marginalizing those groups opposed to rapid political and economic reform; and 2) asserting

the new leadership's prerogatives to implement a liberal reform agenda even in the face of widespread discontent. To realize their objectives amidst the lingering hangover of Soviet central planning and Communist rule, President Yeltsin and his team believed that the ends justified the means, and found it expedient to polarize the domestic landscape into allies and enemies of reform. Following the 1993 violent dissolution of the parliament, they pursued these ends primarily through the electoral process, breaking with the country's long tradition of authoritarian rule. The leadership moved resolutely to orchestrate change from above by vesting the presidency with almost unlimited constitutional powers, taming the opposition-led parliament, and transferring the assets of some of Russia's leading enterprises to a select group of private individuals. This new class of "oligarchs" was expected to comprise a base of wealthy independent supporters to keep the Communists at bay and finance Yeltsin's re-election campaign in 1996.

In the process, however, Russia's radical reformers failed to build a solid domestic base for their efforts. Their disdain for the rest of society and forceful tactics alienated both the Russian public and urban intelligentsia. At the same time, their practices fueled "crony capitalism," undermined government discipline, and retarded the development of transparent political institutions and a middle class of property owners who were supposed to provide the bedrock for a modern, democratic Russia. By the end of the decade, what started out as a series of tactical maneuvers by Russia's reformers, who were locked in an unavoidable struggle to impose a naïve vision of the future on the country's anti-democratic and anti-market past, devolved into a new system of political and economic relations that has fallen far short of initial goals and expectations.

What has emerged in the transition is a quasi-democratic Russian political system. The inter- and intra-elite contest for the spoils of victory over Communism stripped the state of its oppressive powers to command the mobilization of national resources, and draped it with attributes of a pluralistic society and political system. A basic democratic constitutional framework now governs

political activity, as people are free to vote, assemble, worship, and voice their concerns to a greater extent than at any time in the country's long or recent past. Missing, however, are a political culture and formal mechanisms to ensure an effective separation and balance of powers, or to cultivate a reliable commitment to upholding the rule of law. While numerous political parties have emerged, they are notoriously undisciplined and, except for the Communist Party, lack the machinery to reflect more than the personal aspirations of their leaders. Similarly, the Russian mass media, although obstreperous and free from official censorship, is still weak and vulnerable to selective harassment by overbearing state managers, provincial authorities and financial backers.

In this new system, the full democratizing effects of elections and new freedoms are fundamentally obstructed by the dramatic erosion, fragmentation, and parcelization of state power. Like feudal Europe, the current Russian state represents a decentralized, but strongly hierarchical political and social structure, comprised of a multiplicity of self-interested but weak localized power centers. The central government lacks the formal capacity to provide transparent, stable mechanisms for adequately guaranteeing basic rights, enforcing laws, protecting property, or maintaining social welfare. Federal institutions are devoid of discipline or effective oversight, and have been captured by a narrow circle of unaccountable political insiders, functionaries and aggressive businessmen who compete for influence. Civil society is too weak and impoverished to serve as a check on this activity. In practice, political power at the highest level is exercised arbitrarily via corrupt, informal, personal networks that are oriented primarily towards balancing the parochial and predatory interests of a small clique of well-connected officials and private actors.

The decentralization of state power is also manifest in the new set of federal relations that have taken root in Russia. Notwithstanding two gruesome wars in Chechnya, there is little enthusiasm for separatism, with ethnic and political groups remaining mostly demobilized across Russia's 89 constituent regions. At issue with "regionalism" today is the appropriate distribution of political

jurisdiction and discretionary control over the allocation of economic resources. With the emergence of directly elected regional leaders and the representation of their interests in the upper house of parliament, center-periphery relations have evolved from open confrontation to political compromise. Accordingly, Russia has functioned as an “asymmetrical” federation, comprised of ad hoc bilateral power-sharing agreements negotiated between regional subjects and the center. With center-periphery relations established on a contractual rather than constitutional basis, the balance of power between Moscow and the regions fluctuates according to the level of political will in the Kremlin, with federal executives prone to trading regional autonomy for political support when embattled at the center, and independent-minded provincial authorities generally reluctant to assert de facto control over legal, economic, and foreign policies in their localities during periods of political resurgence in Moscow. Thus, the striking features of the current Russian political system are the blurring of public and private spheres of authority, emergence of informal and opaque mechanisms for exercising authority, and the absence of a single dominant political force at any level of state and society.

At the same time, the Russian economy has devolved into a quasi-market system. On the one hand, the process of economic transformation has turned a critical corner. In contrast to the free fall of the early post-Soviet period, by the end of 2000 the economy boasted a growth rate of over seven percent, inflation rates that have been reduced by half since 1999, and industrial production rates that have grown by 13 percent since 1997. National reserves have more than doubled since 1999, as the ruble has appreciated relative to the dollar, and the country has run a growing trade surplus over the past two years. The state is no longer responsible for coordinating commercial transactions, and successive governments have been reluctant to embrace economic paternalism. After enduring the pain of successive monetary crises, the country’s leaders seem to have learned that they cannot borrow their way to prosperity, and that they must work hard to increase tax revenues, reduce the foreign debt and keep government spending under control. Together, these changes have sowed the seeds for

the emergence of young, constructively motivated, and managerially capable entrepreneurial class.

On the other hand, an integrated system of complex and efficient market institutions is conspicuously absent in Russia. Financial markets exist, but they have failed to mature into a self-correcting system of savings and investment that is responsive to rational monetary policies for promoting economic growth. Instead, economic activity is concentrated in quasi-autarchic networks that rely on non-monetary, barter and artificial exchange controls to isolate and protect themselves from bankruptcy and other disciplinary pressures associated with nascent national and global market pressures. This “virtual economy,” fueled by heavy energy subsidies to industry, enables these informal networks to thrive and promote exchanges outside of the cash economy. As a result, the exercise of power and authority in both business and government is highly personalized, nontransparent and arbitrary.

Notwithstanding these shortcomings, this new system in Russia is surprisingly stable, in the sense that it generates a set of mutually reinforcing political and economic relationships that favor the status quo. First, the very dispersal of power among rival elites, bureaucrats, financial oligarchs and regional leaders prevents any one group from dominating the system. The fragmentation of power insulates each group or region from the problems or ambitions of the others, localizing unrest and minimizing the consequences of crises at the center for the system as a whole.

Second, most Russians do not have strong inclinations to orchestrate change. Because their power and welfare are firmly rooted in the opaque and idiosyncratic networks that prey on the weak political and economic structures, elites and their rivals inside and outside of government are motivated to preserve the existing system. A profound cultural fear of instability, combined with weak societal outlets (i.e., political parties, nongovernmental organizations and the media) and the protracted “pauperization” of the Russian population, sap the

energy for organized protest throughout Russian society. Under conditions where the vast majority of Russians are consumed by the immediate needs of making ends meet and do not expect greater participation in decisionmaking, political activity becomes a very risky distraction.

Third, the current Russian system has been effectively sanctioned by the West. For much of the last decade, Western policymakers and advisors were willing to overlook many gross violations of democratic norms and human rights, rampant social misery and half-completed economic programs in the hopes of encouraging a narrow group of favored Russian leaders to press on with reform against the wishes of the majority in the legislature and without much popular support. Critics of reform in Russia were collectively dismissed as Communist holdovers, national xenophobes, or corrupt parasites that had to be marginalized even at the expense of delivering foreign assistance to the Yeltsin team under dubious circumstances. This not only damaged the image of the West, but galvanized the national opposition to radical reform and weakened the base of committed supporters for building democracy and market-oriented institutions in Russia.

The harsh reality is that the emergence and maintenance of this new system has mutated the course of democratization and marketization in Russia. The weakness of the state, while not precluding a democratic society, obstructs its development. The stability derived from the resort to informal, personal and arbitrary political networks breeds the corruption that militates against the institutionalization of constitutional, criminal, or civil legal procedures. The perpetuation of backroom dealings distorts implementation of formal checks and balances and credible law enforcement, undermining the Russian people's faith in pluralistic institutions and the rule of law in the process. Stability and incrementalism, not democracy and change, have become the focal points of state building for Russian politicians and citizens who are consumed by the immediate tasks of working informal channels just to get by, and are loath to make additional sacrifices in the name of "reform."

The emergence of numerous local economies, and the overarching proclivity for autarchy and idiosyncratic valuation systems discourages structural economic reform. These factors nurture corruption and extortion, generating barriers to imports, foreign investment, entrepreneurship, and the free flow of goods and services across local markets, as officials and state managers collect rents through the rationing of permissions, allocations, and protections. Given that property rights are inconsistently protected by a weak court system, and that tax collection remains capricious and arbitrary, there are strong incentives to ignore legal remedies and to allow immediate consumption to take precedence over investing in the country's obsolete and woefully inefficient infrastructure. Ironically, such incentives have only strengthened with the upturn in the economy since 1998. Because the strong recovery is due largely to soaring global energy prices, the devaluation of the ruble (which priced competing foreign goods out of the national market) and large energy subsidies to domestic industry, it masks structural deficiencies and encourages the continued reliance on discretionary forms of import substitution at the expense of forging ahead with market reform.

So far, the main features of President Putin's program have reflected the contours and contradictions of the new system in Russia. On one hand, there are signs that the new president has both the public support and political commitment to push through needed reforms. Putin has stayed true to the basic democratic fabric of the Russian constitution, riding a popular approval rating of 70 percent with promises of "strengthening the state" and improving the effectiveness of the government to defend civic, political and economic freedoms. He has forged a cooperative working relationship with the Duma, the lower house of parliament and has pushed legislation aimed at reforming the development of national political parties. He has also put Russia's super-wealthy business tycoons on guard by cracking down on tax fraud and assailing their political influence. At the same time, Putin has maneuvered decisively to change the tone of federal relations and limit the most extreme abuses of local authority. He has tried to deal with corrupt governors by making the Kremlin stronger via the appointment of seven special envoys to oversee the implementation of federal policies in

the regions, amendment of membership in the Federation Council, passage of a law that provides for the temporary dismissal of a regional leader under investigation for wrongdoing and attempts at bringing regional laws into conformity with superior federal laws. Similarly, Putin, who campaigned for the presidency without articulating a clear economic strategy, has moved quickly to codify a 13 percent flat tax and champion the cause of land and banking reforms.

Notwithstanding these changes, the new president's political tactics and policies remain tightly constrained by the dysfunctional attributes of Russia's feudalistic system. Putin's power over policymaking remains boxed in by private deals aimed at balancing between unaccountable political forces that include loyalists in the security services, as well as members of the Yeltsin clan, economic reformers, oligarchs and the governors. This has produced a disturbing default to arbitrary and quasi-authoritarian methods for intimidating select oligarchs and recalcitrant regional leaders, and for threatening the free flow of information via traditional media outlets and the Internet. Putin also has demonstrated in Chechnya that he is personally prepared to wage war at home and to condone the military's crimes against humanity in order to stop terrorist attacks in Russia and to preserve the country's integrity.

Whether President Putin will succeed as a caretaker of the current Russian system or will become his own man and begin to advance reform is too early to tell. But given the persistence of the system, his policies, at least in the near term, most likely will be hemmed in by the political imperatives and pathologies that are internally generated. This is especially problematic as Russia confronts several closely interrelated quandaries that are perpetuated by the fragile institutions currently in place and that ultimately lie at the crux of the country's trajectory.

The most fundamental and pressing challenge for Russia's continued transformation is to transcend the dysfunctional stability of the current system to break the "vicious circles of weakness" that are distorting the potential complementarity of nation building, democratization, marketization and international integration. Russia is confronting multiple subsets of tightly linked social, political, economic and national security problems that are emasculating the sense of national purpose, confidence and commitment needed to take the appropriate risks to further the process of transformation. While none of these mounting woes have yet come to a critical head, the compound effects are of crisis proportions, as together they are rapidly draining the health of Russia's society and crippling the state's capacity to meet its most basic national security and welfare responsibilities. If left unabated, this mutually reinforcing set of negative trends not only risks shattering the fragile stability of the current system, but throws into question the sustainability of Russia's development and modernization over the coming decades.

Crisis of Social Capital and Cohesion

One of the most devastating consequences of Russia's painful transition has been the alarming degradation of health and social conditions. Since the collapse of the Soviet Union, Russia's total population has declined by three percent, with the death rate now surpassing the birth rate by over 50 percent. The Russian birth rate is down more than one child per woman since the late Soviet period, due less to conscious decisions to defer childbearing during difficult times than to the steady increase in infertility that has left 15-20 percent of Russian married couples unable to reproduce. This rise of infertility has been mostly the consequence of multiple (and frequently botched) abortions and a surging incidence of sexually transmitted diseases. At the same time, Russian life expectancy at birth dropped 3.2 years from 1987 to 1998, and has only partially recovered from the transition period low of 64 years in 1994. The increases in adult male mortality have been particularly shocking, climbing to 50 percent among men

ages 45-54 from 1990 to 1993. Male life expectancy patterns have remained significantly lower than during the Soviet period (almost 15 years lower than in the U.S.!), and have been characterized by an erratic recovery, subject to repeated and dramatic drops that to date mask the direction of this vital indicator.

An extremely ominous aspect of this demographic crisis has been the impact on Russia's youth. The major difference between current Russian mortality patterns and those during the Soviet period is the exceptionally high death rate of young adults aged 15-35 from violent causes, soaring alcoholism, acute cardiovascular conditions and precipitous rise in the spread of infectious and parasitic diseases. Russia now ranks among the top ten countries in the world for drug-resistant tuberculosis infections and has experienced a doubling of the mortality rate for the disease over the past five years. The accelerating threat of HIV and AIDS from intravenous drug use is even more alarming, with Russia forecasted to be home to one million HIV-infected people by 2003, even before the expected "second wave" of heterosexual transmission takes off. The cumulative impact of these trends is jarring, and has led to apocalyptic predictions that there may be only 80 to 100 million people left in Russia by the year 2050, down from 148 million in 1996.

Compounding the social traumas of the nation's winnowing population and deteriorating health is the fact that 30-45 percent of the Russian population now lives in poverty. This shocking situation is due mostly to declining incomes and increasing income disparities, delays in payments of wages and benefits, and unemployment, all the result of the economy's overall decline. The single decisive factor associated with the increase in poverty is the birth of an additional child. This, in turn, has fueled an alarming increase in the number of abandoned children, the vast majority of whom are "social orphans" cast out or neglected by their living parents who have lost the economic or psychological wherewithal to care for their offspring. The rise in poverty also has sparked waves of divorces and child abuse that have compelled children to turn increasingly to crime and prostitution simply as avenues for survival.

Together, the crises in Russian health and living standards have produced a nationwide loss of social cohesion and social capital. The virtual collapse of the highly flawed but comprehensive Soviet welfare system unleashed a torrent of social problems. At the same time, it deprived Russian society of the critical formal institutions, trust, networks, associations and communities to draw on for managing the recovery and ensuring the country's future competitiveness. The weakness of state institutions has led to the granting of massive tax exemptions and competition among select lobbies for dwindling social subsidies. Together, these activities have undermined the capacity of the government to perform basic social welfare services, stymied initiatives to restructure the social benefits system and eroded public support for the very market reforms needed to develop a new social safety net. The economic crisis of the transition period also stripped large enterprises of the resources to support hospitals, housing, vacation and rehabilitation centers. It has also made it very difficult for regional authorities, private citizens, professional associations, charities and churches to step in to provide alternative sources of social cohesion. In the face of the present social crisis Russian families are no longer able to cope effectively to compensate for the breakdown in state-based and group-based social safety networks. It has been left to often charismatic, but woefully under-funded local leaders and private sources to offer ad hoc "band-aides" to redress deteriorating social and health conditions.

The erosion of social cohesion in today's Russia has created a vicious circle. Worsening health conditions, the breakdown of the nuclear family, the paralysis of state institutions, and the myriad of other social crises facing Russia continue to escalate and feed upon each other. This, in turn, undermines the social fabric that is crucial for revitalizing the nation's determination and material capacity needed to develop viable political institutions, efficient market mechanisms and a stable defense posture, or to avert a social explosion that would inevitably reverberate far from Russia's borders.

Fragmentation of National Identity and Institutions

Complicating the process of transition in Russia is the vicious circle formed by the absence of a unifying national identity, a crumbling state, inefficient economic mechanisms and elements of nondemocratic development. With the collapse of the Soviet Union, Russia has been forced to confront its historical legacy as an under-developed nation. This ongoing struggle to define the Russian civilization and mission—as uniquely Russian, Eurasian, Western, or some combination thereof—weakens the idea of political community and deprives the state of a powerful source of legitimacy and popular mobilization. The absence of a strong national consciousness also undermines pride and consensus in state building and leaves both officials and private citizens with few incentives to act in a principled manner. Lacking commitments to upholding or adhering to the formal rules of the game that come from a strong sense of national and civic responsibility, it is increasingly difficult for Russian state officials or members of society to extract themselves from arbitrary political and economic practices.

The weakness of the Russian state, in turn, accelerates economic decline by leaving the country without effective institutions to support market activity, eroding the quality of public goods (such as health, education and economic infrastructure), and creating an opening for organized crime. The weak state also loosens the institutional underpinnings—rule of law and a civil society—necessary for producing a stable democracy. In conjunction with declining social capital and the absence of a coherent national identity, this motivates Russian leaders to rely heavily upon personal connections and loyal cadres (especially in the security services) for state building and allocating economic resources.

This process is compounded by the inefficiencies of a nonmarket economy. Socioeconomic decline deprives the state of the resources it needs to rebuild the capacity to govern effectively and delegitimizes democracy in the eyes of the population. Economic deprivation and the intense competition for scarce resources also feed traditional exclusionary and aggressive elements of Russian

nationalism that, in turn, provides the grist for anti-democratic and anti-Western political movements in Russia.

Finally, authoritarian attitudes and rule undermine the pursuit of a market economy by raising the costs and risks of entrepreneurial undertakings that implicitly jeopardize the informal economic and political relations that are in place. Authoritarian practices both generate and require an impulse to manipulate national symbols and elements of patriotism for the instrumental purposes of exercising and maintaining political power. Sadly, this is the one area in which Putin has chosen to break the vicious circle of weakness. This is reflected by the leadership's embrace of national pride to justify the arbitrary approach to recentralizing state authority, and the resort to an overtly chauvinistic public campaign to garner support for the Chechen war. The initial appeal of both suggests that Russians increasingly believe that doses of authoritarianism and patriotism may provide the panacea for the weak state and thus the shortest route to Russia's recovery. However, merely strengthening the instruments of coercion and paying lip service to patriotic obligations are not enough to stimulate the sense of social justice, ideological conviction, or material incentives that are needed to fashion viable democratic institutions and an efficient market economy.

Ad hoc Federalism

Compounding the challenge of political development over the past decade has been the ad hoc competition for executive power between Russia's weak state institutions at the federal and regional levels. Notwithstanding the president's strong constitutional powers, the federal government has lacked an effective chain of command to implement its policies or to maintain an integrated economic space across the country. Locally based federal offices have been poorly staffed and deprived of the resources needed to run social welfare programs, collect taxes and enforce national laws efficiently. Federal employees instead have been vulnerable to co-optation by regional authorities that are able to provide or withhold housing, office space and additional perquisites. Accordingly, federal

control has been problematic and increasingly reliant on arbitrary methods for leveraging personal connections, intimidating opponents, exploiting inter- and intra-regional rivalries and exercising selective fiscal coercion.

At the same time, the weakness of federal institutions has enabled the governors to be self-sufficient and to arrogate state sovereignty to themselves, as if Russia were a confederation, not a federation. Unaccountable to federal authorities or to local constituencies, regional administrations often have exploited natural resources under Moscow's legal jurisdiction, applied electoral procedures that violate federal law and legislated on topics constitutionally reserved for the center. On occasion, they also have imposed restrictions on the performance of military service and conducted unauthorized foreign policy. But because most regions lack independent sources of revenue and depend on internal trade for energy and foodstuffs, they have also resorted to lobbying Moscow for assistance. In this context, the central dilemma for state building is to tighten vertical discipline within federal hierarchies and to hold the governors accountable to the people and the law, while simultaneously vesting regional administrations with sufficient autonomy to address issues in their jurisdiction without arbitrary federal interference.

So far, however, this balance has not been achieved. Putin's recentralization program, premised in part on the use of ad hoc and selective methods for wresting federal power from the regions, is undermining the cohesion and effectiveness of the state. New reforms aimed at reducing the national stature of the governors by depriving them of their seats in the Federation Council, the upper chamber of parliament (and immunity from arrest), may end up actually increasing the governors' discretion in federal policymaking. As compensation for this legislation, the governors effectively acquired the right to fill the upper chamber of parliament with full-time lobbyists for their regions and also retained a voice in federal politics via ex officio membership in the newly created State Council. However, Putin appeared to score a psychological victory with the passing of a new law that gives the president the right to temporarily remove a governor

under criminal indictment. Yet, it is not clear what this even means in practice, and the political quid pro quo to get it passed by the federal parliament dealt a blow to local democracy as all elected mayors, except those in regional capitals, are now subject to dismissal by the governors.

Putin's aggressive attempt to recapture locally based federal machinery by creating seven huge federal districts also potentially exacerbates the problems of arbitrary decisionmaking. By appointing envoys that report directly to the presidential administration and stand above the governors, the reform adds an extra layer of bureaucracy between the federal and regional governments. This risks further complicating coordination between the center and the regions, and obfuscating the boundaries of political and administrative authority. That Putin opted to appoint five of the seven representatives from the security services and military and delegated to them substantial discretion for deciding how to use their new authority, also augurs for the continued dominance of personality over institutions in Russian state building. To the extent that these unelected officials succeed in usurping powers away from the governors, the less accountable regional decisionmaking will be to local interests and the more likely cronyism and arbitrary rule will persist unchecked at yet another level of the federal bureaucracy.

In addition, the use of massive force in Chechnya has failed to bring the republic back under Moscow's authority. With no end in sight, the war has alienated potential allies in Chechnya and in other Muslim communities at home and abroad, created martyrs among the Muslim fundamentalists throughout the North Caucasus, and aroused nationalistic and religious anxiety among non-Russian peoples across the country. The net effect has been to increase the danger of anti-Russian terrorism throughout the county.

Finally, Putin's reforms have complicated constructive interaction between civil society and state institutions at the regional level. The methods used to make regional police forces, prosecutors, and judges beholden to the national

government and the new federal district chiefs appear to be focused more on politicizing local law enforcement than on reducing the amount of corruption at the regional level or encouraging an independent judiciary. Heavy-handed tactics for imposing a “unified information space” in each federal district, tightening media licensing procedures and manipulating media subsidies appear to be part of a multi-pronged strategy for substituting federal for local control over media outlets. Furthermore, the Putin leadership is not encouraging the formation of real grass-roots political parties, and is proposing a new Labor Code that threatens to strip many of the rights that unions currently enjoy and to render workers more dependent than ever on the mercy of their employers.

Globalization and National Security

As a result of globalization, Russia’s security considerations, traditionally defined by its military capabilities to defend, deter and coerce a foreign adversary, are being superseded by concerns of economic competitiveness. The trajectories of Russia’s economic recovery, growth and national security have become inextricably linked and associated with the country’s capacity to compete in and benefit from international markets for goods and services. Access to international capital and information is now imperative for achieving the economic growth necessary to sustain the cohesion of Russia’s society and polity. Such international integration is critical for generating the economic development needed to modernize and strengthen the national defense base. The key to reaping these benefits rests with increasing the country’s financial and political transparency. Transparency and globalization go hand in hand, as globalization requires information, and financial transparency assures access to information. Therefore, a core challenge for Russia is to muster the confidence necessary to develop a viable, efficient, and transparent market economy that, in turn, will foster international engagement, spur domestic growth and bolster the state’s capacity to perform its core security functions.

Since the collapse of the Soviet Union, however, Russia has been forced to confront these pressures of globalization with few and decreasing resources at

its disposal. Accordingly, the trinity of imperatives—guaranteeing transparency, economic growth and national security—has been irreconcilable. Consequently, the profound problem accompanying Russia’s massive transformation has been the tightening of a Gordian Knot of austerity created by the interaction of decline in the economic and security spheres.

At base, Russia’s economic decline has taken a large toll on every segment of the country’s defense establishment over the past decade. The dramatic plunge in funding allocated to defense has crippled Russia’s ability to conduct such traditional missions as air surveillance, defense of airspace and territory and border control. Funding shortfalls have also been responsible for the anemic state of Russia’s nuclear forces, as well as the operational and social disarray that afflicts the national defense industrial base as a whole. The delay in economic development has paralyzed military reform that, in turn, has degraded morale and national pride, as well as undermined Russia’s sense of security.

At the same time, the deterioration of the Russian defense sector has generated painful negative externalities for the economy and the country’s global outlook. The collapse of the defense industrial base has deprived the economy of a major source of its highest technologies and most promising cutting-edge research. As a result, Russian policymakers are inclined to embrace arms exports as a panacea for staving-off bankruptcy and the brain-drain in the defense industrial sector, often to the detriment of Russia’s long-term security interests and relations with the U.S.. In addition, the clash between the country’s lost military stature and its historical role as a great power has aggravated Russia’s insecurity and suspicions of other states and international financial markets that are apt to behave without concerns for Russia. This, in turn, has made Russian policymakers wary of international integration and very reluctant to improve political and financial transparency.

The failure to undertake significant banking reform, however, compounds Russia’s economic and security dilemmas. The absence of a healthy and efficient

banking sector has prolonged dubious monetary policies, discouraged domestic savings and obstructed the process of credit extension needed to stimulate Russia's economic growth. The limited disclosure of information concerning corporate governance and the arbitrary decisionmaking in the political and economic spheres, have failed to satisfy the Western security and banking communities. As a result, Russia's opaque financial and political practices continue to restrict access to the very international engagement needed to drive economic development, revive social cohesion, and stabilize the national defense base.

SCENARIOS FOR RUSSIA'S DOMESTIC DEVELOPMENT

Over the next decade, there are four general courses of development that are open to Russia: (1) accelerated democratization and marketization; (2) authoritarianism and state capitalism; (3) stagnation; and (4) modest but progressive change. The likelihood and implications of success for each approach vary in light of the above challenges that Russia confronts as it strives to make the transition from dysfunctional to sustainable stability.

ACCELERATED DEMOCRATIZATION AND MARKETIZATION

One scenario is for Russia to forge ahead with a radical, systematic program of democratization and marketization. Russia already possesses a significant level of political pluralism and competing interests represented by regional elites, oligarchs, civic forces and the media. Over the past decade, thousands of elections for local and federal office have taken place, making them an accepted artifact of normalcy for the Russian public. That Russia's youth constitutes the backbone of the electoral support for reform suggests that generational politics could be on the side of deepening economic and political freedom. Notwithstanding the narrow capital accumulation so far in Russia, it is conceivable for a new entrepreneurial class to surface with strong incentives to improve financial and political transparency and to cultivate the emergence of a middle class capable of pressing for genuine market and political reform.

Such developments, however, would require almost an epiphany on the part of the current Russian establishment that is unlikely to occur anytime soon. The Russian constitution acts as a formal impediment to adding robust checks and balances and curbing the default to informal policymaking. It does this by simul-

taneously concentrating substantial but not dominant executive authority in the presidency while dividing the legislature and government at all levels. In practice, because the Russian president enjoys significant extra-constitutional powers over other political actors—i.e., parliament, functionaries, political parties, governors and business elites— the chief executive has little interest in introducing genuine democratic or market reforms that would jeopardize these advantages. At the same time, these subordinated actors can tap informal networks to increase their political and pecuniary privileges, thus they too are disinclined to establish formal restraints on political or economic rent-seeking. Finally, the trust between Russia and the West has sufficiently deteriorated over the past few years to undermine the confidence in Moscow and interest among foreign investors that would be necessary to open up the country to a massive infusion of international capital and assistance to sustain the reform process.

AUTHORITARIANISM AND STATE CAPITALISM

An alternative scenario of radical transformation would build upon the current disillusionment with reform and humiliation of decline by embracing a heavy-handed program for combining authoritarian state building with a dirigiste economic and industrial strategy. This would entail rolling back human rights protections; emasculating the independence of an already cowed media; and exploiting political parties, a pliant Duma, subordinated courts and the prosecutor's office as instruments of political manipulation for imposing strong rule. Also included would be a "second phase" of re-centralization that would prey on weak regional institutions to transform Russia into a unitary state. This would be complemented by a decisive crackdown on "unauthorized" entrepreneurship and attempts to regain state control of large industry, and the energy, natural resource and infrastructure sectors. In this scenario, the military sector would be revived and tapped as the locomotive for resuscitating the moribund industrial base and reemploying the bulk of the population. Such a program would

resonate with the aggressive patriotism sparked by the second war in Chechnya and popular support for stability, as well as would derive sustenance from Putin's widely heralded campaign to impose stability via a "dictatorship of law."

Notwithstanding the ominous signs of reversion and the outward sympathy for resurrecting "fortress Russia," there are significant obstacles to a successful authoritarian and dirigiste course. Such a program would simultaneously squander scarce economic resources due to its inherent inefficiencies and foster the entrenchment of a closed, parasitic, and hyper-bureaucratized political system that would not fare well in the face of the pressures of globalization. As is the case with a radical liberal reform agenda, neither current elites nor their opposition are inclined to endorse a costly reversion to dictatorship that could put at risk their privileged status. To date, Russian executives have been loath to support a reversion to state paternalism or a complete concentration of power that would, in turn, hold them directly responsible for the misery and ineffectiveness of the state. These self-interested concerns will likely continue to constrain future power grabs, given the significant social, political, strategic and economic costs attendant on forcing through a dramatic recentralization of power and authority.

STAGNATION

A third, more realistic approach would be to resist structural reform and perpetuate the quasi-feudal system in Russia. In this scenario, the key institutions of informal, nontransparent, and ad hoc political and economic decisionmaking would be maintained. Any marginal attempt at reform, as evidenced by the measures adopted by Putin so far, would focus primarily on improving discipline and redistributing scarce resources and influence within the constraints of the existing system, albeit among a small, unaccountable and rotating group of political and commercial kingpins.

Although this represents the course of least resistance in Russia today, its continued pursuit could lead to dire consequences. Succumbing to stagnation would perpetuate both the political and economic distortions of the current system, as well as the profound and interlocking problems associated with the “vicious circles of weakness.” In the short term, the cumulative effect of uncontrolled decline in social capital, political effectiveness, structural economic reform and transparency would be to arrest any potential for democratization and marketization and, given the weakening of the state, would provoke increasingly erratic foreign policies. Such inertia also would make Russia especially vulnerable to outside shocks that could risk escalating relatively minor problems—sparked, for instance, by a natural disaster—into a full-scale crisis.

Over the long term, the failure to redress the continued erosion of state power implicit in this scenario could eventually unleash instability of crisis proportions inside Russia, along its immediate borders, and across the international system. The enfeebled state could compel regional leaders to go it alone, both politically and territorially, fostering the breakdown of Russian federalism and the loss of central control over the country’s foreign and security policies, including the nuclear arsenal. This creeping disintegration could also destabilize states such as Georgia and Azerbaijan, that have been especially vulnerable to the spillover effects of the turmoil in the North Caucasus; as well as states such as Ukraine, Kazakhstan, Belarus, Estonia and Latvia, where large Russian minorities could easily become the targets of irredentism and national assertiveness. State breakdown would also raise the global threats linked to the uncontrollable spread of WMD materials and infectious diseases and could turn Russia into an arena of international competition for neighboring states and the world’s leading powers that, in turn, might exacerbate the pressures for the country’s disintegration.

MODEST BUT PROGRESSIVE CHANGE

The fourth scenario is for Russia to push the limits of the current system by pursuing a modest course of democratization and marketization. Taking advantage of the recent upturn in the economy, cooperative executive-legislative relations and Putin's unprecedented popularity, the focus of reform would be on consolidating the successes of the past decade while broadening the base of support for future reforms. In the near term, this would entail a concerted effort aimed at stimulating domestic property ownership and cash transactions in the economy by improving fiscal and political transparency. Specific attention would be paid to simplifying the tax system and separating tax enforcement from banking and local government administrative systems, as well as to passing national legislation aimed at facilitating production sharing agreements, protecting investor rights, and furthering land and banking reforms. In addition, there would be a conspicuous attempt to strengthen the legitimacy of an independent judiciary and law enforcement system by restricting executive interference with court proceedings and rulings, and reconciling the most egregious contradictions between federal and regional laws.

Beyond the promotion of specific policies, this scenario envisions the gradual activation of new constituencies with stakes in promoting more viable and efficient social institutions that, at present, are immature and only beginning to enter the Russian political and economic arenas. Even in the current dysfunctional system there are pockets of Russian society where fundamental principles of democracy and market economics have taken hold to promote step-by-step change. Against the backdrop of globalization, there are key elements within the government, including President Putin and his economic advisors, who acknowledge that Russia's transition to a modern, internationally respected nation is contingent upon meeting the basic requirements for financial transparency that would be needed to unlock foreign investment in Russia. Economic expansion also would presumably strengthen and embolden these forces, as well as provide new opportunities for some of Russia's emerging business elites to

expand their wealth at home, and possibly abroad. By doing so, these actors will obtain greater stakes in playing by global rules of the game in their economic and political endeavors.

In addition, there are charismatic local politicians, nongovernmental organizations (NGOs), and private entrepreneurs who have spearheaded grassroots responses to severe social problems. These local initiatives have, so far, been limited to filling important niches—such as providing child assistance centers, modern medical facilities, and regional health insurance—but through their own success and appeal could be fortified to offer social and political relief on a larger and more systematic scale. Finally, there are the younger generations of Russian business and political leaders, lacking the ideological baggage of the Soviet past but excluded from the opportunities for quick enrichment or influence, who will begin to clamor for changes in the existing political and economic order. If cultivated appropriately, these social forces could gain momentum and together could serve to hold in check potential reversions to authoritarian methods of state building that would threaten the integrity of reform altogether, while prodding Russia gradually along a democratic and market-oriented trajectory.

STRATEGY FOR EXTENSIVE RE-ENGAGEMENT

What can the U.S. do to effectively promote economic modernization, democratization, and international integration, given the realities of the current system in Russia and its ominous trajectory? This analysis suggests that while the decisive impetus for extricating the country from its “vicious circles of weakness” must come from the Russians themselves, American leaders—from government, business, foundations and (NGOs)—should embrace a strategy of “extensive re-engagement” to facilitate the process where possible. This strategy requires a reinvigorated attempt to “engage” both Russia’s state and society, as opposed to either standing on the sidelines, or alternatively, micromanaging the process of reform. The primary focus of this engagement should be placed on: a) building international trust to encourage transparency in Russia; b) ensuring that the attempts at state building do not reverse the previous achievements of reform; and c) nurturing the development of bottom-up pressures for continued democratization, marketization and integration in Russia. At the same time, the strategy should be “extensive,” aimed at cultivating a broad constituency for reform among the Russian population, including segments that are nascent supporters of reform, as well as those that are traditionally resistant to change. This strategy for “helping Russia help itself” along the path to democratic and market-oriented reform is not “mission impossible” for the U.S., but requires patient and close adherence to a few basic guidelines and related policies.

AVOID UNILATERALISM

It is imperative that the U.S. avoid presenting ultimatums or imposing its own policies and style of reform on Russia. The credibility of U.S. advice and assistance stands to increase if they are grounded in the realities of Russia’s

current system and are nurtured by the Russians themselves. Moreover, it is critical that the U.S. craft a common approach towards Russia with its allies in Europe, as the relationship is likely to be tested by developments in Russia over the coming years. Geographic proximity and greater vulnerability could compel Western Europe to seek ways to accommodate Russia's state building and preference for ensuring stability, while driving the U.S. to seek more forceful avenues for reversing potential challenges to the core values of democratic and market-oriented reforms. The cohesiveness of Western institutions could very well be weakened in such circumstances. Therefore, the U.S. and Europe must develop a united front for assessing tradeoffs between the different facets of reform, and impress upon Russian leaders that an effort to exploit differences between the allies will retard their own country's integration into global institutions, thus jeopardizing the viability and effectiveness of domestic political and economic structures. This message should be conveyed on the one hand, by supporting Russia's entrance into international financial and trade organizations where it could be a credible member, such as the World Trade Organization; and on the other hand, by resolving differences with European allies regarding the division of labor between NATO and new European Union security structures.

REASSURE RUSSIA'S STRATEGIC AND ECONOMIC SECURITY

The U.S. needs to recognize that it can precipitate a critical break in the "vicious circles of weakness" and foster transparency in Russia by avoiding provocative behavior that readily feeds Moscow's insecurity and adopting policies that underscore the benign effects of an open international system. The U.S. must remember that the foreign policies it pursues are viewed through a prism of insecurity by a weak Russia and thus are prone to generating reactions within the country that are otherwise avoidable. Accordingly, U.S. leaders must reassess the presentation, if not the substance of its policies, so as not to appear unambiguously aggressive which, in turn, risks exacerbating Russia's own

insecurity, provoking a defensive response and subjecting the country's internal reform to unnecessary and unreasonable burdens. On the security front, this suggests that the U.S. should redress the dominant foreign policy irritants for Russia by championing the normalization of NATO-Russian relations via redefinition of the alliance's mission and delaying its expansion to the East; and by placing development of a National Missile Defense on indefinite hold, or at least until the technological feasibility of a system is no longer widely questioned and a concerted diplomatic effort is made to convince the Russians that the system will not undermine their nuclear deterrent. In addition, the U.S. should seek to promote transparency through engagement by upgrading Cooperative Threat Reduction assistance for decreasing the size and increasing the safety/security of Russia's inventory of nuclear weapons and materials. This program should be complemented by new cooperative defense initiatives targeted at developing joint early warning systems, coordinating nuclear de-alerting, jump-starting nuclear stability talks, creating regional nuclear safeguards, developing joint theater missile defenses, and establishing new mechanisms for addressing common threats of WMD proliferation, terrorism, and organized crime.

On the economic front, the U.S. should seek to allay Moscow's insecurities by facilitating nondiscriminatory debt relief and market access for products that Russia can produce competitively at home. At the same time, the U.S. should underscore to Russia that the sustainability of such gestures critically depends on the avoidance of a unilateral default on its foreign obligations and the realization of concrete steps towards economic, political and military reform. Washington also should resist the temptation to provide Russia with credits specifically earmarked for the purchase of U.S. products (such as grain), thereby obviating domestic reforms in key sectors (e.g., agriculture) and undercutting Russia's economic relations with its own neighbors.

Finally, the U.S. should assist Russia in resolving the war in Chechnya and stabilizing the region as soon as possible. This would require striking a delicate balance between 1) reassuring Russia of the U.S.' benign intentions by unequiv-

ocally supporting the integrity of the federation and condemning Chechen zealots and terrorists; and 2) not condoning Moscow's brutal violations of human rights by making it clear that waging a war that does not distinguish between combatants and civilians ill serves a country seeking to join the western community in the 21st century. Washington also should coordinate the formulation of a multilateral stability pact for the region with a loose grouping of states.

PROMOTE POLITICAL TRANSPARENCY IN RUSSIA

Taking care not to impose Western values or policies, the U.S. should induce Russia to take the lead in opening up its political system. One set of tactics should be to encourage business development funds to finance the debts of independent and viable media outlets and to provide material support for indigenous organizations that agitate for press freedom. Similarly, the U.S. should encourage the sanctity of the rule of law by providing grants and technical assistance to those Russian organizations that seek legal remedies for establishing and protecting property rights, due process, press freedoms, criminal rights and minority rights. The U.S government should also adopt stringent guidelines for regulating the behavior and establishing a code of conduct for American agencies and business operating in Russia that would set examples for best practices, reduce the negative social externalities of unrestricted American commercial activities and dispel Russian perceptions of double standards. In addition, American organizations, together with East Central European partners, should create "east-east" exchanges and dialogues to expose anti-reform journalists and political movements in Russia to experiences with successful adaptation in Poland, Hungary and the Czech Republic; and to engage them in discussions with former opponents of reform in those countries. Ultimately, however, U.S. donors should disavow providing detailed recommendations or oversight of political reform initiatives, and confine their roles to offering general advice and assistance. By establishing general benchmarks but

leaving the details of formulating and implementing specific programs to the Russian government and private sector, U.S. agencies would give Russian recipients a sense of ownership and commitment to reform, while reducing the risk of American assistance to be discredited in the process.

THINK STRATEGICALLY, ACT LOCALLY

In an effort to reach a larger segment of the Russian population, and to strengthen and sustain internal checks on the abuse of power by informal and corrupt political networks, U.S. agencies should target assistance and training programs directly at the grass-roots, nongovernmental, regional and private levels in Russia. Amidst the distortions generated by the current system in Russia, there have been local success stories of reform that offer instructive lessons and potential models for adaptation and replication. In the public health sector, for example, local officials have partnered with grass-roots movements and NGOs to diagnose local health problems and to design and implement locally defined quality control standards in hospitals and clinics. In order to stimulate other such initiatives and to make them more effective and durable, the U.S. government should provide an umbrella coordinating mechanism to support and facilitate the replication of low-cost partnerships between American social service NGOs and new Russian counterparts, including local Russian government-private ventures. In addition, U.S. agencies should support a broad array of training, education, systematic data collection, and professional exchanges for a well-trained cadre of promising Russian policy analysts and technical specialists in the health and social sectors. These programs would be designed to produce a “train the trainers” effect, providing opportunities for the study and observation of Western practices, and the subsequent incorporation of new lessons into the training and practices of Russian professional communities.

In addition, the U.S. should quietly seek ways to facilitate cooperation between NGOs, the private sector and the different levels of the Russian government by drawing on its own experience in developing state capacities through interaction

with civil society. Regional transparency should be advanced by providing civil society groups with the training and resources required to conduct independent financial audits of fiscal exchanges across the different levels of government, to monitor the effectiveness of regional reform initiatives and to disseminate the results in the local media. In the process, however, the U.S. should avoid selecting regional “favorites” or backing local autocrats, and take care to encourage flexible center-periphery relations and engage small grass-roots groups that have a record of honesty and reliability in tracking the use of Western funds by federal and local government offices. The U.S. also should take the lead in efforts to upgrade the monitoring of regional and federal elections in Russia by supporting local efforts to publish more and timely information about specific campaigns and legal violations.

REDUCE THE COSTS OF OPERATING IN THE RUSSIAN MARKET

In order to promote entrepreneurial activity across Russia, U.S. organizations should focus their efforts on reducing the artificial barriers and transaction costs of exchange. Rather than funding specific programs, the emphasis should be placed on improving the opportunities for small and medium-sized businesses to enter and survive the domestic market. At the macro-level, U.S. government programs should target technical assistance, credit and investment to strengthen infrastructure projects in Russia that are intended to support the free flow of goods and services within a single economic space. These large-scale initiatives should be reinforced by policies directed at improving the environment for small business development. This should include extending small business investment loans based on the models of Central European Funds and the Russian Small Business Fund (currently supported by the EBRD) that would enable thousands of local businesses to sustain themselves, as well as strengthen the capacity of the Russian banking system to operate independently in the small business sector. In addition, efforts aimed at spurring the self-organization of small businesses

should be concentrated on establishing vibrant chamber of commerce structures, promoting grass-roots movements that agitate for deregulation, and supporting stronger enforcement of contracts.

IMPROVE THE WELFARE OF RUSSIA'S FUTURE GENERATIONS

As part of accepting that the transformation in Russia will be a protracted process, the U.S. should target assistance and partnership programs towards reinvigorating Russia's youth. In today's Russia, the children have been hit hard by the precipitous economic and social decline but have no political voice. Their health and general welfare, however, are crucial to the productivity and vitality of Russia's future. Therefore, U.S. assistance programs should be directed at boosting the welfare, expectations and behavior of Russia's future generations. This could be realized, for example, by funding public-private partnerships aimed at developing alternative foster care networks to handle the thousands of children in crisis situations and creating "directly observed treatment" centers to replace over the long-term the outdated and over-burdened orphanage and tuberculosis hospitals, respectively. Together with support for improving Russian higher education—via the funding of partnerships with American educational institutions, "train-the-trainers" projects for Russian policy analysts and professors and "virtual connections" between Russian and international researchers—modest American public and private contributions can make a significant difference in Russia's long-term course of development. Without assistance, Russia's "lost generation" and its successors cannot provide the human capital the country will need to sustain its transformation into a modern democratic state, successfully integrated into the global economy and community of nations.

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