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ISSUE BRIEF --- WHERE IS RUSSIA HEADED?

**An Update to the 2014 Trilateral Commission Report on
*Engaging Russia: A Return to Containment?***

PAULA DOBRIANSKY, Senior Fellow, Belfer Center for Science and International Affairs, John F. Kennedy School of Government, Harvard University, Cambridge; Vice Chair, National Executive Committee, U.S. Water Partnership; former U.S. Under Secretary of State for Global Affairs

ANDRZEJ OLECHOWSKI, Chairman, Supervisory Board, Bank Handlowy, Warsaw; Professor, Vistula University; former Minister of Foreign Affairs and of Finance of Poland

YUKIO SATOH, Vice Chairman of the Japan Institute of International Affairs in Tokyo; former Japanese diplomat and Permanent Representative to the United Nations

IGOR YURGENS, Chairman of INSOR, Institute of Contemporary Development; President, All-Russian Insurance Association (IRIA); President, Russian Association of Motor Insurers (RAMI), Moscow

Introduction

In May 2014, the Trilateral Commission task force on Russia released its report, “Engaging Russia: A Return to Containment?” It notes areas of consensus as well as disagreements between the task force’s four regional co-chairs: Paula Dobriansky (North America); Andrzej Olechowski (Europe); Igor Yurgens (Russian Federation); and Yukio Satoh (Asia-Pacific).¹

This issue brief provides an update on our perspectives since the report’s publication two years ago.

¹ “Engaging Russia: A Return to Containment?” Trilateral Commission, 2015

Russia's Economy

International sanctions along with the decline in oil and gas prices have taken a devastating toll on Russia's economy. In the 2014 report, we agreed that sanctions could set off further attacks on the ruble, accelerate inflation, and trigger a general economic downturn. These assessments have been borne out. Year-to-date inflation in 2015 was nearly 13% and the ruble's exchange rate hit record lows in January 2016.² Industrial output, according to Rosstat state statistics service, shrank for the first time in six years in 2015. And Russia, to quote Sberbank CEO Herman Gref, joined the ranks of the world's "downshifter countries"³; it is now only the world's fifteenth largest economy, just behind Mexico. The International Monetary Funds expects the Russian economy to shrink by another 1% in the coming year.

Prominent analysts in both Russia and the West are warning that Russia's economic situation could unleash a domestic upheaval. Economist Anders Aslund, a member of the North America task force, broaches the possibility of "another regime implosion and attempted democratization."⁴ Russian analyst Dmitri Trenin, one of the authors of the 2014 report, draws parallels to the Romanov era, arguing that Russia's economy, in combination with other factors, could "trigger a collapse of not just the system, but the entire country."⁵

Russia will need to enact significant structural reforms to stave off domestic instability. Even before the sharp decline in oil prices from \$97 a barrel in 2014 to \$30 today, we assessed that trends in international trade flows and global energy markets – for example the growing LNG market -- were changing in ways detrimental to Russia. As the ongoing European Commission competition review over Nord Stream 2 shows, calls for reform in Russia's energy sector will be particularly demanding so long as Russian foreign policy provokes fears from its neighbors. Russia's continued dependence on natural resource revenues could have far-reaching consequences for the "social contract" that the Putin government has struck with Russian society.

The Russian chapter's 2014 assessment remains valid today: "a tangible downturn in living standards automatically delegitimizes the political course and its actors. Russia's democratic institutions, now deformed and imitational, are not capable of making up for this deficit of legitimacy." Given the demonstrable decline in Russia's

² Russia Monthly Economic Developments, World Bank, January 2016, available at: <http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/1/430911453212505231/Russia-Monthly-Economic-Developments-January-2016-eng.pdf>

³ "State Bank Chief Calls Russia 'Loser' Country," Radio Free Europe/Radio Liberty, 16 January 2016, available at: <http://www.rferl.org/content/russia-sberbank-chief-gref-loser-country/27491521.html>.

⁴ Anders Aslund, "What Falling Oil Prices Mean for Russia and Ukraine," *New Atlanticist*, 22 January 2015, available at: <http://www.atlanticcouncil.org/blogs/new-atlanticist/what-the-falling-oil-price-means-for-russia-and-ukraine>

⁵ Dmitri Trenin, "Russia Needs a Plan C," *Kyiv Post*, 16 December 2015, available at: <http://www.kyivpost.com/article/content/ukraine-politics/dmitri-trenin-russia-needs-a-plan-c-404311.html>

standard of living -- average monthly incomes have fallen by 10% and food prices are up at least 14%⁶ -- sustained economic stagnation could cause ongoing protests by Russian truckers and pensioners to spread to other discontented segments of society.

Putin's former Finance Minister Alexei Kudrin argued at the January 2016 World Economic Forum that Russia's social order will remain stable for another two years, a "reserve" period during which Moscow faces the choice of reverting to inefficient spending or moving toward "a new economic model."⁷ It is not likely, however, that Moscow will undertake reforms before assessing the outcomes of such major unfolding events as the November 8, 2016 U.S. presidential elections, the June 23, 2016 United Kingdom European Union membership referendum, and the future economic and political trajectory of China.

Domestic Political Snapshot

Our 2014 report provided a mixed appraisal of Russia's political stability. We noted that Russia's top figures received a boost in the immediate aftermath of the Crimea annexation and enjoy a high level of popularity. This is largely true today, with President Putin's approval ratings remaining above 80%. Russians, as they have historically, are consolidating around national leaders in the face of an "external enemy." However, Parliamentary elections in September 2016 -- particularly if they are marked by voting irregularities -- could spur major demonstrations across Russia.⁸

The North America, Europe, and Russia chapters of the 2014 report alike noted that the anti-Putin Bolotnaya Square protests in December 2011 stemmed from Russians' dissatisfaction with a repressive, corrupt system that is no longer delivering economic growth. The same factors are apparent today. Russia stood at 119th place in Transparency International's latest Corruption Perceptions Index along with Azerbaijan, Sierra Leone, and Guyana. Four hundred thousand Russians emigrated in 2015, compared to 35,000 in 2010.⁹ A majority believe the country's economy is in a "bad state," and just 45% think Russia is on the right track.

⁶ Alexey Eremenko, "Falling Oil Prices, Plunging Ruble Hits Regular Russians Hard," *NBC News*, 30 January 2016, available at: <http://www.nbcnews.com/business/business-news/falling-oil-prices-plunging-ruble-hits-regular-russians-hard-n505701>

⁷ Olga Tanas and Anna Andrianova, "Kudrin Says Russia Can Draw on Well of Social Calm for Two Years," *Bloomberg Business*, 22 January 2016, available at: <http://www.bloomberg.com/news/articles/2016-01-22/kudrin-says-russia-can-draw-on-well-of-social-calm-for-two-years>

⁸ See Kathrin Hille, "United Russia shores up defences as public mood darkens," *Financial Times*, 8 February 2016, available at: <http://www.ft.com/intl/cms/s/0/93f2ddb4-cd9b-11e5-92a1-c5e23ef99c77.html#axzz3zkGvCTiC>

⁹ Vladislav Inozemtsev, "Putin's self destructing economy," *Washington Post*, 17 January 2016, available at: https://www.washingtonpost.com/opinions/russias-economy-of-disillusionment/2016/01/17/0803598e-bb97-11e5-829c-26ffb874a18d_story.html

We noted in 2014 that respect for democracy and human rights had deteriorated and that President Putin’s consolidation of power was at odds with Russia’s international commitments. Continued crackdowns against civil society, laws against foreign-backed organizations, and the assassinations of journalists and opposition political figures suggest that the trend has hardly reversed over the past two years. The Litvinenko Inquiry found “strong circumstantial evidence of Russian state responsibility” in the poisoning of former FSB officer Alexander Litvinenko, and concluded that Putin “probably approved” it. In the case of liberal leader Boris Nemtsov – who, on the eve of his assassination, was preparing to unveil “documentary” evidence on Russian involvement in Ukraine – Russia’s Investigative Committee has identified five Chechen suspects, but prominent opposition figures are accusing the Kremlin of complicity in the murder. To date, investigators have refused to explore who ordered the killing and have not questioned Head of the Chechen Republic Ramzan Kadyrov. The overall brutality of the Kremlin’s crackdowns manifests Moscow’s underlying insecurity.

Russia’s Foreign Relations

Russia’s global ambitions and grand strategy have not changed substantially. As we wrote in the 2014 report, “Russia aspires to superpower status and seeks a regional order in Eurasia that is no longer underwritten by the United States.”

What has changed, however, is the nature of Russia’s engagement in key regions, as well as the international community’s response.

Nuclear Proliferation

The 2014 report generally attributed defensive motives to Russia’s nuclear program and “first use” doctrine. The North America chapter cited Moscow’s goal of “pursuing strategic stability and inducing missile defense accommodations” from the United States. The Asia report noted Russian “concerns about the growth and modernization of Chinese military power, including nuclear forces” as well as its desire to “retain the status of a global superpower.”

Russia’s foreign policy over the past two years, however, has provoked fears that Moscow’s nuclear strategy is part of a more ambitious Russian gambit to remake the liberal international order¹⁰. Russia continues to test cruise missiles in violation of the Intermediate-Range Nuclear Forces Treaty, modernize its nuclear programs, and engage in nuclear saber rattling against the West.

Secretary of Defense Ashton Carter recently said that he considers Russia an existential threat “by virtue simply of the size of the nuclear arsenal that it’s had.” In

¹⁰ To note Russia’s absence at the Washington Nuclear Security Summit on April 1, 2016

January 2016, the U.S. Department of Defense cited “higher-end” threats from Russia as a rationale for its fiscal year 2017 budget proposal, which would quadruple funding for the European Reassurance Initiative.

NATO defense ministers subsequently approved a plan to protect Central and Eastern Europe from Russian aggression by enhancing NATO’s military presence in the region, rotating forces through regional states to conduct exercises, and bolstering the alliance’s infrastructure.

“This will be multinational,” NATO Secretary General Jens Stoltenberg explained, “to make clear that an attack against one ally is an attack against all allies, and that the alliance as a whole will respond.”¹¹

Ukraine

Momentum is building in some quarters of the West to ease pressure on Moscow, which has punished Russia but did not change its course. Particularly in certain parts of Europe, calls are growing to lift sanctions, restart the NATO-Russia Council, re-invite Russia to the G8, and strike a deal with Moscow that would effectively cede Ukrainian territory to Russia. These trends could help Russia in its aim of undermining the European Union and might also fray unity between Washington and its European allies. German Chancellor Angela Merkel, however, has reaffirmed her opposition to lifting EU sanctions before the implementation of a “sustainable cease-fire.”

Whether Russia and the West will reach agreement on the Minsk accords remains to be seen. Russian troops and equipment are still in Ukraine. The Panel of Eminent Persons on European Security as a Common Project, chaired by Wolfgang Ischinger, has offered recommendations, and the OSCE framework, currently under German chairmanship, puts forth a proposal for facilitating progress on the Minsk accords.

In addition to western policy, Russian public opinion may shape Moscow’s actions. According to a recent Levada Center poll, support for Putin’s strategy in Ukraine has dropped from 64% last summer to 45%.

Middle East

Tensions between Russia and the West have become more pronounced in the Middle East.

In our 2014 report, the North America and Europe chapters treated the Syria issue differently than the Russia chapter. North American proponents of “deep engagement”

¹¹ Michael Schmidt, “NATO to Expand Military Presence in Europe to Deter Russians,” *New York Times*, 10 February 2016

with Russia pointed to U.S.-Russian cooperation on Syria as an example of how continuous U.S. engagement with Moscow could yield worthwhile deliverables. The European chapter, for its part, argued that while Russia could “meddle unhelpfully in Syria...it lacks both the will and the capacity to confront the West or to project long-range power.” Trenin’s paper, by contrast, maintained that, “an ad hoc diplomatic alliance between Russia and the United States on Syria was unlikely.” He predicted that, “Syria, Iran, and other Middle Eastern issues will be at the center of U.S.-Russian relations,” that Russia is likely to take a more active position on these issues,” and that “the Syrian civil war will negatively impact Russian-Western relations.”

Recent events support Trenin’s position. Russia is pursuing a centuries old drive to acquire access to the Mediterranean and secure a military, political and energy presence in the Middle East. To that end, Russia is waging an aggressive military campaign against the U.S.-backed Syrian opposition. Moscow’s intervention has bolstered the Assad regime and is highlighting the consequences of western inaction in the conflict. Still, as evidenced by Russian participation in the Geneva talks, Moscow may be open to a collective regional solution in concert with the West.

The Syria conflict is one of several issues that have drawn Russia closer to Iran. The North America chapter of the 2014 report mentioned U.S.-Russia cooperation on Iran as a relative bright spot of the Obama Administration’s “Reset,” specifically citing Russia’s decision to ban the sale of S-300 anti-aircraft missiles to Tehran. Again, Trenin was prophetic in his analysis that “Russia may become more sympathetic toward Tehran in its protracted stand-off with the United States and Israel.” After the signing of the Iran nuclear deal, Moscow announced that it would deliver the S-300s to Iran. Cooperation on Iran’s ballistic missile program is among the more concerning aspects of the deepening strategic ties between Moscow and Tehran.¹²

Turkey

Our 2014 report hardly mentioned Turkey. In hindsight, it is clear that we underestimated not only the importance of Russia-Turkey relations on global security, but also the extent to which Russia would impact the outcome of the conflict in Syria.

Tensions are running high between Ankara and Moscow after Turkey, in November 2015, downed a Russian SU-24 fight jet for violating Turkish airspace. Stoltenberg has called on Russia to “fully respect NATO airspace,” reaffirming that “NATO stands in solidarity with Turkey and supports the territorial integrity of our ally, Turkey.”

¹² Boris Zilberman, “Nuclear Deal Paves Way for Iran-Russia Ballistic Missile Cooperation,” Foundation for the Defense of Democracies Policy Brief, 3 February 2016, available at: <http://www.defenddemocracy.org/media-hit/boris-zilberman-nuclear-deal-paves-way-for-iran-russia-ballistic-missile-cooperation/>

NATO policy on the current crisis could have profound consequences if it shakes Turkey's confidence in the alliance. As the European chapter of the 2014 report warns, Turkey "might as yet be tempted to go nuclear in the absence of the NATO umbrella."

Refugees are another source of tension between Turkey and Russia. Russia's air campaign against the rebel-held Syrian city of Aleppo is producing a new wave of refugees into Turkey. Ankara is facing pressure from the European Union to open its border after Turkey announced that it is no longer capable of accepting more refugees.

Pivot to Asia

Russia's pivot to the Asia-Pacific has continued, with very uneven results.¹³ On the one hand, falling energy prices have impeded China-Russia energy cooperation, and Russia's development of the Far East more generally. And as the Asia chapter of the 2014 report pointed out, the China Silk Road Project (OBOR) may prove problematic for Moscow if it strengthens ties between Beijing and the Central Asian states at Russia's expense. On the other hand, the visit in December 2015 by Indian Prime Minister Narendra Modi and the signing of sixteen agreements in defense and other strategic areas signal that Russia-India ties can endure amid tensions between Russia and the West. The fact, moreover, that the Russian energy company Gazprom secured a \$2.17 billion loan from the Bank of China in March 2016 – the largest single bank credit in the company's history – is an indicator of how sanctions are bolstering Asia as a funding alternative to the West.

Policy Recommendations

The U.S. presidential campaign has featured a wide array of views on U.S.-Russian relations. The outcomes of both the Democratic and Republican primaries remain uncertain as of this writing.

Regardless of who prevails in the elections, a return to deep engagement between Russia and the West will not, in all likelihood, be feasible so long as Russia's global ambitions and grand strategy remain unchanged. In both Russia and the West, the debate is principally between those who favor a return to containment versus those who advocate a more transactional relationship -- selective engagement with selective containment. How far Russia is willing to go in mending fences with the West will depend, to a large extent, on how serious it perceives the United States to be in defending the liberal world order.

¹³ Kathrin Hille, "Russia and China: friends with benefits," *Financial Times*, 5 February 2016, available at: <http://www.ft.com/intl/cms/s/0/f8959924-cab6-11e5-a8ef-ea66e967dd44.html#slide0>

We encourage the Trilateral Commission to deliberate on the basis of the following assumptions:

- **The international community should uphold and defend Ukraine’s territorial integrity and sovereignty, and its right to decide on its own constitutional order.** The creation of a lasting “gray zone” in Ukraine is not in anyone’s interest. The establishment of a “Friends of Ukraine” task force – an international contact group comprised of civil society – would help in facilitating economic reforms and anti-corruption initiatives in the country.
- **The situation in Syria is a matter of common concern among the trilateral countries, including Russia** – a reality that may allow for some degree of cooperation on the crisis. However, this cooperation is greatly handicapped by Russia’s support for President Assad, and, more generally, by its support for Iranian ambitions for regional dominance.
- Given the numerous international treaties to which Russia is a party and which oblige it to respect human rights and the rule of law, **the international community has a legal right and moral responsibility to monitor the status of democracy and human rights**, and hold Moscow to account whenever it falls short of full compliance with its obligations.
- **Concerted efforts are needed to strengthen ties with Russian civil society.** As we note in the 2014 report, “The international community can support those who feel isolated by the current government by promoting the cross-fertilization of ideas between Russian citizens and the outside world.”
- Last but not least, **the trilateral countries should not allow potential differences on Russia sanctions and other issues to undermine their fundamental unity in upholding respect for the liberal international order** that has preserved peace, security, and stability since the end of World War II.