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I. CRITICAL JUNCTURE IN U.S.-RUSSIAN RELATIONS

- Active pre-Helsinki agenda: Gore-PM Chernomyrdin last month; Secretary Albright met with Yeltsin and Primakov in Moscow; Strobe Talbott in Moscow today; Larry Summers going next week. Laying groundwork for productive Clinton-Yeltsin summit that promises to take defining steps on European security structures, arms control and American investment.

- Yeltsin’s “State of the Federation” address today marks his return to full schedule in Kremlin.

II. RUSSIA TODAY

Before discussing US policy toward Russia, want to give overview of our perception of Russia today: (1) politically; (2) economically; and (3) in its external policies.

1. HISTORIC POLITICAL ACHIEVEMENTS:

- Political parties, increasingly independent media, gradual decentralization of power. Russian reformers struggling, sometimes against tough odds, to deepen democracy and rule of law. Progress uneven, as we always expected. But in series of elections over recent years, Russian people shown clear interest in politics, patience as their democracy matures. After a series of regional elections last fall and winter, Russia is charting a new course in relations between the federal government and provincial leaders. Fledgling democratic institutions holding; many political factions all abiding by constitution. Russia today a constitutional democracy: a tremendous achievement.

- Keep in mind how quickly things are changing: just a few years ago our friends in Moscow complained that the opposition was being shut out of the political process; many of the same friends are complaining today that the opposition is winning elections.

- Russia has a new political and economic establishment -- its own “thirty-somethings.” They occupy prominent positions in business, finance, government and media. It is a new generation of leaders with a new world view, for whom new Russia has brought new opportunities and freedom of individual accomplishment. And all of this is the result of just five years!
2. ECONOMIC REFORM:

- **Real progress**: Private sector produces more than 70% of GDP. Inflation dropping -- similar in 1996 to Hungary and Poland; budget deficit below that of many Western European countries; average monthly wages have grown.


- **Real problems**: But government’s underlying finances are shaky, economy continued to shrink (or possibly stayed even counting informal sector), and little restructuring occurred of massive, uncompetitive industrial sector.

- Privatization was great success; but the process cannot continuously favor the select few; it must be more transparent and equitable; fashionable to compare Russia’s new tycoons to the robber barons and hope that the raw energy of unbridled capitalism will solve Russia’s problems. Perhaps, unbridled capitalism would be preferable to the cozy relationship between big business and big government; Russia’s tycoons have yet to show moderation and understanding that the system must open up and become more inclusive; aggregate statistics do little to address alienation of average Russians, while select few enjoy the spoils of privatization.

- **Long Way to Go**: If Russia maintained a 6% rate of growth through 2020, only then would living standards reach the level of Spain. On other hand, with no reforms and at current growth rates, Russia in 2020 will have been passed in terms of living standards by fast-growing economies such as China.

- **Collapse of government revenues** both central to and symptomatic of Russia’s problems. Russia’s federal government at times collected less than 8% of GDP in revenue; US level is 22%, and most European countries would exceed 30%. If revenues collapsed more, government would approach irrelevance!

- Good news is that Russian Government knows it has a problem, wants help and is committed to taking next steps on reform.

  -- In talks with VP Gore, Chernomyrdin perked up once we got off security issues and onto economics. In fact, high point of trip may have been promise of DepSec Summers taking team of tax advisors to Russia. Last words he said to Vice President were: “When is Summers coming?”

- **VINCA, THERE MAY BE MORE CHANGES TOMORROW IF YELTSIN ANNOUNCES NEW CABINET APPT’S IN STATE OF FED. AM SENDING SEPARATE CABLE FROM MOSCOW, SEE IN INTELVIEWER. -- ER**

3. EXTERNAL POLICIES:
By necessity, Russia's most immediate concern involves developing a new framework for relations with its neighbors.

-- Tension between competing agendas: On one hand, need to establish cooperative, stable relations with newly independent neighbors. On other hand, ingrained history of not treating these states as equals; some policymakers still have reflexive desire to dominate, or prevent them from developing independent outside ties.

Also still shows concern for preserving world-class power status -- trying to stay engaged in Middle East; conscious effort to reengage with China; working hard to establish new "sense of identity" -- Russia as Russia, not vestigial USSR.

Ambivalence toward West. Taking steps toward integration -- COE, PFP, MTCR, founding member of successor to COCOM, partner in "political eight," seeking WTO admission, working with US & NATO in Bosnia. But on visceral level, some fears that integration inherently zero-sum -- with Russia losing out.

Visible right now in Russia's strong negative attitudes toward NATO enlargement.

III. US POLICY TOWARD RUSSIA

Helping Russia successfully complete its transformation is in United States' profound national interest. Today there are 3 predominant policy issues: (1) NATO; (2) arms control; and (3) economics.

1. NATO ENLARGEMENT, NATO-RUSSIA RELATIONSHIP

US determined to proceed with NATO enlargement. Equally determined to manage enlargement process in manner that does not threaten Russia; do all we can to build strong NATO-Russia relationship.

Not blind to Russia's concerns. But have to make our own security judgments. Shouldn't hold Central Europe's integration into the West hostage to Russian politics.

As DepSec Talbott has said, we should recognize Russia's opposition for what it is: an issue primarily of perception and political sensitivities.

NATO offering Russia unprecedented partnership:

-- Addressing concern of Russia's role: Charter, consultative mechanism
-- Addressing concern of military stability: CFE, nuclear issues, 3 "No's"
• Fact is, polls show that most Russians don’t view NATO as a threat.

• NATO Russian nationalists worry about is gone. NATO always been a defensive alliance; today’s NATO has gotten rid of 90% of its nuclear weapons, reduced US military presence, removed configuration of confrontation, abandoned notion of “us” vs. “them.”

• CFE Proposal: We and our Allies have tabled a far-reaching proposal to adapt the CFE treaty to new security environment in Europe. We propose to: eliminate the Treaty’s Cold War bloc-to-bloc-structure in favor of national and territorial limits; encourage reductions in armor and artillery entitlements throughout Europe, with a significant contribution to reductions by NATO; and prohibit any increase in armor and artillery based in Central Europe.

• May be useful to keep in mind precedent of German unification. Many in Russia expressed concern -- or outright opposition -- at time.

  -- We were confident united Germany would be more stable; Europe as a whole would be more secure if united Germany fully part of NATO. We were right. When polled, Russians now consider Germany among Western countries friendliest to Russia.

  -- Similarly, enlargement of NATO will create more secure Europe. Membership already proving clear incentive for political/economic reform, resolving disputes peacefully. This in Russia’s best long-term interest too.

• As Western experts debate merits and potential risks of enlargement, should remember that enlargement nothing new -- and always somewhat controversial.

  -- When initial invitations considered for North Atlantic Treaty, some questioned Italy’s eligibility -- a former adversary; not North Atlantic; had little to offer defensively and would be a drain on military assets. (Sound familiar?)

  -- When Greece/Turkey being considered for membership in 1951, some allies complained that those nations didn’t share NATO’s religious and cultural heritage; they were “a snake pit of troubles”; it would be impossible to explain how an attack in the Levant was an attack on Scandinavia; enlarging the Alliance would complicate NATO’s workings and provoke USSR. (Again, familiar ring.)

  -- In case of Spain in 1982, US believed that membership in NATO would consolidate Spanish democracy and offer Spanish armed services a well-defined military mission; distract them from domestic politics. Yet NATO membership viewed negatively by segment of Spanish population as linked to US bases and rise in military budget; opposition also fueled by broader European resistance movement against deployment of intermediate range nuclear missiles on continent.

• But in every case, view prevailed that the advantages of bringing these new members into NATO outweighed the disadvantages -- by anchoring them firmly in West; providing
framework for resolution of disputes; and expanding circle of collective defense, rooted in commitment of democracies to defend their values and one another. Time has borne out the value of those decisions.

- Now, we must rise to the challenge of our time.

- As Acheson wrote to Schuman prior to Lisbon Summit of 1952, at which Greece and Turkey were admitted: "Either we must guide the events we have set in motion or they will move themselves, we cannot tell where."

2. ARMS CONTROL

- Already accomplished much (detargetting, START I, CTBT). Now, need Russian Duma to ratify START II -- which, together with START I, will cut arsenals by 2/3:

- In Helsinki, will discuss further reductions under START III, to begin once START II ratified.

- US and Russia reaffirmed in May 1995 that ABM Treaty remains cornerstone of strategic stability and both countries have option to establish and deploy effective TMD systems.

--- Continuing to work in Geneva and at high political levels to clarify distinction between theater ballistic missile defenses not limited by Treaty and strategic ballistic missile defenses limited by Treaty.

3. ECONOMICS

- Security in Europe today not only matter of extending guarantees from top down; also matter of building democracies and market economies from bottom up.

- President Clinton committed to help. FY98 budget requests 44 percent increase -- to $900 million -- to support transition to free market democracy in Russia and NIS.

- Already gone far with Chernomyrdin to outline agenda: New tax administration law to clarify authorities, process for collecting taxes; new VAT and excise tax to stabilize revenue; amendment to profits tax to strip away punitive attitude to profit; criminal procedure code and other laws to combat crime; laws to encourage investment in energy sector.

--- Confident these measures will have an impact. See prospect for $50-60 billion in investment in oil sector alone. Foreign investment in Russia's petroleum sector has been less than $1 billion in each of the past three years; Indonesia, which produces 1/4 of Russia's output, has received $3-4.5 billion annually.
• President Clinton also ready to prime the pump. If Russia moves ahead with reforms to attract investment, we will make available financing to support several billion in American investment through OPIC, ExIm, enterprise fund.

• **Have made clear to Russia that they must do their part.** Investment is demand driven -- and investors will draw down this financing only when Russia puts policies in place to make them risk Russian market.

  -- Chernomyrdin quite taken with analogy that pushing investment like pushing on a rope: It doesn’t work. Have to *pull* it in.

• Advancing this economic agenda will be as important a part of Helsinki meeting as progress on NATO-Russia relationship. Indeed, failure to act on the economic agenda may be President Yeltsin’s biggest short-term political threat.

**IV. POLICY BASED ON PROGRESS, NOT PERSONALITIES**

• US in this for the long haul. Policy based on national interests and progress, not personalities. As Russia continues its historic reform, we’ll be there every step of way.