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Putin's Russia: A Geopolitical Analysis

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Introduction

Early in 2014, Russia moved to annex Crimea, formerly part of Ukraine. The speed and audacity of the action, seemingly at odds with most (but not all) of twenty-plus years of post-Cold War history shook Eastern Europe and surprised the West. Separatist unrest followed in eastern Ukraine, particularly in Luhansk and Donetsk, where pro-Russia republics now effectively prevail.

Yet the conflict in Ukraine is just one piece of a much bigger picture. It is in fact a symptom of a much broader challenge, and one which the West has yet to recognize fully and respond to accordingly. Indeed, Russian President Putin is much more of a revolutionary than people give him credit for being. In fact, however, he wants to reshape the world and reshuffle the international economic deck.

Surprisingly this has been little noticed, or at least little remarked upon. Below we seek to address this important omission by examining events in Ukraine and beyond from a strategic perspective; and then offering a series of action recommendations intended to respond effectively and, to the extent possible, proactively to these geostrategic developments.

We begin with Ukraine, whose future is far from settled. Despite a nominal ceasefire between pro-Russian, Russia-supported forces and their Ukrainian counterparties in early September, the situation on the ground there in September and October could at best be charitably described as a cold peace. Against this backdrop, parliamentary elections held in Ukraine in late October yielded a firmly pro-Western government that seeks to join the European Union in less than a decade.¹

¹ Laura Smith-Spark, "Poroshenko: Reforms will set Ukraine on road to apply to join EU in 2020," *CNN* (Sept. 25, 2014), <http://www.cnn.com/2014/09/25/world/europe/ukraine-crisis/>

However, Russia and President Putin in particular may have further designs on Ukraine; and these ambitions may extend far beyond Ukraine, to major geopolitical effect. At the same time, conditions onsite continue to evolve daily and the latest development is a turn for the worst: following unrecognized elections held in November in Luhansk and Donets, Russian forces are returning to Ukraine and all-out war may resume.

From the Battlefield to the Boardrooms of Politics & Diplomacy

The conflict between Russia and Ukraine which began in February 2014 has veered from periods of dramatic escalation, with threats of outright Russian invasion; to moments of unmitigated tragedy, with the downing of Malaysian Airlines Flight 17, and the humanitarian crisis in the breakaway People's Republics of Luhansk and Donetsk. Despite a cease-fire agreement reached on September 5th, the violence continues; and since that date, over 300 people have been killed, according to UN estimates.² The conduct of the pro-Russian separatists has been lamentable. Everything from the treatment of journalists and observers from the Organization for Security and Cooperation in Europe, to the administration of "justice" and civil administration in the People's Republics, to the shooting down of MH-17 has served to cast a poor light on this independence movement and alienate even much of the pro-Russian population. In turn, the loss of support from the local populace negatively affected the separatists' battlefield performance.

For Russian President Putin, his strategic objective in the campaign against Ukraine has been to keep the country "neutral" and recognized as being under the Russian sphere of economic and strategic influence. The annexation of Crimea, although enormously popular in the Russian Federation, was really about securing the Black Sea fleet, and returning historically and symbolically important sites to Russia. The price of this, from Russia's perspective, has been the alienation of the rest of the Ukraine and pushing it, probably irrevocably, in the direction of Western influence and likely future membership in the European Union. It may even have opened the door for a future path for the Ukraine into NATO — surely anathema to Putin and directly contrary to Russia's perceived long-term strategic interests. At the NATO Summit held the first week in September 2014, there was discussion of reconfiguring NATO's footprint in Europe to reflect the acuteness of the Russian threat. There is now also serious interest in Sweden and Finland on much closer cooperation with NATO, including the potential forward stationing of NATO rapid reaction forces in those countries.

Against this background, on October 11th, 2014, Russian forces (close to 18,000 troops) were ordered back from the Ukraine and the Russian-Ukrainian border, to their permanent bases.³

² Aliaksandr Kudrytski, "Putin Orders Pullback of Russian Troops on Ukraine Border," *Bloomberg* (Oct. 12, 2014), <http://www.bloomberg.com/news/2014-10-12/putin-order-pullback-of-russian-troops-on-ukraine-border.html>

³ Kudrytski, <http://www.bloomberg.com/news/2014-10-12/putin-order-pullback-of-russian-troops-on-ukraine-border.html>

Whether this move would stick or be reversed remained to be seen at the time.⁴ However, following elections convened in Luhansk and Donetsk on November 2nd without national or international recognition⁵, there are reports that Russia has sent tanks into eastern Ukraine.⁶ Since the outset of the conflict moreover, President Putin has hoped to achieve constitutional reform to make Russian an official second language throughout the territory of Ukraine, and separate protection under the law for ethnic Russians. It is unlikely Ukrainian President Poroshenko will agree to those changes, although he has agreed to the former in the east; and he did initially accept a proposal for semi-autonomy for the areas in the Ukraine currently under dispute. The latter arrangement was repealed, though, after Luhansk and Donetsk proceeded to stage elections in defiance of national authorities.

Up until very recently, Putin's best case may have been some sort of (Transnistria-type)⁷ solution of stateless autonomy for the Don Basin. Other options, such as outright invasion or some sort of referendum for annexation, as with Crimea, seemed increasingly unlikely just days ago; but may now be back on the table. An outright invasion would certainly bring about more robust sanctions with increased impact, and the Ukrainian population and military would likely fiercely resist an invasion. Although less likely, an invasion risks NATO military support for Ukraine. Certainly there would be strong calls for this from Poland and the Baltics. The referendum option lacks credibility, and under current battlefield conditions, would be nearly impossible to administer.

President Putin may still optimistically hope to keep the Ukraine neutral by obtaining some sort of explicit or tacit understanding with Germany and the United States, to agree to a “no EU / no NATO” path for Ukraine as a price for peace. In other words, Putin may believe a “Finland-like” model may still be achievable. But the Ukrainian parliament, the Rada, recently ratified an

⁴ One could also characterize the pull-back as a rotation or redeployment, rather than a withdrawal. Bear in mind that the conscription service period for the Russian army expires in October, so it is quite common to see shifts in Russian forces in this timeframe.

⁵ Elections held in the disputed areas in eastern Ukraine resulted in the expected candidates (Aleksandr Zakharchenko and Igor Plotninsky, in Donetsk and Luhansk respectively) winning easily. As a fast-follow, the Russian Foreign Ministry issued a statement that Russia recognizes and respects the elections, that the elected representatives have received a legitimate mandate, that turnout was high, and the elections were well run and organized. By contrast, the United States, the European Union, and the United Nations Secretary General all condemned the elections and labeled them illegitimate and illegal, as well as a violation of the September 5th Minsk (ceasefire) protocols; and thus an obstacle to stability and peace in the region. “Ukraine crisis: Rebel elections obstacle to peace – EU,” *BBC* (Nov. 2, 2014), <http://www.bbc.com/news/world-europe-29875093>

⁶ Natalia Zinets and Vladimir Soldatkin, “Ukraine accuses Russia of sending in tanks, escalating crisis,” (Nov. 7, 2014), <http://www.reuters.com/article/2014/11/07/us-ukraine-crisis-military-idUSKBN0IR11020141107>

⁷ Transnistria is a “breakaway region” of the small country of Moldova, which borders Ukraine and Romania. Transnistria “has maintained itself as a Russian-speaking enclave” in Moldova, roughly since the demise of the Soviet Union. Transnistria “is often lumped with other corners of the old Soviet Union that broke away from newly emerging nations into a kind of unrecognized limbo. There’s Nagorno-Karabakh, an ethnic Armenian part of Azerbaijan, and Abkhazia and South Ossetia, which have separated themselves from Georgia with Russian help.” Will Englund, “Transnistria, the breakaway region of Moldova, could be Russia’s next target,” *Washington Post* (Mar. 24, 2014), http://www.washingtonpost.com/world/europe/transnistria-the-breakaway-region-of-moldova-could-be-russias-next-target/2014/03/24/c68c50a4-be46-4042-a192-6813e93380bc_story.html

Association Agreement with the EU, albeit with delay of some provisions in deference to Russia's interests (including the delay of duty-free imports until the end of 2015), and a decision to grant amnesty and three years of autonomy to the disputed areas of Ukraine; but recall as mentioned above that this grant of autonomy has since been repealed. The parliamentary action begs the question: "is this enough for Putin and the separatists?" The actions of the Rada, even with the grant of autonomy, fall far short of what Putin wants⁸ and will most likely provoke further economic pressure from Russia.

Moreover, while the separatists used the September 5th cease-fire to reorganize and resupply their forces in the Luhansk and Donetsk conflict areas, Russian forces shifted south toward the Sea of Azov and, together with separatist elements, tightened their efforts around Mariupol, to the point of a siege. Putin viewed Poroshenko's concessions as recognition that Kiev no longer believes it can reconcile the country through military means. Indeed, Poroshenko probably went about as far as he could without sacrificing his political future in light of the parliamentary elections that took place on October 26th. Any further concessions to Moscow would likely have left Poroshenko in a position where he could no longer govern. But this did not deter Putin, who continued to press a hard line in ongoing energy discussions, while quietly expanding the area of conflict with the Ukraine (including in cyberspace; see more on this below) to keep pressure on Poroshenko and Ukraine to reconsider participation in the Eurasian Economic Union, and dismantle the EU association agreement before the end of 2015.

It is important to look beyond the rhetoric and concentrate on understanding the facts on the ground in order to assess the true state of affairs in the Ukraine crisis. Since the September ceasefire, there has hardly been a day when no violence has been reported. Putin has already achieved in fact, if not in law, one of his near-term objectives: that of creating a semi-autonomous state within the Ukraine. "Novorossiia"⁹ (or "New Russia," as Putin refers collectively to Luhansk and Donetsk) has increased its territory incrementally nearly every day since the start of the ceasefire in early September, in part due to an influx of Russian military support, both overt and covert. Of late, there have been a large number of attacks in eastern Ukraine carried out by Russian and separatist forces particularly near Donetsk airport, Debaltsevo, Mariupol, and Novoazovsk.

Mariupol and Novoazovsk are of particular significance as these attacks, as well as other Russian military activity, suggest an upcoming effort to build a land bridge between Russia and the Crimea, by creating a corridor administered by "Novorossiia". There is also the suggestion, based on Russian military deployments and reconnaissance, that Putin is considering further expanding the area of conflict with provocations in other strategically important Ukrainian cities beyond the

⁸ Ben Judah, "Putin's Coup," *Politico* (Oct. 20, 2014),

<http://www.politico.com/magazine/story/2014/10/vladimir-putins-coup-112025.html#.VGZxJvnF-0J>

⁹ "Novorossiia is the name of the formerly Ottoman territory that Catherine the Great conquered in the Russo-Turkish Wars, which is now much of southern and eastern Ukraine. Led by Prince Grigory Potemkin, Russian forces colonized the land in the late 18th century and established the cities of Sevastopol, Simferopol, Tiraspol, and Odessa." Linda Kinstler, "Protesters in Eastern Ukraine Are Chanting 'New Russia,' an Old Term That's Back in Vogue," *New Republic* (Apr. 7, 2014),

<http://www.newrepublic.com/article/117284/federalized-ukraine-could-mean-return-novorossiia>

current area of conflict such as Kharkiv, Odessa and Dnepropetrovsk. Hard-line advisors to Putin thus appear to be pressing for an eventual territory that will range from Odessa in the southwest, to Kharkiv in the northeast — thereby creating a state nearly the size of what would be left of the Ukraine. Although Novorossiia would effectively be governed by Moscow, it seems the territory would not be annexed, but would instead serve as a buffer between Russia and the EU.¹⁰

Looking back on the year, Russia's strategy remains relatively unchanged. For months now, Russia's intent to support the separatists and establish a permanent "zone of influence" in the Ukraine has been clear. Ideally (from Putin's point of view), this would be effected under a confederal system of government in the Ukraine. Now, Putin is exercising a variation of the Crimea model where the intent is for the disputed area, in this case Donetsk and Luhansk, to remain within the legal entity of the Ukraine in order to attempt to influence and work against further deepening of ties between the Ukraine and the West. It is for this reason that Russia is being careful to recognize the elections, but not specifically recognize as independent states, the People's Republics of Donetsk and Luhansk. Nor has there been a call within either of these regions, or from Moscow, for formal integration into the Russian Federation. Putin still calculates that Russia can use economic and political pressure, as well as propaganda and covert influence tools, to eventually force Kiev to recognize the legitimacy of the elections in Donetsk and Luhansk, and agree to a confederation in the name of national unity. Hence Putin remains confident he can maintain a frozen conflict zone in eastern Ukraine practically indefinitely, using the model Russia has employed with Transnistria, Abkhazia and South Ossetia. Or, in the event of stronger Western reaction, Putin retains the option of direct annexation of these territories using the Crimean model.

Sanctions, Counter-Sanctions, and Strategy

Compromise on Ukraine is not in Putin's vocabulary and Putin will ensure the Ukraine has a difficult winter and that enough chill spreads to the EU. Indeed, Germany and other EU countries have grown alarmed at the coming cost of sanctions as a drag on their economies and, with winter approaching, the impact of higher energy costs and supply disruptions. With effective communication between the United States and Russia (and in particular, between Presidents Obama and Putin) practically nonexistent, German Chancellor Merkel has had to act. German engagement has been critical in bringing the Russian and Ukrainian foreign ministers together, and in the orchestration of a Putin-Poroshenko-EU meeting in Minsk in September. Merkel's engagement is significant because she is arguably the only EU leader with any influence on Putin; and the German-Russian economic relationship is important to both sides, especially in energy and manufacturing.

With the conflict on the ground having given rise to multiple waves of US-EU sanctions in recent weeks and months (including in the areas of energy and banking), and Russian counter-sanctions, all parties have felt the pinch. According to the President of the European Bank for Reconstruction and Development, Ukraine's "economy will shrink by 9 percent" this year and next year, by another

¹⁰ Kinstler, <http://www.newrepublic.com/article/117284/federalized-ukraine-could-mean-return-novorossiia>

3 percent.”¹¹ The country is also deeply dependent upon Russian exports of oil and gas, as is the EU (though to differing degrees, depending on the member-state). Putin is counting on divisions within the EU (particularly the southern tier), and between the EU and US, to keep any sanctions regime ineffectual. Putin recognizes the energy card is a strong one and perhaps decisive in minimizing the impact of any future sanctions.

When the EU’s Energy Commissioner visited Moscow for bilateral discussions to reach an interim compromise for this winter on Russian gas to Ukraine, and Russian gas to Europe via Ukraine, Putin gave clear instruction to the Russian side to be very tough in these negotiations. Europe’s gambit to avoid sanctioning Gazprom (which is majority-owned by the Russian government) to protect gas supply this winter was optimistic. Russia is in full preparation on Putin’s instruction for a gas cutoff if the situation demands it. At the end of October however, a deal was reached pursuant to which Russia “may restart gas supply to Ukraine” within days “if Kiev pays \$2.2 billion worth of debt and pre-payments.”¹²

It remains to be seen, at this stage, whether and if so how, the terms of the deal will be fulfilled by its parties. Indeed notwithstanding the natural gas deal reached on October 30th, energy remains a potential tool for Putin to use to influence further developments in the Ukraine and to mitigate further sanctions. Keep in mind that Putin has frequently made conciliatory gestures or statements throughout this crisis, in part to distract observers from what is happening on the ground. In the case of the energy deal, it is instructive to examine how the deal is being referred to within the Russian Presidential Administration: the deal is referred to as “temporary” and not a legally binding document, but rather a “declaration of intentions.”¹³

To understand the economic dimensions of the conflict in larger context, it is necessary to take a step back and examine how Putin sees current sanctions and counter-sanctions from several perspectives: first, as punishment for countries Putin wants to weaken for strategic reasons. The counter-sanction ban on food, liquor, and agricultural productions impacts Moldova, Poland, and the Baltic states disproportionately. These are all countries that, in Putin's view, "betrayed" the Soviet Union. In the case of the Baltics specifically, he would like to use his intelligence and propaganda assets to reopen the question of the appropriateness of NATO membership for those

¹¹ “Despite New Sources, Europe Still Relies on Russian Oil,” *NPR* (Oct. 11, 2014), [Scott Simon interview of Suma Chakrabarti, President of the European Bank for Reconstruction and Development], <http://www.npr.org/2014/10/11/355340402/despite-new-sources-europe-still-relies-on-russian-oil>

¹² Denis Pinchuk and Gabriela Baczyńska, “Gazprom to resume gas supply once Ukraine pays \$2.2 billion,” *Reuters* (Oct. 31, 2014), <http://www.reuters.com/article/2014/10/31/us-ukraine-crisis-gas-idUSKBN0I0XQ20141031>

¹³ Wojciech Jakobik, “Winter Package: EU’s success, Ukraine’s surrender,” *New Eastern Europe* (Nov. 5, 2014), <http://www.neweasterneurope.eu/articles-and-commentary/1388-winter-package-eu-s-success-ukraine-s-surrender>

countries.¹⁴ He may have even been encouraged by Merkel's recent comment that Germany would oppose large permanent NATO bases in the Baltics.

Secondly, Putin views sanctions as an opportunity to rebuild areas of the Russian economy that have suffered since the collapse of the Soviet Union, and to reverse the increasing concentration of the Russian economy on the export of commodities and the import of manufactured goods. Putin commented on this in his recent speech to the Duma (legislative assembly) in Yalta and received significant applause from the deputies when he made this remark. In short, Putin wants to re-industrialize Russia¹⁵ and rebuild its manufacturing sector.

Additionally, Putin has the ambition to use the sanctions to change the macroeconomic paradigm in the world, starting with the US dollar as the world's reserve currency and Visa/MasterCard as the clearing institutions for most consumer transactions.¹⁶ To this end, Putin has begun his own "pivot" toward Asia and is finding an increasingly sympathetic audience with China. China has its own irredentist ambitions, and Putin's actions in Ukraine (and Georgia in 2008)¹⁷ have been viewed by many in the Chinese leadership with admiration.¹⁸ Russia's recent energy deal with China¹⁹ was an

¹⁴ Judah, <http://www.politico.com/magazine/story/2014/10/vladimir-putins-coup-112025.html#.VGT0TvnF-jE>

¹⁵ Fiona Hill, "Rocky Times Ahead for Putin and Obama," *Huffington Post* (Jan. 13, 2013), http://www.huffingtonpost.com/fiona-hill/rocky-times-ahead-putin_b_2126001.html

¹⁶ "In May [2014], President Vladimir Putin signed a law that set the stage for creating a Russian national payment system and demanded huge security deposits from foreign payment systems to stay in the country." See: "Visa to Lose Millions from Tighter Russian State Control on Payment Systems," *The Moscow Times* (Oct. 30, 2014), <http://www.themoscowtimes.com/business/article/visa-could-lose-70-million-next-year-due-to-russian-law/510352.html>. See also: "Blacklisted Bank Rossiya issues new cards using domestic payment system," *RT* (Nov. 6, 2014), <http://rt.com/business/202839-russia-bank-issues-card/> ["The Bank Rossiya, which came under US sanctions in March (2014), has started issuing bank cards using Russia's domestic 'universal electronic card (PRO 100)' payment system. ... It is all part of Russia's plan for more financial independence from international credit card firms. It became a key goal for Russian financial authorities after Visa and MasterCard, which control about 90 percent of the Russian market, temporarily blocked operations at some banks in the country"].

¹⁷ "At the [2008 NATO] summit the Kremlin warned it would respond militarily to moves by Ukraine or Georgia to join the NATO alliance: months later Russian forces seized on a provocation from Tbilisi and invaded Georgia." Judah, http://www.politico.com/magazine/story/2014/10/vladimir-putins-coup-112025_Page3.html#.VGUEwfnF-jE

¹⁸ "China's authoritarian President Xi Jinping and Russian counterpart Vladimir Putin share similar views on issues... 'Xi is inclined to confrontation if necessary, which pleases Putin.'" Kelly Olsen, "The dragon and the bear: Xi, Putin form power duo at APEC," *Agence France Presse* (Nov. 7, 2014), <http://news.yahoo.com/dragon-bear-xi-putin-form-power-duo-apec-043124321.html>. See also: Jeremy Page, "Why Russia's President Is 'Putin the Great' in China," *Wall Street Journal* (Oct. 1, 2014), <http://online.wsj.com/articles/why-russias-president-is-putin-the-great-in-china-1412217002>

¹⁹ Keith Johnson, "Hammered by the West, Putin Turns East," *Foreign Policy* (Sept. 18, 2014), http://www.foreignpolicy.com/articles/2014/09/18/hammered_by_the_west_putin_turns_east_russia_china_gas_altai?utm_source=Sailthru&utm_medium=email&utm_term=%2ASituation%20Report&utm_campaign=SITREP%20SEPT%2019%202014

important achievement for Putin in minimizing the impact of some aspects of Western sanctions; but also served to open the door on future "paradigm-changing" conversations between Russia and China (see below for further discussion of this point).

Finally, Putin views sanctions as an opportunity for asymmetric response, such as arms sales of sophisticated air defense systems to Syria, to limit the ability of Israel to strike shipments of arms destined for Hezbollah; or sales to Iran, as part of a strategy to disrupt US efforts to reach an agreement on Iran's nuclear program.²⁰

It thus appears that the hardline representatives of the "siloviki" or military / intelligence leadership are playing an increasingly important role in influencing economic decision-making in Russia. This group has been strongly counseling Putin that now is the time to go "all in" in resolving the Ukraine problem and confronting the West.²¹ Hence, we may find ourselves on a rapid path to confrontations, reminiscent of the Cold War (see further below).

Russia beyond Ukraine

Putin is far more of a revolutionary than people give him credit for being. The Ukraine is the first (or at least most visible) step in a campaign Putin is leading to reject the West culturally, economically, and strategically, in favor of a genuine and meaningful pivot toward the East. Essential elements of Putin's revolutionary strategy are to: (1) rebuild a bipolar world model; (2) replace (or build an alternative to) "SWIFT"²² as the transactional mechanism for world finance; (3) replace (or build an alternative to) Visa/MasterCard as the transactional finance element for personal consumption; and (4) replace the dollar as the world reserve currency. Putin is very clear about all this and people are not taking him seriously.

To make it all work, however, he needs China, Iran, and India — which is one reason why the Shanghai Cooperation Organization (SCO) is more important than people give it credit for being. Indeed we should pay close attention to the recent economic agreements / outreach of Russia to China (beyond the energy deal), and Iran²³; and also Russian outreach to India²⁴ and Egypt²⁵, since

²⁰ Jack Caravelli, "Russian Arms Sales to Syrian, Iran Add to Middle East Instability," Washington Free Beacon (Oct. 30, 2014), <http://freebeacon.com/national-security/russian-arms-sales-to-syria-iran-add-to-middle-east-instability/>

²¹ Judah, <http://www.politico.com/magazine/story/2014/10/vladimir-putins-coup-112025.html#.VGUP7vnF-jE>

²² "SWIFT" refers to the Society for Worldwide Interbank Financial Telecommunication, which provides secure transactions for its members. <http://www.swift.com/index.page?lang=en>

²³ Russia's economic relationship with Iran is another important element in Putin's geopolitical algorithm, so the November 11th announcement of an agreement for Russia to build two new nuclear power plants in Iran holds significance beyond the economic value, particularly as it impacts Iran's thinking on its nuclear negotiations with the West. See: Associated Press, "Russia to build two more nuclear reactors in Iran," *The Guardian* (Nov. 12, 2014), <http://www.theguardian.com/world/2014/nov/12/russia-nuclear-reactors-iran>.

the imposition of sanctions over the conflict with Ukraine. This outreach is an essential step in getting a coalition in place to implement the four points above.

From the beginning of the Ukrainian crisis, Putin's plan has been to have China as his main backstop, and he has gone out of his way to indulge the Chinese (he is certainly the most pro-Chinese leader Russia has ever had). However, the Chinese have been very selective in what they "help" out with and how. On the economic side, the biggest Russian-Chinese deals in this new geopolitical situation (the Russia-China gas deal and the Rosneft-China deal on Vankor field²⁶) have been very slanted towards China; good deals for China, bad deals for Russia. The gas deal will have near and medium term negative effects on the Russian economy; and Rosneft giving away to the Chinese a piece of a fully operational, profit-creating field with little need for infrastructure development is a sign that Rosneft has very little left to collateralize to the Chinese (and would be an unthinkable deal with a Western energy major). Members of Putin's circle, on the other hand, stand to profit significantly through the subcontracting. In any case, an important element in Putin's calculation of Russia's ability to withstand Ukraine-related sanctions is his effort to strengthen his personal relationship with Chinese President Xi Jinping, along with the series of economic and energy agreements signed recently, including the November 9th memorandum of understanding on the construction of yet another pipeline to supply China with natural gas.²⁷

There is quite a bit more discussion in Moscow about the SCO.²⁸ There is no doubt that the Kremlin is keen to breathe more life into several of the various "co-operation platforms" towards the East. Putin is pursuing two paths at once. He is trying to inject more "geopolitical relevance" into the SCO, getting it to support Russia's foreign and geopolitical policies, at least in words (as they do); and he is trying to expand the economic dimension of the SCO, in particular regional

See also: Reuters, "Putin and Iran's Rouhani to Discuss Trade at SCO Summit," *The Moscow Times* (Sept. 10, 2014), <http://www.themoscowtimes.com/article/506770.html>

²⁴ PTI, "India-Russia ties will be strengthened: Narendra Modi tells Dmitry Medvedev," *The Economic Times* (Nov. 13, 2014), <http://economictimes.indiatimes.com/news/politics-and-nation/india-russia-ties-will-be-strengthened-narendra-modi-tells-dmitry-medvedev/articleshow/45131174.cms>

²⁵ See for example: "Russian Media: Egypt received missiles from Moscow," *Middle East Monitor* (Nov. 13, 2014), <https://www.middleeastmonitor.com/news/europe/15258-russian-media-egypt-received-missiles-from-moscow>

²⁶ James Paton and Aibing Guo, "Russia, China Add to \$400 Billion Gas Deal With Accord," *Bloomberg* (Nov. 10, 2014), <http://www.bloomberg.com/news/2014-11-10/russia-china-add-to-400-billion-gas-deal-with-accord.html> [The Vankor field deal would see China National Petroleum Corporation acquire 10% of Vankorneft, which is a subsidiary of Rosneft, that is developing the large oil and natural gas reserves in the Vankor field in eastern Siberia]. Vankorneft's website states that Vankor is "the largest field to have been discovered and brought into production in Russia in the last 25 years."

http://www.rosneft.com/Upstream/ProductionAndDevelopment/eastern_siberia/vankorneft/

²⁷ Paton and Guo, <http://www.bloomberg.com/news/2014-11-10/russia-china-add-to-400-billion-gas-deal-with-accord.html>

²⁸ Joshua Kucera, "Lavrov Lays Out Russia's New, China-Centric Foreign Policy Line," *EurasiaNet* (Oct. 22, 2014), <http://www.eurasianet.org/node/70571>

infrastructure — all intended to link Russia and China ever-more.²⁹ In addition, the main idea is that China will foot the larger part of any bill.

The most recent summit of the SCO took place in September, in Tajikistan. Apart from the summit communique supporting Russia / Putin regarding Ukraine and Syria (a key aim of Putin), its main result was to pave the way for membership of India and Pakistan, as well as, a bit further down the line, Iran.³⁰ (Iran is now preparing to submit full membership application).

Russia's aims with the SCO do not always go hand in hand with China's aims.³¹ There is a long history in the SCO (since it was created in 2001) of the Chinese putting "brakes" on Putin's constant attempts at turning the SCO into an anti-Western platform. The Chinese have repeatedly softened Kremlin proposals for summit communiqués, with the Kremlin proposals being more anti-Western than the final result. Whereas Putin aims as noted to use the SCO to elicit more support for his geopolitics and to link Russia and China more and more infrastructure-wise through this region, the Chinese are primarily interested in investing in infrastructure that links China with the Persian Gulf, through Central Asia. Overall, there is a substantial focus on railway developments, which is really the key infrastructure theme in the SCO.

It is, frankly, a rather odd grouping — and it will be even odder once India and Pakistan join. To summarize some of the group dynamics: Kazakhstan is very suspicious of Putin / Russia (exacerbated by the Ukrainian crisis); the Uzbeks are not happy with Putin for a number of reasons (one of which is that Moscow is courting Kyrgyzstan and Tajikistan, with whom Uzbekistan is having difficult times); and the Tajiks are unhappy with the Uzbeks (which stems mostly from a history of ethnic and religious animosities between the two). Once India and Pakistan join, this situation should be further complicated, given their history as rivals. From a geopolitical perspective however, the SCO could become quite interesting once Iran joins, with a kind of triangle of potential mischief (Russia, China, and Iran). But with India and Pakistan joining, there could also be potential fissures between Russia and China, which certainly do not have the same kind of position on India and Pakistan. Yet further down the line, something to watch is Turkey. The Kazakhs appear to want Turkey in the SCO, and if (as appears likely) Iran joins, the Iranians might want Turkey in as well; note the emergence of closer and closer ties between Erdogan / his party and the Iranians.³² Turkey being pulled into a grouping / organization that Putin will want to use as an anti-Western platform (even if the Chinese will probably continue to temper him) might exacerbate Erdogan's increasingly worrying drift away from the West.

September also witnessed the ninth "Caspian Summit," a gathering of the five countries bordering

²⁹ Kucera, <http://www.eurasianet.org/node/70571>

³⁰ Selcuk Colakoglu, "The SCO Dushanbe Summit: Opening from Eurasia to Asia – Analysis," *Eurasia Review* (Oct. 31, 2014), <http://www.eurasiareview.com/31102014-sco-dushanbe-summit-opening-eurasia-asia-analysis/>

³¹ Richard Weitz, "Superpower Symbiosis: The Russia-China Axis," *World Affairs* (Nov./Dec. 2012), <http://www.worldaffairsjournal.org/article/superpower-symbiosis-russia-china-axis>

³² Reuters, "Erdogan in Iran: feels like second home," *Jerusalem Post* (Jan. 29, 2014), <http://www.jpost.com/Iranian-Threat/News/Erdogen-in-Iran-feels-like-second-home-339741>

the Caspian Sea: Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan (with Putin, Iran's President Rouhani, and so on, attending). As with the SCO, Putin is trying to use this platform for his own purposes, to support his anti-Western turn. Russia wants to conclude a treaty that enshrines that the Caspian Sea jointly belongs to these five countries and that it will have no borders. The Iranians mainly want in the treaty something that enshrines that only naval forces from these five countries have a right to be present in the Caspian.

The question of who owns what of the Caspian has been going on since Tsarist days, when Tsarist Russia and Persia first started talking about the issue and came to a de facto understanding on the subject. Interestingly, however, nothing was ever signed. The present-day aim is to have a final treaty signed in 2016, in Kazakhstan. In the meantime, Putin is pushing for a railway to link these five countries; a railway that goes all the way around the Caspian. The odd one out in the "Caspian" group is Azerbaijan, which is having a tough time with Putin, given that Moscow is supporting Armenia in connection with Nagorno-Karabakh (see footnote 7 above) and is using this as a leverage / threat against Azerbaijan.

Finally, Putin is putting a lot of energy into building the Eurasian Union as a regional counterpart to the EU and as an instrument for Moscow to use to exert influence over its neighbors. For the moment, only Russia, Belarus and Kazakhstan are members; but other former Soviet states have expressed interest and the ultimate plan, as conceived by Putin, is truly grand — in his own words, “a powerful supranational association capable of becoming one of the poles in the modern world.” The idea is “to build on an existing regional trade pact to establish common policies on labor migration, investment, trade, and energy.”³³

Looking Ahead: Bits & Bytes plus Cold War Redux?

The bottom line is that Putin is gearing up internally, and gathering acorns externally, for a significant and prolonged break with the West. With another round of economic agreements signed with China, Putin will be confident of his strategic rear³⁴; and with domestic popularity still at

³³ Leon Neyfakh, “Putin’s long game? Meet the Eurasian Union,” *The Boston Globe* (Mar. 9, 2014), <http://www.bostonglobe.com/ideas/2014/03/09/putin-long-game-meet-eurasian-union/1eKLXEC3TJfzqK54eIX5fL/story.html>

³⁴ Note also that Zhang Gaoli, a senior Chinese Standing Committee member, publicly avowed recently that China completely disagreed with Western sanctions against Russia. Gary J. Schmitt, “Why China won’t condemn Russia over Crimea,” *Nikkei Asian Review* (Sept. 29, 2014), <http://www.aei.org/publication/why-china-wont-condemn-russia-over-crimea/>

extraordinarily high levels, plus anti-Western sentiment exceeding Cold War levels³⁵, Putin's domestic flank is also secure. Under these circumstances, there is little reason to expect Putin to show any weakness or readiness to concede on Ukraine. Moreover, Putin understands that resolve in the United States to continue (and possibly attempt to expand) sanctions is firm, but there is much less solidarity in Europe.³⁶

Russia's actions on the ground in the Ukraine also need to be viewed in the context of Russia's overall interaction with the West. There has been plenty of press commentary on Russian military aircraft activity near US, UK, and NATO airspace, particularly over the Black, Baltic, and North Seas, and the Atlantic.³⁷ While there is a practical intelligence gathering aspect to this flight activity (testing radar signatures, response times, etc.); there is political messaging being delivered as well. In this regard, note also the exercise that Russia held recently in the Barents Sea area, where all three legs of Russia's nuclear Triad (strategic submarines, bombers, and missiles) engaged in a major drill.

Against this background, it is interesting to see the data linking Russian cyber-criminals to the hack attacks against JP Morgan Chase and "at least a dozen financial institutions."³⁸ While the nature of the relationship between the forces of crime and the Russian state itself remains murky, it bears mention that Russia is an advanced and persistent threat (APT) actor in the cyber domain³⁹ that has also made use of proxies to do its dirty work in past.⁴⁰

China too falls into the APT category⁴¹; but Russia is the more sophisticated of the two, even though Chinese activity is greater by volume. Both countries have, notably, integrated cyber tools and tactics into their military strategy and doctrine for propaganda purposes (information warfare)

³⁵ According to the Russian state-owned polling center WCIOM, 73 percent of Russians questioned think the US is a "hostile nation" compared with 25 percent in similar polling in 2008. Belfer Center, "Russia in Review," (Oct. 10, 2014), http://belfercenter.ksg.harvard.edu/publication/24615/russia_in_review.html

³⁶ David Francis, "No New Economic Sanctions on Russia as Cease-Fire in Ukraine Collapsing," *Foreign Policy* (Nov. 11, 2014),

http://thecable.foreignpolicy.com/posts/2014/11/11/no_new_economic_sanctions_on_russia_as_ceil_fire_in_ukraine_collapsing?utm_source=Sailthru&utm_medium=email&utm_term=%2ASituation%20Report&utm_campaign=SitRep%20November%2012%202014

³⁷ See for example: Michele Kelemen, "Russia And The West: Close Encounters Of The Cold War Kind," *NPR* (Nov. 13, 2014), <http://www.npr.org/blogs/parallels/2014/11/13/363575880/russia-and-the-west-close-encounters-of-the-cold-war-kind>

³⁸ Matthew Goldstein and Nicole Perlroth, "Luck Played Role in Discovery of Data Breach at JPMorgan Affecting Millions," *New York Times* (Oct. 31, 2014), <http://dealbook.nytimes.com/2014/10/31/discovery-of-jpmorgan-cyberattack-aided-by-company-that-runs-race-website-for-bank/?partner=rss&emc=rss&r=0>

³⁹ "Foreign Spies Stealing U.S. Economic Secrets in Cyberspace," Report to Congress on Foreign Economic Collection and Industrial Espionage, 2009-2011 (Oct. 2011),

http://www.ncix.gov/publications/reports/fecie_all/Foreign_Economic_Collection_2011.pdf

⁴⁰ Nicole Perlroth, "Online Security Experts Link More Breaches to Russian Government," *New York Times* (Oct. 28, 2014), <http://www.nytimes.com/2014/10/29/technology/russian-government-linked-to-more-cybersecurity-breaches.html?smid=tw-share&r=0>

⁴¹ "Foreign Spies Stealing U.S. Economic Secrets in Cyberspace,"

http://www.ncix.gov/publications/reports/fecie_all/Foreign_Economic_Collection_2011.pdf

to weaken the target's resolve and ability to fight back; and for computer network exploitation (CNE). In Ukraine, for instance, Russia's campaign has included cyber-attacks to disrupt Ukraine's communications systems and undermine Ukrainian authorities. And, following the imposition of US-EU sanctions against Russia, it is no great leap to suggest that Russia may turn its cyber skills against the United States and its allies. US energy and banking executives (not just chief information security officers and chief security officers) should therefore be on guard and remain on the lookout for indicators.⁴²

Russia and China are also reportedly poised to sign a cybersecurity treaty in 2015. The pact is predicted to be “more powerful” than the US-Russia agreement concluded in 2013 which, among other things, established “a working group to address a broad range of Internet security concerns.”⁴³ From NATO over-flights to bits & bytes, Putin is using all of the tools in his toolbox, testing and preparing.

Mapping a Way Forward

How best to respond to the circumstances laid out above? The United States and its allies would do well to take Putin at his word in terms of the ambitious and provocative plans that he has laid out rhetorically and undertaken in practice. The signals are all there and they are concerning. Wishing it were otherwise will not make it so. A clear-eyed assessment and response is needed, and it is already past due. Unless and until we understand Putin for who he really is and why he is so, the basis for a reasonable counter-strategy will not exist.

What does Putin really value? For one thing, he clearly enjoys being accorded the status of a world leader. Yet he is not prepared to accept the responsibility and accountability that should accompany this status. Put differently, there are consequences to acting like a pariah, including the loss of prestige on the international stage — as Putin's shunning by the West at the November meeting of the G-20 in Brisbane made clear. The West's response was no empty gesture; it was a meaningful one that certainly stung Putin, plus a lot of Russians as well.

Against this background, we would propose the following blueprint for action:

- **Recognize that Putin's Russia thinks differently, and responds to different stimuli, than the West.** This must be the basis for Western strategy moving forward. In short, the West must understand that it is in for a long, tough fight with Putin, and should act accordingly.

⁴² Frank J. Cilluffo and Sharon L. Cardash, “US Needs to be prepared for Russian cyber-retaliation,” *CNBC* (Sept. 23, 2014), <http://www.cnbc.com/id/102025262>

⁴³ RIA Novosti, “Moscow, Beijing to Sign Cybersecurity Cooperation Treaty in 2015: Reports,” *Sputnik International* (Nov. 12, 2014), <http://sputniknews.com/asia/20141112/1014638608.html>

- **Build and implement a multidimensional strategy to deter Russian aggression.** A robust US posture on land, at sea, in the air, in space, and in cyberspace is needed in order to prevent further illegal Russian incursions into Ukraine or other former Soviet territory.
- **The EU and NATO must also put their money and muscle where their mouths are.** The task does not fall to the US alone. One important step in the right direction would see Europe “finally take decisive measures to secure alternative sources of oil and gas.”⁴⁴
- **The US, too, should double down on policies and actions to spur energy independence and security,** using a combination of approaches ranging from continued exploration and development of domestic energy, to increased investment in alternative and renewable forms of energy. This course would also have the added benefit of stimulating the US economy and generating jobs.
- **Engage in concerted US diplomacy to shore up the transatlantic bond** and present as united a front as possible against Russia’s use of force versus Ukraine, as well as discredit accompanying Russian propaganda.
- **Inoculate US critical infrastructure.** Congress should pass legislation soonest to facilitate and support information sharing between and among entities in the public and private sectors, to help meet and defeat the cyber threat — which encompasses possible Russian cyber-retaliation.⁴⁵
- **Seek out opportunities for cooperation with China** to disrupt Russia’s attempt to pull China close and adopt an adversarial and antagonistic relationship towards the United States.

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⁴⁴ Juan C. Zarate, “A Test of Wills on Sanctions,” *CSIS 2015 Global Forecast* (Nov. 14, 2014), p. 42, http://csis.org/files/publication/141110_Cohen_GlobalForecast2015_Web.pdf

⁴⁵ Initiatives on the table for consideration include those spearheaded by Senators Dianne Feinstein and Saxby Chambliss (jointly); Senator Kirsten Gillibrand’s proposal for tax credits to incent information sharing; and Representative Michael McCaul’s bill to enhance the role of the Department of Homeland Security’s National Cybersecurity and Communications Integration Center. Any of these proposed actions would be better than none at all.

creates innovative strategies and solutions to current and future threats to the nation. The opinions expressed in this Issue Brief are those of the authors alone. Comments should be directed to hspi@gwu.edu.

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