



*Schlesinger Working Group  
on Strategic Surprises*

# Engaging Putin's Russia: Challenges and Opportunities for the West

SCHLESINGER WORKING GROUP REPORT, SPRING 2005

Prepared by Jason R. Wisniewski

The Institute for the Study of Diplomacy of Georgetown University launched the Schlesinger Working Group in 1999. This program recognizes the distinguished public career of Dr. James R. Schlesinger and his remarkable contributions to national security policymaking and strategic thought. This project is based on a multi-year Working Group initiative with a mandate to review and assess a range of possible scenarios that contain significant potential for strategic surprise and for unanticipated outcomes. The Schlesinger Working Group relies on a permanent "core membership" of generalists from the policy-making and research communities and academia (please see page 2), who are sometimes joined by respected authorities on specific regional or functional topics under consideration. The meetings are chaired by Schlesinger Professor of Strategic Studies Dr. Chester A. Crocker and ISD Director Professor Casimir A. Yost.

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During the spring of 2005 the Schlesinger Working Group met to address the challenges and opportunities faced by the U.S. and the West in dealing with Putin's Russia. Although President Vladimir Putin aligned Russia with the U.S. in the aftermath of the September 11, 2001 terrorist attacks, events over the past year have raised questions about the durability and basis of Moscow's relations with Washington and other capitals. These include the further tightening of Putin's political control, the spreading conflict in the North Caucasus, Russia's clumsy intervention in neighboring countries, and increased government control in the energy and mineral producing sectors. The Schlesinger Working Group explored these issues to determine what strategic surprises might be in store for the U.S. from Russia. The Group also explored policy recommendations to mitigate, avoid, or exploit these possible strategic surprises.

## I. SUMMARY

The Working Group concluded that there were four potential end-points that Russia could arrive at over the course of the next several years. The group characterized these end-points as system rejuvenation, system continuation, system decline, or system failure. Examples of triggers identified that could cause a negative shift away from system continuation to system decline or failure include external shocks such as war along Russia's periphery or falling oil prices; internal shocks such as catastrophic terrorist attacks or a sharply deteriorating security situation in the North Caucasus; and long-slide problems such

as a failure to consolidate or invigorate the political regime or failure to ensure Russia's long-term viability as an energy supplier. The Working Group did not discount the possibility of positive strategic surprises occurring, such as the result of a liberal movement emanating from within the Putin government or greater Russian economic integration with Europe.

In reviewing implications for U.S. policy, many group members expressed doubt about the Putin government's ability to successfully tackle Russia's underlying challenges and move the country away from one of these negative end-points and towards a positive trajectory. Members also generally agreed that the U.S. had only a limited capacity to influence these developments—especially the internal ones—in the short term, although debate remained about the U.S. ability to influence Russia in the long-run. The group concluded that, to the extent that important U.S. interests continue to be at stake in Russian developments, the U.S. should remain selectively engaged with Russia. At the same time the U.S. should avoid exaggerating Russia's geopolitical relevance in strategically important areas, such as the Middle East or Balkans where it has been less than helpful.

## II. INHERITED PROBLEMS

The Schlesinger Working Group noted a wide range of challenges that Putin inherited when he assumed office in 2000, and that continue today. These factors act as constraints on Putin and his leadership, and are obstacles that Putin will need to cope with.

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\* Core members of the Schlesinger Working Group were not asked to approve this *Report*. The *Report*, however, relies heavily on the discussions of the group. As such, this document reflects the general ideas of working group members, but is not a consensus document and cannot be ascribed to any individual member.

The Schlesinger Program would like to extend special thanks to those core members and guest participants who laid the groundwork for discussion with their opening remarks.

*Demographic Decline*

Russia is in the midst of a steep demographic decline. In addition to falling average life expectancy, particularly for males, there are stark regional discrepancies. While a Russian man living legally in Moscow is likely to live ten years longer than the national average of 59.9 years, Russians living in Siberia or other regions could expect much lower life expectancies. In the Karelia region, for example, males could expect to live 10 years less than the national average.

*Health Challenges*

Health issues are of special concern for Russia, particularly tuberculosis and HIV/AIDS. Russia is likely to be a “second wave” HIV/AIDS state, further complicating its demographic crisis. These health challenges will become critical to Russian security concerns as they begin to adversely impact the conscription of males into the armed forces.

*Economic Challenges*

Putin inherited an economy sharply skewed towards the export of raw materials, particularly oil and gas, which has been a mixed blessing for Russia. While high oil prices have filled Russian coffers and have enabled Russia to grow its stabilization fund—leading to higher sovereign credit ratings—it has also fed corruption, hindered the diversification of the economy away from the energy sector, and taken the urgency out of economic reform.

*Unsecured Nuclear Material*

Unsecured Russian nuclear and radiological material remains a matter of concern to the West. Even though significant strides have been made to secure weapons-grade nuclear material, outstanding issues include securing radiological materials that were not manufactured for military purposes but that could be weaponized. Working Group members also pointed to the need to ensure that the scientific know-how to convert the materials into weaponry is not transferred from the Russian defense and scientific establishments to subnational groups.

*Organized Crime and Corruption*

Issues of crime, corruption and transparency continue to challenge the Russian leadership. Rather than making progress tackling these issues, Russia continues to pioneer new models of corruption in state-market relationships. Some of this corrupt activity had been funnelled outside of Russia's

borders—such as illegal energy transfers in Ukraine that Viktor Yushchenko's government has committed itself to tackling—that is beyond Putin's control.

**III. PROBLEMS OF PUTIN'S OWN MAKING**

In addition to pre-existing conditions, the Working Group identified a range of issues that emerged after Putin came to office. Many of these issues raised questions about the Russian government's ability to deal effectively with the many challenges it faces.

*Power Centralization Creates Institutional Brittleness and Inefficiencies*

Since coming to power, the Putin team has created several structural political problems, contributing to the regime's brittleness. Actions identified included Putin's abolition of regional elections, parliamentary “reforms” and the creation of a rubber-stamp “party of power,” and state control over the media. One participant characterized this centralization of power and political reforms as a case of “unconsolidated authoritarianism.” In this situation, he argued, Putin has curtailed nation-wide sources of opposition to the Kremlin, curbing the political opposition and free press, and concentrating more power into the hands of the executive. This has occurred at the expense of other, already weak state institutions such as the parliament, courts, and cabinet ministries, and has strengthened an unaccountable bureaucracy.

Ironically, despite the concentration of power, Putin and his team appear to be, in the words of one participant, “chronically unable to make decisions that stick,” and this applies to some of the central issues of Russian politics: executive power relationships and elite access to self-enrichment opportunities in the natural resources sector. At the same time, by eliminating or curbing opposition, all blame for mistakes and policy failures now goes directly to Putin. Putin's one source of strength—his popularity—has sagged as the government stumbles from one failure to the next. A key example of this phenomenon includes the government's botched pension reforms, which one participant argued could have been fixed with only minimal public discourse prior to the reforms' adoption.

*Narrow Mindset of the Regime*

In addition to structural factors, many participants argued that a narrow outlook hinders the regime's performance. Although Putin has been

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widely characterized in the West as a pragmatist, several participants doubted that Putin is “hard wired” for pragmatism, or at least a form of pragmatism that could be understood in the West. They noted the influx of former KGB personnel into the government, their thinly-veiled longing to restore Russia to the grandeur of the Soviet period, and reluctance to accept constructive criticism from outside their narrow circle. One participant faulted Putin for what he called a “pragmatism of low expectations,” where Putin’s goals were uninspiring. Russia’s actions during the Ukrainian elections, in particular, demonstrated a loss of touch and dubious strategic instincts. Moreover this participant pointed out the challenges caused by Russia’s failure to come to grips with its past, including Stalin’s reign and the past abuses of the Soviet system. Unlike the example of certain east European countries, a lustration policy of vetting former KGB and Communist Party officials from government is out of the question under Putin.

#### *Greater State Control over Energy Encourages Corruption and Inefficiency*

Many participants argued that Putin’s assertion of greater state control over the energy sector—as evidenced through the dismantling of Yukos, the proposed merger of Gazprom and Rosneft, and Kremlin efforts to staff key industries with government-appointed officials—augurs for increased corruption and greater inefficiency. Several raised the question of whether the apparatus can run enterprises jointly with real business managers. Rather than operating in Russia’s national interest, many Russian government officials are behaving as rent seekers, making cooperation on a range of economic, security, and political issues difficult. Also Russia’s oil windfall has removed the urgency for pursuing tough economic reforms. In fact one participant noted that Russia appears to be exhibiting the early symptoms of the classic “oil curse,” characterized by increasing economic centralization, decreasing interest in reform, and decreasing reliance on tax revenues. Rather than tackling corruption and transparency problems head-on in the energy sector, Russian actions raise questions about investor security, as the authorities pioneer new models of corruption in state-market relationships, with the government seizure of a key Yukos production asset a commonly cited example.

One group member argued that despite these weaknesses the economic outlook for the country was positive given overall macroeconomic trends.

The Eurasian economy as a whole is on an upward trajectory with growth rates of 6 to 8 percent per year. Since much of this growth is outside of the government’s control, there is little the Russian government can do to influence these long-term positive trends. Although the government is unlikely to do anything constructive, its incompetence means that at the same time no major deterioration is likely.

Several participants countered that Russia’s high GDP growth is attributable solely to high oil prices, and that outside the oil sector the economy remains weak and undiversified. Capital flight from Russia is on the rise, which is perhaps the single best indicator of Russian business and governing elites’ outlook. Others argued that the lack of large-scale investment spells trouble for the oil and gas sector as infrastructure in these areas continues to deteriorate. They noted that with a few exceptions, it has been difficult for foreign energy companies to get access to the Russian energy market to provide badly-needed investment. Russia’s addiction to oil revenues and failure to modernize its infrastructure could lead to an economic shock and political strategic surprise, if oil prices were to fall, these members argued.

#### *Chechnya and the North Caucasus*

The conflict in Chechnya is spreading more broadly throughout the North Caucasus region, partially as a result of poverty and social issues but also due to political neglect. Discussants noted the battles carried out between police and militants in almost every North Caucasus region during the past year, and the Kremlin’s attempts to “seal off” and secure Moscow from the south. Despite these attempts to control the situation, including the direct appointment of Kremlin officials such as Dimitri Kozak to oversee policy in this region, Chechen sponsored terrorist attacks have grown in boldness, even as Moscow eliminates moderates such as Aslan Mashkadov. The spreading conflict in this region prompted a question about whether Russia was in fact becoming a failing state.

#### *Foreign Relations*

Regardless of whether or not Russia is a failed state, most agreed that Russia is indeed a “failed empire,” and that this should be borne in mind when evaluating the implications of Russia’s foreign policies. While Russia will attempt to play a prominent role in global affairs such as the Middle East peace process, its political, economic,

and military weaknesses mean that relations with neighboring states (or what Russia calls the “near abroad”) will dominate Russia’s foreign policy agenda. Russia’s heavy-handed performance during the Ukrainian and Abkhazian elections augurs poorly for the future of Russia’s relations with other neighbors. Some indicated that these instances are evidence that Russia is still in the midst of a collapsing imperial model that will take another decade to sort out. Issues to watch for in the future could include Russia’s ongoing troubled relations with Georgia and efforts to influence elections in other neighboring states such as Moldova and Kyrgyzstan, or efforts to prop up “friendly” authoritarian regimes in Belarus, Kazakhstan, Uzbekistan, and elsewhere.

#### IV. “POSITIVE” FACTORS

On the “plus” side, the working group acknowledged positive developments mitigating these negative factors to some degree.

##### *Catastrophes Avoided to Date*

Despite considerable obstacles, Russia has managed to avoid some of the catastrophic outcomes that had often been forecast in the past. The threat of “loose nukes” in the republics of the former U.S.S.R. has been averted so far. The risk of state collapse or territorial disintegration due to the centrifugal forces unleashed in the Yeltsin era has diminished markedly. The peacefully orchestrated transition of power from Yeltsin to Putin avoided the possibility of a destabilizing systemic jolt. Likewise, the oil windfall Russia has experienced has been real, and has given the Russian Central Bank impressive foreign currency reserves. This in turn has driven up Russian sovereign ratings, and has encouraged unprecedented levels of foreign investment and immigration into the country.

##### *No Return to Soviet Period*

One participant noted as a positive sign Putin’s repeated pledges not to return to Soviet rule, and argued that Putin most likely does not want to return to the old Soviet economic model where companies are wholly state-owned. While nationwide debate in the television, radio, and press is stifled, the government does allow limited discussion in the local print media, unlike many other countries, suggesting that Putin has realized, at least on an intellectual level, that a degree of free discussion and debate is necessary for Russia to return to great power status.

##### *Rise of Russia’s Soft Power*

Another positive factor is Russia’s rise in soft power. Russia is serving as an economic magnet for the broader Eurasian region, with hundreds of thousands migrating from Caucasus and Central Asia into Russia. Russian language skills are a business asset in the Baltics and Azerbaijan, as well as in several other countries that were formerly concerned about their large Russian minority populations.

##### *Future Technological Developments*

Finally a participant argued that Russia is not immune to the broader telecommunications revolution affecting other regions of the world. He pointed to the Internet in particular as facilitating national debate in Russia, and indicated that Russia cannot block Internet access any more than the Chinese leadership attempted to in the 1990s.

#### V. STRATEGIC SURPRISES

Given both these positive and negative factors facing Russia today, the Working Group participants posited several strategic surprises that could confront the Bush administration. Ultimately, the group proposed four broad possible outcomes for Russia:

1) *System rejuvenation or “U-turn”*. This outcome would emerge if the Putin administration shows the capacity to recover from what some participants characterized as a series of debacles in 2004. Examples of potentially positive change could include an epiphany by government leaders that leads to a U-turn in governance, the security situation, and economic/commercial policies. It could also mean a peaceful change of power that brings liberal reformers into office.

2) *System continuation or “muddle through.”* This outcome ultimately means more of the same; in other words, Russia ends up in ten years not far from where it is now. It is characterized by a mix of positive and negative developments. In this scenario Putin manages to leave behind a stable, nominally democratic legacy through a chosen successor.

3) *System decline*. In this scenario Putin fails to successfully consolidate his regime, leading to a fractured body politic and long-term decline. In such a situation Putin may elect to remain president beyond the end of his second term in 2008, though Russia’s long-term ability to manage its affairs remains in doubt.

4) *System failure or “fall through.”* This situation is defined as a rapid deterioration of the status quo. It could be characterized by such events

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as a military coup or sharply rising ethnic and social strife. Such conditions under this scenario could lead to Russia's territorial disintegration, or the rise to power of a highly nationalist regime that institutes greater internal repression or a belligerent foreign policy.

The Working Group noted that there was evidence to support all four of these outcomes, although the balance of risk has shifted towards the negative since the beginning of Putin's second term in office. The triggers that could prompt the more dramatic scenarios included the following:

#### *External Shocks*

The first type of trigger identified by the group is events outside or along Russia's borders that, if encouraged or poorly managed by the Putin regime, could push Russia in a negative direction. Russian elites' fear of continued "rollback" of their former imperial boundaries makes such mismanagement possible. Such setbacks could include deteriorating relations with neighbors leading to wars, worsened relationships with Russia's primary trading partners Europe and China, or falling oil prices that encourage a collapse of Russian government coffers. Poorly managed relations with the West could also be a source of external shock. Kosovo, for instance, could become a particular issue of attention again in U.S.-Russian relations. Russia is still smarting from its inability to play a meaningful role in the Balkans, and observers believe that Russia may justify continued interference in Abkhazia and South Ossetia on the grounds of the international community's continued military, economic, and political presence in Kosovo.

#### *Internal Shocks*

The second type of trigger is the government's encouragement of or failure to manage negative domestic events. These could include another spectacular terrorist attack or a series of attacks as a result of ongoing Chechen conflict, particularly if they cause mass casualties and highlight the failure of the Russian government to protect its own citizens. Other examples could include ethnic or militant uprisings in North Caucasus that spiral out of control; or a domestic backlash on socio-economic issues leading to rising tensions and street politics.

#### *"Long Slide" Problems Leading to Unanticipated Outcomes*

In addition to sudden surprises, participants noted that today's unsolved problems can in the

long run lead to unanticipated surprises. For example, one could imagine a scenario where Putin succeeds in choking off the domestic political opposition, but fails to consolidate control, either by forming alliances with new political elites or creating a viable "party of power" in the Duma. In this instance Putin's nomination for a successor could fail to rally support by the elites, leading to long-term political crisis. In another scenario, corruption could continue unchecked in Russia, or the government could fail to modernize oil and gas infrastructure. In either case Russia's failure to capitalize on its full energy potential would raise questions about its ability to be a strategic energy supplier.

#### *Positive Strategic Surprises*

One participant challenged the general notion that a country with Russia's wealth in natural resources, high literacy rates and almost universal education, and scientific and industrial know-how was on an unchecked negative decline. One positive scenario could result, ironically, as the Kremlin's imperial goal of integrating the "near abroad" into a Russian sphere of influence proves illusory, and is replaced by a gradual process whereby Russia becomes integrated into European economic and political structures. Another participant alluded to the possibility of a power shift in Russia along the lines of the recent Ukrainian and Georgian revolutions, where the liberal opposition arose from figures such as Viktor Yushchenko in Ukraine and Mikhail Saakashvili in Georgia—"sons" of the existing regime who chafed under the slow pace of reform and came to power calling for greater openness and integration with the West. The implication of this scenario is that there is still hope for change emanating from within the Russian government.

#### *The 2008 Presidential Elections*

The group reserved a prominent place in all of these discussions for the 2008 presidential elections as an important benchmark that could point to Russia's future direction. A paper presented by one participant to the Working Group in absentia posited four possible scenarios for the 2008 elections: (1) Putin anoints a successor who becomes prime minister and wins popularity through a massive public relations campaign; (2) Putin pushes through constitutional reform, reshaping the government to include an executive prime minister and a ceremonial president that enables him to continue to rule the country

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as prime minister; (3) an emergency leads to referendum on a constitutional amendment allowing Putin to run for president again; or (4) the Kremlin's "artificially manufactured" opposition takes over led by a nationalistic and socialistic figurehead.

## VI. POLICY IMPLICATIONS OF POTENTIAL RUSSIAN SURPRISES

In reviewing these four scenarios and bearing in mind the possible triggers, group members noted four policy options available to the U.S.—neglect, confront, coddle or engage Russia. In considering such choices, discussion focused on two core issues:

### *(1) How important are our Russian interests and how seriously should we treat Russia?*

Group members generally agreed that although Russia no longer occupies the central position within U.S. policy that it did during the Cold War, the country remains important for U.S. interests. This is due to the country's size, location, population, natural resources such as oil and gas, military-industrial complex, and nuclear arsenal. Russia has proved that it can do considerable damage to U.S. global interests should it choose to do so, such as acting as a nuclear proliferator, promoting high-tech arms sales to unstable regions, or sitting as a veto-wielding member of the UN Security Council. It can also sometimes serve as a constructive partner—e.g., in the case of Russia's cooperation during U.S. military operations in Afghanistan or the six-party talks with North Korea. On the other hand, the U.S. should not exaggerate Russia's geopolitical relevance in areas such as the Balkans and the Middle East by bending over backwards to include Moscow in deliberations where it has been less than helpful.

Against this backdrop, there was little support in the Group for confrontation—which could play into the hands of ultranationalists—or coddling which would mislead Russian leaders and mean turning a blind eye to their mistakes and abuses. Instead, participants focused on how engaged the U.S. should be, with whom, and what degree of distancing or disapproval Washington should exhibit in the face of a government of questionable capability. In this context, there was little support for neglecting Russia, but participants had spirited exchanges on whether Russia really matters that much in geopolitical terms. Overall, most participants agreed that its capacity to negatively or positively impact significant U.S.

interests argued for some measure of engagement with Russia.

### *(2) Building and Using U.S. Influence*

Working Group members acknowledged the U.S.'s limited influence over Russia's domestic policies. On external behavior, they noted Russia's weak linkages to the international economic community, but nonetheless focused on ways to strengthen them as one approach for building influence. Areas of existing U.S. leverage with Russia could include Putin's desire to be accepted by rest of the world as a legitimate world leader, the Kremlin's hopes to join the World Trade Organization, the security benefits provided by counter-terrorism and non-proliferation cooperation, and the prestige and technical benefits of space cooperation.

One participant pointed to a measure of successes for Bush Administration policy using these levers to influence Russia, and noted evidence that in recent months Russia has pursued a more constructive and pragmatic foreign policy. Recent foreign policy actions include the Putin government's diplomatic—as opposed to heavy handed—involvement during Kyrgyzstan's March revolutionary uprising, efforts to negotiate military base closures in Georgia, positive movement towards resolving outstanding Baltic border disputes, and Putin's April 2005 state of the nation address which emphasized democracy and appeared aimed in part to a foreign audience. However, while these actions suggest a possible pragmatic turn, there are clear limits to Putin's pragmatism. Given the basic uncertainties of the situation, this participant argued, the U.S. should adopt a "wait and see" approach, engaging selectively and hedging its bets in the event Russia takes a turn for the worse, and position itself for best advantage in the event of positive developments. Specific elements of this policy would include recognizing the complexity of Russia's problems and focusing in on concrete actions like counter terrorism capacity building, space cooperation, and the creation of decision-making nodes within lower levels of the Russian government.

Several members disagreed with this point of view. They argued that the Putin government's level of indecisiveness, incompetence, and corruption degrades the degree to which the regime can cooperate with the U.S. on important strategic issues. They argued that the overly centralized nature of the regime, its narrow "siloviki" constituency of former, often corrupt, KGB officers,

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Putin's personal stubbornness, and his declining popularity mean that Russian foreign policy was likely to be poorly thought out and implemented. Long term cooperation on issues of strategic importance in these circumstances was unlikely to be fruitful.

A third viewpoint argued instead that the U.S. can indeed build capacity to influence Russian foreign policy over the long-term by a partial shift in approach from selective engagement. First, the administration could be less visibly wedded to the Putin regime, and could diversify its contacts both inside and outside the Kremlin. The Bush Administration's Bratislava initiative to deepen ties at lower levels in the Putin government are an important first step in this direction. Second, budget cuts in areas such as democracy promotion, civil society building, and public diplomacy programs should be reversed in order to match current U.S. foreign policy rhetoric about democracy and governance. At a minimum, U.S. officials should not exaggerate Russia's progress towards achieving democracy. Third, a single minded-focus on the "global war on terror" distorts the prism through which the Bush Administration views the world, exaggerating the effectiveness of Russian counter terrorism

cooperation. Moreover, Bush's close cooperation with Putin on terrorism issues often appears to ignore the perverse consequences of Russia's brutal prosecution of the Chechen conflict. Finally, the U.S. could do more to coordinate its efforts with other major powers, particularly in Europe, which has more extensive economic ties with Russia than the U.S. According to this view, the economic and security "drawing power" of the transatlantic community and European integration were key instruments for addressing problems in central and eastern Europe, and will probably be so for Russia itself.

**VII. SUMMARY CONCLUSION**

Viewpoints inevitably differed about the precise blend of U.S. engagement to select but, as this discussion indicates, carefully balanced and calibrated engagement is likely to be the best policy for mitigating, avoiding, or exploiting Russia's possible surprise scenarios. At the same time the U.S. should remain clear-headed about the limits of Putin's pragmatism and ability to sustain a cooperative relationship. It is not yet clear that that Putin's regime is fully capable managing the domestic challenges it faces. ■

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