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Two months ago, the United States and Europe were jolted by a revived Russia. Flush with energy money, Moscow announced that it was back as a world power. Georgia was defeated, Ukraine was fearful, the Eastern Europeans were nervous, and the United States and Western Europeans argued over what to do. Was a new cold war imminent? They needn't have worried.

Even then it was obvious that Russia's offensive power was limited. Its conventional forces have improved over their nadir following the dissolution of the Soviet Union, but the Russian military remains no match for that of the United States and only at great cost could Moscow defeat a state with reasonably modern armed forces. Jane's Strategic Advisory Services recently pointed to weaknesses exposed by the August war, concluding: "Improvements in command, training levels and the employment of flexible, modern weapons systems are required before the Russian military can face any opponents larger or better equipped than the Georgian military."

Moscow's nuclear force, including a substantial number of tactical warheads, is its principal power tool. However, Russia could ill afford to use nuclear weapons as a substitute for inadequate conventional forces against any of the countries lining its border. Rather, Moscow has a deterrent that would turn any Western response into a dangerous game of geopolitical chicken. Yet relying on nuclear weapons to counter conventional intervention by other nations would be as dangerous for Moscow as for the United States or European states.

Moreover, despite the nationalistic adrenaline rush following Moscow's triumph, Russia's long-term prospects remain bleak. Since the collapse of the Soviet Union, Russia has suffered not just a birth dearth, but a sharp rise in mortality rates and drop in life expectancy, what Nicholas Eberstadt of the American Enterprise Institute calls a "great leap backwards." Russia's population was 145 million in 2002, but fell to 142 million this year. The United Nations figures that Russia's population is going to drop another 10 million by 2020.

Obviously, demographic and health trends can change, but Moscow's problems are systematic and fundamental. Any turnaround likely will take years. As Eberstadt puts it, "this is not the portrait of a successfully and rapidly developing economy — much less an emerging economic superpower." A declining population will have serious geopolitical consequences as well. For instance, the relative depopulation of Siberia, adjoining far more populous China, could leave Russia's expansive eastern territory at risk.

But we need not wait until 2020 for evidence of Russian weakness. Economic uncertainty and

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falling energy prices have combined to deflate Russia's pretensions of being a great power again. The stock market is down 70 percent from May, with one-time billionaire oligarchs scurrying to the Kremlin begging for relief. The ruble has lost two year's worth of appreciation as anxious citizens, so recently celebrating their new prosperity, change their savings into dollars and euros. Heretofore abundant foreign exchange reserves have dissipated as oil prices have fallen by more than half and the government has attempted to prop up the ruble. Investment rating services are threatening to downgrade Russian debt.

As its economy weakens, Russia is less able to threaten its neighbors and the West — by cutting off energy shipments, for instance — should its demands not be met. Moreover, declining revenues will crimp the Kremlin's plans to sharply enhance its military. Not only will there be less money available overall, but more funds will have to be plowed into business investment and social programs. Economic growth has been the foundation of Vladimir Putin's popularity. He will be loath to risk popular displeasure by allowing the economy to continue sinking.

Indeed, Russia's present financial difficulties are likely to force Moscow to accelerate economic integration with the West, which will force the Kremlin to moderate its foreign policy. Last year, then — President Putin issued an updated economic development strategy for 2020, which envisioned Russia as sporting one of the globe's five largest economies and acting as an international financial center and technological leader. Those are challenging goals under any circumstances, but almost certainly will be impossible to achieve without abundant Western investment, trade and cooperation.

The image of a new Russian colossus threatening neighbors, Western Europe and the United States never reflected reality. Moscow's ambitions always were much more limited — ensuring border security and international respect, not reestablishing the Soviet empire. So, too, were its abilities limited, even before the ongoing economic crunch.

The incoming U.S. administration should use the present economic uncertainty as an opportunity to refashion relations with Russia. Neither country can afford to finance a further arms build-up or has anything at stake in countries like Georgia and Ukraine that warrants a potential nuclear confrontation, and both nations would benefit greatly from expanded economic and security cooperation in the future. A modus vivendi should be possible — as long as Washington recognizes that diplomacy requires giving as well as taking, especially when the other party has a nuclear arsenal to back up its positions.

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