

REMARKS BEFORE THE UNITED STATES INDUSTRY COALITION

Ambassador James F. Collins
Director, Russia and Eurasia Program
Carnegie Endowment for International Peace

Speech before the
United States Industry Coalition
Annual Meeting
March 3, 2010

CARNEGIE ENDOWMENT

FOR INTERNATIONAL PEACE

WASHINGTON DC ■ MOSCOW ■ BEIJING ■ BEIRUT ■ BRUSSELS

INTRODUCTION

I want to congratulate United States Industry Coalition and its members for their contribution to a vitally important security objective: containing weapons of mass destruction and preventing their proliferation.

I also want to affirm my belief that USIC continues to support a critical element in the development of U.S.-Russia relations and in strengthening the safety and security of the American people.

So let me thank you all for staying with a difficult, almost always complicated and certainly at times frustrating project, which I had the honor to help initiate and assist during its formative years.

I am going to focus my attention this morning on Russia. That is partly because it is the country where I served as ambassador during a time of revolutionary change, and on which I have focused my attention since, but also because Russia is absolutely central to our future efforts to address the challenges of proliferation of nuclear and other weapons of mass destruction.

As I look at what is taking place in Russia and the state of U.S.-Russia relations today, I am encouraged that conditions are more hopeful for positive cooperation than at any time in the recent past. Moreover, this seems to me especially true for those who hope for greater openings to explore opportunities in the fields of technology and innovation.

I believe this to be the case essentially for two reasons: first, we are seeing the emergence of new thinking in Russia about the country's future. People are looking beyond simple economic recovery toward a new emphasis on modernizing Russia's technology base and its institutions. And second, a new administration in Washington has shown a renewed interest in Russia even as it has made it a vital priority of American national security policy to strengthen efforts to prevent the proliferation of WMD and the associated technologies. Nevertheless, I would temper this outlook with a dose of realism about significant obstacles and problems facing those who work to expand entrepreneurship in Russia, develop business ties, or engage this complex and difficult market. And I want to discuss those challenges as well.

RUSSIA

Let me start then with my own view of what is happening today in Russia. It seems every time I address an audience I am safe in saying that we are at a moment of transition. However, at this time I believe the circumstances warrant that generalization.

A colleague and friend recently wrote an op-ed for the Washington Post asserting that the Putin Model is on its last legs. I might modify that to say that the Putin Presidency is at its last phase, and we are witnessing the effort by Russians to define what will come next. Another way to look at the moment is to recognize that if, as I believe, the Putin presidency was about recovery, and that goal has been achieved, it is logical that Russian leaders, business people and the intelligentsia are now increasingly taken up with thinking through

what happens now. In other words, we are watching as the Medvedev – or perhaps Medvedev-Putin – presidency works to define itself, giving new direction to Russia’s statehood, global role, and social, economic and political futures.

Not surprisingly this process is complex, often messy, not overly transparent to the outside world, and uncertain in many respects. Moreover it is being complicated by a global financial crisis that has hit Russia especially hard; the unsettling, accelerated pace of change in global power relationships; and the difficult legacy of nearly two decades of post-Soviet restructuring, which has created a new order that will need major reform if Russia is to succeed.

Broadly speaking, it seems that Russians presently see their strategic decision as a choice between two very different models. One is to develop the nation and its economy with emphasis on commodity production and export, using Russia’s vast holdings of oil and gas and other resources to secure its future global role and status as a major world power. We might here recall recent discussion of Russia as an energy superpower. The other model links Russia’s future to the development of a modernized, globally competitive, diversified, “thought based” economy and society. Here President Medvedev is placing emphasis on innovation; restructuring and modernizing Russia to make it a future competitive power among the world’s post-industrial nations. The present challenge in this debate, it seems to me, is that as Russia develops, the structures of its economy, institutions and social system -- from tax codes to asset allocations among stakeholders -- are arranged in favor of the extraction and commodity export model. Meanwhile, the political and intellectual leaders are increasingly seeking to build a model for the modernized, diversified society that will call for a radical shift in favor of new stakeholders and a corresponding change in the distribution of political and economic power.

Efforts to promote change have begun. Moreover, the financial crisis appears to be challenging the status quo, giving rise to calls for reform from a widening range of Russian citizens. The economy, struggling to recover from a dramatic reversal in its previous record of steady growth, dropped nearly 8 percent last year, and is experiencing growing unemployment. Signs of unrest and public disenchantment with existing efforts are increasing. The present situation has also spurred calls for change and sharpened the debate in key sectors. President Medvedev’s initiatives to tackle the endemic drag of corruption on Russia’s society and economy have set high goals, and coincide with more insistent demands from the public for change. There is, for example, a growing public outcry for curbing corruption and abuses of power by the police, and Medvedev recently announced dramatic changes in the Ministry of Interior. These changes have yet to prove themselves, and it is difficult to find many Russian analysts who credit them with significant progress, but it seems to me the returns aren’t all in. Likewise, Medvedev’s efforts to strengthen the legal system and the courts, to tackle what he has dubbed “legal nihilism” continue, but results there also remain tentative. Elsewhere, efforts to stimulate innovation and modernization through institutions such as Rosnano have brought only limited success, but stand as symbols of what the modernizers hope to achieve. And after nearly two decades of talk about reforming the Russian military, there are significant signs that change is taking place.

Thus a vigorous debate is emerging about what it will take to form a modernized, innovation economy. We have seen Medvedev’s call of “Onward Russia,” in which he outlines plans for

a law-based, modern, diversified technological society and economy. A recent paper by the Institute for Contemporary Development, a think tank the board of which is chaired by President Medvedev has outlined a modernized Russia of the future at home in Europe, NATO, and the Euro-Atlantic community of industrial democracies. And we are seeing -- from a leading member of the Kremlin staff, Vladislav Surkov -- an effort to square the building of a vibrant technological society complete with a Russian Silicon Valley with an authoritarian model for development. But what these two approaches share is an underlying fundamental belief that Russia must move forward on modernization and not cast its lot with a future dependent on commodities.

U.S.-RUSSIA RELATIONS

The second element that seems to me important in enhancing the outlook for the kinds of projects USIC undertakes is a substantial improvement in U.S.-Russia relations after nearly half a decade of decline. It is certainly the case that by the end of the previous U.S. administration, U.S.-Russia relations had reached their lowest point since the end of the Cold War.

The relationship had become largely dysfunctional, dialogue was rarer than trading tit-for-tat accusations, tensions during the Caucasus conflict had caused even serious people again to discuss the possibility of a U.S.-Russia military confrontation, and cooperation had deteriorated to a point where it was nearly impossible to work together even when the two sides agreed with one another.

The arrival of the Obama administration set a new course in Russia policy -- dubbed by its authors a "reset" -- that has substantially revived U.S.-Russia relations and opened a broad field of opportunity to explore areas of cooperation and joint activity. Now approaching its first anniversary, the Reset has achieved limited but important results, and holds the promise of more.

First and foremost, President Obama met President Medvedev in London in April and agreed on three key elements for the relationship that have stood the test of the past year well. First, the two presidents agreed on a comprehensive, open agenda that established a path of dialogue and ensured understanding that all issues could be discussed. Second, the presidents set a clear list of priorities, with cooperation to address the global financial crisis and a follow-on to START heading the list. These were followed by cooperation to prevent proliferation of nuclear weapons and strengthen the Non-Proliferation Treaty, seeking joint approaches to regional conflicts -- Afghanistan, in particular -- strengthening bilateral economic ties, and working to support development of significant programs to strengthen U.S.-Russia relations. Third, and by no means least, the presidents agreed to establish a mechanism to manage the conduct of U.S.-Russian relations.

In the year that has followed, including several meetings and conversations between the presidents and the Moscow summit meeting in July, the reset has received greater definition and produced, some though not a great number, of tangible results.

In the nuclear arena: positive signs include progress on START, improvement in finding shared positions on Iran and North Korea, joint work to prepare for the NPT review, and

cooperation for the upcoming meeting on nuclear security. What remains to be done is, however, substantial. The START follow-on is still not signed. And while we are working better together, Iran remains a problem with the potential to disrupt relations more broadly, and the results of work on the NPT and security remain to be determined. What has been accomplished, however, is a strengthened set of relationships that are conducive to joint work, agreement on the need for a new treaty regime to keep arms reductions intact under a verifiable regime, and an increasingly effective pattern of contact and dialogue between an expanding number of officials and experts that has significantly reestablished and encouraged regular consultation on critical issues in these fields.

The Reset has also brought progress on joint approaches to Afghanistan. While early on after 9/11 the Bush administration's work with Russia brought an upturn in cooperation, the subsequent souring of relations was generally also reflected in tensions between Moscow and Washington over U.S. bases in Central Asia and American policy in that region. As an early accomplishment, the new administration achieved a new level of cooperation with Russia in the agreement for transit of U.S. lethal goods across Russian territory. After a slow start, this is now an ongoing program. Similarly, it is my understanding that there is enhanced cooperation between the appropriate agencies on counter terrorism.

Finally, the bilateral presidential commission announced at the July summit, with the Secretary of State and Foreign Minister as its lead directors, has begun work. All or nearly all of its 16 working groups have met at least once. In those areas where cooperation was already established and ongoing working groups have lent structure to ongoing programs, and in areas where contacts and programs had lapsed, new discussions are beginning to generate concrete cooperation. The progress is probably slower than we would hope, but may well be faster than we might expect given the complexity of the project.

This development has, it seems to me, real significance forUSIC members. On a number of issues, these working groups address areas where theUSIC and its members have particular interests, andUSIC can provide its members with a structure in both governments with which to work.

So there are significant positive developments to report, and it is certainly the case that U.S.-Russia relations are better than they have been in a long time after less than a year of the Reset.

We may say, therefore, that both the developing debate in Russia about the country's direction and the improvement in U.S.-Russia relations are encouraging for the future activities of organizations likeUSIC and its members.

CAUTIONS

There is also, however, ample reason for caution as well.

Within Russia, even as this debate begins to take shape, the modernizers -- no matter which model they advocate -- must face the reality that for the present, the Russian system heavily favors the model designed by Putin for recovery. According to Rosstat for 2009, well over 70 percent of Russian export earnings came from commodities, and investment is heavily

targeted at these sectors. Moreover, the financial crisis has brought a dramatic drop in foreign direct investment and a credit crisis that has made diversifying the economy, promoting entrepreneurship and attracting outside investment that much more difficult for all except the established sectors.

Other impediments to building the society and economy the Russian modernizers portray are formidable. The declining demographic curve may bring Russia in another 40 years to a population of as little as 110 million, and a workforce not much over 50 million -- a third smaller than the country has today.

The need for physical infrastructure is staggering. Russia lacks a modern road system, its rail structure is outdated, and its air transport and telecommunications infrastructures are woefully inadequate.

What my good friend Bill Burns named the "human infrastructure" likewise faces formidable challenges. In addition to the demographic side, the education system, health care structure and social services sector are all poorly prepared to serve the needs of a diversified, technologically based modern economy, in spite of recent changes.

And finally, the weakness of institutions of governance, respect for property rights -- including intellectual property -- bureaucratic dominance, and the role of large state corporations noted for corruption represent formidable barriers to be overcome if Russian modernization can hope to bring the nation to the kind of competitive stature its best minds are challenging the country to achieve.

In short, much has been deferred and postponed. Decisions about investment in these vital areas have languished, and the challenges they present remain problems for upgrading the domestic institutions, improving quality of life and providing the incentives for investment and growth that Russia so desperately needs.

The progress made in U.S.-Russia relations must likewise not be taken for granted. While a number of constructive steps have occurred and changed the landscape for arms control, preventing proliferation of nuclear technologies, and addressing the problems of Iran and North Korea and Afghanistan, even these steps remain fragile. The START agreement has not yet been concluded, despite repeated positive indications from the negotiators, and we now hear rumblings about opposition to its ratification in both countries. The issue of missile defense -- agreed in London as a topic for discussion and potential cooperation -- while somewhat less divisive after the U.S. decision to abandon the missile sites in Poland and the Czech Republic, has scarcely been removed from contention. On the economic side, WTO membership for Russia is still a way off and there have been no significant signs of expanded bilateral economic ties.

Finally, the commission, while launched and effective in several areas, has still made a slow beginning in areas such as science and technology, health cooperation, business development. Where plans have been developed, they are likewise in the early stages of realization and remain more potential than real.

CONCLUSION

Let me close by saying that despite this concluding caution about the challenges facing Russia, I remain cautiously optimistic that this society, economy, and nation can achieve the hopes of its best minds. Over two decades, we have seen a remarkable transformation of a Russian society that isolated itself from the outside world to a nation more and more accepting its place as an integral member of the global economic, financial and security system. It is likewise a nation engaged with the United States -- our economy, our business community, and our educational, scientific and cultural institutions -- in ways that have moved our relations from confrontation to openings for cooperation and healthy competition. As we move into the third decade of the post-Cold War and post-Soviet eras, I hope we will see these healthier trends take the dominant position. To make the most of opportunities to achieve that goal, both Russia and America will need to realize the full potential and draw on the strengths that USIC and its members bring to the table. I wish you every success.

Thank you very much.