



THE TRILATERAL COMMISSION
2013/2014 TASK FORCE REPORT

**ENGAGING RUSSIA:
A Return to Containment?**

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The Trilateral Commission was formed in 1973 by private experienced leaders from *Europe, North America, and Japan* to foster closer cooperation among these three democratic industrialized regions on common problems facing an increasingly interconnected and interdependent world. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together. The European group has widened since with the ongoing enlargement of the European Union. The Japanese group has widened into an *Asian Pacific group including China and India*. The North American group now includes members from Canada, Mexico and the United States.

“Engaging Russia: A Return to Containment?” is the third in a series of reports¹ on Russia that the Trilateral Commission has produced since 1995.

Ambassador **Paula Dobriansky**, former U.S. Under Secretary of State for Democracy and Global Affairs, **Andrzej Olechowski**, former Minister of Foreign Affairs and of Finance of Poland and Ambassador **Yukio Satoh**, vice chairman of the Japan Institute of International Affairs, served as co-chairs of the North American, European and Asia Pacific chapters, respectively.

For the first time, the Trilateral Commission solicited contributions from a group of Russian experts, which was led by a fourth co-chair, **Igor Yurgens**, Chairman of INSOR Institute of Contemporary Development in Moscow.

Please find a **brief introduction**, which details areas of agreement and disagreement among the four groups on where Russia is today, domestically and internationally, and what **policy approaches** the Trilateral countries should pursue towards Moscow. Following the introduction are **the four regional summaries**, which provide a concise exposition of each group’s analysis and recommendations.

This report was prepared for the Trilateral Commission and is distributed under its auspices. The authors have been free to present their own views. The opinions expressed are put forward in a personal capacity and do not purport to represent those of the Trilateral Commission or of any organization with which the authors are associated.

The full report -- to include the detailed regional chapters and acknowledgements -- will be published and disseminated in the summer of 2014.

The Trilateral Process

The Authors have been aided by extensive consultations with scholars, experts and business leaders from the trilateral countries as well as Russia. These consultations included discussions during 2013 Trilateral Commission regional meetings in Krakow on October 25-27, in Mexico City on November 8-10, and in Manila on December 12-14. The authors held a task force meeting at Harvard University on March 3-4, 2014 to prepare for the coming Washington plenary meeting and were graciously hosted by the The Belfer Center for Science and International Affairs of the John F. Kennedy School of Government. The Authors held meetings on April 23 & 24 in Washington, D.C. at The White House (NSC), Department of State and within the Think Tanks CSIS and CFR prior to their presentations of the report at the plenary meeting of the Commission on April 26, 2014.

¹ *Engaging Russia*, Robert D. Blackwill, Rodric Braithwaite, Akihiko Tanaka, 1995;
Engaging with Russia: The Next Phase, Roderic Lyne, Strobe Talbott, Koji Watanabe, 2006

INTRODUCTION

“Engaging Russia: A Return to Containment?” is the third in a series of reviews on Russia that the Trilateral Commission has undertaken since 1995. In addition to the contributions from the Trilateral co-chairs, for the first time, the Commission solicited a chapter from a group of Russian experts led by a Russian co-chair. The report reveals areas of agreement and disagreement among the four groups (Asia-Pacific, Europe, North America, and Russia) on where Russia is today, domestically and internationally, and what policy approaches the Trilateral countries should pursue toward Moscow.

Each group of the Trilateral Commission Russia Task Force contributed reports, along with summaries, of their deliberations. After the Russian invasion of Crimea on February 27, 2014, group co-chairs convened at Harvard University and agreed to prepare new drafts, discussing the developments in Ukraine insofar as they bear upon Russia’s behavior and intentions. Besides events in Ukraine, each group offered comments on the following five issues:

- Russia’s geopolitical significance
- Moscow’s foreign policy
- The economic situation in Russia
- Human rights and democracy in Russia
- International engagement with Russia

Joint recommendations of the co-chairs are listed at the end of this introduction.

THE CRISIS IN UKRAINE

Re-Creation of the International Order

On March 16, 2014, following the Russian invasion, Crimea voted in a referendum to unify with the Russian Federation. The United Nations General Assembly, by a vote of 100 to 11, with 58 abstentions and 24 absent, deemed the referendum illegal. In the Security Council, thirteen countries voted in favor of a U.S.-sponsored Security Council resolution affirming Ukraine’s territorial integrity. China abstained. Russia vetoed.

In April 2014, the Parliamentary Assembly of the Council of Europe suspended Russia’s voting rights, citing the “contradiction” between Moscow’s annexation of Crimea and its commitments to the body.

And the Group of Seven countries, after excluding Russia, reiterated their “strong condemnation of Russia’s illegal attempt to annex Crimea and Sevastopol” and agreed to impose coordinated sanctions.

Condemnation from the international community has done little to change President Putin’s behavior. Citing threats to Russian speakers in the country, Mr. Putin is moving decisively to secure three short-term objectives:

- Bring Crimea into the Russian Federation,
- Push for a federal system in Ukraine that guarantees a high degree of linguistic, cultural, political, and economic autonomy for eastern and southern Ukraine, and
- Prevent the central government in Kiev from seeking NATO assistance.

Over time, President Putin would like to see central Ukraine, with Kyiv, join with the eastern and southern regions of the country in an interstate-state compact aligned with Russia. Alternatively, Moscow is willing to see western Ukraine break away.

Mr. Putin believes that Russia cannot allow Ukraine to emerge as a democratic state on its borders, and become part of Western institutions, without losing an essential part of itself. Some 17% of Ukraine's population – more than eight million – is ethnically Russian. By population, Ukraine has the largest Russian diaspora in the world, though ethnic Russians constitute a greater share of the population in Latvia (27%) and Estonia (26%). Ethnic Russians constitute the majority of the population in the Crimea and a substantial percentage of the population in East and Southeast Ukraine next to the Russian border. For Putin, whose own authority rests in no small part on his reputation as a strong Russian patriot, “losing” Ukraine means abandoning the Kremlin's goal of reviving Russia as a great power.

Events in Ukraine mark a fundamental rupture in relations between Russia and the West. President Putin said as much in his “Crimea speech” of March 18. He accused the West of “crossing all thinkable limits of diplomatic behavior” and vowed that Russia, at its “last frontier...would not be surrendered.” Russia, he affirmed, is equal in its rights and ambitions, but morally superior to its rivals in the West. While cognizant of how difficult the next few years will be for Russia, Putin is bracing for intense competition and even confrontation, which, to him, are normal if unpleasant elements of international relations.

More so than the customary ruthlessness he showed in Crimea, it is Mr. Putin's challenge to the existing global order and the norms of conduct that undergird it, that alarms the international community. Russia's use of brute force to redraw its borders with Ukraine and illegally annex Crimea is an indisputable violation of the UN Charter and the norms that have guided global affairs since the end of the Second World War.

Instead of acting as a guardian of international order, Putin is seeking to change the consequences of the collapse of the Soviet Union, an event he has infamously called “a major geopolitical disaster of the century.” Moscow has abandoned Mikhail Gorbachev's vision of Russia joining its “common European home,” destroying years of efforts to bring Europe's two parts together. Gone are the days of a “Europe whole and free.”

In Asia meanwhile, there is a broadly-shared concern that Russia's actions, if left unanswered, would embolden China to enforce territorial claims in the East and South China Sea.

Moscow's willful violation of its obligations to respect Ukraine's political and territorial integrity, featured most robustly in the 1994 Budapest Memorandum on Security Assurances, has dealt a blow to the cause of nonproliferation. Russia had agreed to provide security assurances for Ukraine as a means of inducing Kiev to abandon its formidable nuclear arsenal, at the time, the world's third largest nuclear force. This development not only threatens global stability and adversely impacts western interests, it also harms Russia's interests. The global clout Moscow derives from its membership in a small, exclusive club of nuclear weapons states would not look as powerful with the arrival of new entrants.

Impact on Russia

President Putin can take solace in the fact that the United States and EU are unlikely to go to war with Russia over Ukraine. After a decade of wars in the Middle East, the American public is weary of foreign adventures – an important reason, as the Kremlin sees it, for why President Obama was elected in the first place. The EU has neither the capability nor the stomach to wage war on Russia. Nor will the substance of the first phase of sanctions in itself cause any “unacceptable damage.”

Still, there is reason to doubt the view of many in the Kremlin and in the Russian expert community that the United States and EU will eventually come to “reset” relations with Russia after a certain period of time, even without any concessions from the latter. Ebbs and flows notwithstanding, Western public opinion is unlikely to remain as averse to international engagement as is presently the case if Moscow continues its saber-rattling. Putin's actions are certain to poison Russia's relations with Ukraine and virtually all of its other neighbors for decades to come.

The first steps that the United States and its allies have taken in retaliation to the Crimea invasion are likely to be a harbinger of more serious sanctions to come in the future. The Ukraine situation has already sent shivers through the business community, obliging companies to rework their risk models for projects with and in Russia.

In the coming years, Russia will face *five major consequences*, each of which could exact a substantial toll:

First, international rating agencies will review Russia's sovereign rating as well as ratings for Russian corporate borrowers. This automatically complicates the issue of the refinancing of debt assumed earlier; approximately \$100 billion is up for refinancing in 2014. The conditions for IPOs and Eurobond placements will worsen. Any money coming from external sources will become more expensive – by 150-200 basis points according to some estimates -- which in turn will change the pricing conditions for the domestic debt market and exert pressure on the financial system.

Second, sanctions will set off further attacks on the ruble, increasing the likelihood of a crisis in the banking sector. As both individuals and corporations seek cover in foreign currency, inflation expectations will accelerate. Capital flight will rise as

well -- by some estimates, up to \$200 billion -- which could lead to a negative balance of payments this year.

Third, sanctions, particularly if they disrupt arms and military equipment export contracts, could trigger a general economic downturn. Although immediate and abrupt moves in the energy sector are not expected – the EU depends on Russia for 31% of natural gas and 27% of oil – the current situation has already spurred the recalibration of global markets. The next 3-5 years will see, among other things:

- Successful efforts by the United States to become a global exporter of liquid hydrocarbons;
- Significant substitution of Russian gas with supplies from Qatar, Algeria, and Libya;
- Sizable investment projects among alternative suppliers of the EU in areas such as North Sea deposits as well as major fields in the Persian Gulf, which have tenfold or more reserves than in Russia's Novy Urengoy region;
- The emergence of a global LNG market with its own oil-based pricing mechanisms, in which Russia has a relatively minor market position of 5% among APEC countries; and
- Coordinated international efforts to ensure Ukraine's independence from Russian gas such as energy efficiency programs and reverse flow supplies at spot-market prices via Poland, Hungary, Slovakia, Bulgaria, Romania and Croatia.

In order to react to these structural changes, Russia will need to adapt its current energy policy through 2030.

More generally, the configuration of international trade flows could begin to change in ways detrimental to Russia. Moscow's political and economic relations with Europe will remain impaired, and Russia will not be able to draw benefits from European markets until it changes its approach to Ukraine and other issues of dispute with the West. With regard to the WTO, Moscow, on the bilateral level, should be prepared to see new claims, confirmations of old claims such as the utilization fee on imported cars, and antidumping cases against Russian companies. Implementation of the WTO rules by Russia will be scrutinized more closely. There will be negotiations on the elimination of the several dozen old trade restrictions that remain in place. And progress on the Transpacific Trade Partnership and the Transatlantic Trade and Investment Partnership is likely to accelerate.

Fourth, growing tensions over the Crimea issue could produce higher risks for Russian companies, which have \$30 billion worth of assets in Ukraine. These risks could manifest themselves through substantial impediments in the business environment, for example, nationalization, or measures such as tariffs, customs and tax policy, and the application of EU technical standards and regulations.

Finally, Moscow's plans to pursue the socio-economic development of Eastern Siberia and the Far East will become more difficult. Russia's isolation could result in the stagnation of the entire Russian economy, leaving the country without enough foreign investment to follow through on its agenda for the region. The development of Russia's eastern regions would increasingly depend on China, a trend with problematic consequences both for Russia as well as many Asian countries.

AREAS OF CONSENSUS

Russia's Geopolitical Significance

Russia remains a significant world power that affects the vital and important interests of states across North America, Europe, and the Asia Pacific. Four main factors account for Russia's sustained geopolitical influence: Russia's geography, capabilities and resources, stature in international institutions, and global ambitions.

Geography

Russia's landmass and location make the country a critical actor in the global balance of power. Russia is a European power, but one with values that preclude its membership as a genuine stakeholder in the continent's security architecture. Russia's already low profile in Asia-Pacific diplomacy is further overshadowed by the rise of China. And with a southern border that reaches down through Central Asia, Russia will impact the outcomes of Middle East conflicts ranging from the civil war in Syria to the U.S. withdrawal from Afghanistan.

Capabilities and Resources

Russia's capabilities and resources -- notably its strategic arms and energy reserves -- give Moscow the ability to impact international stability, whether positively or negatively. Russia is pursuing an ambitious program of military modernization. Moscow has little intention of forgoing its nuclear arsenal, which it sees as a hedge against Euro-Atlantic missile defense as well as the growth and modernization of China's conventional and nuclear forces. On the energy front, Russia exerts global influence through its domestic resources and its control of vital transport routes.

Stature in International Institutions

Russia can unilaterally decide whether major international institutions respond or stand gridlocked in the face of global governance challenges. Moscow is a permanent member of the UN Security Council, and remains, even after the invasion of Ukraine, a member of the Council of Europe, Organization for Security and Cooperation in Europe (OSCE), G-20, and Asia's major multilateral institutions. Moscow is attempting to forge new regional groupings through its leadership in initiatives such as the Commonwealth of Independent States (CIS) and Eurasian Economic Union.

Global Ambitions

Russia aspires to superpower status and seeks a regional order in Eurasia that is no longer underwritten by the United States. Moscow considers its response to international events based on how it will impact Russia's standing vis-à-vis the United States, China, and European Union. Moscow's penchant for intransigence and unilateralism reflects a domestic consensus in Russia that the country should assume its rightful place as a great power on the world stage.

Russian Foreign Policy

Russia's approach to international institutions is not contributing to global stability. Rather than making practical investments in existing multilateral mechanisms for regional cooperation, Moscow is seeking to build new security architectures as part of an effort to challenge U.S.-backed orders in Europe and the Asia Pacific. In Europe, Russia is using all facets of its national power to ensure that CIS states neither pursue EU integration nor join NATO. In the Asia-Pacific, Russia is forgoing opportunities to contribute to the Asia-Pacific Economic Cooperation, the mechanisms for regional cooperation led by the Association of Southeast Asian Nations, and the East Asia Summit. Instead, Russia is pursuing a "polycentric system of international relations" that enjoys little support among countries in the region, except for China.

Economic Situation in Russia

Russia faces serious economic challenges that will affect Moscow's relations with the countries of North America, Europe, and Asia. Among the most pressing are depopulation, social instability, corruption, capital flight, and excessive dependence on natural resource revenues. President Putin's administration is not implementing the structural reforms necessary to improve the country's business environment.

Human Rights and Democracy in Russia

Respect for democracy and human rights have deteriorated in Russia. President Putin's domestic repression is at odds with Russia's commitments as a signatory to the Universal Declaration of Human Rights, a member of the OSCE and Council of Europe, and a ratifier of international human rights instruments such as the International Covenant on Civil and Political Rights, International Covenant on Economic, Social and Cultural Rights, and the European Convention of Human Rights. Russia's record on democracy and human rights is harming Moscow's ability to forge constructive relationships abroad.

Democracies throughout Europe, North America, and the Asia-Pacific are concerned about the rollback of human rights in Russia. Yet, external pressure on Moscow regarding its domestic practices is most likely to come from the West rather than Asia. In the West, concern over Russian domestic policy remains a source of discontent that will influence western countries' policies toward Russia.

In the Asia-Pacific, by contrast, Russia's domestic policy is not a particular interest. The concept of "universal values" remains politically delicate in some Asian countries. Leaders in the Asia-Pacific, consistent with their general approach to foreign policy, are disinclined to include Russian domestic politics on the official agenda with Moscow. The prospects of a unified approach between Asian and Western countries are also complicated by the confusion in Asian-Pacific states as to why the West, in its advocacy of democracy and human rights, adopts a harder line against Russia than it does with China.

International Engagement with Russia

The future of international engagement with Russia depends largely on how the situation in Ukraine evolves. The Ukrainian government does not recognize the illegal annexation of Crimea, an impediment to improved relations between Russia and the West. The entry of Russian troops into eastern Ukraine would incite major clashes and revert U.S.-Western relations to a full-fledged Cold War mode. Western governments, particularly the United States, would be inclined to punish Russia without considering fully the long-term effect of isolating Russia.

AREAS OF DISAGREEMENT

External Pressure on Moscow Regarding its Domestic Practices

Two broad views emerge from the reports on the question of how much pressure outside powers should exert on the Russian government regarding its domestic policies.

One considers external intervention in Russian domestic politics to be counterproductive and impractical. Western criticism and actions, from this perspective, will undermine efforts by Russian reformers to transform the country's politics.

The other maintains that Western calls for democracy and human rights carry authority, which can produce transformational change in Russia over the long-term. Downplaying Moscow's transgressions at home, from this standpoint, has improved neither the domestic situation in Russia nor the state of relations with Moscow.

State Relations with Moscow

At the state-to-state level, Western experts, more so than their Asian and Russian counterparts, discount the feasibility of anything more than a transactional relationship between the Putin government and key members of the international community.

Moscow's Initiatives in the Asia-Pacific

Russian and Asian contributors have a more benign view of Moscow's activities in the Asia-Pacific than their counterparts in the West. The former believe that Moscow's shift toward the Asia-Pacific is primarily a response to the region's economic dynamism. Northeast Asian countries consider that the socio-economic development of Eastern Siberia and the Far East would be a difficult, long-term venture for which Russia would need their cooperation. They nevertheless think that the development of the eastern regions would help expand the Asia-Pacific economic space. Western experts, by contrast, are more inclined to interpret Russia's growing interest in Asia as a reaction to Moscow's diminishing interest in Russia's "European choice," lack of friends in the West, and competitive outlook toward Washington and Brussels.

JOINT RECOMMENDATIONS FOR GOVERNMENTS AND CIVIL SOCIETY

- **Promote an international agenda to uphold Ukraine's sovereignty**

Defending Ukraine's sovereignty and the right to make its own domestic and foreign policy choices should be at the center of our policy. It is vital that we work to maintain the widest international support. The world should not acknowledge a Russian zone of influence that limits the sovereignty of other post-Soviet states. Nor should the international community accept a settlement in which Moscow dictates terms to Kyiv, or, in which the West negotiates the future of Ukraine over the heads of the Ukrainian government.

- **Ensure support for Ukraine by establishing a "Friends of Ukraine" Task Force**

The situation in Ukraine calls for the urgent creation of an international contact group comprised of civil society, with the aim of providing real assistance to the people of Ukraine. Bolstering the Ukrainian economy, particularly in the areas of finance and market access, will lower the risk of an economic downturn for both Russia and the European Union. A "Friends of Ukraine" task force should also support Ukrainian requests for additional political and military assistance. Through enduring support for the private sector, the Task Force can help ensure that the Ukrainian government has the expertise and capacity to uphold its sovereignty, conduct free and fair elections, and implement necessary reforms.

- **Identify trusted intermediaries who can articulate to Moscow that it is fundamentally misreading long-term trends in western private and political attitudes toward Russia, and underestimating the costs it will incur as a consequence of its aggressive actions.**

Western responses to events in Crimea have cast doubt on the West's ability and will to enforce its security commitments. Moscow appears to be underestimating the West's long-term resolve in dealing with Russia's aggressive moves, and overestimating the extent to which western hesitation in confronting Russia will endure. Uncertainty regarding NATO Article 5 commitments, in particular, could invite Russian interventions in the Baltic States, which would precipitate war and create a demonstration effect that could embolden China. With distrust permeating official relations between Moscow and the West, the United States and its allies should identify intermediaries outside the government with whom President Putin is willing to engage forthrightly. In private meetings with the Kremlin, and in forums with senior Russian officials, the intermediaries should communicate western positions and the consequences that would ensue from further Russian aggression in a wide range of scenarios.

- **Make concerted efforts to strengthen ties with Russian civil society**

Normalizing relations between Russia and its neighbors will ultimately require the emergence of a new leadership in Moscow that is more committed to constructive international engagement. The international community can support those who feel isolated by the current government by promoting the cross-fertilization of ideas between Russian citizens and the outside world. The process of visa liberalization, in this context, should continue, and private sector cooperation in fields such as science and policy research should be preserved. The international community should also monitor the status of democracy and human rights in Russia and speak out publicly when the Kremlin is violating international norms and/or agreements to which Moscow is a signatory.

SUMMARY OF NORTH AMERICAN CHAPTER

U.S. Interests

Russia's aggression against Ukraine is a frontal challenge to perhaps the most enduring priority of the United States' post-Cold War strategy: preserving a Europe "whole and free." Putin's Russia is an adversary, bent on pursuing regional hegemony and challenging the western-led international system.

Russia's reach, however, affects a variety of U.S. interests beyond the Eurasian theater. Russia is a major power no longer experiencing the "decline" of the 1990s. Russia's nuclear weapons make it the only nation that can annihilate the United States within a matter of minutes. For countries that challenge American interests, Russia is an arms supplier and reliable source of military and diplomatic support. At the same time, Russia is among the most important potential U.S. partners in countering threats ranging from terrorism to proliferation. Advancing global counterterrorism efforts and moving toward a more stable nuclear order would be easier accomplished with Moscow's cooperation. In this regard, Moscow's failure to honor its commitments under the 1994 Budapest Memorandum, which provided guarantees of Ukraine's territorial and political integrity in exchange for Kiev's prompt denuclearization, have dealt a blow to the cause of nuclear nonproliferation.

Russia's international stature, economy, and geography, give Moscow a voice on pressing global issues. Russia is a veto-wielding, permanent member of the U.N. Security Council, as well as an influential participant in other international organizations. Economically, Russia is the top global energy producer and the world's sixth largest economy; Russia has drawn greater foreign direct investment than rising powers such as India and Brazil. The location and sheer size of Russia's land area impacts the disposition of issues ranging from the selection of transport routes for energy and other trade to the maintenance of supply lines for NATO forces in Afghanistan.

In sum, Russia impacts a wide range of American national interests.²

Above all, Russia affects the United States' ability to advance six vital and important national goals:

- Ensure a favorable balance of power in critical regions that enables continued U.S. global leadership
- Prevent the proliferation of weapons of mass destruction
- Combat terrorism and radical Islamist networks
- Stabilize the international economy and promote global trade

² See Graham Allison and Robert Blackwill, "10 reasons why Russia still matters" *Politico*, 30 October 2011, available at: <http://www.politico.com/news/stories/1011/67178.html>

- Ensure energy security
- Advance liberal democracy and human rights

Assessing the Reset

Until the Ukraine situation erupted, the Reset elicited three main responses among U.S. experts. One group saw the Reset as a misguided policy of unilateral U.S. concessions. A second group saw the Reset as a worthwhile effort, but one that contributed little in terms of a new agenda to move bilateral relations forward. A third group, which included proponents of the policy in the Obama Administration, maintained that the Reset could advance U.S. interests by putting U.S.-Russia relations on a more cooperative footing.

The more ambitious goals of the Reset did not materialize. Although the Reset entailed significant U.S. compromises, the accomplishments of the Reset were largely limited to developments that Moscow perceived to be in its own best interest. While senior administration officials continue to defend the Reset, President Obama has effectively repudiated the approach.

Domestic Situation in Russia

Putinism

Putinism -- the assumptions, worldview, ideas and strategies of Vladimir Putin -- have become the most important political force in the country and a major factor in troubled U.S.-Russia relations. Since Putin's formal return to the presidency, the Kremlin has embarked on the most systematic political crackdown since the Cold War. Putin's repression has provoked challenges from numerous factions within Russian society -- particularly the Moscow-based creative and urban classes. The Ukraine crisis, however, bolstered Putin's approval ratings to 80%. Sixty-four percent of Russians indicated in a March 2014 poll by VCIOM (Russia Public Opinion Research Center) that they would re-elect Putin. The political climate surrounding Russia's 2018 presidential elections will depend on Putin's ability to manage domestic political challenges and sustain an image as a determined, nationalistic leader.

Economic Policy

The Kremlin is using economic policy to shore up its domestic political base. The redistributive emphasis in Moscow's economic policy has caused Russia's growth rate to dwindle toward stagnation. Sound fiscal balances, including over \$400 billion of international reserves, are unlikely to protect Russia from financial instability due to the imposition of Western sanctions. According to Russia's Central Bank, the first quarter saw over \$50 billion in capital leave the country, a period during which Russia's Micex Index plummeted by more than 10%. Former Finance Minister Alexei Kudrin predicted

that capital flight will reach \$160 billion by the end of the year, while the World Bank foresees scenarios in which Russia's economy contracts by 1.8% in 2014 due to geopolitical instability. With political objectives superseding economic goals, stagnation could become much worse if oil prices drop. Russia is likely to face intensified WTO disputes in the near future.

Corruption

Endemic corruption undergirds a web of informal networks across constituencies, at all levels of Russian society. Corruption in Russia does not consist simply of bribes and rent distribution, but also includes noncompetitive procurement, nepotism and organized criminal networks. Under Putin, key economic assets have come under the control of "private" owners with close ties to the Kremlin. This arrangement allows the Kremlin to maintain heavy oversight even if ownership structures are technically private. The fact that corruption serves as its foundation makes the Putin system resilient and resistant to evolutionary change. Government spending, for example works to limit the political opposition by keeping unemployment numbers low, functioning, effectively, as an employment tax of sorts. Yet corruption represents a major threat to Russia's national security, as acknowledged in the 2013 Public Security Concept approved by Putin. Massive and palpable corruption has engendered anger among many Russians that may exceed even their dissatisfaction over the lack of political pluralism.

Demographics

In 2012, Russia experienced its 20th straight year of natural population decrease. According to the government's medium-term forecast, the Russian population will decline further from 143.3 million in 2013 to 141.6 in 2031. During this period, Muslims, 80% of whom currently reside in two of seven federal districts, will comprise nearly 15% of the entire Russian population. And by 2050, the United Nations Development Programme projects that Russia's population will drop below 110 million.

Russia's demographic squeeze could have negative consequences for U.S. national interests. Even if Russia can turn around its exceptionally high male mortality rate – a figure worse than Haiti and lower than 33 of the 48 countries the United Nations designates as "least developed countries" -- the sharp decline in the Russian population from 148.3 million in 1991 to 143.7 million today has left the country in a position in which there are not enough women of child-bearing age to reach population replacement levels. The Russian Labor and Social Security Ministry is expecting a drop in the labor force of one million people annually in 2013-2015. Longer term, according to a recent forecast by secretary of Russia's Security Council Nikolai Patrushev, the working-age population will see a decline of ten million by 2025. With the population stabilizing around a shortage of working adults, Eastern Siberia, could become a zone of conflict if population declines generate a demand for Chinese labor beyond what national and regional governments can manage.

Russian Foreign Policy

Domestic Politics

Russia's foreign policy is largely driven by political considerations at home. The Putin regime cites foreign "dangers" to justify its consolidation of power at home. Never before in post-Communist Russia's history has the Kremlin's need to shore up domestic support impacted Russia's policy toward the United States as much as it has since Putin's 2011 decision to seek a third presidential term. Putin's opposition to U.S. foreign policy and his anti-American rhetoric resonate with a sizable segment of the public, which, after the humiliation of the 1990s, accepts nationalist ideas and condones a strong state resisting the United States.

Reassertion of an Independent Russia

There is a national consensus that Russia should regain its status as a serious geopolitical player. Putin is trying to create a geopolitical and geo-economic demand for Russia. Having moved in the direction of interdependence in the 1990s and 2000s, with mixed results, the Kremlin now believes that a more unilateralist foreign policy is necessary to defend against the negatives of an interdependent world. Insofar as Putin has advanced a comprehensive strategic vision that outlines what Russia wants the world to look like in critical respects and how Russia can help deal with global challenges, he has downplayed Western values and collective security goals. Instead, Putin is emphasizing nationalistic ambitions and Russia's aspirations to create a sphere of influence encompassing Russian-speakers beyond the boundaries of the Russian Federation. Reassertion of influence in post-Soviet Eurasia is a particular priority of Russian foreign policy. The Putin regime seeks Russian political, economic, and military supremacy, if not hegemony, in the post-Soviet space.

Worsening Relations with Europe

Moscow's failure to attract broad diplomatic support for its agenda is apparent in Russia's worsening relations with Europe. For most of his two presidential terms, Putin was a proponent of Russia's integration with the EU. He remains interested in developing Russia-EU economic ties, but no longer believes in Russia's "European choice." European attitudes toward Russia, in turn, have hardened, not only amid the Ukraine crisis, but also due to Russia's human rights violations and manipulation of energy exports.

Russia's Energy Future

Energy issues play an outsized role in both Russia's foreign and domestic policy. Russia's leaders recognize that energy, which provides nearly 20% of its GDP and over half of its federal government's revenue, is critical to the country's future. Nevertheless, they have been slow to implement policies needed to maximize and sustain its contributions. Russia's oil production and exports have grown steadily over the last decade, though sustaining the industry will require significant and continuing investment.

Russia's economic dependence on its energy sector is an important point of leverage as Western-Russian relations continue to deteriorate. The Ukraine crisis has underscored to Western policymakers, the potential for LNG exports to reduce Europe's dependence on Russia. Russia's oil production is particularly vulnerable given that Russian firms need not only investment, but also access to high-tech services provided by oil-field services firms. Russian attempts to reorient its energy exports toward Asia will necessitate considerable infrastructure financing to build pipelines to China or LNG terminals for exports by sea to Japan, South Korea, and other more distant markets.

U.S. Business in Russia

U.S. business interests in Russia beyond energy have remained underdeveloped since the end of the Cold War, and now, with the imposition of Ukraine-related sanctions, are bound to decline even further. Trade between the United States and Russia totaled \$38.12 billion in 2013. Compared to the United States' \$14 billion, European countries such as France and Germany account for a far greater percentage of foreign direct investment into Russia.

U.S. business leaders are concerned about anemic growth and the economic climate in the country. Angst about the Russian economy among the U.S. business community is informed by low investor confidence and political risk emanating from the Kremlin's foreign and domestic policy.

Before the Ukraine crisis, U.S. business leaders, notwithstanding their concerns about Russia's economic climate, were investing in Russia on a long time horizon. With scheduled talks on the Bilateral Investment Treaty canceled, trends are moving in the opposite direction.

U.S. Goals vis-à-vis Russia

While the fulcrum of U.S.-Russia relations has shifted toward Eurasian issues in light of the Ukraine crisis, Moscow remains a factor in Washington's ability to achieve important goals around the world. In formulating a post-Crimea strategy, Washington should work toward a paradigm in which Moscow does not prevent the United States from achieving key goals in seven areas: regional issues; non-proliferation and arms control; democracy and human rights; terrorism and radical Islam; international trade, global energy markets, and global governance. Some of these goals are untenable at this time and some are vocally and robustly opposed by Moscow. But articulating them would help ensure that Russia appreciates the full range of U.S. concerns and objectives.

U.S. Strategic Options

The United States faces an increasingly aggressive Russia that acts as an adversary on key international issues. While Russia cannot compete with the United States at a global level, it can exacerbate virtually any international problem that Washington is trying to address.

Before the invasion of Crimea, U.S. experts generally proposed one of three strategic alternatives toward Russia: comprehensive containment, selective engagement with selective containment, and deep engagement. Momentum has shifted toward advocates of containment. Consensus, however, is unlikely to jell behind any one of these approaches unless Russia continues with its aggressive policy toward Ukraine, or, Moscow's conduct toward Ukraine, even if it doesn't escalate further, portends a new status quo in which Russia becomes uniformly hostile and/or significantly more repressive at home.

Comprehensive Containment

Like the original containment, comprehensive containment assumes: that the problem is in the nature of the Russia side, not in the interaction between the two sides; that the relationship cannot change fundamentally until the Russian side changes fundamentally; and that while there are a few issues on which Washington must do business with Russia, the United States' primary interest is in blocking Russia's problematic foreign policy and in pressing Moscow to retreat from its illiberal ways domestically.

Selective Engagement with Selective Containment

Selective engagement with selective containment assumes that the issues on which the United States and Russia need to cooperate are significant, but so too are the areas where Washington needs to stand its ground and counter Russian *foreign* policy. The relationship is consequential but should be understood as limited. Russia, viewed broadly, is neither an adversary nor a potential partner. Washington should pursue transactional deals when possible and necessary, but otherwise stand its ground and counter current Russian foreign policy.

Deep Engagement

Deep engagement starts from the premise that common interests considerably outweigh the issues that divide the United States and Russia. Without ignoring the obstacles to a durable strategic partnership, or suggesting that Washington "give away the store" to achieve it, the strategy would seek cooperation across the many areas where U.S. and Russian interests intersect.

Should the United States Promote Democracy and Human Rights in Russia?

The question of how, if at all, Washington should promote democracy and human rights in Russia is among the most contentious issues dividing experts. Some fundamentally question the thesis that a more democratic Russia will serve U.S. interests given how hostile public opinion is toward the United States. Only a few measures -- liberalizing visa regimes and expanding exchanges with academics and younger Russians, for example -- enjoy broad support among the U.S. foreign policy establishment. There is little consensus on how receptive Russians are to U.S. intervention, and to what extent Moscow's intransigence is influenced by U.S.

policy. Nor do experts agree on how much influence the United States has in legitimizing the Russian regime domestically and internationally, or on what level of pressure would be effective to improve human rights in Russia. These differences are premised on varying assessments of the anti-Putin opposition.

Advocates of containment are most inclined to support robust democracy promotion efforts in Russia. They argue that pro-democracy rhetoric and actions from Washington carry a great deal of authority, even if U.S. solidarity with Russian liberals does not yield visible gains in the short-term.

Those experts, by contrast, who question the feasibility and wisdom of U.S.-led democracy promotion, cite Putin's popularity and the amount of control he wields in Russia. U.S. attempts to support Russian reforms, they argue, are counterproductive and jeopardize cooperation on areas of mutual interest. Undermining Putin, critics warn, could open the door to an even more hostile Russian leadership.

Policy Recommendations

Our core recommendation is that a fundamental reassessment of all aspects of U.S. policy toward Russia is in order. In the short-term, the United States must consider how its response to the aggression in Crimea, and Russia's ongoing efforts to weaken the Ukrainian central government's authority over its eastern provinces, will affect:

- **Regional issues in Eurasia, and**
- **U.S. vital interests around the world**

Even if Moscow seeks "normalization" with the West, the nature of Putin's regime permits little more than a transactional U.S.-Russia relationship on a narrow range of issues. Putin's departure from office however may produce a transformational moment that portends real systemic change in the Russian system. Russian politics will have to be invented almost from the ground-up, perhaps creating possibilities for a rapprochement.

The following are additional, specific policy recommendations that should be taken in the short-term and factored into the overarching reassessment of our policy.

Ukraine

- *Maintain a non-recognition policy of the illegal Russian annexation of Crimea.*
- *Uphold Ukraine's sovereignty and right to make its own domestic and foreign policy choices, free from intimidation by Russia.*
- *Intensify support for Ukraine by establishing a "Friends of Ukraine" Task Force.* This international group, comprised of civil society, should focus on the urgent need to stabilize Ukraine through economic assistance in areas such as finance and market access.

- In steering international assistance and support, *prioritize goals that will facilitate a successful political transition in Ukraine.* As Ukraine holds presidential and parliamentary elections, forms a new government, and reviews its constitution, Washington, working with our allies, should assist Kiev in its efforts to rid the country of corruption and establish independent institutions and the rule of law.
- *Respond promptly and positively to Ukraine's request for military assistance.* Determine how much assistance to provide based on a comprehensive assessment of the country's needs in the event of a Russian invasion.
- *Enhance Ukraine's ability to maintain law and order* by providing training to the country's police force.
- *Strengthen ties between Ukraine and NATO* in the context of the existing Partnership for Peace.

Regional Issues

- *Respond to the requests of Central Europe and the Baltic States to bolster their defenses* and enhance deterrence by forward deploying significant NATO assets on their territories.
- *Exercise U.S. leadership in convincing NATO* to adopt the Membership Action Plan for Georgia.
- *Preserve NATO-Russia cooperation on Afghanistan,* while lessening U.S. dependence on the Northern Distribution Network. Propose a multilateral regional dialogue regarding Afghanistan's post-2014 security environment but develop work-around options to the Northern Distribution Network such as airlift deliveries and Central Asian routes that bypass Russia.

Economics/Business

- *Task the United States Trade Representative* with redoubling efforts to ensure Russian compliance with its WTO commitments. Prepare to undertake appropriate steps if compliance is not achieved.
- In response to Russia's aggression, expand sanctions to *shut down credit and other types of access to financial markets.*

Energy

- Communicate to Russian officials at a high level that *unfair treatment of U.S. energy companies* and other American investors in Russia risks pushing the President and Congress toward even tougher policies toward Moscow.
- Develop a *coordinated strategy with Europe to establish a 20-30% target for U.S. LNG energy exports.*

- *Revise the law on U.S. natural gas exports*, which simplifies export licensing procedures for gas shipments to U.S. free trade partners by presuming that such exports serve the U.S. national interest, but does not extend the same presumption to U.S. allies.
- *Warn Moscow that further aggression and other hostile policies would mean sanctions on Russia's hydrocarbon extraction industry*, which would restrict Russia's access to advanced Western technologies.

The Arctic

- *Accelerate U.S.-Canada maritime cooperation* and diplomatic coordination in the Arctic Council to contain Russian ambitions in the region.

Democracy and Human Rights

- *Accelerate support* to those organizations advancing rule of law, greater transparency, and press freedoms in Russia.
- *Work closely* with civil society organizations, as well as the Organization for Security and Cooperation in Europe and Office for Democratic Institutions and Human Rights, on election monitoring and other Ukraine and Russia-related human rights issues.

Demographics/Civil Society/Cultural Exchanges

- *Expand exchange programs* focused on mayors and city council members in an effort to strengthen Russia's local governance. Seek to pair cities/regions facing similar challenges (e.g., Alaska and Siberia, industrial cities, agricultural regions, border towns, etc.)
- *Engage Russian citizens beyond the capital cities of Moscow and St. Petersburg*, and beyond any single ethnic group, to become more sensitized to Russian diversity.
- *Encourage American corporate, civil society, and government leaders* to regularize discussions and exchanges with Russian youth, academics, and other groups that are generally disenchanted with the Putin regime and inclined toward cooperation with the West.

SUMMARY OF EUROPEAN CHAPTER

Europeans are less divided on Russia than at any time in the last two decades.

Gone are good intentions and overblown aspirations, divisions between western enthusiasts and eastern skeptics, between naïve hopes and excessive fears. Europeans are - east and west - disappointed and disheartened with Russia. That feeling has been greatly enhanced by the Russian brutal intervention in Ukraine.

When 35 Heads of states and governments convened at a Conference on Security and Cooperation in Europe in Paris in November 1990 proclaiming a “New Era of Democracy, Peace and Unity”, their aspiration was to construct the much-sought “One and United Europe”. Europeans were hoping that Russians would join them in a common endeavor of reshaping the continent. They believed that Russia was going to embrace common European values and transform into a society based on those values; a country at peace with its neighbors, working to build sustainable relationships based on mutual trust, acting constructively in the UN Security Council, and carrying its fair share of the burden of securing international peace; a country of a fast growing, competitive market economy. In sum, a European country that had finally found its place in the “common European home” envisioned by Mikhail Gorbachev.

Today’s “real” Russia, however, keeps distancing herself from a “Europe liberating itself from the legacy of the past” as heralded in the 1990 Charter of Paris for a New Europe: one wonders whether the past has not surged back with a Russia moving ever closer to authoritarian Asia.

Russia is at best a semi-democracy with apparently little appetite for further reforms. Looking back at the 2006 Trilateral Commission Report on *Engaging with Russia*, what is striking is how much has *not* changed over the past seven years. Trends discernible then have been accentuated: the manipulation of elections and impediments on political activity; the control of the principal media (especially central television); “the resurgence of the ... FSB and the other successor agencies to the KGB, operating outside the confines of law and accountability”; the growth of the bureaucracy and the dependence on a single institution, the Presidency, asserting “control over the legislature, the judiciary, regional institutions, the commanding heights of business in the private as well as the public sector, the media and civil society”. “Phase Two” of Vladimir Putin’s presidency is mainly characterized by repression.

Russia’s economy is no less dependent on hydrocarbons and other extractive industries now than it was a decade ago. Well over half of GDP is in the State sector. The number of small and medium enterprises – already low by comparison with other emerging economies – has been falling. Efforts by the State to promote and invest in innovation have produced only a few success stories. Research in science and technology has declined. Many highly educated and talented young Russians have left the country over the past two decades. Russia lags badly in the global competition for investment.

No structural reforms are undertaken to address these and other acute problems, including a looming demographic crisis (epitomized by a still lacking pension reform), pervasive corruption and massive capital flight, not to mention growing competition from the shale gas and oil.

As a result, economic growth has fallen far short of the ambitious targets set by President Putin in his first term: from nearly 7% annually in the years before the 2008 crisis to a rate of 1.3% in 2013, significantly less than the projected 3.7%. The World Bank forecasts two growth scenarios in 2014: a low-risk scenario assuming a limited short-lived impact of the Crimea/Ukraine crisis, and a high-risk scenario where the geopolitical situation to worsen. In the former case, the rate is estimated at 1.1% and in the latter at -1.8%. For 2015, the respective growth rates are 2.1% and 1.3%. These worrisome growth figures, much more than electoral frauds, epitomize the breakdown of the “social pact” which had characterized Vladimir Putin’s first two terms.

In international affairs, Russia, a veto-wielding permanent member of the UN Security Council and one of the world’s five recognized nuclear states, remains a global power. In spite of that status and potential, Russia functions mainly as the country that says “No”. More importantly, it feels free to resort to the bankrupt patterns from the past centuries of political and military intervention in the affairs of its sovereign neighbors to keep them in its orbit “and oppose the gravitational pull of other powers.” (Refer to 2006 Trilateral Commission Report).

Strangely however, Russia has no friends in Europe, although relations had improved before the current crisis in and over Ukraine and notably with Poland. Former allies and partners have more or less openly turned their back on Russia and Russia has failed to win them back. Russian leadership seems to focus primarily on the United States and China as powers of reference if only to preserve its global status: “Eye-to-eye” relations are restricted to these two big powers. Russia has little to no understanding and a definite lack of positive attention for smaller partners. Europe, in particular, appears to be of little interest and the EU’s “soft power” profile is often ridiculed. The contemporary European concept of shared sovereignty finds no appeal in Russia, engrossed as it remains in classical security interests. Hence Russia’s playing of one EU member country against the others with a notable attention given to Germany as the single most important partner in Europe.

Given the above picture, do Europe and Russia have a common future?

Many dismiss this possibility outright. History and intellectual tradition push Russia towards Asia more than toward democratic Europe. This despotic temptation (see Karl Wittfogel’s definition of “Oriental Despotism”), which ignores any concern for the Rule of law, has never been stronger than today, although it has been going on for the last two decades. Given its Tsarist and Soviet legacy, Russia will always retain super-power ambitions. The gap between smaller urban, middle aged and successful groups in society on the one side and the much larger group of population that accepted the authorities’ adoption of conservative, Orthodox and nationalistic values on the other side, will continue to exist decades ahead and, together with geopolitical ambitions by present and

future Russian governments, will be a permanent source of tension between Russia and the West. “Democracy” as we would like to see it will not prevail in Russia.

In short, Russia always was and will remain different. Acceptance of that “otherness” should be a premise for forming our views on Russia’s future and our relations with her.

Others, however, argue that Russians are clearly dissatisfied with the way their country is governed – with the concentration of political and economic power in very few hands; with rampant corruption; with the highly uneven distribution of wealth; with the weak judicial system; and with the absence of separation of powers and independent institutions. There is a strong desire for better governance. It is particularly pronounced among urban middle class as demonstrated in the protests against electoral frauds and in the vote for Mayors and Governors. Which will prevail in the years ahead – the strive for the modernization of society or the ideology of conservatism, the visceral opposition of the Orthodox Church to liberalism, and the entrenched interests of beneficiaries of the status quo -- is an open question.

A change, if any, will not come without a change of leadership.

Most of Russia’s current powerbrokers are in their fifties or sixties, their careers have roots in the Soviet Union, and after – thus far – 13 years in power their strategic objectives do not appear to extend beyond retaining power for as long as they can. But, despite the present hiatus, a window will open for a future Russian leadership to create – if it so wishes – an entirely different set of relationships.

The first view has been dramatically supported by the Russian intervention in Ukraine and an eruption of Russian “patriotic” propaganda. The Russia that emerges from these developments is not only a country that is pursuing a different economic and political course from the rest of Europe, but also a country that is actively working against European values and the EU interests: neither a friend or a fellow traveler, but a challenger. It seeks to revise the current European order, and beyond the global order. It strives to establish a Eurasian Union for which Ukraine would provide needed demographic, industrial and agricultural potential. Its domestic inspiration, a beacon, the new “Russian idea”, is a mixture of nationalism based on Russian ethnicity and language, an imperial notion of “Eurasia”, a socially conservative values agenda and contempt for western values and their way of life. One only needs to read President Putin’s Kremlin address to the Russian Parliament on March 18 upon Crimea’s “accession to the Russian Federation” to better understand motives and grievances.

As put by Norbert Röttgen, Chairman of the Bundestag Foreign Affairs Committee: “The foreign policy of President Vladimir Putin’s Russia seems to be writing a new chapter in a book we thought we had closed a long time ago”.

The second view, however, draws some support from the assumption that the Ukrainian intervention is not an element of a broad, long term, strategy but a desperate and opportunistic attempt by President Putin to shore up his own position. Indeed, politically, he has “boxed himself in”. He has no succession plan. He cannot institute the

structural reforms which might begin to turn the country around: these would only threaten his own and his associates' grip on power. Putin didn't begin invading Ukraine to bring it back into the fold but to stop it escaping. He established a patriarchal-oligarchic police state in Russia; the now universally despised Ukrainian president-in-exile was well on his way to establishing one in Ukraine. Putin's great fear is that the people of a future better Ukraine might inspire an entirely different unification with their East Slav brethren on his side of the border – a common cause of popular revolt against him and other leaders like him. The revolution on Maidan is the closest yet to a script for his own downfall. In that sense the invasion is a counter-revolution by Putin and his government against Russians and Ukrainians alike – against East Slav resistance as a whole.

By December 2013 his poll ratings had fallen to their lowest level, and a large majority of Russians were opposed to his standing for another term in 2018. But Crimea boosted his popularity rate to over 80%!

SO WHAT SHOULD WE DO?

Is “engagement” or “estrangement” called for? Only a few months ago, calls were made to treat Russia as a partner, not as a threat. While it sounded minimalistic it remains a historic achievement of the last two decades since the time when the Soviet Union was a mortal threat to Europe and the West at large. In this new light, what needs to happen is threefold:

First, the most immediate task is to help Ukrainians to recover from the collapse of their political and economic governance.

The West seeks not to “capture” Ukraine or to have strategic designs on the country: it wants to ensure that the sovereign right of Ukraine be upheld and Ukrainians be in a position to determine their own future. Challenges facing Ukraine are huge: from electing credible political leaders, writing up a new constitution to overhauling fundamentally its economic and social system. For that task, Ukraine will require all the help from its neighbours. EU assistance should be comprehensive and generous in particular in the areas of finance, market access and integration of Ukraine into the European energy market. Persistent efforts, using both persuasion and sanctions, should be made to make Russia join that assistance. Its refusal to help, and its continuation of pressure and blackmail will bring additional sufferings and losses to millions of people, many of them of Russian origin. Lessons of the flawed and ultimately failed “Eastern Partnership” exemplified in Vilnius last November should also be learned by the EU institutions.

Second, we must stand firm on the current position, for as long as it takes, until such time as Ukraine is able to normalize relations with Russia on an equal basis.

Crimea has to be treated as an outlaw territory. Not only because Russia violated basic international principles and laws, but also because, unpunished, Crimea risks becoming quickly an inspiration for all those who think “why should I be a minority in your country if you could be a minority in mine?” Nationalists and extremists in EU member countries to the north and west are already referring to the “Crimean option” in their statements.

EU relations with Russia have to rest on greater distance, discipline and caution. Western governments should continue to deal with the Russian government on a selective and transactional basis, where it is in their interests to do so. Europe’s energy market must be rapidly integrated. The EU authorities should monitor the behaviour of Russian enterprises on our markets and European investors be warned about the risks of an excessive engagement in Russia. Implementation of the WTO rules by Russia should be far more closely scrutinized.

Russia must be made fully aware that its political and economic relations with Europe will remain impaired and it will not be able to draw benefits from European integration and globalization for as long as it doesn’t normalize its relations with Ukraine.

Third, we can’t however ignore the fact that the EU and Russia straddle the same continent: both must cope with many common issues.

A permanently divided continent is too depressing a prospect to resign to it. While the Russian behavior in Ukraine rules out a “business as usual” approach, we should not ourselves seek to deepen Russia’s isolation. Thus the need for a **“keeping the door open” policy**:

- It is neither in the Western interest, nor in the interest of the long-term development of a more cooperative Russian state, to cut off non-defense-related trade with Russia. In particular business links which give Russia an incentive to conform to international norms should be developed;
- Joint work should continue to overcome some of the dysfunctional and costly past doctrines and postures that still exist. Who would lose if Washington and Moscow decided to reduce the number of missiles on ready alert or to dismantle at least parts of the nuclear arsenal?
- For similar reasons, personal travel by ordinary Russians and educational, cultural and professional links should be sustained and developed. Bridges to ordinary Russians, the civic society and to the next generation of policy makers have to be multiplied. The EU should develop a special scholarship program similar to ERASMUS for students from Russia, the Ukraine and Belarus.

- Phasing out visa restrictions is the most effective way for the EU to use its soft power to the benefit of the whole continent;

“Keeping the door open” policy is a second best, perhaps the only realistic choice, but certainly unable to address Europe’s long-term needs and interests. Thus the pressing need for **crafting a Russia strategy** that, after years of neglect, **must become Europe’s highest priority**.

What is needed is *a strategy* that would not begin with lofty aspirations, but will be *based on a realistic assessment of common interests and goals*; a strategy that will describe a place for Russia in the European architecture that would be both satisfactory to Moscow and useful for Europe.

Without a concept of such a place, Europe has little to offer to Russians, which in turn are unable to think of a different role for their country than that of a separate power without any allies.

It is not at all sure that Russia would react to such a strategy the way we would want. However, there is now much for Russians to reflect upon. And much will depend on the younger, well-educated generation. A European Union principled, strategic and open for partnership with Russia will help this important country choose cooperation over confrontation.

SUMMARY OF ASIAN PACIFIC CHAPTER

The Asians' Perceptions of Russia

To countries in the Asia-Pacific region, except for those in Northeast Asia, Russia is a remote country, although its territory covers the northern part of Asia and reaches the Pacific Ocean. Even peoples in the Northeast Asian countries bordering on Russia regard the Russians as European. The Asians are generally not well informed of Russia's domestic situations. Nor are they interested in Russia's evolution unless it would affect their countries.

This makes the Asians' attitude towards Russia fundamentally different from the European and North American approach.

The Ukrainian Crisis

Nevertheless, many countries in the Asia-Pacific region are critical of Russia's annexation of Crimea and alarmed to worry that this development might lower the threshold for similar attempts to change borders by threat or use of force in their own region. At the UN Security Council, South Korea voted in support of the resolution to deny the validity of the referendum on the status of Crimea, which Russia vetoed, and China abstained. Japan joined the G7 condemnation of Russia's violation of international law on Crimea. Major ASEAN countries voted, together with Japan and South Korea, for the UN General Assembly resolution calling upon states and international organizations and agencies not to recognize any alteration of the status of Crimea and Sevastopol, while China and India abstained. Asians are concerned that there could be demonstration effect on countries such as China whose choice between solidarity with Moscow and relations with the West has been sharpened as a result, that it would have a distractive effect on the United States with its "rebalancing to Asia" policy, and that it might diminish East Asian countries' opportunities for economic and regional cooperation with Russia.

From a Chinese perspective, the Ukrainian crisis is the product of residual Cold War mentality. President Putin is believed not to back down in face of sanctions imposed by the West. Ukraine is seen as not only as a link among East European countries but also a region of immense importance for Russia's security in the south. What western media called "a new Cold War" triggered by the Ukraine crisis is in no one's interest. If Ukraine at this point is forced to choose between the U.S./Europe and Russia, the situation will be further destabilized and the country risks another round of disintegration after it lost Crimea, and if the EU breaks with Russia for supporting Ukraine and the two end up in a new Cold War, the interests of both sides will be jeopardized as the costs far outweigh the gains.

With this recognition, a Chinese member of the task force argues that the solution (of the Ukrainian crisis) should strike a balance between the interests of all sides, in which both the U.S./Europe and Russia should give the other side an out. It is further proposed that the international community should urge Ukraine to set up a new government acceptable to all parties; one that may be a friend of Western Europe but not an enemy of Russia. The people of Ukraine should be allowed to decide by themselves whether or not to join the EU. To balance the interests of the U.S./Europe and Russia, Ukraine's membership in NATO should be agreed on as the red line that should not be crossed. An ultra-nationalist government in Ukraine will not be in the interest of peace and stability in the country.

On the other hand, India's apparent tilt towards Russia in the crisis unfolding in Ukraine is seen to have underlined Delhi's enduring political ties with Moscow despite the significant improvement in India's relations with the United States and Western Europe. From a mid-term perspective with focus on Asian balance of power, an Indian member of the task force concludes that enduring tensions between Russia and the West in Europe will work to the advantage of China and the disadvantage of India. The strategic priorities of the West and Asia may have begun to diverge and the gap is reflected in the way they look at Russia. If Europe and America see Russia's assertiveness as a major threat, Asia worries about Moscow's lack of strategic ambition in the East.

Russia's Low Profile

Put in perspective, Russia's profile in the Asia-Pacific region has remained low since the end of the Cold War. Moscow has been giving foreign policy priority to Euro-Atlantic and Eurasian relations over engagement in Asia-Pacific diplomacy. More significantly in the regional context, the post-Cold War economic decay and the consequent depopulation of Eastern Siberia and the Far East (with the exception of Sakhalin) have deprived Russia of means to expand presence in the region, where economic interdependence has been the primary focus of international relations.

Moreover, Russia has recently been overshadowed by China economically as well as in terms of political influence. The rapid growth of Chinese economy has drastically transformed geopolitical dynamics in the region, giving Beijing an increased weight in regional diplomacy. The expansion of Chinese military power has made the U.S.-China strategic balance the focus of the Asia-Pacific geopolitics, while the U.S.-Russia balance is not relevant to the regional security at least so far.

On the other hand, China's increased military power, together with Beijing's attempts to enforce its territorial claims, adds to security concerns in the region. Although countries in the region, including the United States, regard China as an indispensable economic and, albeit to a lesser extent, political partner, U.S. allies and friends in the Asia-Pacific region support the rebalance of U.S. strategic focus to the region.

Diverse Relations

Relations between Russia and Asia-Pacific countries are diverse.

President Vladimir Putin's Executive Order of 2012 elaborates Moscow's country-wise foreign policy priorities in the region according to the following order; "deepening equal, trust-based partnership and strategic cooperation with China", "deepening strategic partnership with India and Vietnam", and "developing mutually beneficial cooperation with Japan, South Korea, Australia, New Zealand and other key countries in the Asia-Pacific region".

Asia-Pacific countries' relations with Russia, too, are different from each other, particularly in the political agenda they pursue. China is trying to strengthen partnership with Moscow as part of its strategy to realize a "multipolar" world order that should replace what Beijing sees as a unipolar world dominated by the United States. Japan, on the other hand, pursues the goal of recovering its "Northern Territories" under Russian control and concluding a peace treaty with Russia, which has not been signed since the end of World War II.

South Korea needs Russian cooperation for denuclearization of North Korea and reunification of the divided Korea. But, Seoul, like Washington and Tokyo, counts more on Beijing than Moscow for political influence on Pyongyang. The proposed plans to connect Russia and South Korea by rail, grid and gas pipelines through North Korea seem to be as yet far-fetched, although they, if realized, would add to Moscow's influence on the future of the Korean Peninsula.

ASEAN countries, except for Vietnam, do not seem to have any near-term political agenda in their relations with Russia. For better or worse, they are preoccupied with the rise of China in their immediate vicinity. Vietnam, too, is concerned about China and seeks closer relations with the United States, while continuing military ties and deepening energy cooperation with Russia.

India's partnership with Russia remains politically viable, if increasingly limited as the consequence of Russia's closer relations with China and improvement in India's relations with the United States and Europe. In the future, it will be significantly influenced by Moscow's approach towards two important bilateral relations: with Pakistan and China.

Given all these, cooperation between Russia and Asia-Pacific countries would be better pursued bilaterally rather than multilaterally at least in the near future.

Russia's New Overtures towards Asia

During the first two years of his renewed presidency, President Putin took diplomatic steps to underscore Russia's new overtures to Asia: In 2012, He visited Beijing and New Delhi and hosted the APEC Summit in Vladivostok; in 2013, he received the Chinese and Japanese leaders in Moscow, visited Hanoi and Seoul and attended the APEC Summit held in Jakarta; and, this year he plans to visit China in May and Japan in the fall. This new approach seems to be aimed at expanding Russia's presence in the economically thriving Asia and to promote the socio-economic development of Eastern Siberia and the Far East, the country's long ignored regions. To this end Moscow created the Ministry for the Development of Russian Far East.

The development of Eastern Siberia and the Far East would be essential to solidify Russia's position in the Asia-Pacific region and to economically connect Russia with Asia as well as to sustain the growth of Russian economy as a whole. Without the development of the eastern regions, it would be difficult for Russia to enhance its profile in Asia-Pacific diplomacy. Military power, including nuclear weapons, would not strengthen Moscow's "soft power" in its relations with Asian countries.

But given a combination of the harsh natural conditions of the eastern regions, the legacy of the ill-planned Soviet-time infrastructures and the shortage of workforce, it would be difficult and costly to develop these long neglected regions. Moscow's firm and sustained commitment would be essential for moving the difficult project forward. Foreign investment and cooperation would no doubt be indispensable to the end.

China is a natural partner for the development of Russia's eastern regions. Russia's possible isolation following the Crimea annexation might entail increased dependence on Beijing. But, there are concerns in Russia about relying too much on China. For example, the influential Valdai Discussion Club warned in 2012 against "a threat" that Russia would develop a one-sided dependence on China in important sectors of the economy, and later in politics.

Japan, equipped with advanced technology, finance and business expertise, would be an ideal "another" partner for the socio-economic development of Russia's eastern regions and the sustained growth of Russian economy as well. So would be South Korea. For its part, Japan agreed at the Moscow meeting between Prime Minister Shinzo Abe and President Putin in 2013 to vitalize trade and economic cooperation with Russia's Eastern Siberia and Far East, with particular focus on "energy, agriculture, infrastructure and transportation".

Need of New Approach after a Setback

It remains yet to be seen how the Ukrainian crisis would be diplomatically resolved. But, how responsibly Russia would uphold the principles of international law in dealing with the situation would have defining implications for not only the Euro-Atlantic but also Asia-Pacific dimension of Moscow's diplomacy. The annexation of Crimea is a diplomatic setback for Moscow in the Asia-Pacific region as well.

With this recognition, it would be advisable for Russia to do the following **if Moscow were to productively engage in the Asia-Pacific region:**

- *First, to enhance the credibility of Moscow's pronounced commitment to uphold international law.*
- *Second, to make every effort to remove obstacles to the prospect of sustained economic growth.*

To do so would be more than before important as the prospect of economic growth is estimated to dim in the wake of the Crimean annexation as the consequence of increased capital flight, diminished foreign investment and strained relations with the West. To sustain the growth of Russian economy as a whole would be the precondition for the socio-economic development of Eastern Siberia and the Far East.

- *Third, to cultivate improved relations with Japan, South Korea and other democracies in the Asia-Pacific region.*

This would be important for Russia to establish its own identity, particularly in contrast with China. The agreements entered into earlier by Russia to hold security consultations with Japan and South Korea, particularly the “Two Plus Two” meeting with Japan involving Foreign and Defense Ministers, would be significant to the end.

It is natural for Russia to seek strategic partnership with China, for Moscow shares with Beijing the strategic goal of creating a “multipolar” world order as noted earlier and similarly abhors the West's interference in the country's domestic affairs. But, if Moscow would increase reliance on Beijing as part of confrontation with the West, Russia's identity would be further blurred in the eyes of the other Asians.

- *Fourth, to participate in the activities of the existing mechanisms for regional dialogue and cooperation more earnestly than before.*

A complex of multilateral mechanisms for regional cooperation is already in place in the Asia-Pacific region as the results of the evolutionary process of consensus building. They include the ASEAN-led dialogue forums, such as the ASEAN Post-Ministerial Conference (ASEAN-PMC), the ASEAN Regional Forum (ARF) and the ASEAN Defense Ministers Meeting Plus (ADMM Plus), as well as the APEC process and the East Asian Summit (EAS). It must also be underscored that all of them included Russia. Nevertheless, Russia's role in these institutions has hitherto been seen to be ineffective by many Asians. It would be advisable for Moscow to engage in them more positively than in the past before proposing alternatives, such as new security architecture.

- *Fifth, to cooperate with countries in the region on the issues of common interest.*

Such issues could range broadly from energy supply and development to maritime, space and cyber security; from prevention of terrorism, piracy, drug and human trafficking to disaster relief and pandemics prevention; and from promotion of science and education to cultural exchanges and tourism.

- *Sixth, to promote universal values, such as democracy, the rule of law and human rights, both at home and abroad.*

Russia's progress in these areas would be more than ever important in order to reassure the increasingly democratized Asians.

Unlike the North American and European counterparts, *Asian countries have been reluctant to put these issues on the agenda of official discourse with Russia.* Apart from the Asians' general disposition to refrain from meddling in other countries' domestic affairs, the so-called "universal values" are still politically delicate issues for some Asian countries. Nevertheless, Moscow's autocratic politics often pursued at the cost of basic human rights have put doubts in the minds of many Asians about whether Russia has changed from its Soviet past.

Envoi

It is indeed timely for Trilateral Commission members to discuss anew their perceptions with regard to Russia, this time with Russians participating in the entire process of discussion.

From Asia-Pacific perspectives, too, the discussion is timely. For, as noted earlier, **Russia is increasingly interested in engagement with Asia-Pacific countries.**

For the same reason, it is important for Trilateral Commission members to understand the **contextual differences between the Asia-Pacific and Euro-Atlantic geopolitics.** For, Russia's future relations with countries in the two regions would inevitably affect each other in an increasingly globalized world economy and politics.

SUMMARY OF RUSSIAN CHAPTER

The Ukrainian situation has changed Russian-Western relations drastically.

Even as late as in December 2013, it seemed that globalization of the economic, information and cultural ties between us strengthened our interdependence. In spite of tough rhetoric, even cooperation in defence and security areas, including on cyber security, did not meet with insurmountable barriers for further interaction: almost six hundred activities within the framework of the NATO-Russia Council were successfully accomplished.

A common conceptual vision of the developments in New Eastern Europe, including Ukraine, and in the Central Asia was long overdue.

In this respect the sharp criticism of a Customs Union and Eurasian integration in the West does not seem reasonable. We viewed this project as the pragmatic continuation of the idea of the “Common economic space from Lisbon to Vladivostok”.

The West was seriously disappointed with Russia’s abrupt change of course, timidly pursued by then President Medvedev. The manner in which Vladimir Putin staged his comeback caused a dramatic showdown, both domestically and internationally.

We, Russians are also disappointed and do not mince words. But super-concentration of the Western analysis on Vladimir Putin and his immediate entourage is superfluous. The majority of paternalistically minded Russians support the President as their legitimate leader. If he were not present in the political arena, a leader with very similar if not tougher post-imperial views would emerge.

Russia will always seek an independent global position with her own perception of national interests and rules of fair play. Russian size and history will not allow for a seamless external behaviour as proved these days by the Ukrainian case.

The crisis in Ukraine began with Kiev’s reversal on the anticipated signing of an association agreement with the European Union. This was followed by wave of confrontation, including casualties that swept the president of Ukraine together with his team out of power.

Russia thinks that it cannot allow Ukraine to become part of the Western system without losing an essential part of itself and without abandoning President Vladimir Putin’s goal of a revived Russia as a great power. And Mr. Putin’s own authority rests in no small part on his reputation as a strong Russian patriot.

Some 17% of Ukraine's population – more than eight million – is ethnically Russian, the largest Russian diaspora in the world. Ethnic Russians constitute the majority of the population in the Crimea. There are also substantial numbers in East and Southeast Ukraine next to the Russian border, as well as in the major cities. Indeed, the origin and heart of Russia's Slavic culture lies in the mediaeval kingdom of Kievan Rus centered in modern Ukraine, not Moscow.

Ukraine was and remains deeply divided over the question of closer association with the EU, opinions generally mirroring the ethnic divisions. It was reckless of the post-Yanukovych government to have abolished Russian as Ukraine's second language as its very first act. This move aroused the worst fears of Russia and Russian Ukrainians. It is estimated that almost 700,000 Ukrainian citizens, most believed to be ethnic Russians, fled to Russia in January and February of this year. It was inevitable that Russia would move decisively. And so it did, with its customary ruthlessness that caught the West flat-footed.

Russia's endgame in Ukraine is securing Crimea as part of the Russian Federation following the results of the March 16 referendum; making sure that the rest of Ukraine is federalized to give Russian speakers in the eastern and southern regions a high degree of linguistic, cultural and economic autonomy; and preventing the central government in Kiev from seeking NATO membership. Over time, Putin would like to see central Ukraine, with Kiev, join the eastern and southern regions of the country in a compact aligned with Russia. Putin has no illusion, of course, as to how difficult the next few years will be for Russia and for him, and he is no doubt bracing for intense competition, even confrontation, which to him are normal, if unpleasant, elements of international relations.

The United States and EU do not intend to go to war with Russia over Ukraine, as Putin well knows. After a decade of wars in the Middle East, the American public is weary of foreign adventures. That was among the reasons that Obama was elected in the first place. The EU has neither the capability nor the stomach to wage a war on Russia.

Prior to the events in Crimea, representatives of Western governments were forthcoming in their hopes to share responsibility for Ukraine's future with Russia. Russia remains one of the most important markets for Ukraine as well as a financial and energy donor. These ties cannot be severed instantaneously.

But in his "Crimea speech" in the Kremlin on March 18 President Putin took the conflict to a much higher level. He accused the West of "crossing all thinkable limits of diplomatic behavior" and announced Russia at its "last frontier, which would not surrender." It was evident that the ruling group has taken the stance that Russia is equal in its rights and ambitions to the consolidated West and at the same time is morally superior to it.

In the view of many in the Kremlin and in the expert community, Russia -- as a nuclear weapon state, a permanent member of the UN Security Council and a major energy supplier -- cannot simply be ostracized forever.

With regard to **the short-term consequences of the crisis in Ukraine**, we see the picture as follows.

The substance of the **first phase of sanctions** (visa restrictions; halting of negotiations across a wide range of trade, economic, financial and investment issues; blocking of accounts and assets of officials and other “involved” individuals; freezing of assets of state companies; target measures against state banks) in itself will not cause any “unacceptable damage” to the Russian economy.

At the same time, *the consequences of even these first steps*, which in essence are a declaration of intentions to enact more serious sanctions in the future, *will be much more painful than the preliminary calculations of the direct damage incurred:*

- *Firstly*, this will serve as a formal reason for international rating agencies to review Russia’s sovereign rating as well as ratings for Russian corporate borrowers. This automatically raises the issue of the refinancing of debt assumed earlier (approximately \$100 billion is up for refinancing in 2014). The conditions for IPOs and Eurobond placements will get worse. Any money coming from external sources will become more expensive (according to some estimate, by 150-200 basis points), which in turn will change the pricing conditions for the domestic debt market and exert great pressure on the financial system.
- *Secondly*, the announced sanctions will set off further attacks on the ruble. The ruble has already fallen by 10% since the start of the year. Meanwhile, since the beginning of February, the capital adequacy of Russian banks has declined by 10-50 basis points. So the probability of a crisis in the banking sector increases. As both individuals and corporates seek cover in foreign currency, inflation expectations accelerate and capital flight rises (estimates range from \$80 billion to \$200 billion), which could lead to a negative balance of payments already this year.
- *Thirdly*, sanctions (also if they lead to disruption of arms and military equipment export contracts) could trigger a general economic downturn. The scenarios of continued stagnation (at last year’s level), growth decreasing to 1% or a slide into a mild recession with GDP declining by 1-2% is, all considered, roughly equally likely to play out.

Immediate and abrupt moves in the **energy sector** are not expected.

The EU’s dependence on Russian natural gas (31%) and oil (27%) remains very strong. Nonetheless, the current situation has already created an impulse for the recalibration of global markets.

In the next 3-5 years this will be expressed in the following:

1. An increase in the practical measures taken by the United States to become an exporter of liquid hydrocarbons;
2. Attempts to substitute Russian gas with supplies from Qatar, Algeria, Libya and possibly even Iran;
3. Major investment projects among alternative suppliers of the EU (deposits in the North Sea as well as major fields in the Persian Gulf which have reserves tenfold or more than that in Russia's Novy Urengoy region, and others);
4. The emergence of a global LNG market (where Australia is one of the leaders) with its own oil-based pricing mechanism and with Russia having a relatively minor market position (only 5% of the market among APEC countries);
5. Coordinated international efforts to ensure Ukraine's independence from Russian gas (energy efficiency programs, reverse supplies at spot-market prices via Poland, Hungary, Slovakia, Bulgaria, Romania and Croatia, etc.)

In order to react to these structural changes, Russia will need to adapt its current energy policy through 2030.

With regard to the WTO, on the bilateral level Russia should be prepared to see new claims as well as confirmations of old claims (for example, the utilization fee on imported cars) as well as antidumping cases against Russian companies. Furthermore, there will be negotiations on the elimination of old trade restrictions (several dozen remain in place). It should be noted that the configuration of international trade flows could begin to change in ways not beneficial to Russia in the light of progress on the Transpacific Trade Partnership and the Transatlantic Trade and Investment Partnership.

It is also important to keep in mind that in case of growing tensions over the Crimean issue, the assets of Russian companies in Ukraine face higher risks. The total volume of assets at risk is no less than \$30 billion. These risks could manifest themselves either through substantial impediments in the business environment (through tariff, customs and tax policy, application of EU technical standards and regulations) or through nationalization.

Russia and the West have to start de-escalation

In order to find a mutually acceptable solution to the situation and avoid a direct confrontation, *Russia and the West have to start de-escalating both the rhetoric and actions* reminiscent of the worst periods of the Cold War.

Option Number 1 was the Russian plan: disbanding the irregular groups; adopting a new Ukrainian constitution, which among other things would stipulate elected governors; providing official status for the Russian language; affirming Ukrainian neutrality in the U.N. Security Council; respecting the new status of Crimea.

The Geneva Agreements³ embraced in principle all of these conditions but proved to be meaningless because all sides of the conflict did not really want to “de-escalate” tensions. This is why the call for a “Geneva-II” conference with far more concrete mechanisms and enforcement procedures becomes highly urgent.

To straighten all of this out, **we call for the urgent creation of a Contact Group with the aim of providing real assistance to the people of Ukraine**, whose economy is on the verge of national catastrophe.

The Contact Group should be able to avoid political squabbling and grandstanding and immediately begin addressing specific issues in this process. It could also discuss measures to lower the risk of an economic downturn for both Russia and the European Union, potentially triggered by sanctions. This in turn should pave the way for negotiations to avoid escalation of tensions, including military ones, on the Eurasian continent.

As Henry Kissinger highlighted in his *Washington Post* op-ed on March 6, 2014:

“Far too often the Ukrainian issue is posed as a showdown: whether Ukraine joins the East or the West. But if Ukraine is to survive and thrive, it must not be either side's outpost against the other – it should function as a bridge between them.”

He concludes his article with this thought:

“The test is not absolute satisfaction but balanced dissatisfaction.”

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³ Quadrilateral talks between Ukraine, Russia, the U.S., and the EU held in Geneva on April 17, 2014