



Behold the Bear: 10 Reasons Americans Should Care about Russia

Despite growing and vibrant connections, the U.S. and Russia sometimes appear to be on a collision course.* Washington sends envoys to Moscow to reassure Russians that their U.S. investments are safe. But efforts by the West to expand NATO make Moscow more than uneasy. Russia's Gazprom proposes to invest in a thousand mile-long pipeline to ship natural gas from Alaska to the lower 48 U.S. states. But Russian officials threaten to deploy nuclear-capable bombers to Cuba. And the beat goes on. It would be irresponsible to gloss over Russia's problems, which are many—corruption, poor public health, and a declining population. Those issues and others should be addressed but not to the mutual exclusion of progress in other areas. Hectoring Russia might make Westerners feel good, but it'll do very little for the Russian people. Trade and investment, on the other hand, offers the hope for *quietly* influencing Russian behavior without patronizing or antagonizing a proud nation. The following 10 points should provide a reason to start. **(Editor's Note: The situation in South Ossetia began after this RRP report went to press and isn't a focus of this issues summary.)*

1. Russia Is the World's Largest Country, Straddling Europe, China and the Islamic World. Even with the breakup of the Soviet Union, Russia remains the world's largest country, spanning 11 time zones. This vast landmass has much of the world's natural resources and 141 million people. Russia's size and burgeoning economy influence markets worldwide. The country shares common global economic interests with the U.S., with both direct and indirect effects, including promoting more tolerant forms of Islam and ensuring that China's rise remains peaceful.

2. Russia and America Have Traditionally Been Allies—Not Enemies. Except for the Cold War, Russia and America have often shared common purpose. Russian troops served alongside U.S. Marines to protect foreigners during the Boxer Rebellion in China. In the First World War, Russia sided with America's allies against Germany. During World War II, Russians, partially equipped by American aid, engaged and destroyed over 80 percent of the Nazi armies. On September 11, 2001, Russian President Vladimir Putin was the first leader to call President George Bush. He offered the use of Russian territory and intelligence services in the war against Al-Qaeda.ⁱ Within weeks, American bombers were flying through Russian airspace to strike Taliban targets in Afghanistan. History shouldn't be ignored. Russia and America might not always share values in the same manner, but as they have at times in the past, they might find common ground through shared strategic and economic interests.

3. Russia Can Be a Quiet Partner, Not an Adversary in the Global Struggle Against Terrorism. In April 2008, Russia quietly reached an agreement with NATO to allow Russian territory to be used for the resupply of NATO's peacekeeping troops in Afghanistan.ⁱⁱ This agreement came despite NATO's expansion up to Russia's borders, a point of ongoing contention between Moscow and Washington.ⁱⁱⁱ Despite Moscow's concerns about NATO expansion, a small fleet of privately chartered Russian Antonov heavy airlifters is regularly being employed by the Pentagon to ship American and allied materiel into Iraq and Afghanistan.^{iv} Common strategic interests can lead to greater shared economic concerns.

4. Russia Benefits from (and Might Help Provide) Stability in the Middle East and Iran. Some commentators have said Russia is siding with Iran against the U.S. and Israel. But a more accurate version of the truth might be that Moscow's main goals have been to maintain good relations with its neighbor while helping alleviate the threat of another regional conflict. Although Moscow has supplied Iran with a civilian reactor, it has tried to prevent Iran's enriched uranium from being diverted to any secret bomb-making project.^v When Iran wouldn't cooperate with inspectors in 2006, Russia joined America by supporting sanctions against Iran at the United Nations.^{vi} The U.S., Israel, and many Gulf Arab states are justifiably skeptical that Iran's nuclear program is solely for producing electricity. Iranian President Mahmoud Ahmadinejad's threats to "wipe Israel off the map" and his support for extremist groups are unacceptable. The Kremlin has condemned Ahmadinejad's threats, but may believe that it has no choice but to engage Iran through trade and diplomacy, as Iran's economically sclerotic regime could implode someday, just like that of the Soviet Union. Given Tehran's desperate need to export more oil and gas for hard currency, Iran probably does need nuclear power, and the U.S. knows and accepts that. The question is, can it be limited to peaceful uses? The evidence is that the mullahs have other ambitions. In the Middle East and Iran, security, energy and economic interests entangle, to one degree or another, most of the world's nations. Russia might have a foothold from which America could benefit economically and strategically.

5. Russia Is a Pivotal Player in Global Energy Markets. Russia Is the World's Largest Producer of Natural Gas and One of the World's Top Two Oil Producers. Russia produces over 9 million barrels of oil per day. It has the largest natural gas reserves in the world, which in turn have made Russia's state-owned monopoly Gazprom one of the globe's biggest companies by market capitalization. But some industry-specific challenges are on the horizon that could impact global energy prices. In an interview with the *Financial Times*, Leonid Fedun, the Vice President of OAO Lukoil, Russia's largest private oil company, said Russian oil production might have peaked in 2007.^{vii} Does this mean that Russia is running out of oil? Not likely. (Siberia may contain the world's largest untapped reserves.) The real problem is not a lack of oil in the ground, but high taxes that are hindering reinvestment of profits into Russia's oil industry. President Medvedev and Prime Minister Putin have called for lowering taxes on Russia's oil producers, and the government has announced a 10-year tax holiday for major offshore oil and gas projects in Russian waters. As a major commodities

exporter still lacking a well-developed domestic agriculture industry, Russia remains vulnerable to the global wave of inflation in food prices. Many financial analysts believe that taming double digit inflation will require Russia to let its currency, the ruble, appreciate considerably. This appreciation could lead more CIS countries and cash-flush Mideast oil exporters to pick a basket of euros and rubles over dollars as their reserve currencies.^{viii} Such a shift could push the dollar further down in value, improving the competitiveness of U.S. exports but hurting the vast majority of Americans who depend on one inelastic import priced in dollars—oil. Unlike citizens of China and the OPEC countries, Russian consumers do not receive subsidized gasoline from their country's state-owned companies.^{ix}

6. Russia and America Are Interlinked Through Our Financial Systems. When President Bush's Deputy Secretary of the Treasury Robert Kimmitt visited Moscow in June 2007, he asked the Kremlin to invest more of its \$130 billion dollar Stabilization Fund in the United States.^x Conversely, just a decade ago, representatives of Boris Yeltsin's bankrupt government sought billions in loans from the International Monetary Fund. Russia's Stabilization Fund is now the fifth largest pool of capital in the world, trailing only the Sovereign Wealth Funds of China and the Gulf Arab emirates. While Congress continues to fret over the burgeoning influence of sovereign wealth funds from Russia, China and the Middle East, Russian companies are taking advantage of the weakening dollar to acquire assets, such as steel mills and gas station chains, in the United States.^{xi} Russia's Stabilization Fund recently announced that it owned \$50 billion in U.S.-government backed securities, including short-term paper issued by the troubled agencies Fannie Mae and Freddie Mac.^{xii}

7. American Investors and U.S. Companies Are Investing in Russia. U.S.-Russia transactions are certainly not a one-way street. U.S. direct investment is one of the reasons Russia is ranked second only to China in the amount of foreign capital it attracts. And thanks to global emerging market mutual funds and new EM-focused exchange traded funds, millions of individual American investors can now own Russian equities in their portfolio, and hundreds of thousands do. These include Russian companies whose American Deposit Receipts trade on the New York Stock Exchange and U.S. over the counter markets such as Vypelcom, Gazprom, and Norilsk Nickel, as well as firms that trade on the London or Moscow exchanges such as Sberbank and Wimm-Bill-Dann.^{xiii} Major New York-based investment banks (Goldman Sachs, Citigroup, J.P. Morgan) are underwriting Russian IPOs on the London and Moscow exchanges, including the massive breakup and privatization of Russia's Unified Energy Systems electric power monopoly. Meanwhile, many American car manufacturers are planning to build new factories in Russia. With only 220 cars per thousand people (compared to 815 in the U.S), Russia offers enormous room for growth in the automotive sector.^{xiv} Russia is now one of the most profitable markets for General Motors in the world, and the company plans to expand its manufacturing in the Russian Federation.^{xv} American big box retailers such as Wal-Mart are plotting their strategies to compete against European incumbents such as IKEA-Mega and Carrefour in the booming Russian retail market.^{xvi} Starbucks has come to Moscow and plans to expand its franchise in Russia even with strong competition from local brands Coffee House and Shokoladnitsa (Chocolatier).

8. Russia and America Are Interlinked Through Our Nuclear Power Industries. Millions of Americans who have enjoyed the benefits of emission-free nuclear energy are probably unaware that some of the fuel for this electricity came from decommissioned Russian atomic warheads. Since 1994, the "Megatons to Megawatts" program has supplied American reactors with 327 tons of highly enriched uranium from Russia, or the equivalent of 13,093 dismantled warheads.^{xvii} In May 2008, the U.S. and Russia reached a new agreement to share nuclear technologies.^{xviii} Russia is planning to create a repository for low-level radioactive waste from the U.S. and other countries.^{xix} Russia's federal energy policy calls for more than doubling the percentage of electricity supplied by nuclear energy to the Russian power grid by 2020.^{xx}

9. America and Russia Are Interlinked Through Science and Technology. Outside of the U.S. Special Operations Command and the National Renewable Energy Laboratory in Golden, Colo., very few Americans are aware that Russian and American special forces are using the same type of man-portable water filtration backpacks when they are deployed in the field.^{xxi} Very few Americans are also aware that the Atlanta, Ga.-based U.S. Centers for Disease Control employs scientists at the Vektor State Research Centre of Virology and Biotechnology in Novosibirsk to counteract the threat of bioterrorism.^{xxii} Russia and America continue to jointly operate the International Space Station, though Americans have only heard about this in recent months due to a toilet breaking in orbit. Russian-mined titanium has been used in advanced American aircraft from the SR-71 to the Boeing 787 Dreamliner, and today Boeing maintains a design center staffed by 1,400 Russian engineers in Moscow.^{xxiii}

10. Russian Popular Culture Is Once Again Reaching Audiences in the West. The 2006 U.S. release by Fox Searchlight Pictures of *Night Watch* (Nochnoi Dozor), followed by its sequel *Day Watch* (Dnevnoi Dozor) in 2007 marked a turning point for the spread of Russian popular culture in America. For the first time since the collapse of the USSR, Russian directors have proven that their blockbusters can draw audiences away from Hollywood films within Russia, and that studios are beginning to think that Russian movies can attract an audience in America. The proof? The third installment of director Timur Bekmanbetov's epic horror series, *Twilight Watch* (Sumerechny Dozor), is being filmed in English.^{xxiv} And 2008's *Wanted*, starring Angelina Jolie, was a veritable all-Russian affair, from the direction and cinematography to the musical compositions and accounting. Russians are finally beginning to be known at the pop culture level in the English-speaking world for more than producing vodka and mafia. American expats already know that Moscow is becoming famous for its night life and shopping, with U.S. brands like Ralph Lauren, Hummer, and even Starbucks coming to Moscow and other Russian cities.^{xxv} Finally, millions of Russians and Ukrainians are discovering that most American of cultural exports—hip-hop music—being produced in their own language.^{xxvi} ■

For footnotes, detailed information on the above topics, as well as weekly news and commentary about Russia, please visit www.RussiaBlog.org. This publication was prepared by Discovery Institute's Real Russia Project (Seattle, Washington USA). For more information about the Project or to find out how you can support it, please contact yuri@discovery.org or +1 (206) 292-0401, ext. 151 and visit www.RealRussiaProject.com.

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