Chapter 7

Russia: Focus of Strategic Engagement Shifts from Ukraine to Syria

The crisis in Ukraine, which had been unfolding since 2014, did not end immediately with the Minsk II ceasefire agreement in February 2015, but showed signs of cooling down in September 2015. In place of the Ukrainian issue, the focus of Russian strategic interest switched to Syria, where Russian planes began bombing on September 30, accompanied by overtures from the Kremlin to the Western nations to form a "grand alliance" to combat the Islamic State of Iraq and the Levant (ISIL). This is seen as part of an attempt by the Russian government to improve its strategic environment, which has been damaged by the crisis in Ukraine. Russia's military intervention in Syria was the first such full-scale overseas military deployment by the Kremlin for thirty-six years, since the Soviet Union's intervention in Afghanistan in 1979.

Although the Ukraine crisis has caused Russia to move increasingly to improve its relations with China, Russo-Chinese joint naval exercises, held twice in 2015, did not lead to any significant strengthening of collaboration between the two sides or improvements in military capabilities. On the other hand, final agreement appears to have been reached on a contract for the export to China of cutting-edge military equipment, i.e., S-400 air defense missile systems and twenty-four Sukhoi Su-35 fighter planes. A planned visit to Japan by President Vladimir Putin was postponed as a result of Russia's worsening relations with the United States and its European allies.

The administration of President Putin has drawn up a political strategy aimed at cementing its governmental base ahead of the upcoming elections in the autumn of 2016 to the lower house (the State Duma) of the Federal Assembly of Russia, which itself is part of the run-up to the next presidential election scheduled for 2018. At the same time, the bleak outlook for the Russian economy has made it impossible to implement the normal budget formulation process, which is an unprecedented situation. But whereas the amount of spending earmarked in the budget for fiscal 2016 for measures to stimulate the economy and bolster the country's social security programs has been increased, national defense expenditure has been reduced by a small margin. Moreover, despite the severe fiscal situation, the Russian military has continued as usual to engage in large-scale military exercises such as the Tsentr-2015, and to conduct snap inspections, and the Russian armed forces have intervened in the Syrian conflict in a cost-effective manner under the limitations on defense spending.

1. Russia Takes Steps to Improve its Strategic Environment

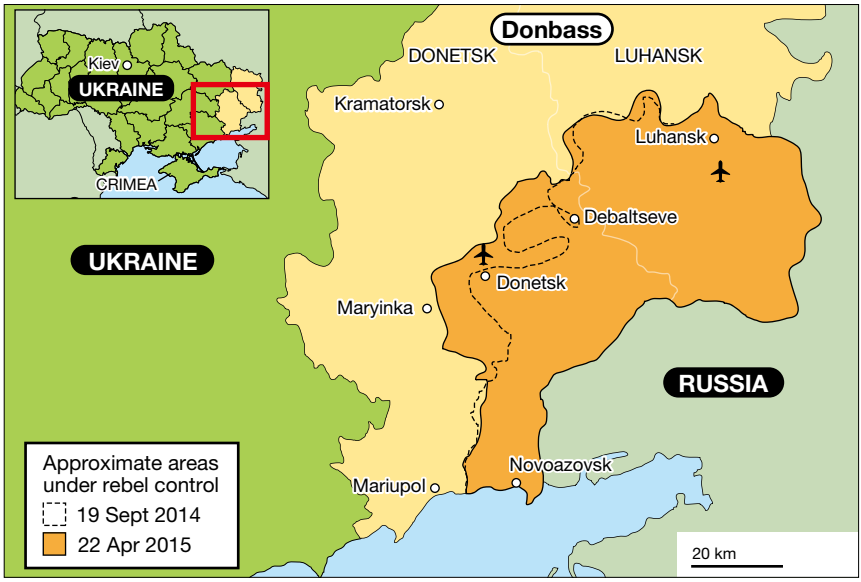
(1) Ukraine Crisis No Longer at Center Stage

On a television program in March 2015 marking the elapse of one year since the annexation of Crimea by the Russian Federation, President Vladimir Putin revealed that he had decided to send Russian troops into the Crimean Peninsula immediately following the Ukrainian Revolution of February 2014. He also stated that he had been prepared to put Russia's nuclear forces in a state of readiness. This statement constitutes an indirect admission that Russia expanded its territory through the use of force. In response to Putin's hard-line approach to international relations as expressed in these words, as well as in response to more active Russian military deployments in regions adjoining the Baltic Sea, some of Russia's neighboring countries raised their state of defense readiness. In addition, in February 2015 the United States unveiled a plan to provide Ukraine with armaments.

Meanwhile, in an attempt to prevent the situation from deteriorating further, Chancellor Angela Merkel of Germany and President François Hollande of France moved to act as mediators by holding consultations on a possible ceasefire accord. On February 5 they held talks with President Petro Poroshenko of Ukraine in Kiev, and met with President Putin in Moscow the following day. These diplomatic efforts led to a summit meeting in Minsk, the capital of Belarus, on February 11, at which the leaders of Ukraine, Russia, France, and Germany held long talks, finally leading to the signing of the so-called Minsk II ceasefire agreement, which was announced the following day.

Measures to be taken under the Minsk II agreement included the following: (1) both sides were to pull out heavy weapons to equal distances to create a security zone in which the weapons were several tens of kilometers apart; (2) all foreign military forces were to pull out from the conflict zone, and illegal groups were to be disarmed; (3) control of the state border was to be restored to the Ukrainian government, and (4) Ukraine was to institute constitutional reform by the end of 2015 to decentralize power in certain regions.[1)] Following the Minsk II agreement, however, pro-Russian separatists continued to attack the city of Debaltseve—a key strategic locality connecting the oblasts (provinces) of Donetsk and Luhansk—and Ukrainian forces withdrew from the city on February 18. Subsequently, both sides were accused of violating the ceasefire through repeated hostilities. In

Figure 7.1. Areas controlled by separatist forces in Eastern Ukraine



Sources: Compiled from the BBC and other sources.

August, both the Ukraine armed forces and the separatists increased the tempo of their attacks, and frequent damage was caused by shelling near the city of Horlivka (close to the city of Donetsk, capital of the oblast) as well as to the industrial city and port of Mariupol, on the coast of the Sea of Azov.

Toward the end of August, however, the Russian government began to show signs of moving to intervene in the civil war in Syria, and the conflict in Ukraine began to de-escalate. On September 1, an agreement between the Ukrainian armed forces and the separatist groups resulted in a cessation of large-scale conflict, and at a meeting of foreign ministers of Ukraine, Russia, Germany, and France held on September 12, the participants confirmed the need to hold elections under the supervision of the Organization for Security and Co-operation in Europe (OSCE), and reached agreement on drawing up concrete plans to guarantee the maintenance of the ceasefire and the conduct of humanitarian activities. Table 7.1 shows a timeline of events that have taken place in relation to Ukraine and Syria. As can be seen, since September 2015, the focus of Russian strategic engagement has shifted from the Ukraine theater to Syria.

Table 7.1. Timeline of developments related to Ukrainian and Syrian crises

Developments in Ukrainian crisis	Developments in Syrian crisis
Nov. 2013: Pres. Yanukovych avoids signing association agreement with EU, leading to Euromaidan popular protests. 2014 Jan.: Anti-protest laws passed. Feb. 21: EU-sponsored peace accord signed. Pres. Yanukovych flees from Kiev. Ukrainian Parliament appoints new interim leaders. Aborted attempt to abolish the official status of Russian language. Feb. 27: Armed groups in unmarked uniforms operating in Crimea. March 16: Crimean residents vote in referendum. March 18: In Moscow, Russian Federation officials sign document admitting Crimea to the Federation. April 7: Antigovernment forces seize territories, mainly in Donetsk and Luhansk, and fighting begins. May 2: Dozens of antigovernment activists burned to death in clashes in Odessa. May 25: Petro Poroshenko elected president of Ukraine. July 5: Antigovernment forces abandon the city of Sloviansk. July 17: Malaysia Airlines Flight 17 shot down, with 298 people killed. July 30: US and EU impose sanctions on Russia. Aug.: Humanitarian aid from Russia. Soldiers of Russian airborne forces captured on Ukrainian territory. Antigovernment forces break through to coast of Sea of Azov. Sep. 5: Signing of Minsk Protocol to halt war in Donbass. 2015 Jan.: Antigovernment forces attack Donetsk Airport and Debaltseve. Feb. 12: Minsk II accord signed. Feb. 18: Ukrainian army withdraws from Debaltseve. Aug.: Antigovernment forces launch offensive against Mariupol. Sep. 1: Fighting suspended. Sep. 25: Agreement reached on supply of gas to Ukraine. Oct. 2: Peace conference in Paris. Nov.: Kremlin proposes restructuring plan for Ukraine's debt to Russia. Dec. 18: Ukraine halts repayment of debt to Russia. Dec. 27: Fighting in Donetsk. Dec. 30: Four-nation conference; agreement on implementation of Minsk accord in 2016.	Sep.: Reports of Russian armed forces operating in Syria. Joint intelligence center set up in Baghdad by governments of Iran, Iraq, Russia, and Syria. Sep. 28: US-Russia summit. Sep. 30: Russian Aerospace Forces begin bombing. Oct. 3–4: Russian military planes violate Turkish airspace. Oct. 7: Strikes on Syrian targets by Russian Kalibr cruise missiles launched from ships on Caspian Sea. Oct. 20: US and Russia sign memorandum on avoiding air collisions. Syria's Pres. Assad visits Moscow. Oct. 30: Syrian peace conference held in Vienna. Oct. 31: Russian passenger plane crushed in Sinai Peninsula. Nov. 13: Series of coordinated terrorist attacks in Paris. Nov. 17: Russia announces Sinai plane crash was result of terrorist bomb. Tu-95 bombers and other aircraft, flying from Russian territory, hit targets in Syria. Nov. 24: Turkish military shoots down Russian Su-24 fighter. Dec. 8: Russian submarine *Rostov-na-Donu* fires cruise missiles at targets in Syria from Mediterranean. Dec. 18: UN Syrian peace conference.

Sources: Compiled from various media reports.

Immediately following the Minsk II agreement on February 12, heads of state of the European Union convened an informal meeting of the European Council (i.e., a de facto intra-EU summit meeting) and an official EU summit in March, at which it was agreed that the EU would act in unison in providing support for the implementation of the terms of Minsk II. They also agreed to maintain the economic sanctions imposed on Russia until such time as it was confirmed that Russia had fully implemented the terms of the agreement.[2)] Subsequently, on May 12, US Secretary of State John Kerry paid his first visit to Russia since the start of the Ukraine crisis, holding four hours of talks with President Putin, at which he is believed to have sought Russian cooperation in such areas as the Middle East situation, the fight against terrorism, and nuclear arms issues. Secretary Kerry is believed to have indicated that full implementation of the terms of the Minsk peace accord would be a precondition for relaxation of the economic sanctions.

EU leaders also held direct talks with the Russian side on this issue. For example, Chancellor Merkel visited Moscow on May 10 after the ceremony celebrating the seventieth anniversary of Russia's victory over Germany on the Eastern Front of World War II (referred to by the Russians as the Great Patriotic War), and on that occasion she took the opportunity to request President Putin to make some constructive contribution to the Ukrainian issue. Russia, however, failed to accede to these requests, and in consequence the EU decided in June to extend the economic sanctions. Following on from this, at the summit held in December 2015 the EU further extended the sanction period to the end of July 2016, on the grounds that Russia's implementation of the terms of Minsk II was inadequate.

The EU nations also aim to help Ukraine establish order within its borders as a prerequisite for strengthening its national governmental control, and they hope to achieve this by assisting Ukraine to undertake political and economic reforms. In the $40 billion four-year financial assistance plan drawn up by the International Monetary Fund (IMF) and released in March 2015, the EU and United States together were to provide loans amounting to $4.5 billion, and it was agreed that European and US private creditors would reduce Ukraine's debts. The continuation of such financial assistance measures has succeeded in heading off a debt default crisis by Ukraine for the time being.

Proactive measures have also been taken by Japan to address this issue. At the G7 summit held at Schloss Elmau in Bavaria on June 7–8, 2015, Prime Minister Shinzo Abe stressed the importance of holding continuous dialog with the Russian

side in order to find a solution to the Ukraine crisis, and his statements received the support of the other national leaders present. Prime Minister Abe had paid a visit to Ukraine ahead of the summit and held talks with President Petro Poroshenko, where he promised that Japan would provide continued and wide-ranging support on condition that Ukraine forcefully push through reforms. Since 2014 Japan has been providing assistance totaling $1.8 billion to finance economic improvements—such as work on improving the efficiency of Ukrainian coal-fired power plants—as well as financing for and the dispatch of personnel to the OSCE's special monitoring mission, and financing for anticorruption measures.[3)]

In fact, Russia is pursuing cooperative economic measures together with the European nations, including measures that are helping stabilize the Ukrainian economy. In January 2015 Russia announced a plan to achieve economic stabilization, and at the same time held consultations with the EU on energy issues, thus showing a desire to improve economic relations. As part of this series of moves, at the trilateral EU-Russia-Ukraine energy ministerial meeting on gas in March, the Kremlin confirmed its intention to continue supplying gas to Ukraine on condition of payment in advance.[4)] This constituted a guarantee of the supply of Russian gas to Europe via Ukraine. Moreover, there had been signs during the first half of 2015 (following the Minsk II agreement) that European capital was returning to Russia, and Minister of Economic Development Alexey Ulyukaev stated in July that the recession of the country's economy had hit bottom.[5)]

Although Russia is searching for ways to improve its economic ties with the West, at the same time it maintains a hard-line stance vis-à-vis political issues such as how to deal with Ukraine. Experts have cited this as the reason for Russia's political and military support for the Ukraine separatists, but on the other hand, Moscow shows no support for the aspirations of the pro-Russian forces in the eastern Ukrainian provinces of Luhansk and Donetsk for annexation by the Russian Federation. It would seem that the current situation, in which these two eastern provinces are operating independently of Kiev, is seen by the Russians as being to their advantage, in that it prevents the whole of Ukraine from adopting an anti-Russian stance.

(2) Military Intervention in Syria and Bargaining with the West

Just as the fighting in Ukraine's eastern provinces began to show signs of dying down, its place was taken on the strategic stage by Syria, where Russia commenced

moves to strengthen its military presence. At a meeting of the UN General Assembly in New York on September 28, President Putin called for a broad antiterrorism front with a particular emphasis on combating ISIL. Two days later, Russia started air-to-ground attacks within Syria, mainly using its new Su-34 strike fighters as well as attack helicopters. This is the first time that the Kremlin has undertaken a full-scale overseas military deployment in thirty-six years, since the Soviet Union's invasion of Afghanistan.

Initially, Russia deployed about 2,000 air force personnel and over fifty fighter planes and attack helicopters to its base at Latakia on Syria's Mediterranean coast. According to the defense ministry, over the one-month period to October 30, Russian forces conducted approximately 1,400 sorties over Syrian airspace, destroying more than 1,600 military bases, munitions depots, and other targets. This represents an average of roughly forty air strikes per day, or several times the scale of attacks conducted by the forces of the so-called "coalition of the willing." Moreover, on October 7 (coincidentally Putin's sixty-third birthday) twenty-six cruise missiles were launched at Syrian targets 1,500 kilometers away from destroyers and other warships on the Caspian Sea. This is the first time that the Russians have conducted cruise missile attacks from warships since the dissolution of the Soviet Union, and it constitutes a clear demonstration to the global community that the Russian military have re-established their capabilities with respect to attacks employing long-range precision-guided weapons.

As demonstrated here, several reasons can be adduced for Putin's decision to embark on large-scale military intervention in Syria. Firstly, Putin wishes to protect Russia's interests in Syria. The weakening of the hold over Syria exercised by the administration of Bashar al-Assad threatens the continuation of Russian arms exports to that country, and the naval facility at Tartus in Syria is the sole Russian military base located outside the territory of the former Soviet Union. Secondly, the wave of civil unrest and revolutions known as the Arab Spring might spread to Syria, and Putin is believed to be

apprehensive about the possible repercussions of this movement on Russia itself. The majority of Russians are becoming increasingly distrustful of the actions of the West, which they see as being behind the political upheaval in Ukraine, as well as being behind the push for President Assad to step down. But the most significant reason for Putin's decision to employ military force is thought to be his desire to effect an improvement in Russia's strategic environment, which has worsened since the eruption of the crisis in Ukraine. In other words, his aim is to use the Syrian issue to expand Russia's influence. By advocating joint activities on a broad front against ISIL, he hopes to repair relations with the West—which have been deteriorating since the start of the Ukraine crisis—with the ultimate objective of breaking apart the US-led network of sanctions against Russia. The Kremlin has concluded that ISIL was responsible for the October 31 destruction of a Russian passenger plane in Egyptian airspace,[6] and in response to the terrorist attacks in Paris on November 13, has been collaborating with France on the antiterrorism front while adopting a more active policy on the deployment of its armed forces. The United States and the European nations initially reacted negatively to Russian military intervention in Syria. Subsequently, however, in response to the influx of Syrian refugees and the growing terrorist threat, the Europeans moved closer to acceding to Putin's call for a united international front to combat ISIL. For example, the United Kingdom commenced air strikes in Syria, while Germany began providing logistical support for military operations by the US-led coalition.

Unlike the case of Crimean annexation, in which Russia has been criticized for using force to achieve political change, the West has found itself unable to deny the merits of Russia's military intervention in Syria. This is because, although Russian air strikes have mainly targeted the moderate antigovernment groups, Moscow has continuously claimed that its military operations targeted ISIL, the same target as the US-led coalition. With respect to the broad antiterrorism front proposed by Putin, since the US-led coalition had failed to significantly degrade ISIL's capabilities in spite of military efforts lasting more than one year, the US authorities were disinclined to reject outright the suggestion of limited cooperation with Russia in the military intelligence sector and other fields. With regard to the legitimacy of military intervention in Syria, whereas the air strikes conducted by the United States in Syria lacked the imprimatur of a United Nations Security Council resolution or an official request from the

government of Syria (and President Putin thus regards them as the use of force in violation of international law), Russia had been requested by President Assad on September 29 (the day before the air strikes commenced) to provide the Syrian government with military assistance.

A meeting of foreign ministers was convened in Vienna on October 30 to discuss the Syrian question, with the participation of foreign ministers from around twenty countries, including Iraq, Qatar, Jordan, and other nations in the region, in addition to the principal European countries. Also allowed to participate was Iran, which is a supporter of the Bashar al-Assad regime. At this meeting, Russia sought to take the initiative in addressing the Syrian issue through a variety of proposals ranging from military action to political approaches. Differences in attitude toward the Assad regime were revealed among the western countries. While there was agreement on the need to exterminate ISIL and find a solution to the ongoing Syrian civil war, the United States and Britain insisted that President Assad should step down immediately, whereas some European countries—which were seeking to stem the inflow of refugees—favored accepting the Assad regime for the time being, as its participation in negotiations would be necessary to reach an early political solution. The Russian side was also seen to be not necessarily insistent on the continuance in power of the Assad regime, so long as they could be confident that the post-Assad government would be a pro-Russian one.

Russia's deployment of its armed forces overseas carried with it the danger of an unpredictable military escalation. During the Ukraine crisis, the shooting down of Malaysian Airlines Flight 17 over Ukrainian territory led to a worsening of relations between Russia and the West beyond all expectations. On this occasion, similarly, the Russian airliner Metrojet Flight 9268 disintegrated over Egypt's Sinai Peninsula on October 31. If a major terrorist attack by ISIL were to be staged within Russia's borders, this would be a severe political blow to the Putin administration. In his annual state-of-the-nation address delivered on December 3, Putin repeated his call for a united international front in the fight against terrorism.

Against this background, on November 24 a Russian Su-24 fighter plane was shot down by Turkish forces, causing relations between the two countries to deteriorate suddenly. The Turkish side insisted that the Russian plane had violated their airspace, and that they had only shot it down after issuing repeated warnings in accordance with the accepted rules of engagement. In response, the Russians denied any violation of Turkish airspace. Prior to this incident, the Turks had accused the

Russians of targeting air strikes at Syrian Turkmen groups that had no connection with ISIL, and had already warned Russia that they were prepared to shoot down planes that violated their airspace. Russia demanded an apology from Turkey for this incident, and suspended the visa waiver agreement that had been in force between the two countries, as well as introducing other economic sanctions.

On November 25, the day after the Russian fighter was downed, the Russian government took the decision to deploy S-400 surface-to-air missiles at a location close to Latakia in northern Syria. Then, on December 8 cruise missiles were launched by the submarine *Rostov-na-Donu* from the Mediterranean into Syrian territory. The launching of cruise missiles from a submarine in an actual war situation was a historical first for Moscow, having never occurred even during the Soviet era. This ratcheting-up of Russia's military campaign in Syria is believed to have been motivated by the desire to persuade the West of the need to cooperate militarily in the struggle against ISIL.

(3) Cooperation with Eurasian Countries and China, and the Limits of Such Cooperation

For a number of years now, Russia has been working to strengthen its relationships with emerging nations located on the Eurasian landmass and well as those in Latin America and elsewhere, with a particular emphasis on China and India. The worsening of relations with the West resulting from the Ukraine crisis has put an even brighter spotlight on moves toward closer integration between Russia and China. However, despite the image that has been projected of great strides toward a closer Russo-Chinese relationship, this tendency is under strong constraints. Additionally, in order to avoid an overdependence on China, Russia has been emphasizing the development of partnerships with other countries as diverse as India, Vietnam, and Japan.

The Russian government states that it aims, through the Eurasian Union

concept, among others, to strengthen cooperation with other former member states of the Soviet Union, and insists that it is also working to maintain and further expand normal relations with emerging nations such as its fellow-members of the BRICS group of emerging economies—Brazil, India, China, and South Africa—and other emerging markets. However, the real motive for these efforts is thought to be the desire to demonstrate to the Russian public and the world at large that Russia is not suffering from any isolation in the sphere of international relations. Moscow places particular emphasis on relations with India, a nation with a long history of friendly relations with Russia. In addition, it also emphasizes the strengthening of its ties with China, which is a global economic power and a next-door neighbor of Russia with an extensive territory and massive population. Some commentators in the United States and other countries of the West have warned that these moves toward a closer relationship between Russia and China constitute a dangerous development, but it is conceivable that the Kremlin's principal intention is to warn the West that it is pursuing a dangerous path by attempting to isolate Russia on the international stage.

The Eurasian Economic Union (EAEU)—one of the frameworks for the integration of the former members of the Soviet Union—formally came into being in January 2015 following the signing of a treaty of establishment by the leaders of Belarus, Kazakhstan, and Russia in May 2014. Armenia and Kyrgyzstan subsequently became members in 2015. Russia is believed to be aiming to use the EAEU to achieve further close collaboration and eventually political integration, whereas Kazakhstan and possibly other members principally hope to wheedle gains out of Russia such as the lowering of trade barriers, and are seen to be cautious about ceding any of their own political power. All the countries involved also place importance on cooperation with partners other than Russia, and are therefore seeking to establish balanced and optimal diplomatic relations.

It goes without saying that Russia particularly emphasizes cooperation with China in the commercial sphere and other fields, in view of its position in the world. Both countries set great store by good relations with one another, and cooperation is expanding to cover a growing number of fields, as well as becoming more substantive in nature. There are limits to this cooperation, however, and currently the Russo-Chinese cooperative relationship does not appear to be sufficiently strengthening the two countries' political positions or military power. Both Russia and China have questioned the legitimacy of the international order

built by the West, and have opposed intervention in other countries to resolve inter-ethnic conflicts or impose democracy. The basic positions of the two countries on these issues are very similar, but it should be noted that Russia has twice acted in violation of these principles—when it gave military support to separatist movements in the neighboring states of Georgia (2008) and Ukraine (2014). China did not express approval of these actions by Russia. It should also be pointed out that the Russo-Chinese cooperative relationship is not developing smoothly in certain aspects, including progress in laying gas pipelines and details of joint military maneuvers, as the motives of the two sides differ.

Chinese President Xi Jinping was one of the few heads of state of important countries to attend the military parade held in Moscow on May 9, 2015, as part of celebrations marking the seventieth anniversary of Russia's victory over Germany in World War II. He had already held talks with President Putin the previous day. According to the joint statement issued following these talks, relations between China and Russia were at a historic high. The two sides praised the contributions of both countries to victory in World War II and condemned any attempts to distort or falsify history, pledged to forge ahead with cooperative projects in various areas (including trade, energy, and ensuring ease of settlements in the two countries' currencies), and promised to take steps to strengthen the position of emerging nations in the international order.

The joint declaration on cooperation in coordinating development of the Eurasian Economic Union and the Silk Road Economic Belt, released simultaneously with the Russo-Chinese joint statement, touched upon the issues of cooperation between these two frameworks and free trade conditions for each country involved, as well as other issues. Russia has been an active advocate of the EAEU concept, while being hesitant to endorse China's "One Belt, One Road" concept. In 2015, however, the Kremlin appears to have shown a certain acceptance of the concrete details of the Chinese concept, and to have embarked on a policy of cooperation.[7] At the present stage, however, no specific details are available regarding this proposed cooperation, and it is still unclear whether the two sides can move forward with mutually beneficial collaboration. Russia is seeking to regain some of its influence over the former member-states of the Soviet Union or countries that were within the Soviet bloc, and the government fears that the growing economic power of China may serve to increase its political leverage.

At a meeting of the heads of state of BRICS countries, held in Ufa, capital of

the Republic of Bashkortostan (a federal subject of the Russian Federation) on July 8–10, 2015, the decision was taken to establish a new development bank to finance the building of infrastructure, as well as a foreign currency reserve system to provide financial support. Following this, a summit meeting was held of members of the Shanghai Cooperation Organisation (SCO), at which proceedings were initiated to admit India and Pakistan as members, and to accord Observer status to Belarus and the status of Dialogue Partners to Azerbaijan, Armenia, Cambodia, and Nepal.

On September 2 military parades celebrating the end of World War II were held in a number of locations, including Chita (a city in Zabaykalsky Krai in Eastern Siberia, bordering China), Vladivostok, and Yuzhno-Sakhalinsk. President Putin attended the ceremony in Chita, following which he visited Beijing, where he viewed a military parade on September 3 celebrating China's victory over Japan. Putin then held talks with President Xi, and on September 4 attended the Eastern Economic Forum in Vladivostok. During the course of these events, Putin did not utter any criticism directed at Japan in the postwar period.

Not much progress has been seen in fulfilling the terms of the Eastern Route gas pipeline contract that was finally signed by Russia and China in May 2014 after years of negotiations. An agreement was reached in November 2014 on the broad concept of a pipeline following the Western Route (from Western Siberia), on which the Russians had originally pinned their hopes, but on the occasion of the summit meeting in September 2015, contrary to most expectations, the two sides failed to reach an accord on the details of the project.

Since 2012 Russia and China have been annually staging joint naval maneuvers under the name Maritime Cooperation, and through this have demonstrated their cooperative relationship to their own publics and to the wider world. Maritime Cooperation exercises were conducted twice in 2015, in the Mediterranean Sea and the Sea of Japan. On May 9, Chinese naval vessels took part in a ceremony to celebrate Russia's victory in World War II, held at the naval base in Novorossiisk on the Black Sea. Following this ceremony, ships of both navies entered the Mediterranean together, where they conducted maneuvers labeled "Maritime Cooperation 2015 (I)" in the eastern Mediterranean, including joint antipiracy exercises. In fact, the vessels involved, from both navies, took part in actual antipiracy patrols in the Gulf of Aden (off the coast of Somalia) as part of international efforts.

Maneuvers under the name "Maritime Cooperation 2015 (II)" were conducted from August 20–27 in Peter the Great Gulf, south of the city of Vladivostok. In a new development, this time aircraft belonging to the Chinese Air Force took part, and joint landing drills were conducted. As had been the case previously, the Chinese side was believed to have expressed the desire to take part in antisubmarine exercises in order to improve their capabilities in this area, and Russian submarines did participate, but it seems that the exercises were of insufficient duration and inadequate sophistication to satisfy China's requirements. These joint maneuvers were aimed at mutual confidence-building and at sending a warning to the security forces of the United States and its allies. However, they appear to have fallen short of strengthening cooperation in the field of practical military capabilities.

While seeking to profit from cooperation with China, Russia is also alert to the danger of excessive reliance on China, and has thus been working to create advantageous cooperative partnerships with other countries in Asia. India, with which Russia has for many years been linked as a fellow BRICS member, is one such partner. In November, Russia and India conducted the INDRA 2015 joint exercise on counterterrorism in the Indian state of Rajasthan. In addition, the Indra Navy 2015 exercise in the Bay of Bengal was also held in December.

In the Asia-Pacific region, Russia and Vietnam also have a long tradition of cooperation, and Prime Minister Dmitry Medvedev visited Thailand and Vietnam in April 2015. Russia and Vietnam reached agreements on petroleum refining, among other matters, and have agreed on the signing of a free trade accord with the EAEU within 2015.[8] Russia has not publicly stated any position with regard to the ongoing maritime territorial dispute between Vietnam and China, but Vietnam is seeking a limited capability to counter Chinese actions in the South China Sea,[9] and in response Russia has exported *Kilo*-class submarines (the extremely quiet Project 636 version) and has assisted in crew training. Four out of the scheduled total of six such submarines were delivered by June 2015 to Vietnam's Cam Ranh Bay.

North Korean supreme leader Kim Jong Un was expected to pay his first official overseas visit as leader by attending the military parade to celebrate the seventieth anniversary of victory in World War II, but he failed to do so and was represented by Kim Yong Nam, chairman of the Standing Committee of Supreme People's Assembly. Although Russia has maintained a steadfast opposition to North Korea's attempts to develop its nuclear and missile capabilities, in March 2015

Foreign Minister Ri Su Yong paid a visit to Russia for a foreign ministers meeting, and the two states conducted negotiations on a military security treaty concerning the mutual border area. Russia—which shares a short border with North Korea—is working to ensure continued stability in relations between the two countries.

(4) Russia Adopts More Active Approach toward Japan

President Putin had been originally scheduled to visit Japan in 2014, but the visit also failed to materialize in 2015, largely owing to the ratcheting up of tensions between Russia and the West as a result of the Ukrainian and Syrian crises. In an interview with foreign news services on June 19, Putin said that in his view all issues pertaining to peace treaties were resolvable, and he said he was looking forward to holding talks with Prime Minister Abe.[10] In a telephone conversation between the two leaders on June 24, they confirmed[11] their intention to continue holding talks, and on July 8 Shotaro Yachi, head of the National Security Secretariat, visited Russia and met with Putin's close aide Nikolai Patrushev, secretary of the Russian Security Council.

On September 21 Minister of Foreign Affairs Fumio Kishida visited Russia as part of preparations for President Putin's visit to Japan, and two days later Nikolai Patrushev came to Japan and held talks with his Japanese counterpart Shotaro Yachi, for their second such meeting. This meeting was regarded by the Russian side as the fourth regular national security consultation session since 2012.[12] In addition, further talks were held between President Putin and Prime Minister Abe on the occasion of a United Nations General Assembly session on September 28, and on November 15 at the G20 summit held in Turkey.

Regarding the hopes entertained by the Japanese side with respect to Putin's visit, these were not limited to achieving progress in negotiations over the Northern Territories dispute, but also involved Russia's increased leaning toward China in reaction to its isolation in the international community due to the crisis in Ukraine. President Xi Jinping attended the celebrations on May 9 in Moscow of the seventieth anniversary of Russia's victory over Germany in World War II. This demonstrated to the world at large the friendly nature of Russo-Chinese relations, and Putin responded in kind by attending China's celebrations in Beijing on September 3 of the seventieth anniversary its victory over Japan in World War II (called the "World Anti-Fascist War" by the Chinese).

Fears of the potential dangers posed by this Russo-Chinese "united front against

Japan" have led to efforts by Japan to bring about a visit to Japan by President Putin as early as possible. Meanwhile, on the Russian side there are similarly those voicing the fear that overdependence on China could lead to Russia becoming the East Asian giant's "junior partner." Such commentators argue that Russia must without delay begin strengthening its relationship with Japan. Thus, despite differences in the degree of ardor for rapprochement between Russia and Japan, both countries contain influential persons who—prompted by concerns over China—are calling for improved Russo-Japanese relations.

At the same time, the Russian government has been rapidly strengthening its control over the Northern Territories. On July 23, Prime Minister Dmitry Medvedev unveiled "the Kuril (Chishima) Islands Socio-Economic Development Plan," under which investment of a massive seventy billion rubles (roughly 130 billion yen) is planned over the next ten years in the construction and provision of infrastructure for the islands, notably Etorofu and Kunashiri. In addition to pushing ahead with the development of economic and social infrastructure, the Russians are also steadily modernizing the military forces stationed on the islands of Etorofu and Kunashiri. At a meeting of senior officials of the Russian Defence Ministry on July 24, Minister of Defence Sergei Shoigu stated that the process of replacement of the equipment possessed by the military units stationed on both islands would be completed in September. He also revealed plans to put in place a fully developed military infrastructure on the Kuril (Chishima) Islands within the year.[13] Prime Minister Medvedev has also made a number of statements emphasizing the military importance of the Northern Territories. For instance, at a cabinet meeting, he said that the Kuril (Chishima) Islands played an important role in the defense of Russia's national borders. Similarly, Yuri Trutnev, deputy prime minister and presidential plenipotentiary envoy to the Far Eastern Federal District, who is a close confidant of President Putin and responsible for development in the far eastern region, stated that to increase Russia's population in the far

eastern regions (where the population has been declining sharply), it would be necessary to extend the scope of a program for providing land free-of-charge to Russian citizens to the South Kuril Islands (Northern Territories) so as to increase the population of the islands and encourage the injection of more investment into the territory.

Amid these developments, one Russian cabinet member after another has visited the disputed territories. On July 18, Minister of Healthcare Veronika Skvortsova visited the island of Shikotan, where she toured a new hospital and other facilities. This was a visit to the Northern Territories by a high-ranked governmental official of Russia, and followed the visit in September 2014 by Sergei Ivanov, chief of staff of the Presidential Executive Office. On August 22, Prime Minister Medvedev visited Etorofu to attend an all-Russian youth educational forum. This was Medvedev's third visit to the Northern Territories.

On July 2 Russia promulgated a law, which takes effect from the start of 2016, prohibiting all drift-net fishing for salmon or trout within the Russian exclusive economic zone (EEZ). This prevents Japanese fishing boats from engaging in drift-net fishing in the seas surrounding the Northern Territories. Additionally, on July 17 a Japanese fishing boat was seized by Russian border security forces off Cape Nosappu (on the Nemuro Peninsula, part of Nemuro City, Hokkaido), and the planned visit at the end of August to ancestral graves on the islands by the families of former residents had to be called off. On September 15, an aircraft (presumed to be Russian) was observed entering Japanese airspace off the Nemuro Peninsula from the direction of Kunashiri Island, causing planes of the Japan Air Self-Defense Force to scramble. The unidentified aircraft turned around and headed back in the direction from which it had come, and was in Japanese airspace for about sixteen seconds.[14)]

These various events appear to show a considerable difference in approach to the territorial dispute with Japan between, on the one hand President Putin, who has adopted a positive stance on negotiations, and on the other hand Prime Minister Medvedev and other cabinet officials, who have taken steps to strengthen Russia's control over the islands. At first sight, there seems to be a contradiction here, but this is in fact a negotiating tactic being used by Russia to unbalance the other side. Both Putin on one side and Medvedev and other officials on the other are playing their necessary roles in a division of labor to produce a "carrot-and-stick" effect. This Russian approach to Japan is becoming increasingly forceful,

and is thought to indicate that the Russian authorities aim to move forward in their relationship with Japan, including on the Northern Territories issue. It is likely that Japan's diplomatic skills will be severely tested by this Russian approach.

As an addendum to the talks between the two leaders at the Russo-Japanese summit in April 2013, directions were jointly issued to the foreign ministries of both countries to find ways whereby the problems inherent in a peace treaty between Japan and Russia could be made acceptable to both sides. The focus of the upcoming visit to Japan by President Putin is the question of whether or not the negotiations over a peace treaty—which have hitherto been conducted at the working level—can be raised to the level of political negotiations between the two countries' leaders. Attention is also focused on whether the second "2+2 conference" of cabinet-level officials from the foreign and defense ministries of the two countries (the first such meeting was held in November 2013) can be held in Moscow.

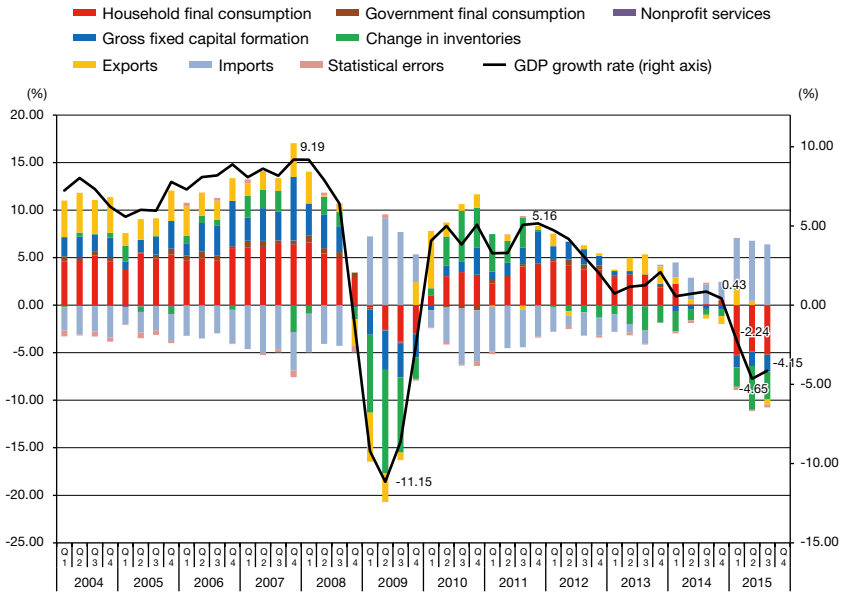
2. Putin Administration Works to Rebuild Political Support

(1) Russia Loses Fiscal and Financial Policy Compass against Backdrop of Minus Growth

To maintain its political stability, it is extremely important that the Putin administration be able to demonstrate an achievable vision of economic growth to the electorate. Against the backdrop of the major slide in global oil prices that has been going on since the previous year, accompanied by a sharp drop in the ruble's exchange rate, among other negative factors, the administration has faced a very difficult task in steering a safe path for the Russian economy. The economy's growth rate in 2015 came to minus 3.7 percent, well below the figure forecast at the start of the year. Economic fluctuations were so large that the authorities had difficulty in adapting their policy to changing economic conditions.

Although economic growth fell into the minus zone in the first quarter of 2015, the margin of slowdown was smaller than initially forecast. Causative factors behind this included the fact that capital inflow into Russia recovered following the Minsk II agreement in February, on the back of renewed optimism regarding the outlook for the Russian and EU economies. International financial institutions such as the IMF and the World Bank evaluated the stabilization of the situation in Ukraine as a positive factor that would lead to a turnaround in the Russian

Figure 7.2. Russian quarterly GDP growth rates, y-o-y (Breakdown of GDP growth by contribution ratios of principal factors)



Sources: Compiled from material obtained from the Russian Federal State Statistics Service.

economy, and on that basis they revised their growth forecasts upward.[15] At this juncture, both global oil prices and the exchange rate of the ruble were showing signs of recovery, and this led to a growing number of optimistic assessments within the Putin administration regarding the economy's prospects. With respect to the economic growth outlook, which forms the basis for the compilation of the federal budget, the Ministry of Economic Development had previously forecast the 2015 annual growth rate at minus 3 percent in February, but this figure was revised to minus 2.5 percent in May, and the ministry announced that growth would move back into the plus column in 2016.[16]

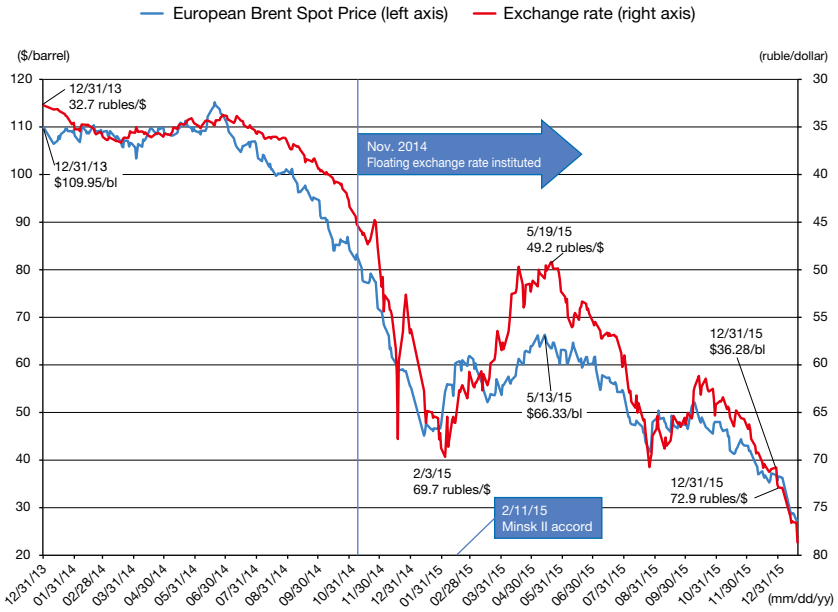
As it turned out, however, the EU and Russian economies, which had been expected to take a turn for the better, experienced a sharp slowdown in the early summer, owing to a number of unforeseen events. The most serious blow for Russia was the renewed decline fall in global oil prices. In its turn, this caused a sharp depreciation of the ruble, ratcheting up inflationary pressure and sparking sharper contraction in consumption and investment, both of which had been

showing signs of recovering. As Russia's fiscal management depends for 50 percent of its funding on revenues taken in by the energy sector, the government found itself severely cash-strapped.

The budget projection drawn up in June on the basis of the above-mentioned forecasts by the Ministry of Economic Development assumed a severe federal budget revenue situation, based on estimated crude oil prices of $50 per barrel in 2015 and $60 in 2016.[17] In fact, the situation turned out to be even more serious than anticipated, necessitating a revised budget projection. This resulted in the anomalous situation in August whereby President Putin took personal charge of the budget compilation work. During this period, the Bank of Russia issued new economic forecasts and drew up a financial policy covering the period up to and including 2018.

On September 4, President Putin, who was hosting the Eastern Economic Forum in Vladivostok, announced a new policy in which the current 2016 budget

Figure 7.3. International crude oil prices and exchange rates to the dollar



Source: Compiled from data released by the Bank of Russia and the US Energy Information Administration.

legislation—which mandated a three-year budget planning horizon—would be suspended; that the country would switch to a one-year budget; and that the fiscal deficit should not exceed 3 percent of GDP.[18] Meanwhile, on September 11, the Bank of Russia released a pessimistic financial and economic forecast. On the assumption that oil prices would not rise above $50 per barrel until 2018 and that economic sanctions would continue to be imposed on Russia, the Bank foresaw GDP growth for 2015 at between minus 3.9 and minus 4.4 percent, improving to the minus 0.5–1.0 percent range in 2016 and finally registering zero in 2017. The Bank decided to retain the key rate at the same level (foregoing further reductions) in order to ensure consumer price stability.[19]

At a meeting on economic issues chaired by President Putin on September 22, he put forward as his budget formation policy a reduction of Russia's dependence on oil prices and a fulfillment of social obligations such as healthcare, education, and science. At the same time, regarding the shrinking of revenues, he directed the government to hold down utilities costs (which are a significant factor in inflation), and stated that he expected increased revenues from industries involved in exports, thanks to the depreciation of the ruble.[20] With increasing uncertainty in Russian economy, and amid this situation, the submission of the draft budget for the 2016 fiscal year (identical to the calender year) to the State Duma (the lower house of the Russian parliament)—which normally occurs in September—was delayed by about one month until October 23. After intensive discussion, the budget bill was passed by the lower house on December 4, and after approval by the upper house was signed into law by Putin on December 14.

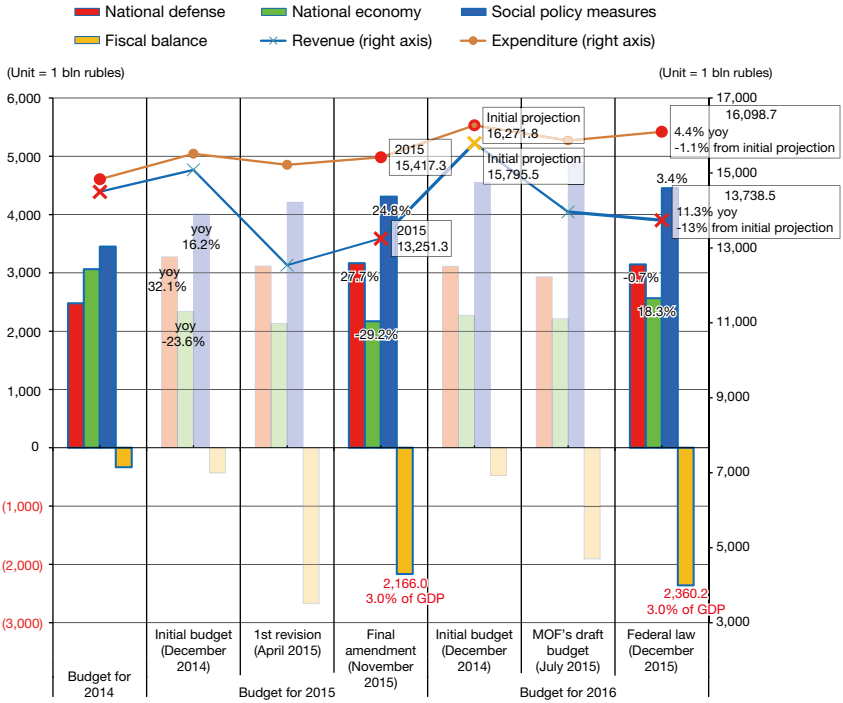
The budget for 2016 assumes global oil prices at $50 per barrel and GDP growth at 0.7 percent at best. These figures represent a massive decline of 13 percent in the government revenues compared with the 2016 budget plan passed in December 2014. On the other hand, the expenditures have been reduced by only 1.1 percent. As a result, the budget deficit amounts to 3 percent of GDP.[21] Paralleling the work of drafting the budget for 2016, the fiscal 2015 budget was also amended multiple times during the year in response to changes in the economic situation. For example, to deal with the decline in revenue, expenditure on national defense and economic measures, among others, was reduced, whereas spending on social security programs was increased to prevent the spread of social unrest. In the final amendment, made on November 28, the budget deficit was raised to 3 percent of GDP.[22]

The budget deficits for 2015 and 2016 will be financed principally by drawing down the Reserve Fund, but as a result of this, the outstanding balance of the Fund is estimated to fall sharply from the 5.35 trillion rubles (7.5 percent of GDP) recorded at the end of 2014 to 1.0514 trillion rubles at the end of 2016 (1.3 percent of GDP). Consequently, in its fiscal policy, not only will the government have very little room to maneuver in terms of additional economic stimulation measures during 2016, it will also face severe constraints on its budget drafting in 2017 and beyond.

Compared with the final amendment to the 2015 budget, expenditures in the 2016 budget were projected to increase by 4.4 percent. This is based on an assumed 11.3 percent increase in revenues, but revenue from oil and gas, which accounts for 44 percent of total revenue, is not guaranteed. In fact, at a meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC), held on December 4, 2015, the organization postponed a decision on the production ceiling, and taking into account the reentry of Iran into the international crude oil market, depending on whether or not the United States moves to fully lift the ban on exporting crude oil, there is a possibility that global oil prices will fall further, leading to a steep decrease in Russia's revenues.[23] For these reasons, even though the 2016 budget has been approved, the Bank of Russia has made preparations for the realization of a worst-case scenario in which oil prices fall below $40 per barrel,[24] with the consequent risk of an economic downturn. Thus, there is every possibility that the Russian government will face an even more difficult task in managing its finances.

The Russian government is thus constrained in terms both of the decreasing flexibility of fiscal policy that it maintains and the limited effect this policy is likely to produce. In this situation, monetary policy since 2014 has played a proportionately important role, and the Bank of Russia has been grappling with a series of difficult monetary policy issues. In response to an improving external environment during the first half of the year, to stimulate the economy the central bank lowered interest rates and began replenishing its foreign currency reserves to serve as a buffer against the future materialization of risks. However, in addition to the growing risk of inflation posed by the fall of global oil prices and the consequent depreciation of the ruble from the summer onward, overall economic uncertainty took a sudden turn upward against the backdrop of a slowdown in the Chinese economy and fears of a raising of interest rates by the United States,

Figure 7.4. Russia experiences difficulty in drafting budget



Source: Compiled from material available on the website of the Russian State Duma.

among other factors. Because of this, the central bank switched its focus from stimulating the economy to stabilizing the currency and holding down inflationary pressure. Interest rates were thus left unchanged.[25)] At the same time, the bank continued to be faced with very difficult policy decisions in view of the need to provide funds to domestic financial institutions to stabilize the financial system within the limits imposed by the foreign currency reserve—which had been shrinking sharply since 2014—as well as the need to prepare for possible intervention in the foreign exchange market to protect the ruble.

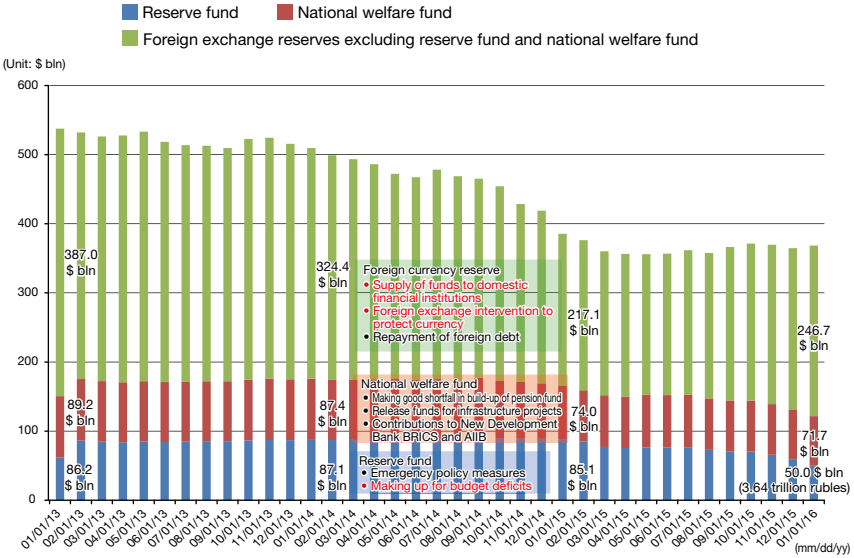
If we look this economic situation solely in the period up to the parliamentary elections in September 2016, while it seems highly likely that the authorities will be able to just about keep the economy afloat through appropriate fiscal and monetary management, as far as the prospects for achieving economic growth

over the medium-to-long term, there is a definite limit to what the authorities can do with the economic policy currently in operation. In the worst-case scenario, the Russian economy could be in dire straits by the time the 2018 presidential election comes along. For this reason, the government is aware more than ever before of the need to urgently transform the economic structure to adapt to the new external environment (taking the stagnation of the oil market as a given), and for this reason President Putin has on numerous occasions—notably his annual address to the Federal Assembly in December—emphasized the necessity of decisive reform. In the executive order approving an updated national security strategy for the Russian Federation, signed by Putin on December 31, it was recognized that the greatest strategic threat facing Russia in the economic sphere was the continuance of the economic development model of reliance on the export of natural resources, i.e., reliance on external economic factors.[26)]

These difficult economic conditions are also having a negative impact on defense spending. Defense expenditure had been growing year on year in double digits up to 2015, but slumped to minus 0.7 percent in 2016, for the first such contraction since the start of the second Putin administration in 2012. An examination of the actual implementation of budget allocations suggests that this trend toward reduction in defense spending had already begun in 2015.[27)] That is to say, by the end of February, the defense ministry had already spent more than 40 percent of the annual budget allocated to defense, but after the economy rapidly deteriorated from the summer, the government placed emphasis on spending on the national economy and social policy measures, and the pace of spending on defense slowed down, with a smaller amount being spent month by month. Against this background, it can be inferred that the initiation of military action in Syria from September occurred in spite of severe budgetary constraints.

These figures are compatible with the state of tensions and/or conflict in Ukraine during the period of increasingly fierce fighting prior to the Minsk II agreement, the period during which clashes died down subsequent to the agreement, or the period following September 1 when fighting ceased. This may indicate that there was some sort of "trade-off" relationship between Russia's military involvement in Ukraine and its involvement in Syria in September and after. Moreover, Russian military operations in Syria thus far have actually been conducted on a strictly limited scale, and there is thought to be little likelihood of this scale being expanded dramatically in the near future. Regarding the

Figure 7.5. International reserves

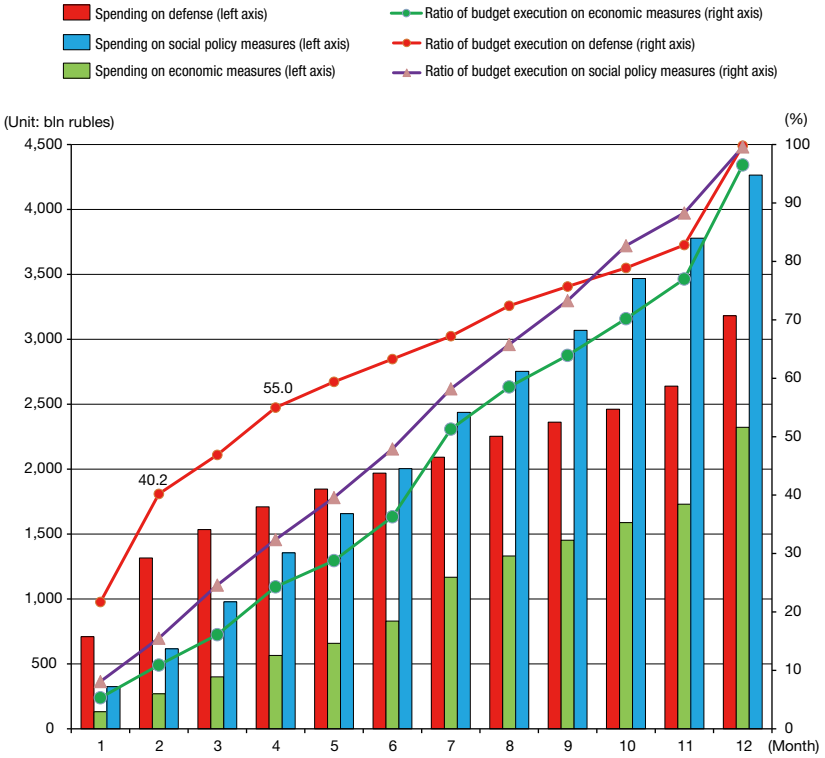


Source: Compiled from figures available on the websites of the Bank of Russia and the Ministry of Finance.

modernization of the Russian military, it is clear from the reports of discussions by the Military-Industrial Commission of the Russian Federation and of discussions at a series of meetings on armed forces development held in November, among other sources, that Putin has called for increased efficiency of operation by the government organs responsible for military equipment, particularly in procurement, and that the authorities are pinning their hopes on a full-scale ripple effect of defense production on the entire Russian economy.[28)]

Regarding the funds required to pay the costs of the infrastructure that underpins economic growth, Russia is no longer able to finance this solely through its own efforts, and will have to find new sources of funds. Some of such sources might be the framework of the New Development Bank BRICS and the Asian Infrastructure Investment Bank (AIIB), and the Putin administration is thought to be placing considerable hopes on these institutions. In fact, with regard to the AIIB, its significance in pushing forward with infrastructure development in Eastern Siberia and the Russian Far East was made clear in the ratification bill presented to the Russian parliament in November.[29)] Moscow has also been laying the groundwork for relationships between these new financial frameworks and the

Figure 7.6. Budget implementation state in 2015



Source: Compiled from materials available on the website of the Russian Ministry of Finance.
Note: The upper limits on expenditure used in the calculation of the rates of actual implementation were as follows: Jan., 15.7027 trillion rubles; Feb., 15.7146: Mar., 15.77; April, 15.4763; May–June, 15.4823; July-Sep., 15.4864; Oct., 15.4866; Nov., 15.6892; Dec., 15.8543.

Eurasian Economic Union.

The single most important issue facing the EAEU is how to secure the funds needed to finance investment in infrastructure. For this reason, Russia has been calling on the global community to invest in the Union, and in March 2013 the government unveiled the concept of a BRICS development bank. Meanwhile, the AIIB is a concept brought out by China following its unveiling of the Silk Road Economic Belt (and Maritime Silk Road) concept in September 2013. Essentially, the AIIB is intended to serve as a financial base for the Silk Road Economic Belt, together with the Silk Road Fund and the New Development Bank BRICS. At

first, Russia saw these moves by China as simply a way of vying with Russia for influence over the Central Asian nations, and was skeptical of the AIIB concept. From early 2015, however, the Russian government began to see the EAEU, the BRICS Development Bank, and the AIIB as complementary,[30] and in June Russia signed an agreement on the establishment of the AIIB. This was followed in July by the formal establishment of the New Development Bank BRICS.

(2) Effects on Russian Energy Policy of Decline in Natural Resource Prices and Chinese Economic Slowdown

The Russian economy is heavily dependent on energy-related revenues. Revenues from the export of oil and gas account for more than 70 percent of total export revenues, and oil and gas revenues for close to 50 percent of all revenues of the Russian Federation. For this reason, Russia's energy policy forms the core of its overall economic policies. To achieve long-term economic growth, Russia must ensure the stability of its exports, and it follows a basic policy of diversifying export markets so as to realize stable demand, while continuously investing in the upstream area of the energy sector. As a result, energy exports occupy an important place in Russia's foreign policy.

The year 2014 saw two developments with respect to the long-pending issue of the supply of gas via pipeline to China, which has been pursued as part of Russia's energy export market diversification policy. One of these developments was the construction of the pipeline named the Power of Siberia, which follows the Eastern Route for gas supplies to China, through Eastern Siberia and Russia's Maritime Provinces (Primorsky Krai). This pipeline—on which a contract was signed in May 2014—will link the newly developed gas fields of Eastern Siberia with the massive energy consumer markets of Northeast China. The other significant development during the year was the expansion of the existing gas fields in Western Siberia and the supply of gas to Western China (Xinjiang) via the Western Route, passing through several central Russian republics, oblasts and other constituents. This pipeline is known as the Altai Pipeline, or Power of Siberia-2. A basic agreement was reached between Russia and China over this project. In other developments, on the European front the South Stream project to transport natural gas to Eastern European states, on which work had begun, was abandoned due to political confrontation and price disputes. This proposal was to have been replaced by the Turk Stream (a plan to supply gas to Southern Europe

via Turkey).

In 2015 these energy-related projects in Asia and Europe showed a complex series of developments in line with the Russian economic situation, movements in the global energy markets, and changes in the international political situation.[31] Regarding gas supply to China, in March the two sides agreed that work would start on construction of the Eastern Route pipeline within the year, and that an official contract on the Western Route pipeline would be signed. The latter was to have taken place in May, when President Xi Jinping visited Russia. Subsequently, the State Duma ratified the legislation authorizing the Eastern Route pipeline in May prior to President Xi's Russian visit, and after President Putin had signed it, work started on the Russo-Chinese cross-border section in June. However, the date of commissioning—originally scheduled for 2018—was pushed back by three years. As for the Western Route pipeline, a contract was not signed during President Xi's visit in May, and matters proceeded no further than a letter of intent (the Heads of Agreement).

When the Chinese economy showed clear signs of slowing down in early summer, the long-term forecast for Chinese energy demand was revised, and gas prices slumped in conjunction with the sharp fall in global oil prices. It has been reported that the signing of the contract on the Western Route was postponed indefinitely as a result of these developments.[32] In response to this report, the Putin administration asserted that negotiations were still continuing, but in August it was revealed that Putin had issued an executive order directing that full support be provided for the development of the East Siberian gas fields and for construction of the Eastern Route pipeline,[33] thus implying recognition of the postponement of the Western Route project. In fact, despite anticipation that a contract would be signed when Putin visited China in September, this did not take place, and prospects for the Western Route remained unclear as of the end of 2015.

Next, regarding the supply of gas to Europe, in January a basic agreement was reached between Russia and Turkey on the Turkish Stream project. Following this, although progress was seen in working-level talks between Russia and Turkey as well as potential consumer markets such as Italy and Greece, no final accord was reached in talks held in June between Putin and Turkish President Recep Tayyip Erdoğan. Subsequently, negotiations stalled, with working-level meetings being called off. Then, on November 23, at the third summit meeting of gas-exporting countries in Teheran, President Putin stated that he was aiming to bring this

project to fruition.[34] On the following day, however, a Russian plane was shot down by Turkish forces. In response, Russia announced on November 28 the imposition of economic sanctions against Turkey, putting prospects for the Turkish Stream still further in doubt. Minister of Economic Development Alexey Ulyukaev explained on December 1 that these sanctions did not, of themselves, automatically mean that this bilateral project had been suspended,[35] and this is thought to indicate that Russia was attempting to utilize this issue as a bargaining chip in its relationship with Turkey.

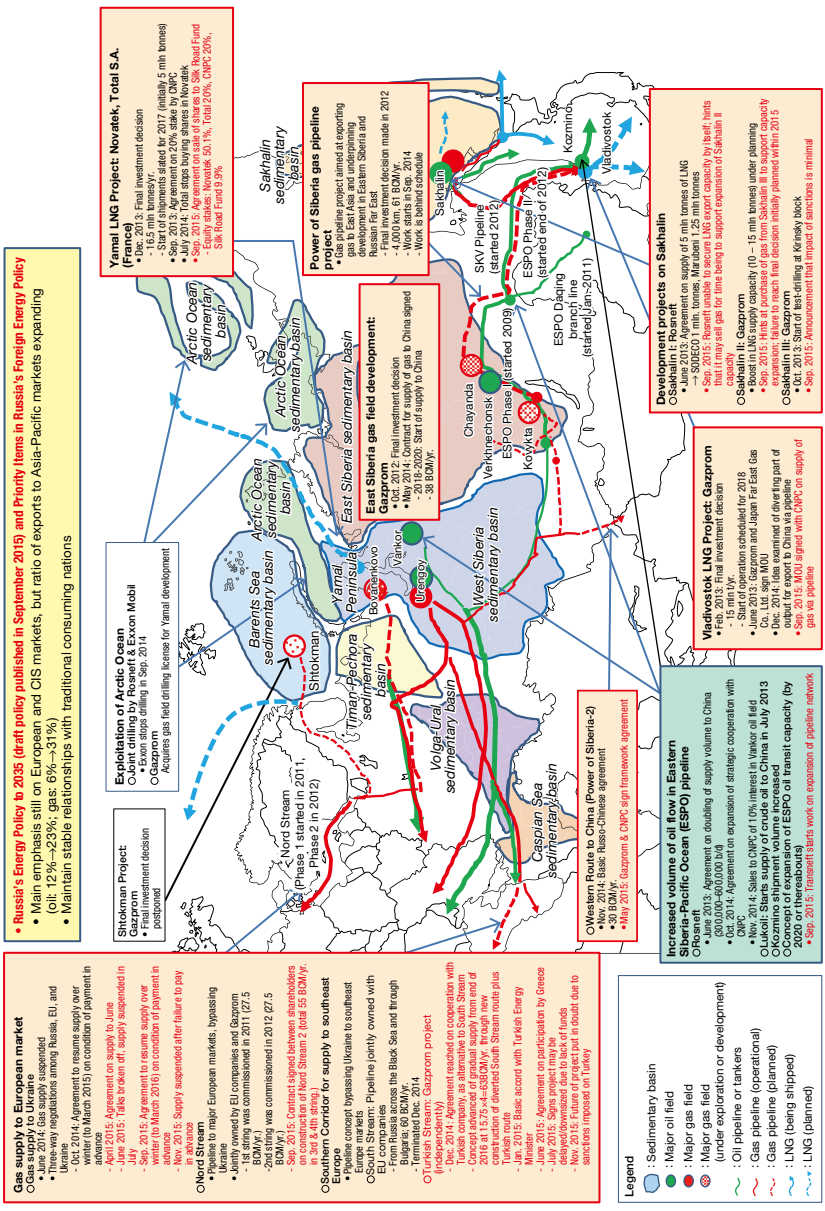
In parallel developments, at the St. Petersburg International Economic Forum in June, US and European investors expressed great interest in Russia's energy sector, and progress was seen in the planning of an additional pipeline to increase the volume of gas carried by the Nord Stream pipeline (under the name of Nord Stream 2), which supplies natural gas to Western Europe via the Baltic Sea.[36] With respect to the regularly held negotiations over the supply of gas to Ukraine, these talks were broken off in July, but an agreement was reached in September to supply gas over the winter, up to March 2016, thus guaranteeing the supply of gas to Central and Western Europe via Ukraine.

In the background to these complex and intertwined relationships lie a number of factors, including the various motives that both Russia and China bring to the negotiating table, informed by historical perspectives. On the one hand, the Chinese authorities are seen to be deliberately dragging out negotiations as a foreign policy tool, as they believe time is on their side.[37] On the other hand, Russia is rapidly running out of bargaining room with regard to using energy transactions as a political tool in foreign relations, in view of falling energy prices and the stalling of Chinese economic growth. A number of observers have suggested that, at the end of the day, Russia will probably attempt to mend its relationships with its traditional energy market of Europe.[38]

(3) Developments Ahead of the State Duma and Presidential Elections

Throughout 2015 the Putin administration worked to ensure the stability of its political base ahead of the scheduled elections to the State Duma in 2016. In the previous elections in 2011, political movements primarily motivated by opposition to Vladimir Putin gained a growing amount of support, mainly among middle-income voters. This time, the administration has unveiled a number of policy

Figure 7.7. Russian energy policy



Sources: Compiled from various materials.

measures aimed at nipping such movements in the bud. Additionally, to maintain Putin's high approval rating in the run-up to the 2018 presidential election, the administration needs to continue presenting the public with proof—through successes in international diplomacy and good economic prospects—that the style of governance adopted by Putin hitherto is the best way for Russia. During 2015 the Putin administration adopted an uncompromising stance on protecting Russia's national interests vis-à-vis the United States and the EU, while simultaneously taking the initiative in diplomatic efforts aimed at creating cooperative relationships in areas where international cooperation was necessary. It is thought that the Putin administration's aim is to demonstrate to the public that Russia is still a great power in the sense of being one of the "centers of power" (i.e., poles) in a multipolar system of international relations, and in this way to maintain or even strengthen Putin's public approval rating.[39)]

Despite these efforts, there is no guarantee that economic issues will not negatively impact the Putin administration's approval ratings in the future, and if the recession is prolonged, there is a danger that the public will vent their dissatisfaction in criticism of the government.[40)] For this reason, administration officials have been devising various measures to ensure the stability of the administration's political support base, while constantly keeping an eye on the election schedule and current developments in the economy. If we first examine the election schedule, we see that the State Duma elections—originally scheduled for December 2016—have been brought forward by three months to September. This move was made against the backdrop of the growing likelihood that the economy would remain sluggish and signs that the wealthy Russian elite class were beginning to line up their influence against Putin. The administration was quick to react to this phenomenon: by shifting the election to September, they ensured that the crucial period of the election campaign would coincide with the summer vacation period, making it more difficult for critics of the government to expand their public following and organize against Putin.[41)] In another move by the administration, a law on undesirable organizations, which had been introduced in 2012 to place limits on the activities of foreign-funded NGOs, was applied in practice for the first time in July 2015. As of the time of writing at the end of 2015, the law had been applied to four organizations (including the U.S. Russia Foundation), which were designated as "undesirable organizations." Despite protests from the United States and the European Union, these bodies have been

constantly monitored, and their activities curtailed.

Although the current ruling party (United Russia) won an overwhelming victory in the nationwide local elections held on September 13, 2015, a number of cases of electoral fraud or irregularities were claimed. The administration moved swiftly to address these issues. Under Russia's political system, local government members elected in these elections are automatically eligible to run for election in the State Duma, and because of this, following the local elections, President Putin issued a statement praising his party's performance and directing party officials to speed up preparations for the upcoming State Duma elections.[42] At the same time, Putin stressed the unacceptable nature of electoral fraud, and moved to investigate irregularities on the part of certain governors and members of local assemblies. In addition, in August Putin effectively dismissed Vladimir Yakunin, President of Russian Railways, who had been criticized for his lack of management ability. On the recommendation of Prime Minister Medvedev, he installed First Deputy Minister of Transport Oleg Belozerov as Yakunin's successor, this being the first step in a program of management reform. It should be noted that Yakunin had been a close personal associate of Putin, and that against the background of the railways system's reputation for inefficient management, this issue brought into the spotlight the extent to which corruption is endemic in the Russian private sector.

The above-described domestic factors lie behind the tough stance—using military force—taken on foreign issues such as Ukraine and Syria by the Kremlin. In other words, the reason why the pragmatism that formerly characterized Putin's foreign policy has largely given way to a revival of Cold War rhetoric directed against the West is thought to be that the administration sees a need to artificially maintain Putin's high approval ratings by whipping up nationalist sentiment among the Russian public and presenting Putin as a strong leader. It could be argued that the Putin administration "created" new external threats during 2015 as compensatory factors amid a sharp slowdown in economic growth and the disappearance of the political capital that Putin had amassed through the annexation of Crimea. In fact, according to a government-affiliated polling institute, since the start of the Russian bombing campaign in Syria, Putin's approval rating has risen from 80 to 90 percent, clearly showing that Moscow's military intervention in Syria has reaped political rewards. The lesson to be drawn from this is that Putin has no choice but to adopt a hard-line stance in the field of

foreign affairs up until the 2018 presidential election, in order to avert the public's gaze from the mountain of economic and political problems that have been piling up, and for which he might otherwise be held responsible.

3. Modernization of the Russian Military in Parallel with External Military Operations

(1) Focus on Professional, Rapid-Response Military and Strategic Nuclear Capabilities

Russia's military policy rests on the assumption that the probability of a large-scale war is low, and on this basis Moscow is pursuing a policy of dismantling the mass-mobilization structure inherited from the Soviet Union and replacing it with professional military forces capable of rapid response to small-scale conflicts. Simultaneously, however, the government continues to place a strong emphasis on maintaining and constantly upgrading its strategic nuclear strike capability, as befits a major power. These policy aims were clarified in the Military Doctrine of the Russian Federation,[43] a document revised and released in December 2014. The doctrine states that Russia regards the probability of the outbreak of a large-scale war as low, and stresses the necessity of preparing for regional conflicts. In the event of a threat to the existence of the nation, Russia reserves the right to counter an attack with conventional weapons by the use of nuclear weapons. The basic concept of the doctrine, as expressed in these statements, remains unchanged from the 2010 edition, but the 2014 edition of the Military Doctrine contains stronger criticism of the various policies of the West insofar as they relate to the national security of Russia. It also contains references to new developments such as the "global strike" concept being pursued by the United States and new threats to national security posed by the opening-up of increased maritime transportation channels in Russian waters on the periphery of the Arctic Ocean as well as adjacent areas.

The Russian authorities have increasingly criticized what they classify as "military dangers" (one stage below "military threats"), including not only geographical expansion by NATO, but also measures by NATO members to strengthen their military capabilities, the establishment of anti-Russian governments in countries adjacent to Russia, and activities aimed at undermining traditional patriotic historical perspectives within Russia. The revised edition of

the Russian Federation National Security Strategy, released on December 31, 2015, put emphasis on criticism of action taken by the West to incite political upheaval in Ukraine and expansion of international terrorist activities, among other actions that have destabilized Russia's national security environment.

In August 2015 the Russian Aerospace Forces were newly formed from a merger between the Russian Air Force and the Russian Aerospace Defence Forces. Col. Gen. Viktor Bondarev, the former commander-in-chief of the Russian Air Force, was appointed as commander-in-chief of the Aerospace Forces. This new branch of the Russian armed forces includes airborne forces, antiaircraft systems, and aerospace forces. Originally, the Aerospace Defence Forces was established in 2011, replacing the Russian Space Forces and including antiaircraft units, but the latest reorganization is believed to be aimed at improving efficiency by combining air and space defense.[44] In this way, Russia's armed forces are divided into the Land Force, Aerospace Forces, Navy, Strategic Missile Forces, and Airborne Forces.

In 2015 the 1st Guards Tank Army was re-formed in the Western Military District, near Moscow. In 2013, on the occasion of forming the 4th Guards Tank Division and 2nd Guards Motor Rifle Division, Minster of Defense Sergei Shoigu stated that he intended to revive the traditional concept of "divisions" as a basic unit of the Russian army, in addition to brigades, and this statement had symbolic overtones. In addition to these two newly formed divisions, the reconstruction of the 1st Guards Tank Army—whose history during Soviet times included being stationed in Germany—similarly had strong symbolic implications. The formation of new brigades in areas of Russia close to Ukraine, and the transfer of existing brigades to those areas, has also been announced.

Since 2013 the Russian armed forces have been conducting snap inspections involving the mobilization of multiple military units into operational action in response to sudden orders with no prior warning. In 2015 snap inspections were implemented involving strategic missile forces and units stationed in the Arctic region under the authority of the Northern Joint Strategic Command (newly formed at the end of 2014). In July 2015 military maneuvers were conducted in the Ural Mountains and Western Siberia involving 12,000 personnel and 250 aircraft.

The largest military exercise during the year was Tsentr-2015, conducted in September. This is a large-scale exercise managed by each of the four military districts in turn in a four-year cycle. This year, the Central Military District took

charge of the exercise, which was conducted mainly on the northern shore of the Caspian Sea. It started with snap inspections from September 7–12, followed by the Tsentr-2015 maneuvers from the 14th to the 20th. According to a report by the Russian authorities, Tsentr-2015 involved 95,000 personnel, 7,000 vehicles and mobile weapons, etc., and 170 aircraft. Units were required to move long distances as part of the snap inspections, after which firing with live ammunition took place at the designated exercise area. Participating in the exercise were units assigned to the Central Military District, ships of the Caspian Flotilla, and airborne troop units, in addition to personnel from the Ministry of Internal Affairs, Ministry of Emergency Situations, the Federal Drug Control Service, the Federal Security Service, and the Collective Security Treaty Organization (CSTO).[45] Following a pattern similar to the exercises held in the Eastern Military District in 2014, exercises were held involving the projection of military force to remote locations, as well as those (including drug enforcement) aimed at expanding collaboration with the countries of Central Asia.

Turning to military exercises conducted near Japan, the cruiser *Varyag* and other ships of the Pacific Fleet carried out maneuvers in the Sea of Okhotsk and adjacent waters, and conducted live firing exercises. In addition, as previously mentioned, the Maritime Cooperation maneuvers were conducted jointly with ships of the Chinese Navy in waters close to Vladivostok. As part of snap inspections carried out on military units all over Russia in March, the Russian authorities announced that they had conducted exercises based on the scenario of an enemy landing on the Kuril (Chishima) Islands.[46] In October exercises were conducted in the region around the Kuril (Chishima) Islands under a scenario in which an Ilyushin Il-38 antisubmarine warfare aircraft searched for enemy submarines while escorted by Sukhoi Su-35S fighter planes. On the islands themselves, firing of Grad self-propelled multiple rocket systems was conducted.[47] In 2015 Japan Air Self-Defense Force planes were scrambled to intercept Russian aircraft in the vicinity of Japan fewer times than was the case for Chinese aircraft, and there was no repetition of the unprecedented frequency of Russian airactivity experienced in the March-April period of 2014. However, on December 21, 2015, a Tupolev Tu-95 bomber flew right around Japan.[48] In contrast, the frequency with which Russian military aircraft approached the airspace of Finland, Sweden, Denmark, and the United Kingdom has increased since 2014, and suspicious submarine activity was recorded in waters off the coast of Sweden.

(2) Military Equipment—Production and Deployment, and Export to China and Elsewhere

The *State Armament Program for 2016-2025*, determination of which had been scheduled for the end of 2015, has been postponed for three years, and the production and delivery of military materiel is being conducted in accordance with the currently applicable *State Armament Program for 2011-2020*, which was drawn up at the end of 2010. It is quite a normal state of affairs for production and delivery to be delayed compared with the plan, but the situation has become all the more severe owing to the economic sanctions and the termination of collaboration with Ukrainian defense companies.

Strategic nuclear weapons have a high priority as regards the updating of military equipment. In June 2015 President Putin announced the deployment of forty new strategic missiles, but these are covered by existing plans. According to Hans Kristensen, director of the Nuclear Information Project of the Federation of American Scientists,[49] if the retirement of existing missiles and their replacement goes ahead on schedule, the number of Russia's strategic nuclear warheads will come within the range allowed under the current Strategic Arms Reduction Treaty (New START), and these moves by Russia do not mean that it has switched its policy to suddenly increase its nuclear arsenal. Russia continues to view its strategic nuclear arsenal as essential as a weapon of last resort in the face of existential threats, as well as the means by which it can maintain its status as a significant power and thus negotiate with the United States and other countries on an equal basis. In July 2015 Deputy Minister of Defense Yury Borisov stated that 38 percent of all military equipment deliveries planned for 2015 had already been made. He stated that thirty-four pieces of equipment for RS-24 Yars mobile ground-launched ICBM systems had been delivered, including eight missiles, and added that a number of Su-35S, Su-30M2, and Su-34 fighter planes had also been delivered. Of the *Borei*-class nuclear-powered submarines commissioned by the

The new-type nuclear-powered submarine *Alexander Nevsky*, attached to Russia's Pacific Fleet (Defence Ministry of Russia)

Russian navy, the *Alexander Nevsky* and *Vladimir Monomakh* had been attached to the Pacific Fleet, but they had been under the command of the Northern Fleet for over one year owing to equipment replacement work being undertaken at the Vilyuchinsk naval base on the Kamchatka Peninsula. In September 2015 the *Alexander Nevsky* arrived at Vilyuchinsk, but the *Vladimir Monomakh* will not arrive in the Pacific until 2016.

After much hesitation on the part of France, the plan to sell two *Mistral*-class amphibious assault ships to the Russian navy was scrapped. The contract was signed in 2011 and construction went ahead in France, with the ships being fitted with Russian-made equipment, but following the eruption of the Ukraine crisis in September 2014, French President François Hollande announced the postponement of delivery. Subsequently, after failure to agree on a resumption of the project, in August 2015 the two sides declared the contract null and void and France agreed to pay back Russia's partial payments. In September, both ships were sold to Egypt.

In 2015 the Russian authorities announced the conclusion of agreements on the export to China of the latest model of the S-400 surface-to-air missile system and twenty-four Su-35 fighters. Regarding the S-400 missiles, Anatoly Isaikin, president of specialist weaponry export company Rosoboronexport, announced the conclusion of an export contract with China.[50] A basic agreement is believed to have been reached in 2012 regarding the export of the twenty-four Su-35 fighter planes, but the two sides subsequently found difficulty in agreeing on details such as price, performance, and measures to prevent the Chinese from copying the planes. In November 2015, Rostec, a state corporation to bring together civil and military high-tech production companies including Rosoboronexport, announced that it had signed a sales contract with China for twenty-four Su-35 planes.

According to Russian media reports, the total sales price was more than $2 billion, and it is believed that the aircraft involved are not the mass-produced type deployed with the Russian Armed Forces, but a special type developed for export to the Chinese Air Force and equipped with Chinese-made electronics.[51] Both sides appear to have agreed to compromise—the Chinese on the price and the number of planes, and the Russians on the installation of various Chinese-made electronic components—and it seems that the two sides have shared the damage of three years of stiff bargaining. Deliveries of both the S-400s and the Su-35s should begin sometime in 2016 or 2017, and although the delivery of the planes

will have been delayed by several years, China will be able to take delivery of these planes and begin putting them into operation. The Su-35 possesses superior maneuverability and radar capabilities, among other advantages. The possession of these aircraft is thus likely to improve China's air power in the future, and it may have an impact on the security environment in East Asia.

In response to the progress that had been made in negotiations with Iran over its nuclear development programs, in April 2015 President Putin lifted the ban on the sale of the S-300 surface-to-air missile system to Iran. This ban had originally been imposed in 2010 in line with the limitations on the sale to Iran of offensive weapons resulting from a UN Security Council Resolution. At that time, in addition to sanctions under the UN Security Council resolution, President Medvedev had issued an executive order prohibiting the sale of the S-300 system. In reaction to this, Iran had brought a lawsuit seeking penalties for breach of the contract signed in 2007. During the negotiations conducted in August 2015, the two sides failed to agree on the handling of this lawsuit or on the sale of new equipment, but in November they signed a contract for the sale of the new S-300PMU-2 model, and assuming that delivery is made in early 2016, the lawsuit will be withdrawn. As shown in Table 7.2, Russia is pursuing weaponry sales to a wide range of customers.

The full-scale modernization of military equipment is one of the most important targets within the plan for reform of the Russian armed forces. In addition, such modernization is intended to contribute to the development of the Russian defense industry, and for these reasons massive expenditures on armaments are planned. Even amid the difficult fiscal constraints that Russia faced in 2014, the military budget for 2015 was increased very substantially, but the budget-drafting process for 2016 was severe, and it appears that the country was just barely able to maintain the required level. It remains unclear whether the Russian defense industry will be able to maintain an adequate volume or production and delivery. For this reason, a high priority has been assigned to the export of armaments, and Russia's foreign policy and diplomatic efforts will likely be aimed at gaining as much profit as possible from sales to the country's existing major customers while opening up new markets and cultivating new customers in the Middle East, Southeast Asia, and elsewhere.

Table 7.2. Principal developments in Russian arms exports during 2015

Importer	Transaction
China	Signing of contract announced for sale of S-400 surface-to-air missile systems. Contract signed for sale of twenty-four Su-35 multirole fighters.
India	Negotiations over sales of S-400 surface-to-air missile systems. Contract signed for sale of two-hundred Ka-226T helicopters and cooperation in production of surface-to-air missile systems.
Pakistan	Contract for twenty Mi-35 helicopters. Talks on production of engines.
Vietnam	Four Kilo-class submarines (636 type) delivered, production started on fifth and sixth.
Indonesia	Indonesia decides to purchase Su-35 multirole fighters.
Iran	New contract signed on sale of S-300 surface-to-air missile systems (original contract canceled).
Algeria	Additional orders placed for Su-30MKA fighters.
UAE	Talks on contract for Su-35 fighters.
Egypt	Talks on contract for fifty Ka-52 helicopters.
Brazil	Talks on contract for Pantsir-S1 surface-to-air missile systems.

Sources: Compiled from various media reports.

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