Forty-Fourth Annual
World Affairs Institute
November 19, 2014
Pittsburgh, Pennsylvania

The World Affairs Institute is a Community Service Project of Rotary International and the World Affairs Council of Pittsburgh
Russia's Place in the World

CONTENTS

Introduction .............................................................................................................................................1
Brief Timeline of Russian History ........................................................................................................2
Russia in the 20th Century ....................................................................................................................3
Regional Issues .....................................................................................................................................4
Russia's Economy ................................................................................................................................5
Energy and the Russian Economy .........................................................................................................6
Economic Outlook ................................................................................................................................8
Conclusion ...........................................................................................................................................8
Websites .............................................................................................................................................11
Appendix I: The Crisis In Ukraine ......................................................................................................12
Sources and References .......................................................................................................................14

BOXES

The Ukrainian Crisis ...............................................................................................................................6
Sanctions Against Russia .....................................................................................................................7
Demographics ......................................................................................................................................8
Russia and the West: Issues and Prospects .........................................................................................9
Vladimir Putin .....................................................................................................................................10
Introduction

In the years following the collapse of the Soviet Union in 1991, many Western leaders hoped that the new Russian Federation would become a valued partner in tackling many of the world’s problems — from global terrorism to the lingering effects of the 2008 financial crisis. In overthrowing the control of the Soviet Communist party, Russia became a multi-party democracy with a market-oriented economy that was more integrated into the global economic system. It joined many of the West's most important international institutions — such as the International Monetary Fund (IMF) and the World Trade Organization (WTO). In 1998, Russia was also invited to join the most exclusive club of all, the G7, an international group composed of the largest and most developed economies in the West. The newly formed G8, which met annually to discuss critical global issues, quickly symbolized the apparent convergence of interests by the world’s major powers.

Now, more than two decades later, the West’s hope for cooperation has faded almost entirely. Even before the recent conflict in Ukraine, it was becoming apparent that Russia’s view of the world and how it should conduct itself was (and continues to be) fundamentally at odds with the West. Russia’s decision to invade and claim areas of Georgia dominated by ethnic-Russians in 2008 was the first indication of its willingness to use force — in violation of international norms and laws — to assert its dominance over its weaker neighbors. With the 2014 conflict in Ukraine, Russia demonstrated a continuation of this policy. The decision in March, by most Western democracies, to impose strong sanctions against Russia and its leaders highlighted the complicated nature of the West’s relationship with Russia today.

Russia’s current leader, President Vladimir Putin, has developed an increasingly autocratic ruling style that has further isolated Russia from the West. Russia’s development of a more centrally controlled economic and political system — dominated by a single nationalist political party — is indicative of how far Russia has moved away from the more pluralistic democracy that had flourished in the 1990s. It is primarily through the advantages of its large energy resources that Russia continues to remain engaged politically and economically with the world.

In response to the West's growing criticism of Russia, President Vladimir Putin has responded in increasingly harsh tones. He has deflected blame for the Ukraine crisis onto the West and what he views as a “unilateral diktat” (or decree) against the interests of Russia. In an October 2014 speech in Sochi, Russia, Putin lashed out at the United States and its allies, arguing that it was attempting to “tailor the world exclusively to their needs,” and that Russia “has been cold-shouldered by the West, despite its eagerness to cooperate.” Although Putin’s rhetoric harkens back to the confrontations of the Cold War, it also seems calculated to reinforce the support he has received both within Russia and throughout many other Slavic areas in Europe. In a brief mid-October visit to Belgrade, Serbia, for example, Putin participated in ceremonies marking the 70th anniversary of the liberation of Belgrade by Soviet troops in 1944. He was welcomed warmly by the Serb population who support of his pan-Slavic vision and rejection of Western dominance.

Most analysts now recognize that attempts to ease tensions between Russia and the West will be difficult and protracted. They will depend on Russia’s willingness to step back from its firm and often chauvinistic stance on regional issues and relations with Europe and the United States (U.S.). One of the few factors that might encourage Russian restraint could be a deterioration in Russia’s economic performance caused by a decline in global energy prices. As one of the world’s top energy producers — and with the world’s largest crude oil reserves — Russia is highly dependent on a commodity whose price is very much out of its control. A continued decline in oil prices, from a comfortable $100 per barrel, may be the only shock to Russia’s political class that could persuade it to moderate its recent behavior, both domestically and abroad.

In the meantime, it will likely require years of steady diplomacy and determination from the West to check Russia's ambitions. Unlike during the Cold War when the West sought to counter Soviet global ambitions, Russia's current aims are more limited. They promote a national identity by appealing to its ties to ethnic Russians in neighboring countries. Essentially Russia wants to be left alone to impose its rules on its neighbors. This more limited strategy may also be difficult to counter due to the deep emotional factors that sometimes seem to drive much of Russia’s foreign policy. Moreover, Russia’s efforts to promote a multi-polar world in the face of a decline in U.S. influence suggests it will be more difficult, at least for the United States, to gather support from around the world to counter Russia’s regional hegemony.

This paper is designed to help the reader understand some of the key domestic and foreign challenges facing Russia today. As an additional resource, the World Affairs Council of Pittsburgh has provided a blog on the topic, which can be found at www.waipittsburgh.wordpress.com.
Checking
Russia in the 20th Century

Few countries have endured more radical change during the 20th century than Russia. It experienced the violent end of an imperial monarchy; a deeply totalitarian dictatorship lasting several decades; and, most recently, a rapid transition to a more open, but still oligarchic political system — in which a small group of individuals maintain control over governmental affairs.

The overthrow of the Russian empire — led by Tsar Nicholas II — in 1917, led to the creation of the world’s first communist dictatorship. Geographically, the Soviet Union became the world’s largest nation, and shaped much of the world’s conflicts and politics through the end of the century. The Soviet Union was dominated by the area that is today Russia, but was also composed of a wide range of ethnic and geographical areas spread over 8.6 million square miles. (See Map 1)

Deep political and economic control characterized the lives of most citizens of the Soviet Union throughout much of this period. Under its first two leaders — Vladimir Lenin until 1925 and Joseph Stalin until 1953 — the Soviet Union subjected millions of its citizens to arbitrary arrest, imprisonment, execution, and economic deprivation. Much of the internal politics of the first two decades of Soviet rule were spent consolidating the control of the communist dictatorship that developed throughout the period. The Great Purge of the 1930s, directed by Stalin, was a time of some of the most brutal treatment towards the population — especially in Ukraine. Millions died through deliberate starvation because of their resistance to the consolidation of land, labor, and other means of private production, into a collective farms.

Although founded on a principle of international cooperation among like-minded socialists and communists, Soviet leaders ultimately turned to a form of nationalism in its fight against the invaders from Nazi Germany. One such example took place in 1939, when Stalin avoided war with Hitler by signing an agreement that led both nations to invade and divide Poland. Following Hitler’s decision to invade the Soviet Union in 1941, Stalin suspended his internal purges and invoked the pride of the Russian people as he mobilized the nation to fight Germany.

Following the war’s end in 1945 — during which more then 20 million Soviet citizens died — the Soviet Union embarked on a number of foreign initiatives against the West. The aim was to expand the reach of global communism, if not the Soviet Union itself. Through various proxy wars in China, Korea, Vietnam, the Middle East, Afghanistan, and elsewhere, as well as the creation of a security pact in Eastern and Central Europe, the Soviet Union supported a range of allies as it sought to extend its influence. Throughout much of this period, the confrontation — known as the Cold War — pitted the Soviet Union and its allies against the United States and its allies in the North Atlantic Treaty Organization (NATO). The standoff lasted for nearly 44 years before the dismantling of the Berlin Wall — a massive concrete structure built by the Soviet allies in East Germany that divided East and West Berlin for nearly 30 years.

Internal economic and political conflicts within the Soviet Union, combined with the resolve of the West to confront Soviet expansion, ultimately led to the Soviet Union’s collapse in the early 1990s. Decisions taken by Mikhail Gorbachev — the Soviet Union’s last leader — ultimately resulted in the collapse of the Soviet system of government and the creation of a new constitution that brought democracy to Russia. The Soviet Union itself ceased to exist and splintered in to at least 15 independent nations. (See Map 2)

During the 1990s, the newly established Russian Federation brought new freedoms to the people of
Russia, but without the level of economic dynamism unleashed by several other communist dictatorships around the world. In China, for example, the Communist Party remains in control of all aspects of political life, but the economy has been allowed to develop deep international ties and follow a more diverse and market-oriented approach. Despite maintaining a more open political system than under communism, Russia continues to wield more control over the economic system then in most democratic societies through its comprehensive regulations and control of the nation’s large companies.

Regional Issues

Although the breakup of the Soviet Union in 1991 was relatively peaceful, it left many sources of friction in Russia and the newly created independent states — including Ukraine, Georgia, the Baltic States (Estonia, Latvia, and Lithuania), as well as the Caucasus region situated between the Black and Caspian seas. With few exceptions, many of the newly created nations remained wary of Russia’s intentions and have often struggled to maintain their own autonomy.

At least fourteen former Soviet republics established themselves as independent nations after 1991 (see map below). Many of those regions have ongoing disputes not just with Russia but also among themselves. The collapse of the Soviet Union exposed many of the fault lines that had existed for generations within that country’s sprawling “empire.” To this day, most of the ethnic and political problems within these regions remain unresolved.

Armenia and Azerbaijan, for example, fought a war in the early 1990s over an area within Azerbaijan dominated by ethnic Armenians. An estimated 30,000 individuals died in the five-year conflict. A Russian brokered ceasefire took effect in 1994, but relations between the two nations remain tense. The Armenian enclave, Nagorno-Karabakh, exists entirely within the borders of Azerbaijan and consists of 16 percent of that nation’s original territory. It is supported by the Republic of Armenia, but threatened by Azerbaijan (See Map 3).

In the Baltic states, Russia retained one part of its former territory in Kalingrad, a small enclave on the Baltic Sea set between Lithuania and Poland. This region gives Russia its only ice-free port on the Baltic Sea where it maintains an important naval fleet. However, following Lithuania’s independence in 1990 (the first of the Soviet Union’s regions to formally break away), Russia lost

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direct access to the region. Land access now requires crossing at least two international borders, and passing through either Lithuania or Poland. Due to its proximity to Western Europe, Kalingrad remains a sensitive area. As recently as 2008 Russian officials said that any NATO missile defense system installed in Poland might be countered with nuclear missiles installed in Kalingrad. To date, neither side has moved forward with either plan.

Georgia, a former republic within the Soviet Union, has long had a complicated ethnic makeup. Following Georgia’s independence from Russia in 1991, a brief civil war erupted over two ethnically-Russian provinces — South Ossetia and Abkhazia. By 2008, tensions between Russia and Georgia over control of the two republics led to a brief war between Russian military forces and the Georgian army. The two “breakaway” republics remain officially part of Georgia but are supported by Russia economically and with military forces.

As a result of the most recent wars in Georgia and Ukraine, several key issues remain for the West. One includes concerns that Russia may extend its control and influence to other independent nations in the region — especially the Baltic States. Russia has retained a strong interest in the Baltic due to the high number of Russian nationals that continue to live in these areas since the collapse of the Soviet Union (See Map 4). Most of these countries are not in any position to challenge Russia’s military forces, while also bordering on other more troublesome areas in the Middle East and Central Asia.

Appeals to the West from countries — such as Georgia and Ukraine — have often been met with a muted response due to the complicated situations that exist. Given its geographic location, Ukraine’s appeals for help to the West were more sympathetically heard, though with little action taken aside from sanctions. A critical question remains: To what extent does Russia look upon any of these territories as being subject to Russian control or influence?

**Russia’s Economy**

Russia’s economy is relatively large when measured in terms of gross domestic product (GDP) — the total value of all goods and services produced — but is well behind the size of most of the industrialized economies in Europe and Asia. The value of its GDP, at around $2.1 trillion, places Russia about equal to Italy but below other large industrialized economies, including Germany, Japan, the United States, and even China. In total, Russia’s economy is little more than 12% the size of the U.S. economy—the largest in the world—and just one-quarter the size of China’s. On a per capita basis (the total value of GDP divided by the population), Russia remains well below all the industrialized economies in Europe and Asia (except China), with a value of just $14,000.

During Soviet times, the Communist government controlled virtually all aspects of the economy. Domestic markets of any kind were non-existent, and all decisions concerning production and consumption were made by government officials — not by the actions of individuals or firms. The economy was insulated from the forces of supply and demand, and consequently all aspects of competition. The international economy barely mattered to the average Soviet citizen, or even to a typical state-controlled enterprise. There was no incentive to improve production, productivity, incomes, or the quality of life for the average Soviet.

Today, more than 20 years after the collapse of the Soviet Union, half of Russia’s economy remains under government control. The oil and gas sectors, in particular, are either controlled by state-owned companies or by individuals closely aligned with the Kremlin leadership. Efforts to improve the economy’s competitiveness through privatization or other market-oriented reforms continue to lag behind. Although certain areas of the economy do respond to market forces, especially in the external sectors, Russia’s economy remains highly state-directed in several key areas.

The oligarchy of political and business leaders that control the economy, represents a significant barrier to the development of a modern and open economic system. Small and mid-sized businesses play only a minor role in economic life, which has instead become...
The Ukraine Crisis
A Brief Summary

In late 2013, small protests that began in Kiev, Ukraine's capital city, transitioned to a large scale revolutionary movement that ultimately toppled Ukraine's unpopular President Viktor Yanukovych — a pro-Russian politician elected in 2010. The ensuing conflict between pro-Russian separatists and the Ukrainian army peaked during the summer of 2014, and subsided only after an uneasy ceasefire was agreed to in early September.

The Ukrainian crisis can be divided into three phases, beginning with protests in Kiev, the Russian annexation of Crimea, and the ensuing civil war in eastern Ukraine.

The wider Ukrainian civil war between government troops and pro-Russia militia groups ultimately resulted in some of the worst violence in Europe since World War II — including the deaths of at least 3,000 Ukrainian troops and civilians.

The crisis also led to Western sanctions against the Russian Federation. These policies highlighted the dismay that many of the nations in the West — including the United States and the European Union — had toward Russian aggression.

A more in-depth analysis of the Ukrainian crisis can be found in Appendix I.

Energy and the Russian Economy

A major problem for Russia's economy is that it is not nearly as diversified as it should be compared to the West. The energy sector accounts for at least two-thirds of the nation’s economic activity. At least 50 percent of government revenues are derived from the operations of the oil and gas industries. These are shares almost unheard of in most advanced western economies in Europe and Asia. This dependence on energy in large part reflects the lack of an internationally competitive manufacturing sector. In stark contrast to China's economic reforms over the past several decades, Russia has failed to develop policies or reforms that would allow its economy to compete with any country in the West, much less any of the rapidly industrializing countries in East Asia.

Russia is one of the world's largest producers of crude oil and natural gas, ranking somewhere between first and third over the last several years. Russia produces just under 10 million barrels of crude oil each day. Nearly half of this oil is exported in its crude form, and another 25 percent as refined petroleum products, for a total of 7.5 million barrels per day. Of that total amount, nearly 80 percent is exported to Europe.

Although Russia ranks only 8th in the world in proven crude oil reserves, it is first in reserves of natural gas. The 1.7 quadrillion cubic feet of gas in the ground represents about a quarter of all natural gas reserves in...
Sanctions against Russia

Almost immediately following the Russian annexation of Crimea in the spring of 2014, the United States, along with allies in Europe, Canada, Australia, Japan, and elsewhere, announced a series of sanctions against Russia and its top officials. Recognizing the limitations of broad sanctions against a nation as a whole, the Western governments also targeted individuals in the Russia’s government, as well as high level business executives and companies with close ties to the Putin regime.

The European Union (EU) announced its sanctions were designed to encourage change in policies by Russia’s leaders rather than be “punitive” (intended to cause harm to Russia as a whole). This reflected concerns that sanctions levied against Russia could be considered indiscriminate and harmful to average citizens within Russia. The sanctions against individuals included travel bans and limited access to financial resources in the west, including loans for executives. One key component of these sanctions included a ban on the exports of dual-use machinery and goods to Russian customers, as well as restrictions on western financing for Russian companies. The September ceasefire between Russia and Ukraine is not expected to make much of a difference to the status of the sanctions. German Chancellor Merkel has already made this clear, arguing that lifting sanctions is “not an option.”

In a symbolic show of defiance, Russia’s parliament — the State Duma — unanimously passed a resolution asking that all its members be included on the sanctions list. This reflects the overwhelming domestic support within Russia for annexing Crimea and helping rebels in Ukraine.

In retaliation, however, Russia announced its own “sanctions,” which included a ban on food imports from the EU, the U.S., Norway, Canada, and Australia. Russia also cut supplies of natural gas to certain western economies. For example, by early October, Slovakia — a EU member country highly dependent on Russian gas — had its supply cut by 50%. Slovakia has been part of a western effort to supply gas to Ukraine in advance of winter.

Nevertheless, despite Russian threats to cut off gas sales, both sides have avoided bringing natural gas sales into the sanctions mix with the exception of Russia’s gas trade with Ukraine. Both Europe and Russia are highly dependent on the sale of Russian natural gas (see chart), and have a strong interest in a continuation of this trade.

The practicality of selling, buying, and transporting natural gas in the region requires a fairly high degree of cooperation. Ukraine, for example, has recently been involved in negotiations with Russia to resume shipments of natural gas. As antagonistic as the two countries may be, energy needs in Ukraine force it to re-establish limited trade with Russia. Further, Russia’s recent demands that the EU guarantee Ukrainian payments in advance for any gas Russia agrees to sell Ukraine, will also likely be met given the high dependency on gas by both sides. Nearly half of all gas shipments from Russia to Europe are transported using Ukraine’s gas pipelines.

As with all sanctions, the question of how effective they will be at changing the behavior of Russia’s political leadership remains. Given the ceasefire agreed to in early September and the overwhelming public support in Russia for pro-Russian separatists in Ukraine, it is unlikely that Russia will feel sufficient pressure to reverse itself on any matter — including its annexation of Crimea and support for the separatists in eastern Ukraine.

Although it is too soon to determine the impact of sanctions on Russia’s economy, one of Russia’s most immediate concerns is over the prospects for capital flight — a by-product of the conflict in Ukraine. Capital flight is a process in which investors pull funds (or “capital”) out of Russian investments. The withdrawal of foreign funds from Russia has thus far been estimated at over $50 billion in 2014, though that estimate is subject to greatly change.

Meanwhile, Russian President Vladimir Putin has tried to argue that the sanctions are having a limited effect on Russia’s economy. He claims the sanctions are “utter silliness” and that they will only encourage Russia to build closer ties to China, India, and Latin America. Putin even argued that the sanctions violated principles contained in the World Trade Organization (WTO) — the primary intergovernmental trade liberalizing agreement that Russia joined in 2012.
the world. Russia produced approximately 23 trillion cubic feet of gas in 2013, placing it second behind only the United States. It exports about 30 percent of its production, of which an estimated 80 percent goes to Europe.

A critical factor in the international energy market is the dramatic growth of the U.S. natural gas industry over the past decade, which is beginning to have an impact on world energy prices. As the United States gears up its exports, there could be an impact on Russia’s export sales, especially in Europe. As global demand for US natural gas increases, Russia will likely find itself looking for more customers outside of its traditional export markets. Russia has already begun seeking new customers in Asia, and in May signed an agreement with China to supply natural gas over a thirty year period, in a deal worth close to $465 billion.

Overall, a sustained decline in global energy prices will highlight Russia’s lack of diversity in its economy, and will adversely affect government revenues and the economy’s overall growth prospects.

Part of the sanctions imposed last summer restrict Russia's access to foreign technology and capital in the oil industry. They also prohibit Russian energy companies from entering joint venture agreements with Western counterparts. Europe and Russia remain deeply dependent on each other in many ways, with the energy sector only the most obvious. It is unclear how these sanctions will affect Russia’s ability to sustain its oil industry; however, given the benefits both sides gain through its trade, there is a good chance these provisions will be overlooked sooner than some of the others.

**Economic Outlook**

There are three short-term areas of concern for Russia’s economy: the price of oil; the international community’s confidence in Russia’s political and economic system; and, the impact and durability of the West’s sanctions.

Due to the strength of international energy prices over the past several years, Russia’s economy has remained buoyant, with real GDP growth averaging at 4 percent between 2010 and 2012. Growth — which began to slow in 2013 — fell abruptly in the first half of 2014 as the effect of the Ukrainian crisis was felt in Russia. The economy is likely to remain stagnant through 2014 and then recover slightly in 2015. This is only if the Ukrainian crisis subsides and the impact of sanctions remains muted. Most critically, energy prices need to stabilize at somewhere close to $100 per barrel of crude oil traded to help the economy recover. Any further drop in oil prices will likely send the Russian economy into a deeper recession. A weakening external trade sector could contribute to a weak currency and an acceleration in domestic inflation (an increase in the general price of goods and services). Higher inflation would lead to pressure on the government to raise interest rates. This comes at a time when the economy needs more incentives to invest, not less, and could prolong the expected economic recession.

**Russian Demographics**

Russian demographics — which describe the ethnic makeup of Russia as well trends in the population’s overall size and health — have been a source of concern for many years related to the nation’s historically low birth rates and declining life expectancy. Recent trends seem to show an improvement in a few key areas. For example, while average life expectancy is low by international standards, it has reportedly improved in Russia recent years, from a low of 64 years in the mid-1990s to around 71 in 2013 (See this Forbes article from April 2014 for more detail).

After decades of decline, Russia’s overall population has started to rise. From a low of just under 143 million in 2009, the population has grown to nearly 144 million in 2013. Even its fertility rate has been increasing, and is now at 1.61 births per woman. This is higher than the European Union average as a whole. To Russia’s political leadership, these are important trends, along with the overwhelming Russian ethnicity that makes up the population. Russians account for nearly 78 percent of the total population, with the next highest level, the Tatars, at just 3.7 percent. The ethnicity of the surrounding regions is also important, especially in light of Russia’s recent expansive foreign policy.

Although the economic problems in Russia may be offset by low levels of external debt and nearly one-half trillion dollars in foreign exchange reserves, the country’s complicated political and foreign policy outlook make it difficult to have much optimism in its economic prospects. Overall, Russia’s economy remains fragile and subject to external shocks that threaten long term stability.

**Conclusion**

After more than two decades of working with their counterparts in Russia to develop common ground on a range of issues, Western leaders are now recognizing the limits of cooperation with Russia. While most of the former members of the Soviet-dominated Warsaw Pact — independent nations allied with Russia during the Cold War — integrated into the West fairly quickly, Russia and the fourteen other former Soviet republics, have stayed primarily outside the West’s sphere of influence. The Baltic states, Ukraine, and Georgia are the only former Soviet republics that have expressed interest in further integration with Europe, including membership in NATO — the West’s primary security organization. The others have either aligned themselves with Russia, or are cautiously neutral.

Due to Ukraine’s proximity to Europe, energy interdependence, and the boldness of Russia’s actions there, many of the differences between Russia and the West have become more apparent. The crisis has forced the West to grapple with a number of important issues, including how NATO will meet its treaty obligations, possibly expand its membership and strengthen its forces in light of historically low military spending levels among many of its member states.
Russia and the West: Issues and Prospects

Russian foreign policy has evolved in recent years in ways that are often at odds with Western interests and principles. The long-held optimism in the West that Russia would eventually cooperate on a range of political, military, and economic matters has essentially evaporated. There are a number of important issues at stake, but two recent foreign policy trends in Russia represent the ongoing tensions that exist between the Russia and the West.

First, under President Putin, Russia has developed a foreign policy based on a degree of nationalism not seen in Europe in decades. This has resulted in Russia asserting its right to intervene in the domestic affairs of former Soviet Republics whenever its interests dictate. Russia argues it has the right to “protect” any ethnic Russians that might live in those areas.

The policy was first made evident in Russia's military invasion of Georgia in 2008, and then in its active support of pro-Russian separatists in Ukraine in 2014. The Moscow Times recently ran a headline about Russia seeing the “need to protect Russian speakers in NATO Baltic states” — perhaps a precursor of what is to come. A foreign ministry official was quoted as saying, “We will not tolerate the creeping offensive against the Russian language that we are seeing in the Baltics.” In early October, another senior Russian foreign ministry official declared that Russia “will do everything possible to defend the rights and interests . . . of more than 1.3 million Russians” living in the Baltic states of Estonia, Latvia, and Lithuania.

These developments have challenged the United States and its allies to respond. In the midst of the crisis in Ukraine, the North Atlantic Treaty Organization — the West's defense alliance — which since 2004 has included all three Baltic countries, publicly insisted that it will meet its treaty obligations in the Baltics. The United States and its allies even engaged in military exercises in the region as a sign of strength directed toward Russia. Russia has in turn escalated its military operations with increased numbers of reconnaissance flights and naval forces into the territorial waters of neighboring states. Further in October, Russia announced it would be developing aircraft and troop bases in various nations in the region, including Belarus next to the Baltic states.

In a second, broader area of its foreign policy, Russia has emphasized it’s desire for a more “multipolar” world in which the United States and its allies would no longer dominate. In a July 2014 meeting of the BRICS (a group of non-western countries including Brazil, Russia, India, China, and South Africa), Russia argued for more cooperation among the group of nations to counter the influence of the United States and its allies on a wide range of global issues. Putin argued that BRICS nations need to coordinate their efforts at checking the United States' tendency for “unilateral intervention and regime change.” President Putin has also argued for a reform of the international financial and economic system to diminish the control by the United States and other industrialized countries. (Source: Economist Intelligence Unit).

Despite the many differences that exist among the BRICS, the group tends to agree on the desire to diminish the influence of Western powers in key international financial institutions — such as the International Monetary Fund (IMF) and World Bank — as well as in international capital markets that provide much of the world’s private trade and investment financing. With their large foreign exchange reserves, primarily in Russia and China, the BRICS are seeking to develop a new multilateral development bank that could disperse low interest development loans to nations without the conditions and influence of the West. This would be the first time, since the creation of the current international financial system in the 1940s, that the West's dominance over official foreign development lending would be challenged. Although Russia and the other BRICS nations are not the first to try and confront the existing international economic system, they are the first to have the financial resources that could bring about significant change over the objections of the original Western donor nations.

**Hot Button Issues:**

In addition to the Russian annexation of Crimea, the following issues play a significant role in Russia’s relationship with the West:

- Ongoing military and political support for pro-Russian separatists in eastern Ukraine.
- Official comments citing the need for Russian interference in neighboring states with Russian populations — especially the Baltic states.
- Increases in Russian air and sea patrols in the Baltic Sea and neighboring Scandinavian countries.
- Threats against Europe related to the sales of natural gas and other forms of energy.
- Statements of intent to establish military bases around the world, from Belarus to Cuba.
- Russian support for the Syrian and Iranian governments, including the sale of weapons.
- Human rights abuses in Russia.
The crisis has also exposed Europe’s high dependence on Russian energy exports, especially in Germany and other EU member states in Eastern Europe. How this dependency will be addressed in the energy policies of EU member states is critical.

Broad challenges ahead include how Europe and the United States can oppose Russia in its military interventions among neighboring countries, its poor record on human rights, and its efforts to disrupt the Western-dominated international economic system. All the while, the West continues to seek cooperation with Russia on a range of important issues outside the region, including in the Middle East, the Caucasus and Asia. How and to what extent the United States resumes its leadership role in global and regional security matters will also profoundly affect the course of relations over the next several years.

Looking to the future, Russia will need to balance the importance of national pride and a desire for regional dominance and global influence, with a necessity to access Western markets, technology, and support for the challenges Russia will face moving forward.

If you were a policy strategist, what predictions do you have for Russia’s future? How should Russia’s leadership address the foreign policy challenges it faces today? As you prepare for the World Affairs Institute, think creatively about Russia’s future and how its challenges and actions have an impact on its relations with the global community.

Be sure to visit the Institute blog for updated information.

Websites

NGOs & International Agencies

Amnesty International
www.amnestyusa.org/russia

Europe Union
www.europa.eu

European Union Statistics (Eurostat)
eep.eurostat.ec.europa.eu

Human Rights Watch
www.hrw.org

International Energy Agency
www.iea.org

International Monetary Fund
www.imf.org

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www.oecd.org

OECD Statistics
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www.osce.org

Russian Central Bank
www.cbr.ru

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www.un.org

World Bank
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Research Organizations

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Carnegie Moscow Center
www.carnegie.ru

The Brookings Institution – Russia
www.brookings.edu/research/topics/russia

Foreign Policy
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www.state.gov

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www.washingtonpost.com
Appendix I: The Crisis in Ukraine

Beginning late in 2013 protests in Kiev, Ukraine’s capital city, transition to a large scale revolutionary movement that ultimately toppled Ukraine’s unpopular President Viktor Yanukovych—a pro-Russian politician elected in 2010. The conflict between pro-Russian separatists and the Ukrainian army, which has resulted in some of the worst violence in Europe since the end of World War II, peaked during the summer months of 2014. It has subsided only after an uneasy ceasefire was agreed to in early September.

The Ukrainian crisis can be effectively divided into three phases.

First Phase: November 2013 - February 2014

The crisis began in November 2013 with widespread public protests over the conduct of then President Yanukovych. The president had just agreed to scuttle plans for increased Ukrainian-European Union ties after coming under pressure from Russia to reject further integration with Europe. His decision prompted waves of protests from November through February, when Yanukovych was forced to flee the country. The protest movement came to be known as the “Euromaidan” movement—a combination of Euromaidan and the Ukrainian term for square, or “maidan,” reflecting the locations of many of the largest protests. Participants wanted Ukraine to not only further integrate itself into the European Union, but also maintain a clearly defined independence from Russia. The Euromaidan movement also sought an end to the endemic corruption that has plagued Ukraine for much of its independence.

The protests succeeded in part because of the violent response it generated by the Yanukovych regime, angering much of the Ukrainian population. In the end, several hundred protesters were killed in street battles with government soldiers and police.

Although most outside observers sympathized with the Euromaidan movement, many pro-Russian Ukrainians and most of Russia itself perceived the protests and eventual ouster of Yanukovych as a violent coup rather then a pro-democracy revolution. The collapse of the Yanukovych government in February led to an almost immediate rise of pro-Russian forces in Crimea. Given the turmoil in Kiev, as well as Crimea’s overwhelmingly ethnic Russian population and long history of control by Russia, prospects for a dramatic change of government in the peninsula were high.

In fact, Russian President Vladimir Putin and the rest of the Russian political leadership quickly saw the ouster of Yanukovych as an excuse to reclaim what they had long considered to be a part of Russia—the Autonomous Republic of Crimea and the federal city of Sevastopol, as they were known in Ukraine. Although long administered separately, the two entities were quickly claimed by Russia as two federal subjects, aimed at joining the Russian Federation.

Second Phase: February 2013 – March 2014

The second phase of the Ukrainian crisis began in late February 2014, just as the Euromaidan protestors in Kiev succeeded in ousting President Yanukovych. Throughout the Crimean peninsula, para-military forces in unmarked uniforms seized government buildings and key border points, effectively cutting Crimea off from Ukraine. Within weeks, pro-Russian politicians—which dominated the Crimean regional legislature—began the separation process from Ukraine.

Days later, Crimea declared itself independent of Ukraine. Then, in mid-March Crimean citizens voted on a referendum asking whether Crimea should accede to Russia. According to official reports, 95 percent of participating voters in Crimea, including those in Sevastopol—Crimea’s largest city—voted to ask Russia to allow Crimea to join Russia as a republic. Although many critics outside the area argued the vote was invalid, the end result was accepted by the Supreme Council of Crimea, now in control of the territory.

Almost immediately, the breakaway republic formally asked the Russian government to accept the annexation, while at the same time adopting the Russian ruble as its official currency. Russian President Vladimir Putin announced that Russia would recognize the Republic of Crimea by decree, and its population as subjects of Russia. Shortly thereafter, the Russian Duma approved a change to the Russian constitution that would accept Crimea as a new republic.

Although the European Union and most Western democracies, including the United States and the United Nations General Assembly, rejected Russia’s annexation of Crimea, no force either within or outside Ukraine was willing to challenge the results with force. The process that in most western democracies would have taken years of negotiation and compromise, was shortened dramatically by Russia’s autocratic political system and its strong sense of nationalism. The annexation was a fait accompli before anyone in the west could react.

A critical factor in the ease with which Crimea became a part of Russia was that nearly 60 percent of Crimea’s population identify as being ethnically-Russian, and more then three-quarters name Russian as their as their native language. This overwhelming ethnic and language breakdown played a large part in the support the separatists gained in pushing for independence and annexation to Russia.

The manner in which President Yanukovych was chased out of office gave the average Russian politician an almost moral authority to support the annexation of Crimea. President Putin even admitted in April that Russian troops had been actively involved in Crimea’s separation from Ukraine, claiming that they had been needed to “protect” Crimean civilians and the Russian military bases that had been based in Crimea since Ukraine’s separation from Russia in 1991.
Third Phase: March 2014 – Present

The next phase in the Ukrainian crisis has proved to be far deadlier and is as yet unresolved. After Russia's successful takeover of Crimea, pro-Russian separatists elsewhere in Ukraine were emboldened and began in late spring military operations against Ukrainian armed forces in two eastern provinces, Donetsk and Luhansk, that border Russia and contain large numbers of ethnic Russians.

Within weeks, the operations turned into a bitter civil war between Russian-backed separatists and Ukrainian government army units. By September, the conflict had claimed at least 3000 lives—including an estimated 300 civilians that were killed when a pro-Russian militia unit shot down Malaysian Airlines Flight 17, apparently by mistake. Russia was widely blamed for its support of the rebels, including providing them with sophisticated weapons such as the anti-aircraft system that was believed to have been used in targeting the airliner. Further, Western officials widely believe that Russia sent combat troops into Ukraine during the height of the fighting in mid-summer.

In early September, a tentative ceasefire between the Russia and Ukraine limited the violence, but relations between Russia and the West remain broken. Sanctions by the West were stiffened during the summer months and will likely remain in place for some time.

The ceasefire—negotiated in Minsk, Belarus—has been marked by numerous violations in the weeks since it came into effect. Although Russia has not made any direct claims further territory in Ukraine, in the way it had in Crimea, the national government in Ukraine remains wary of continued Russian support for the rebels. As part of the agreement, Ukraine has effectively ceded de facto control of certain areas within the disputed provinces to the separatist groups; however, it has not relinquished any claims on the provinces.

As part of the enforcement of the ceasefire, the Organization for Security and Cooperation in Europe (OSCE)—a 57-member inter-governmental agency focused on non-binding dispute resolution throughout the world—has agreed to assist in monitoring the border areas.

In early October, the Ukrainian government asked that the OSCE mission increase the number of civilian monitors from the 300 currently scheduled to be in country to 1,500, along with at least 29 unmanned drones. Ukraine argues the additional monitors and drones are needed to adequately patrol the region's flash points—including areas around the airport in Donetsk, where sporadic violence has continued in the weeks following the ceasefire. The Ukrainian government blames the rebels for continued attacks, while Russian officials in Moscow blame Ukrainian forces for shelling rebel positions in the area.

Due to the ongoing violence, none of the OSCE civilian personnel have been able to effectively monitor the situation. Preliminary discussions between France and Germany to send armed troops to monitor the ceasefire have begun, but with no agreement made.

Highlighting the tentativeness of the ceasefire, Petro Poroshenko—Ukraine's new President, elected in May 2014—warned that the clashes between "[pro-Russian] demonstrators and police outside the parliament building in Kiev on October 14 represented 'an abortive attempt to open a second front in Ukraine'" (KyivPost.com October 14, 2014). Ukrainian suspicions of Russian intent will remain unless the rebel claims on Ukrainian territory are resolved.

Meanwhile, Poroshenko has renewed Ukraine's efforts to become more integrated with the West, including calls for trade and investment ties that would further integrate Ukraine with the European Union. Ukraine and the EU ratified a trade and political deal that Poroshenko called a step toward EU membership for Ukraine; however, membership in the EU is a long process. Ukraine will need to be prepared to spend years making changes to its economic, political, and legal structures if it wants to become a full participant in the EU's common market.
Sources and References


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