

# Key Issues in U.S.-Post Soviet Relations

By Jeffrey B. Gayner

The visit to Washington by President Boris Yeltsin of the Russian Republic in June 1992, represented an historic transformation in the character of the relations between the United States and what formerly had been the Soviet Union. With the agreement to reduce drastically the number of long-range missiles that our countries once had aimed directly at each other, we move from an era of superpower confrontation to potential democratic collaboration. We have witnessed in Russia the advent of real reform in both strategic and economic affairs, and not the quasi-reform that characterized the Gorbachev era. In my brief remarks, I will outline some of the key issues that have emerged that must be dealt with effectively if we are to avoid any possibility of the re-emergence of superpower rivalry that has burdened both of our countries for the past fifty years. The four key issues raised by the collapse of the Soviet Union are: the making of a market place in the post-Marx economic environment; the disposition of military assets; the character of the new political order; and finally the broader, global implications.

## MOVING TOWARD THE FREE MARKET

Concentration of most discussion of the post-Soviet period understandably begins with the war-like economic destruction wrought by 75 years of communism. If we had a great academic failing in the West, it is that we studied everything too pessimistically and thus totally ignored the question of how to get from communism to capitalism. We have learned some good side lessons on this topic, such as a thriving Chile emerging from the Marxist regime of Salvador Allende. But we never had experience, or much study, concerning a transformation of the heart (or even the arms and legs) of the Evil Empire. In the waning days of the communist regime in Poland, a short study was done on transformation by one of our first Bradley Scholars at The Heritage Foundation, Rafal Krawczyk. He subsequently has returned to Poland and has tried to implement his ideas.<sup>1</sup>

Today we have a degree of fierce competition in managing this transition as many different countries, with genuinely independent governments, strive to emerge from the communist morass. Possibly most instructive in this process has been the necessity to develop various institutional elements of a free economy, without which legislative calls for the free market ring hollow. These elements were highlighted in a study by William Eggers for The Heritage Foundation earlier this year. In his "Report Card on Eastern Europe"<sup>2</sup> he cited the priority needs for price liberalization, responsible monetary policy, convertible currency, privatization, and reforms to establish laws on banking, bankruptcy, foreign investment, and private property. Unfortunately these elements gener-

---

Jeffrey B. Gayner is Counselor for International Affairs at The Heritage Foundation. In late 1992, he will head a new Heritage Foundation office in Moscow.

This lecture was delivered originally at the annual meeting of the Philadelphia Society in Chicago, Illinois, on April 26, 1992. Revised versions were given in June 1992 to participants in the People to People High School Student Ambassador Program prior to their departure from Washington to Russia.

ISSN 0272-1155. ©1992 by The Heritage Foundation.

- 
- 1 Rafal H. Krawczyk, "The Communist Bloc: Transformation in Progress," *Heritage Lecture* No. 183, March 1, 1989.
  - 2 William D. Eggers, "Report Card on Eastern Europe," *Heritage Foundation Background* No. 893, April 22, 1992.

ally are adopted only haphazardly, if at all, and this has made economic progress uncertain at best, and impossible at worst.

**Prices.** Priority must be given to price liberalization, so that prices reflect the real value of an item. The chief economic advisor to Yeltsin pointed out how crazy their present price system is when a ton of oil costs the same as nine pounds of meat—meaning one pound of meat equals 222 pounds of oil. Needless to say they consume lots of cheap oil and little expensive meat. Similarly the price of vodka, despite increases, remains low by Western standards at 50 rubles (about 35 cents) for a half liter. Efforts to increase vodka prices in the past have led to deep-seated dissent; it has often been said that only in a vodka stupor could one endure the kind of state the country has been in the last 75 years.

**Convertible Currency.** Similar to price reform is the need for a convertible currency, meaning that the market would set the rate of exchange between the ruble and foreign currencies. Because the ruble traditionally has been held at an artificially high level, the government had to control its exchange. Most recently they simply have been printing rubles to pay for things, which has meant inflation at a rate of 100 percent per month.

When I first went to Russia, the exchange rate was fixed at about \$1.65 to the ruble, which made no sense, so no one exchanged dollars unless they had to. The government admitted the farce by having hard currency stores just for foreigners and Communist Party members who had access to Western currencies. The ruble now exchanges more realistically, at around 120 to the dollar depending on the latest currency rumors. Hard currency shops are everywhere and most Russians generally prefer dollars for purchases than their own currency. July 1st was supposed to begin a real convertibility process.

**Trade.** The other economic element of special importance concerns trade and access to markets. Neither massive investments nor productive enterprises can be sustained without the rapid integration of the Eastern and Central European economies into the Western economic system or, more particularly, into the huge neighboring market, the European Community. The recent Maastricht Treaty either can be viewed as the high water mark of Western European integration or, as the vote in Denmark indicated, it may all be downhill from here for the original twelve members of the EC.<sup>3</sup>

The continued "deepening" of the existing EC may only create an ever widening chasm between Western and Central Europe. The Iron Curtain has gone down, but may be replaced by a commercial curtain that prevents the flow of goods and services as effectively as the Iron Curtain prevented the flow of people—and with nearly as disastrous consequences.

The changing of institutional arrangements within Central and Eastern Europe and accessibility of Western European markets for emerging producers in the East remain much more important than the incessantly discussed aid programs for post-Soviet governments. But when it comes to actual aid flows and loans to Central and Eastern Europe, the U.S. role in most of this has been mercifully minimal. During his trip to Washington President Yeltsin visited Capitol Hill to lobby for U.S. contribution to the \$24 billion Western assistance program, including an additional \$12 billion for the International Monetary Fund (IMF).

Thanks to President Reagan we largely resisted propping up the decaying communist regimes in Eastern Europe and even exercised a surprising degree of caution in aiding Mikhail Gorbachev. This is why the Europeans, who squandered so much money sustaining communist regimes, hold most of the estimated \$70 billion owed by the constituent elements of the former Soviet Union, and

---

3 Anthony Hartley, "The Irrelevance of Maastricht: Redefining The Role Of The Atlantic Community," Institute for European Defence and Strategic Studies *Occasional Paper* No. 53, March 1992.

even larger amounts by the other successor states. But the Europeans now want to ensure that the U.S. shares in repaying themselves. The Germans, in particular, seem to have become "born again burden sharers" when it comes to extending new loans to cover previous German loans. Something the United States may want to consider is the suggestion of Dr. Judy Shelton of the Hoover Institution: debt forgiveness for Russia. This could be an ingenious American act of generosity largely at the expense of the Europeans, who made most of the unwise loans.

The Germans have clearly and conspicuously dominated financial flows to the East, especially to Russia. But this has been a political and not an economic policy; it was determined by the Soviet agreement to German reunification with NATO and the Bonn government's desire to secure one-way travel arrangements for all of the 370,000 Soviet troops in the former German Democratic Republic. In 1991 only 35,000 of them left, and by this process dragging out to 1994 the Germans will be obligated to continue a payment schedule totaling \$4 billion in pledges for transportation, housing, and job training for the departure of the rest of the Red Army.

One may ask what has become of the substantial German assistance? Allegedly more than 70 percent of all the aid to the Commonwealth of Independent States from the West, and more than 90 percent of the aid to Russia, has come from Germany. But according to one of the providers of the aid, the German relief organization Cap Anamur, much of the aid vanished without a trace. For example, they sent 80,000 food and medical packages to Russia over a two-month period, and only 10,000 reached their destinations. Similarly, a member of the German Parliament, from a state in the former GDR, related to me the tale of a German delegation that had the audacity to try to trace the route of aid they provided to leaders from Sverdlovsk, Russia, who had come to Germany desperately pleading for aid. The only significant change on the Sverdlovsk landscape that their aid contributed to, however, was a splendid new dacha for the local political boss.

In the end, the debate over aid to Russia will pivot around the political and not economic impact; and if the IMF gets increasingly engaged in the process then Russia may take the long African and Latin American detours on the road to economic prosperity. The aid package may not be "the Lincoln S&L of the new world order" as one prominent conservative described it, but it offers no great hopes to solve the endemic problems that afflict the region. Only drastic internal structural reforms and openness to trade and investment can achieve rapid and durable changes.

## **THE DEMILITARIZATION OF THE RED ARMY**

Hanging ominously over the economic debate is the problem of the military. The most unnerving element of the dissolution of the Soviet Empire is how to dispose of the enormous military assets.<sup>4</sup> Fighting over those assets can, and has already, proved especially deadly. Given the secrecy of the old Red Army we are learning only incrementally of the magnitude of the problem. To take but the most conspicuous example, nuclear warheads: How many are there? Often one read about the 27,000 nuclear warheads of the Red Army, and then other reports referred to 30,000 of them. Then a few months ago some Pentagon officials who visited Russia were told by some Soviet military officials that we had been deceived and that they actually had 34,000 nuclear warheads. These figures represent large and potentially devastating discrepancies. For this reason priority attention in our relations with Russia and the other new nuclear republics must rest upon effectively tracking and demobilizing these weapons.

---

4 For a study of various dimensions of this, see Jay P. Kosminsky and Leon Aron, "Transforming Russia from Enemy to Ally," Heritage Foundation *Background* No. 887, March 23, 1992.

This is why the recent arms control agreement between the U.S. and Russia makes great strides to achieve meaningful nuclear disarmament. By eliminating first-strike weapons, particularly the SS-18s, President Yeltsin has courageously agreed to take a quantum step in the direction of a more stable nuclear order for the world. At the same time we must remain cautious about military developments in Russia. We should seek to avoid any attempt to restructure the old Red Army into a CIS Army, but at the same time we should attempt to ensure Russian control of all nuclear warheads. Centralization of control certainly has merits over proliferation and the entrepreneurial marketing of nuclear military equipment to the highest bidder, who often has the lowest threshold for restraint. This does lead to other dilemmas. Ukraine understandably seeks assurances that nuclear weapons transferred to Russia will be destroyed and not eventually threaten them. This case provides a compelling reason for the constructive engagement of the United States in this area. We can only convincingly press Ukraine or Khazakstan to surrender the former Soviet nuclear monopoly to Russia if they have some assurance their own security can be guaranteed through other credible means. Ukraine, and even more so Poland, Hungary, and Czechoslovakia, all have growing aspirations to join NATO, just as our traditional NATO partners and some in Washington lose their interest in that quietly successful organization. While such an integration into NATO may not be appropriate, other less formal Western commitments need to be made.

The United States needs to establish closer relations with all the republics that have emerged out of the old U.S.S.R. This is necessary for three critical reasons. First, in our enthusiasm about our own defense de-mobilization we must not eliminate our defensive capabilities more rapidly than the corresponding remains of former Soviet offensive capabilities diminish. Secondly, the prospect of prosperous democracies emerging on the periphery of Russia can proceed only with assurances that Russified remnants of the Soviet Red Army will not threaten their security in the future. Thirdly, within Russia itself the transformation of defense industries to civilian use and demobilization of military forces can both engender citizen support for the democratic government and also diminish the prospects of any military coup.

## **THE NEW POLITICAL ORDER**

If military problems can be coped with, it will be done in the context of the proliferation of new countries and conflicts. In the past we were concerned about the proliferation of nuclear weapons, but with the disintegration of the U.S.S.R. we had countries proliferating among the nuclear weapons, with three of them now holding large stockpiles. The new countries in the former Soviet Empire represent old realities, going back to periods in which the Russian Empire grew. In fact the history of Russia itself grew from Kievan Rus', or what is now the capital of Ukraine. But the division between Ukrainians and Russians have long grown as deep as the divisions between the other nationalities that sought to extricate themselves from the double historical burden of Russian and then Soviet domination. The disintegration of the Soviet Union transpired extraordinarily peacefully, given the brutal manner in which much of the old Evil Empire was constructed and maintained over the decades or even centuries. The formula of moving from the Soviet Union to the Commonwealth of Independent States provided, as one commentator put it, the largest fig leaf in history, which discreetly covered up the total disintegration of the old U.S.S.R. About the only potentially salvageable feature of the U.S.S.R. is the hope that it can remain a free trading zone among the fifteen new republics. It has always been such a zone, but they had little to trade. With the prospect of market economies emerging, a commercially borderless structure could prove useful when they finally do have products to trade. This would dwarf in size, if not value, the present European Community.

## **THE FUTURE OF THE COMMUNISTS**

Two remarkable lessons of the disintegration of the U.S.S.R. are the superficial character of the seventy-year Soviet regime and renewed lessons of federalism. Communism, as conservatives persistently have pointed out, was only an effective system of totalitarian control and military prowess. It never established philosophical roots in the allegedly authoritarian soil of the Russian Empire. Instead, the people of both the U.S.S.R. and Eastern Europe always recognized Marxism as a cancerous transplant that would long ago have died without the frequent artificial resuscitation it got from the West. The few adherents to communism remain a problem throughout the region, some in a Luddite role thwarting reform and others reaping benefits from accumulated resources plundered in the corrupt system that previously existed. Although those who clearly committed crimes, even under Soviet law, should be prosecuted, the vast majority of the Communist Party members will have to be allowed to try to function under the new order.

The privatization program in Russia has become a potential source of real people's democracy with small shop managers being allowed to bid and become owners. This is an empowerment program that can create the kind of bourgeoisie the communists deplored. Yet many of the nouveau riche under the system ironically may have been communists themselves. Many of them may be, like Milli Vanilli, only lip-synching to new economic and political lyrics. Nonetheless, one can expect that a competitive system will reveal soon enough who simply mouths the words but fails to understand the meaning of the lyrics.

## **FEDERALISM AND THE FIFTEEN REPUBLICS**

The other new reality concerns the fifteen new republics emerging from the old U.S.S.R. and the yet to be determined number of countries emerging from the other great post-World War II artificial political configuration, Yugoslavia. Karl Marx once described the Russian Empire as "the prison of nations." Well, it's time to call Karl and tell him there's been a massive prison break with nearly all the nations escaping—not from the Tsar's prison, but from the commissars' prison instead.

Unfortunately the U.S. government has often acted with embarrassing reluctance to assist the escapees from the prison; it instead seems intent on finding a new warden to deal with. Thus the Bush Administration lagged badly behind other countries in formally recognizing the legitimate aspirations of subject peoples. Instead, the dissolution of the Soviet Empire, and with it much of the Russian Empire, should be welcomed. Not only should it be welcomed as liberation of people, but also the dissolution of a potential great power threat to us in the future.

The disintegration of the U.S.S.R. has been costly to the United States in one respect: the eleven new embassies being opened this year (after the Baltic States embassies last year) are expected to increase State Department spending by \$28 million. Given the large number of new jobs, many of them in senior positions such as the eleven new ambassadorships, it seems strange that the State Department has been so reluctant to support the breakup of the U.S.S.R. After all, it could be seen as a jobs program for the Foreign Service. The more serious political question has been the slow and disproportionate staffing of the embassies once we finally recognized the new political reality.

We should have welcomed these changes as representing a kind of new Federalism for the former Soviet Union in which varying degrees of genuine autonomy come to the fifteen former national republics (now nations) and other degrees of real autonomy need to be granted to what were actually called twenty autonomous republics, eight autonomous regions, and ten autonomous areas. Many of these areas within republics aspire to achieve independence. Tatarstan voted by 61.7 percent for separate sovereignty within the Russian Republic. President Yeltsin somewhat reluctantly recognized these divisive realities within Russia and reached an accommodation with them. Last spring the Russian Parliament passed a law ceding some local autonomy. But the large lesson here is the one of

of authentic federalism and the granting of real political authority to the most localized governmental mechanism possible. This could do more to preclude ethnic strife than any armies or treaties.

In the long run, Yeltsin, not Gorbachev, may become the pivotal figure in 20th century Russian history that brought representative government back to Russia, but clearly it must be as the leader of Russia and not a successor to Gorbachev as leader of either the U.S.S.R. or a new Russian Empire. It is hoped that Yeltsin and his reform-minded ministers will, in effect, continue a reform process begun by Peter Stolypin in 1906 that was abruptly cut short by the Bolshevik Revolution just when fragile democratic institutions seemed to be emerging. However, we must not become overly enthusiastic about the prospects of democracy, but should settle realistically for new institutional arrangements that are grounded in Russian realities. And for this we can indeed look backward to the turn the last century when viable reform process and intellectual ferment characterized Russia. After nearly an eighty-year hiatus, traditional Russian institutions and ideals may be able to bring order and decency to a people who suffered from the greatest political plague of the 20th century.

## **THE GLOBAL SOVIET EMPIRE**

Finally, we need to consider the global consequences of the demise of the Soviet Empire. We must remember that the Soviet Empire was global in scope, expanding from Afghanistan to Angola to Nicaragua and Ethiopia with close allied states in places like Vietnam, Cambodia, and Cuba. This global expansion of the Soviet Empire was effectively confronted by the Reagan Doctrine during the 1980s. American assistance, even if haphazard at times, nonetheless became a major contributing factor, along with SDI, the general military buildup, and economic pressures, that eventually caused the empire to implode. But today we still need to realize the consummation of the goal of the Reagan Doctrine by continuing to aid allies in Angola, Afghanistan, Cambodia, Vietnam, and Cuba.

Simply because our principal adversary in the Kremlin, it seems, has been destroyed does not mean we abandon our allies who actually suffered most of the casualties in the global war against Soviet expansionism for the past fifteen years. This is not a quixotic quest to impose democracy, but only to give to UNITA, the mujahideen, the non-communist Cambodians, and others the right to self-determination which Soviet client states systematically denied them—the same rights which we now herald in Central and Eastern Europe. We have an important residual obligation to these people who fought by our side. Moreover, only a dangerously short-sighted policy would counsel the abandonment of allies on the eve of victory. Taking the particular case in the headlines recently, we celebrate the final collapse of the communist regime in Kabul. Having driven Soviet forces from Afghanistan and then finding the man they installed, President Najibullah, in flight, we should not now stand aside and allow Iranian-allied forces of Gulbuddin Hekmatyar to benefit from the power vacuum left by the departing Marxist regime. Other forces we have assisted in the past among the mujahideen deserve sufficient on-going support so that a viable representative government can be established and not simply a new radical Islamic tyranny that can have destabilizing consequences in the entire region. In this region, as others, peoples seeking independence from the Soviet colonial empire need continued American support. Through such support we not only remain faithful to allies and sustain our credibility as consistent friends of freedom, we also contribute to a more stable world order that serves our long-term national interests.

