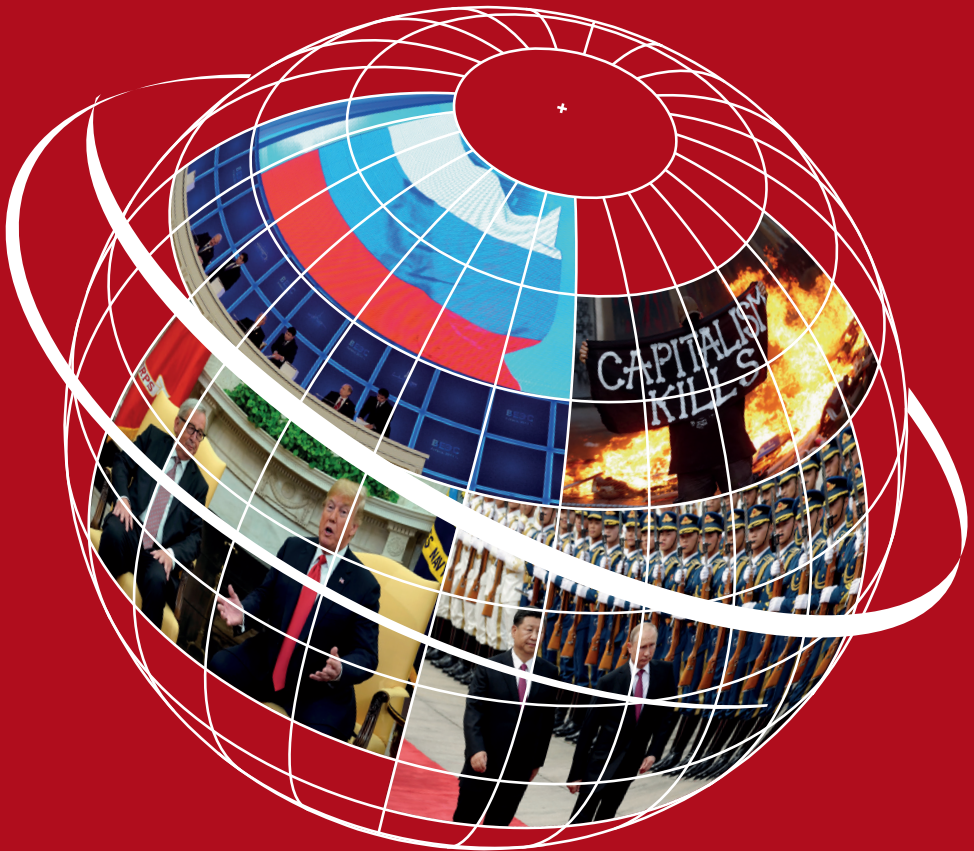


STRATEGIC TRENDS 2019

Key Developments in Global Affairs



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Strategic Trends is an annual publication of the Center for Security Studies (CSS) at ETH Zurich. It offers a concise analysis of major developments in world affairs, with a focus on international security. Providing interpretation of key trends rather than a comprehensive survey of events, *Strategic Trends* targets a broad audience, ranging from policymakers to the media, academics, and the general public. *Strategic Trends 2019* is the tenth issue in the series.

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We hope you enjoy reading *Strategic Trends 2019*. Should you have any feedback, please do not hesitate to contact us at john.thompson@sipo.gess.ethz.ch and oliver.thraenert@sipo.gess.ethz.ch.

With warm regards from Zurich,

Jack Thompson

Global Security Team Head

Oliver Thränert

Think Tank Head at the CSS



Toward a Less Liberal World Order

2019 is shaping up to be another challenging year in world politics. Policymakers on both sides of the Atlantic confront a landscape that is more complicated, and less conducive to Western interests, than at any point since the end of the Cold War. Geopolitical competition between the great powers has become entrenched as the most important feature of the international system. The so-called liberal world order – the institutions, alliances, economic arrangements, and democratic values that provided the foundation for the post-World War II system – is under threat on all fronts.

The North Atlantic Treaty Organization (NATO), the foundation of transatlantic security policy for the last 70 years, is wobbling, as the United States demands more from other member states, sends mixed signals about its willingness to defend allies in the event of war with Russia, and withdraws unilaterally from crucial agreements such as the Iran nuclear deal (the Joint Comprehensive Plan of Action, or JCPOA). Meanwhile, as European officials and analysts become more pessimistic about the prospects for continued partnership with Washington, they have begun to discuss the possibility of pursuing a more independent foreign and security policy, with concepts such as “strategic autonomy” and Permanent Structured Cooperation (PESCO) increasingly driving policy discussions.

Long-term cultural, economic, and political problems plague many Western countries, and free market democracy is no longer the undisputed political ideal. After two years, there is no longer any doubt that Donald Trump is reshaping



the domestic and foreign policies of the United States in unprecedented ways, and, in doing so, is contributing to a partial deglobalization of the international order. Meanwhile, the European Union confronts a multitude of challenges, including the emergence of so-called illiberal democracies among its member states, the shortcomings of the common currency, the unresolved status of Brexit, and the challenge of large-scale immigration. Autocratic regimes are seeking to fill the vacuum. China is posing as a potential leader on issues such as development, international trade, and climate change – all while seeking to reshape the security architecture in East Asia – and Russia has assumed a more prominent military and diplomatic role in hotspots, notably Ukraine and Syria, where the West has failed to develop effective strategies.

Technology and information are rapidly changing the contours of global politics, not necessarily for the better. Western policymakers are struggling to cope with the ways in which social media is empowering radical political actors, as well as offering a new tool for adversaries to sow discord and undermine elections. To be sure, the West is active in the cyber realm. However, it has yet to formulate a coherent strategy for responding to countries such as China that have mounted aggressive campaigns to steal sensitive economic, political, or military information. In the burgeoning, and potentially crucial, field of artificial intelligence, most European countries are still debating whether to formulate official AI strategies. Meanwhile, a competition is emerging between China and the United States, the only nations with the resources to compile the vast amounts of data necessary for machine learning and to put it to use on a large scale.

The *Strategic Trends 2019* contributions reflect on these themes. In the first chapter, **Jack Thompson** considers the consequences of the Trump administration's new approach to trade policy. He notes that the current system is, in some respects, unfair to the United States and harmful to millions of Americans. He also observes that the United States is powerful enough to extract trade concessions from all of its trading partners, and that there may be some short-term advantages in following such a course of action. However, he argues, the long-term consequences of the administration's attempt to, in effect, partially deglobalize the international economy will be harmful. It will encourage other countries to pursue zero-sum trade policies, undermine the multilateral framework – especially the World Trade Organization (WTO) – which was painstakingly



constructed over the course of decades, and make international trade less about rules and efficiency, and more about power. None of this will make the United States or its allies more prosperous.

Dynamic economies have been a key ingredient of Western military dominance, but that, too, is threatened. In the second chapter, **Michael Haas** examines the advantage Western nations have enjoyed in military technology since the 1970s. He argues that this state of affairs is rapidly changing, as competitors embrace new technologies and duplicate or offset Western strengths – a problem to which there are no easy solutions. In his view, Western policymakers should act on several fronts to slow the process, while also adapting to a world in which they no longer enjoy substantial military-technological superiority.

One key competitor is Russia – the focus of this year's other contributions. In Chapter Three, **Jeronim Perović** considers the emergence of the Eurasian Economic Union (EAEU), a surprisingly robust multilateral organization of post-Soviet states, which is not a Russian puppet, and which cooperates in economic, political, and military matters. He argues that leadership of the EAEU is a cornerstone of Russia's strategy to reposition itself as a Central Eurasia great power. This does not signify a break with the West, but rather an attempt to gain more leverage in its dealings with the United States and Europe.

Finally, in Chapter Four, **Lisa Watanabe** looks at Russia's re-emergence as a power broker in the Middle East and North Africa, with a focus on countries of particular interest to Europe when it comes to security issues, economic ties, and immigration. Partly by reviving ties from the Soviet era, and by shrewdly embracing a pragmatic, opportunistic approach, Moscow is bolstering its influence in Syria, Egypt, Libya, and Algeria. With the possible exception of Syria, Russia is not displacing the United States or European powers. Rather, by increasing its sway in a key region, Russia's approach to the Arab world is another way of solidifying its status as a great power.

CHAPTER 1

Trump and the Weaponization of International Trade

Jack Thompson

The Trump administration's trade policies are causing more problems than they solve. They treat friends like adversaries, thereby weakening alliances, and are further complicating the relationship with China. By discarding the current multilateral system in favor of a bilateral approach, the Trump administration is encouraging other countries to view trade negotiations as a zero-sum, power-driven process. In an era of renewed geopolitical competition, this is eroding the dividing line between economic and security issues and, more broadly, undermining the foundations of the liberal world order.



US President Donald Trump and European Commission President Jean-Claude Juncker discuss trade at the White House in Washington, DC, July 25, 2018. *Kevin Lamarque / Reuters*



The nature of the country's engagement with the rest of the world has emerged as a key cleavage in US political culture, and no public figure has done more to facilitate this phenomenon than Donald Trump. When Trump campaigned for president in 2016, he blamed international trade for some of the nation's biggest problems. He argued that previous administrations had betrayed Americans by "aggressively" pursuing "a policy of globalization, moving our jobs, our wealth and our factories to Mexico and overseas." In the process, they had "left millions of our workers with nothing but poverty and heartache." In order to "Make America Great Again," he promised to revamp US trade policy, as part of a broader drive to extract concessions from allies and trading partners. In the process, he is contributing to the partial deglobalization of the international system.

There is a degree of truth in Trump's critique of globalization. Economists debate the scale of the problem, but major trade deals such as the North American Free Trade Agreement (NAFTA), and the impact on the US manufacturing sector of China's integration into the international economic system – the so-called China Shock – have had a significant impact on key sections of the economy. The United States probably experienced

overall net growth because of trade liberalization – millions benefited from these changes, and a majority of voters view globalization in mostly positive terms¹ – but many Americans saw their lives change for the worse. The consequences for these people have been stark: they have endured falling income levels or long-term unemployment, decreased life expectancies, and hometowns that have, in some cases literally, crumbled around them. Not surprisingly, a considerable percentage of this cohort has been politically radicalized.

Trump's trade agenda is designed, first and foremost, to appeal to these people, who understand that globalization has harmed them. In some respects, he has succeeded. At home, Trump has cemented the bond with his political base and earned the approval, or at least acquiescence, of most Republicans – more than 80 percent of whom approve of his job performance. Abroad, he has forced, in particular, Europe and China to reopen existing arrangements and to look for ways to avoid tariffs and other barriers to the US market. His approach has also reinforced the president's message that policies should be based on a dispassionate assessment of US interests, rather than allegedly sentimental concerns about international stability, the maintenance of



longstanding alliances, or the health of the liberal world order (LWO).

In spite of these short-term successes, Trump's trade policies are counterproductive. The president is the first post-1945 US leader to treat allies as if they are competitors. He has directly tied the status of relationships to the outcome of trade negotiations, accusing key partners of taking advantage of the United States. The clear message from Washington – that friends will need to pay more to maintain good relations – strikes many as little more than extortion, and some European policymakers believe he seeks the dissolution of the European Union. This misreads Trump. The European Union's destruction is not a top-tier objective, but the president clearly dislikes Brussels and, when given the opportunity, does not hesitate to undermine it. Nonetheless, European officials are beginning to make long-term plans for the possibility of an adversarial relationship with the United States.

The administration's China strategy is also short-sighted. Though there is widespread acknowledgement on both sides of the Atlantic that Beijing should be confronted about its protectionist trade policies, the president is exacerbating the situation. Instead of a careful approach combining sticks with carrots, and in concert with

other trading partners, the president has instigated a trade war, and done so bilaterally. This is jeopardizing the world's most important economic relationship and destabilizing the international order. Inevitably, trade tensions are inflaming other areas of disagreement – a worrisome prospect when it comes to the world's most powerful nations.

The foundations of the complex, interdependent international system, constructed over decades of painstaking negotiations, are in danger of splintering under the pressure of US hostility. At a time when increased collaboration and more intelligent policymaking are urgently needed to address challenges such as global warming and the recrudescence of extremist and illiberal political movements, Washington has embraced unilateralism and nationalism. This is undermining the LWO – which was already under threat – and making the world a more dangerous place.

Trump's Worldview and Lighthizerism

The current spate of renewed geopolitical competition is reminiscent of a pre-1945, more anarchic era of interstate relations. Similarly, the trade policies of the United States and China call to mind a troubling phase of international history – the heyday of



mercantilism. From roughly the 16th to 18th centuries, European powers sought to maximize their exports as a way to bolster national power, always at the expense of rivals. Policymakers viewed economics and geopolitics as two sides of the same coin, and mercantilist thinking fueled a number of conflicts.

Aspects of the mercantilist worldview resonate with Trump. He has long viewed the LWO – the alliances, trading and financial system, international institutions, and commitment to liberal values that the United States led the way in promoting after World War II – as detrimental to US interests. During the late 1980s and into the 1990s, Trump’s anger focused on Japan and Germany. He accused Tokyo of unfairly limiting access to its markets even as it depended on the protection of a formal security alliance with Washington. In a 1987 advertisement that appeared in several major newspapers, Trump accused “Japan and other nations” of “laughing at America’s politicians as we protect ships we don’t own, carrying oil we don’t need, destined for allies who won’t help.” Trump’s letter was designed to harness the widespread perception that feckless politicians were ignoring the threat allegedly posed by Japan’s economic clout. The advert appeared just as Trump was floating the possibility of a run for president in 1988. In

a 1990 interview, again amidst speculation about a run for higher office, Trump complained that the United States was getting “ripped off so badly by our so-called allies,” such as Japan and West Germany, and vowed that as president he would “throw a tax on every Mercedes-Benz rolling into this country and on all Japanese products, and we’d have wonderful allies again.”²

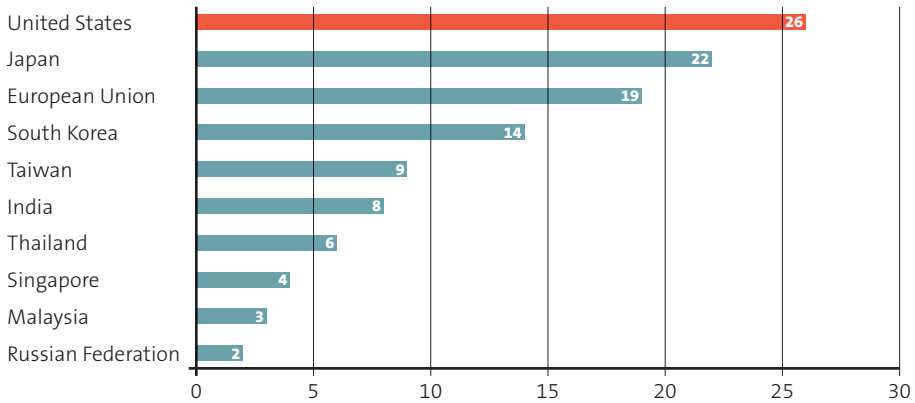
These populist forays served as dry runs for Trump’s 2016 campaign. He is hardly the only politician to exploit voter anger about the vicissitudes of international politics, but he is the first to reach the White House with an explicitly nationalistic trade and national security agenda. In doing so, he has revitalized a strand of thinking that has long lurked on the fringes of conservative political culture – one that combines suspicion of entanglement in foreign problems with fears that the country’s growing diversity and embrace of multiculturalism are eroding the white, Christian values upon which it was allegedly founded. From this perspective, partial disengagement from the international system can appear attractive.

Several senior officials have played a role in implementing the president’s agenda. The most important has been US Trade Representative (USTR) Robert Lighthizer, a trade lawyer



Top 10 Countries Affected by Chinese Non-tariff Trade Measures*

As of 2018



* Non-tariff include barriers such as anti-dumping, countervailing, export subsidies, quantitative restrictions, safeguards, sanitary and phytosanitary measures, special safeguards, state trading enterprises, tariff-rate quotas, and technical barriers to trade.

Source: WTO

and Republican operative. In theory, Lighthizer favors trade liberalization, but he is skeptical of multilateralism. Lighthizer and other administration officials are especially disdainful of the World Trade Organization (WTO). They contend the organization, which admitted China in 2001 as a developing country – thereby placing fewer restrictions on Beijing’s protectionist policies – puts the United States at a disadvantage when it comes to dispute resolution. In particular, they argue that the WTO too often rules against Washington’s use of anti-dumping and anti-subsidy measures. Trump argued in a 2017 interview that the WTO had “taken advantage of this country like you wouldn’t believe. We lose...almost all of the lawsuits.” This perspective is

inaccurate – Washington brings more cases to the WTO than any other country, and wins almost all of them – but it has contributed to the administration’s determination to force countries into bilateral negotiations.³

Lighthizer argues that multilateral policies have led to the accumulation of a massive US trade deficit – 566 billion USD in 2017. Though most economists view the trade deficit as benign, or at least not necessarily the result of unfair policies, it has emerged as a crucial consideration in shaping administration policy. For Trump and his advisors, a few trading partners are of special concern. The deficits with China and the European Union, which topped 300 billion and



139 billion USD, respectively, stand out. Mexico, Germany, Japan, South Korea, and Canada also enjoy surpluses with the United States.⁴ Not coincidentally, the Trump administration has targeted each of these countries for coercive trade measures.

In lieu of multilateral negotiations, Lighthizer prefers bilateral formats, which allow the United States to more effectively wield its massive economic, military, and political power. Trump agrees. He told members of Congress that withdrawing from the Trans-Pacific Partnership (TPP) agreement paved “the way to new one-on-one trade deals that protect and defend the American worker.”⁵ Lighthizer’s approach dovetails with Trump’s tendency to view international politics as a zero-sum game. From the president’s perspective, freer trade does not benefit everyone – there is always a winner and a loser.

The USTR views China as the biggest threat to US interests. Lighthizer argues that the Chinese model of state capitalism has allowed Beijing to undercut the US edge in technology through the use of unfair practices. To an extent, he has a point. In addition to Beijing’s pervasive espionage activities, there are extensive restrictions on foreign companies operating in China. In the automotive industry, foreign

companies must operate joint, 50 percent ventures with local partners. In addition, Beijing often mandates technology transfers to Chinese firms in return for market access and is notorious for failing to protect foreign intellectual property.⁶ The Great Firewall places significant restrictions on US social media and tech companies, such as Facebook and Google. This places US firms at a disadvantage, and has raised concerns about democratic norms – both firms are reportedly developing censored versions of their operations for use in China.

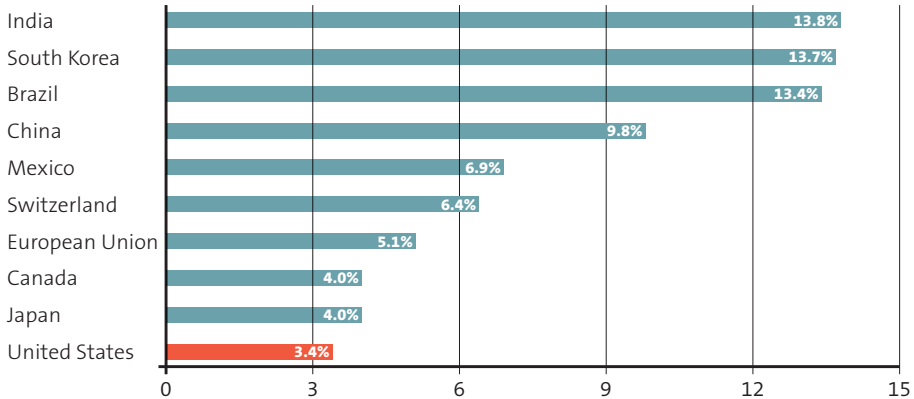
The antidote to at least some of these problems, suggests Lighthizer, is the use of punitive tariffs, which will hopefully force Beijing to reform its policies. Meanwhile, he has been encouraging other trading partners to embrace so-called voluntary export restraints. These form part of the renegotiated version of NAFTA – the pending United States–Mexico–Canada Agreement – and appear to be a goal of US negotiations with Europe.⁷

If Lighthizer has formulated many technical aspects of administration policy, the economist Peter Navarro, who serves as Director of the Office of Trade and Manufacturing Policy, has served as Trump’s backbone: every time his colleagues try to dilute a new trade initiative, Navarro reminds the



Tariff Levels: US and Key Trading Partners

Applied average on all imports as of 2017



Source: WTO

president of his campaign promises. Like Lighthizer, Navarro views the trade deficit as a pressing problem and considers China to be the foremost threat to US economic interests. He has also urged the president to withdraw from NAFTA and argued that German and Japanese policies are unfair. Though his impact waned during the first year of Trump's tenure, Navarro has regained influence and played a key role in recent internal debates about trade policy.⁸

Trump's Trade Strategy

Initially, not all of Trump's advisors favored an aggressive trade policy. A group of officials persuaded the president not to withdraw from NAFTA – though they failed to prevent his withdrawal from the TPP – and advised

against starting a trade war with Beijing. Gradually, however, these men lost influence or left the administration. The result has been a concerted effort in recent months to transform Trump's extremist rhetoric into concrete policies.

In mid-2018, the administration imposed so-called Section 232 tariffs – which address alleged threats to national security – on 25 percent of steel imports from all countries except Argentina, Brazil, and South Korea, which agreed to voluntary export restraints, and Australia. It also imposed 10 percent tariffs on aluminum imports from all countries except Argentina, which agreed to voluntary export restraints, and Australia. Furthermore, following a so-called Section 301



investigation – designed to eliminate unfair foreign trade practices – the administration imposed 25 percent tariffs on more than 50 billion USD of Chinese goods. When the Chinese retaliated in kind, the president imposed 10 percent tariffs on another 200 billion USD of Chinese goods, with a threat to raise the tariff levels to 25 percent on January 1, 2019, though this threat was later suspended.⁹

At least in the short term, the specter of higher tariffs has borne fruit. Canada and Mexico agreed to renegotiate NAFTA – its successor, the United States–Mexico–Canada Agreement (USMCA), has yet to be ratified – and, though most analysts have concluded that the agreement does not offer significant concessions, it does include voluntary export restraints for Canada and Mexico in areas such as automobiles and dairy products.¹⁰ Canada and Mexico are also still subject to tariffs on steel and aluminum.

In order to avoid the steel tariffs, South Korea agreed to amend the 2012 United States–Korea Free Trade Agreement (KORUS). The revised version of the deal includes modest concessions that should make it slightly easier for the United States to sell cars in South Korea, and more difficult for South Korean companies to sell trucks in the United States.¹¹

The administration has yet to extract significant concessions from China, but there is reason to believe that its approach will yield results, at least in the short term. Most analysts believe that, though both countries will suffer as a result of the current trade war, China has less leverage because it exports more to the United States than vice versa, and that it has less tolerance for economic pain. China's growth rate, which has been high since the early 1990s and which has been a cornerstone of the Chinese Communist Party's monopoly on power, appears to be slowing as its economy matures. At the time of publication, Washington and Beijing were in the midst of intense negotiations, with indications that China would make at least modest concessions.¹²

The administration is designing other trade deals in order to intensify the pressure on China. The TPP agreement was designed to reinforce US leadership in East Asia and to allow Washington, if necessary, to more effectively counter Beijing's growing influence. However, it was also intended to encourage Chinese reform, and even to potentially permit Chinese membership. Trump's China policy is much different. The USMCA makes it difficult for Canada and Mexico to negotiate deals with governments that intervene extensively



in their own economies, prevents state-owned enterprises from taking advantage of lower tariffs, and forbids member states from participating in currency manipulation – all provisions aimed at China. The administration views the USMCA as a model, and is currently seeking bilateral trade pacts with key countries in East Asia, including Japan, the Philippines, and Vietnam.¹³

The president initially indicated that he opposed the Transatlantic Trade and Investment Partnership (TTIP), but in recent months the administration has been negotiating with its European counterparts about a deal that would include similar features. At the same time, he has sought significant concessions from Brussels. In addition to the steel and aluminum tariffs, which affect all European steel exports, he has threatened to impose 25 percent tariffs on European (and Japanese) automobiles. The president has issued shifting demands – at times he has pressed European car companies to expand their US operations, at other times he has focused on lower barriers for US agricultural products – but been consistent in his threats to punish the Europeans for what he sees as unfair trade practices. Though the tariffs would affect all European car imports, in Trump's view, Germany is the chief culprit.

Trade and Geopolitics: China

Trump's presidential campaign and early months in office offered conflicting indications about his intentions toward China. On the stump, he vowed to take a tougher stance than previous presidents. He also surrounded himself with advisors with anti-Chinese views, such as former campaign manager and chief strategist Steve Bannon, and Peter Navarro. In a transparent effort to extract concessions on trade, he questioned the one China policy and, in an unprecedented move for a US leader, accepted a phone call from Tsai Ing-wen, President of the Republic of China. The US 2017 National Security Strategy featured antagonistic language, accusing Beijing of wanting "to shape a world antithetical to U.S. values and interests." In an October 2018 speech, Vice President Mike Pence painted the Chinese government as harsh and repressive, accused it of "economic aggression", and claimed it was using stolen US technology to turn "plowshares into swords on a massive scale."

At the same time, Trump selected some advisors with less extreme views, such as former National Economic Council Director Gary Cohn. The president's November 2017 visit to Beijing was characterized by strong personal chemistry with Chinese



President Xi Jinping, and he has taken some steps to assuage China. For instance, despite complaints from the US Congress, he prevented the US Department of Commerce from imposing sanctions on ZTE, which could have led to bankruptcy for the prominent Chinese tech company.

This inconsistent behavior, and high staff turnover in the administration, has confused Chinese policymakers. Nevertheless, there is broad agreement about the outlines of a potential deal. The two sides are in negotiations that could: increase purchases of US goods and services, open access to China's markets, protect intellectual property, and reduce subsidies to Chinese companies. One potential obstacle to any deal is Washington's insistence that Beijing be able to provide credible verification.¹⁴

Yet any agreement could be overshadowed by several areas in which trade tensions are merging with political disagreements. At the request of the United States, Canada recently arrested Meng Wanzhou, chief financial officer of Chinese tech giant Huawei, on suspicion of breaching US sanctions on Iran. This goes beyond a simple legal dispute. Meng is the daughter of the company's founder and president, Ren Zhengfei, who has close ties to the Chinese political and military elite. The

Chinese government has condemned the arrest of Meng and, in apparent retaliation, arrested several Canadian citizens. The accusations against Meng are part of a list of charges the US Department of Justice has filed against Huawei, in which the company is accused of economic espionage, fraud, and obstruction of justice.

The case against Huawei highlights Washington's concerns about China's vigorous espionage efforts. These include the aggressive recruitment of human sources and large-scale cyber theft. For instance, in December 2018 the US government indicted two Chinese nationals on charges of hacking activities that were allegedly intended to steal data, intellectual property, and confidential business and technological information from companies in many countries. The accused worked for the Chinese company Huaying Haitai Science and Technology Development Company, but are suspected of operating on behalf of the Chinese Ministry of State Security's Tianjin State Security Bureau and of being part of the hacking group often referred to as APT 10.¹⁵

Western unease about such efforts is not new, but Meng's arrest has focused attention on the extent to which Chinese state and private sector companies allegedly cooperate for



the purposes of industrial espionage. In recent months, a number of governments and corporations – reportedly partly in response to US urging – have ceased using Huawei technology, fearing for the integrity of their communication networks. The US Congress has repeatedly raised concerns about Huawei and ZTE, and in August 2018 Trump signed a bill which included some restrictions on government contracts with the two companies.

The friction over trade practices comes at a tense time in US-Chinese relations. In light of the shrinking imbalance in military power between the two nations, Washington is anxious about President Xi's centralization of political power and formulation of a more assertive foreign policy, especially in the South China Sea. US officials have responded to Beijing's expansive claims in the region, and its militarization of natural and man-made islands, with increased overflights and freedom of navigation exercises. The risk of an accidental outbreak of hostilities is rising – on a regular basis, Chinese planes and ships maneuver dangerously close to US craft traversing disputed waters. To make matters worse, US military officials who would like to establish reliable lines of communication with their Chinese counterparts, partly in order to be able to defuse such situations, have found it difficult to do so.

Even the prospect of a major trade deal appears to be of limited value when it comes to addressing structural problems in the relationship. Many Americans that have traditionally worked for better relations with Beijing, such as academics and corporate leaders, have ceased doing so as they become more hawkish and more pessimistic about the prospects for peaceful coexistence. Meanwhile, though Chinese analysts and policymakers mostly wish to avoid confrontation with the United States, President Xi has clearly lost patience with Deng Xiaoping's advice to his countrymen to "hide your strength and bide your time."

Trade and Geopolitics: Europe

According to Trump, Europe's shortcomings on trade and NATO are interconnected. He argues that spending less on defense has given countries such as Germany an unfair advantage when it comes to fostering economic growth, and he has not hesitated to treat US allies as competitors. For instance, following disagreements with French President Emmanuel Macron about NATO and a European army, he threatened to impose tariffs on French wine imports.

Germany has been the focus of much of the president's animus. The US ambassador in Berlin, Richard Grenell,



a Trump favorite, has taken a hard line with his local counterparts and, judging from the reaction of German politicians and the media, further undermined US standing in the country. Trump's personal attacks on Angela Merkel have been especially problematic. He has frequently criticized and belittled the Chancellor and sought to undercut her political standing at home. In an unprecedented move for a US president, in June 2018, during tense coalition negotiations about immigration policy, Trump encouraged German hardliners by tweeting "the people of Germany are turning against their leadership as migration is rocking the already tenuous Berlin coalition." He argued: "Big mistake made all over Europe in allowing millions of people in who have so strongly and violently changed their culture."

The origins of Trump's hostility are not entirely clear. His mercantilist instincts predispose him to resent countries that have strong export sectors. Merkel's close relationship with former US president Barack Obama probably also bothers him, as does the frequent observation that, with Trump as president, Merkel is now, as one Obama advisor put it, "the leader of the free world."

Whatever the reasons, Trump's unwillingness to distinguish between

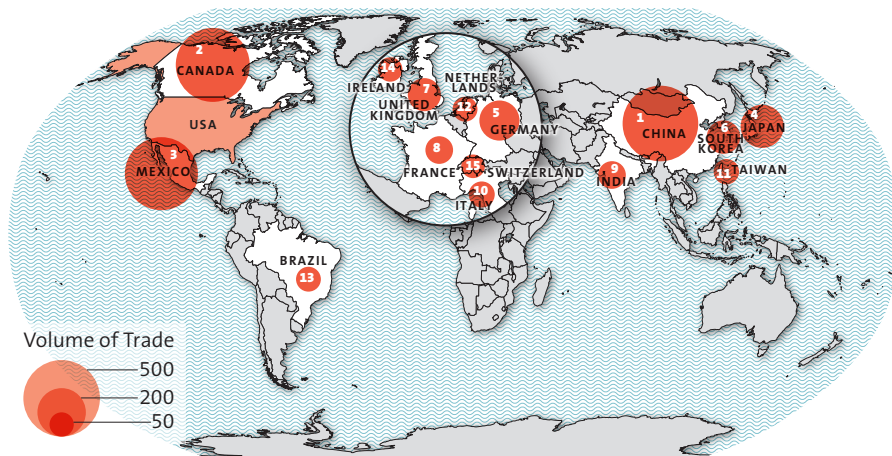
allies and adversaries initially shocked European officials. For much of the post-1945 period, disagreements over trade and other economic issues have been a feature of the US-European relationship. However US policymakers, in spite of frequent frustration, never lost sight of the fact that the headaches that went with serving as the anchor of the international economic system, such as trade imbalances, were a small price to pay for a Europe that was prosperous, democratic, and closely tied to the United States. Even Barack Obama, who urged Europeans to take more responsibility for problems in their neighborhood so that he could focus on other parts of the world, especially East Asia, and who some Europeans accused of disinterest, viewed the alliance as indispensable.

Trump is the first post-1945 president who does not share this worldview. Given his tendency to view international relations in terms of Realpolitik, his dislike for multilateralism and international institutions, and his preference for illiberal leaders, his trade policies should not have come as a surprise to European officials and executives. Nevertheless, they have reacted inconsistently. At times, they have signaled a willingness to fight back. Macron, for instance, declared in March 2018 that Europe would



Most Important US Trading Partners by Rank

Exports and Imports in billion USD as of 2018



Source: US Census Bureau

“discuss nothing, as a matter of principle, with a gun pointed at our head.” Europe has also leveled retaliatory tariffs on 3.2 billion USD of goods, many of which are manufactured in pro-Trump areas of the United States.

In spite of brave talk about not yielding in the face of US bullying, Europeans have sought to placate Trump. In July 2018, European negotiators made a number of small concessions on agriculture and energy in order to forestall the car tariffs and restart trade talks. Those negotiations have since faltered, as US officials have accused their European counterparts of stalling. As further leverage, a US Department of Commerce study, on

whether to impose Section 232 tariffs on European cars, is due to be concluded in February 2019, though the findings had not been made public at the time of publication. Automobile executives from BMW, Daimler, and Volkswagen have made conciliatory moves, offering to increase operations in the United States.

Trump has also used trade to sow political discord on the other side of the Atlantic. He has not masked his dislike for the European Union and his preference for a more nationalistic, less integrated Europe, and has openly encouraged Britain to withdraw. In the wake of the 2016 election, he promised London a favorable trade



deal in order to limit any economic problems caused by Brexit. However, after Prime Minister Theresa May agreed with her European counterparts on the terms of Britain's withdrawal, Trump criticized the deal and suggested it would prevent a US-UK trade pact.

A Threat to the International System

Trump has demonstrated that economic blackmail by the United States works, at least in a narrow sense. In every case that the administration has threatened to limit access to the US market, trading partners, in spite of vows to the contrary, have agreed to negotiate and offered at least modest concessions.

There are a number of factors pushing Washington toward more aggressive policies and, to an extent, a rethink on trade is warranted. Chinese trade practices and espionage activities, for instance, merit action – though any response would be more effective if it were mounted by a broad coalition of interested countries, instead of the United States acting unilaterally. In addition, though the Trump administration has contributed to the erosion of the dividing line between economic disagreements and political relations, especially vis-à-vis its European allies, China is equally guilty in this regard. It

is worth noting that, at least in some respects, the president is taking action that much of the US public supports – underscoring the extent to which he views trade through a political lens. Though Republicans tend to have slightly more hawkish views, concerns about China transcend party lines.¹⁶

In spite of modest concessions from trading partners and some potential short-term political benefits, the president's nationalistic trade policies are profoundly damaging. Ironically, US interests have been particularly affected. In spite of Trump's frequent assertions to the contrary, the LWO has, more than any other nation, benefited the United States politically, economically, and militarily. It was a key factor in sustaining US influence after World War II. In an era in which the United States is probably in gradual decline, it needs the support of strong alliances and trading relationships more than ever. Its efforts to partially de-globalize the international system are having the opposite effect, and are providing opportunities to competitors. The timing of Xi Jinping's speech at the 2017 World Economic Forum, in which he portrayed China as a leader of the globalized economy, was not coincidental. His argument, that when "encountering difficulty we should not complain, blame others, or run away from responsibilities ...



Instead we should join hands and rise to the challenge,” was a clear attempt to assume the mantle of leadership discarded by the Trump administration.

Trump’s policies are undermining the international economic system that Washington and its allies spent decades constructing after World War II. This complex, interdependent system is now in danger of collapsing, and the alternative that Trump envisages – a web of bilateral trade deals, with the United States at the center – would harm all parties involved. Such an arrangement would be less efficient than the current multilateral system, which better reflects how international trade works in an interconnected global economy, where supply chains often stretch across numerous countries. Bilateral deals also do a much less efficient job of harmonizing standards and regulations.

The WTO, in particular, is in danger. The United States remains the world’s most important economy, and the administration’s unwillingness to work through the WTO system potentially renders it irrelevant, especially given the relative ease with which Washington has been able to convince its trading partners to enter bilateral negotiations. If Trump’s approach succeeds, it could normalize a zero-sum approach to trading issues.

The consequences of such a development would be dire. Powerful nations would frequently take advantage of weaker trading partners, fueling distrust and, in general, making the international system more dangerous. There would also be a tendency for economic disagreements to lead to political and even military conflict. China and the United States should serve as a cautionary tale in this regard, as they have entered a vicious cycle, wherein trade measures are inevitably seen as designed not just to increase wealth, but to weaken the geostrategic position of the other country.

Trump’s attacks on the underpinnings of the international system, if sustained, could boost nationalist and extremist political movements in many countries, as it undermines the trust necessary to sustain international institutions and democratic norms. In fact, once the process of deglobalization gathers momentum, it will be difficult to resuscitate the old order. The creation of the current multilateral framework was only possible because of the unique circumstances present during and after World War II. Absent a comparable crisis, it is doubtful that the will necessary for such a complicated and politically challenging undertaking would be present.



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CHAPTER 2

The Eclipse of Western Military-Technological Superiority

Michael Haas

Ever since they grasped the promise of the information revolution in the late 1970s, the United States and its allies have enjoyed a sizeable military-technological advantage over any plausible adversary. Now, as new technologies enter the limelight and competitors become more adept at appropriating or offsetting Western strengths, this qualitative superiority in armaments is eroding. With the underlying trends gathering steam and policy interventions already falling short, Western armed forces will increasingly face a choice of confronting revisionist challengers on even terms – or not at all.



A US Air Force F-22 Raptor fighter jet performs ahead of the International Air and Space Fair at Santiago International Airport, March 28, 2016. *Ivan Alvarado / Reuters*



Even though they may sometimes appear to operate in a world unto itself, military organizations tend to reflect important properties of the societies that build and sustain them. Hence, it should not come as a surprise that Western approaches to conventional deterrence and military conflict, as they have evolved in the late 20th and early 21st centuries, have taken a profoundly techno-centric turn. While the search for engineering solutions to national security problems appears to be a persistent feature of the US cultural setting, in particular, other liberal democracies have exhibited a similar tendency.¹ In parallel with a deep-seated belief in the transformative power of technology in the civilian sphere, the recourse to high-tech solutions across a broad spectrum of military problem sets has become an essential feature of force development and defense procurement in Western-style armed forces.

The considerable success the West has enjoyed in establishing and – for a time – upholding this paradigm of military-technological pre-eminence has had important consequences for the international order. During the 1980s, the financial impact of the intensifying competition in advanced conventional forces arguably hastened the fall of the Soviet Union. In the decades since, the Western capabilities

that resulted from late Cold War defense programs have facilitated a US-centric distribution of power, buttressed existing alliances, and enabled wars of choice. They have also set a standard of military modernization to which other countries aspire – and spurred counter-innovation among those who feared that they might find themselves at the receiving end of Western interventionism.

In both regards, Operation *Desert Storm* – the eviction of Iraqi forces from Kuwait – constituted a watershed event. When President George H.W. Bush declared the end of major combat operations against Iraq on February 27, 1991, it became evident that US and allied forces had crushed one of the world's largest armies at astonishingly low cost to themselves. To other military powers, especially those organized according to Soviet or other non-Western principles, the Gulf War appeared to serve notice of a new era in military affairs, in which Western force projection would be extremely difficult to resist by any means currently available to them, short of nuclear weapons.

The West's adoption of a paradigm of guided weapons, signature-reduced platforms like stealth aircraft, sophisticated intelligence, surveillance and reconnaissance (ISR) assets and



pervasive battlefield networking was, as yet, in its early stages. But the military foundations of the United States' preeminent position in the international system seemed assured for decades to come. While the promise of a more collaborative, US-led world order that the Gulf War coalition had appeared to foreshadow soon proved illusory, the reality of Western military superiority was inescapable. According to a 2011 Rand study, the Chinese People's Liberation Army (PLA) was particularly impressed by what it had witnessed: "The 1991 Persian Gulf War sent shockwaves throughout China's military community and accelerated the PLA's modernization and shifts in strategy. The United States' overwhelming dominance in that conflict led Chinese military leaders to push for advanced military technologies."² The armed forces of the newly formed Russian Federation also took notice, although their ability to react was curtailed by a chronic lack of resources.

Almost three decades later, the so-called Revolution in Military Affairs (RMA) touted by American theorists during the 1990s is following the familiar trajectory of earlier spells of military-technological innovation, in that it has produced advantages of limited extent and durability.³ While many of the innovation processes

set in motion during the 1980s and 1990s continue to bolster the capabilities of Western-style armed forces, the so-called guided weapons revolution has entered the stage of global diffusion. And while some of the greatest triumphs of late-Cold War engineering – such as long-range, very-high-precision cruise missiles or stealth aircraft – remain inaccessible to all but the wealthiest and most technologically advanced countries, they are no longer the exclusive domain of the United States and its closest allies.

Although this would in itself constitute a significant development, it is the underlying shift in the patterns of innovation that should give pause to Western decision-makers. Whereas the late-Cold War advances in military technology were critically dependent on government-funded research and development (R&D) to come to fruition, ongoing innovation processes in fields such as biotechnology, nanotechnology, quantum computing, robotics, artificial intelligence (AI), augmented reality, and additive manufacturing are far more reliant on open knowledge economies populated by private actors. Because this knowledge ecosystem is far more transparent and accessible by design, the challengers of Western military preeminence find themselves



operating in an environment from which cutting-edge technologies can be extracted with relative ease. Foreign acquisitions, joint ventures, multinational research programs, and international student exchanges are all part of the same toolbox in this regard, as are industrial espionage and other forms of intellectual property theft.

As a result, the odds that non-Western actors will not only catch up, but actually pull ahead of the United States and its allies in some areas of technology development are set to increase dramatically. As a result of its striking economic growth over the last 20–30 years, this is true of the People's Republic of China (PRC) in particular. Given that the Western advantage in military forces is itself derived from a limited portfolio of key technologies, the formation of pockets of Chinese advantage would amount to an important break with a pattern of incremental progress in military technology development that has marked the past two to three decades. At the same time, the ability of other actors to cancel out existing Western strengths by combining less advanced technologies and asymmetric doctrines has also increased, and this is a function of raw economic power to a much lesser extent. While advantages in military technology have never been static, it seems increasingly likely that

another watershed will be reached in the 2020s, with long-term implications not just for Western military policies and force development priorities, but for the international order at large. In the following we will look into the root causes of this dynamic, assess Western policy initiatives designed to offset it, and consider the way forward.

The Crumbling Foundations of Western Advantage

To understand why the military superiority of Western democracies can no longer be taken for granted, as it long had been after 1991, one must ultimately look beyond the field of defense innovation and reckon with two economic megatrends that are altering the underlying parameters of military technology development. The first has been the rapid growth of many non-Western economies, and the spectacular expansion of the Chinese economy in particular. The second concerns the ways in which new technologies are developed and shared within a globalized economic environment.

The rise of the non-Western economies constitutes, without a doubt, the most consequential global transformation of the early 21st century. In 1991, China's share of the world economy was 4 percent. The United



States' share was 21 percent. Today, China's illiberal capitalist model accounts for close to 19 percent of the global economy, whereas the US share has dropped to 15 percent – a trend which looks set to continue. Equally impressively, the advanced economies of 1991 – most of them Western-style liberal democracies – collectively accounted for 63 percent of the gross world product, while developing nations created the remaining 37 percent. Five years from now, according to projections from the International Monetary Fund (IMF), these proportions will likewise have been reversed.

While the relationship between economic potential and military capability is not straightforward, they have usually been strongly correlated in the long term. As Paul M. Kennedy famously argued, “economic prosperity does not *always* and *immediately* translate into military effectiveness, for that depends on many other factors, from geography and national morale to generalship and tactical competence. Nevertheless, the fact remains that all of the major shifts in the world's *military-power* balances have followed alterations in the *productive* balances.”⁴ Given the profound reversal of the global economic balance of power that has been underway for the last thirty years, it would not be surprising to eventually

observe significant knock-on effects in the military sphere. Although the mechanisms that underpin this expectation are complex, advances in military technology primarily depend on two factors: A state's capacity to extract financial resources from the domestic economy and funnel them into military modernization, and its competency in harnessing new technologies through indigenous R&D or by acquiring them from abroad, and fielding them in a timely manner.

The second overarching trend that is contributing to the relative military decline of the West is a radical shift in the patterns of technological innovation itself, which is likely to further undermine existing relative advantages in the medium- to long-term. During the 1970s, when the technological foundations of the so-called Revolution in Military Affairs took form, cutting-edge R&D was preponderantly state-funded and territorially confined. More than half of all R&D funding in the United States typically came out of the federal budget, and no less than 50 percent of every federal R&D dollar went directly into defense projects. As of 2018, the US federal government accounts for less than a quarter of national R&D funding, and civilian applications have overtaken defense projects in the public spending category.⁵

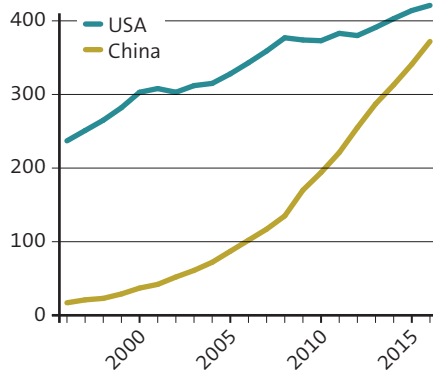


Over the last decade, the trend towards private funding has only become more distinct. In the United States, the overall financial *intensity* of R&D as a percentage of the GDP has remained about the same, at approximately 2.6 percent, but the share of public funding has declined from 1.2 to 0.7 percent.⁶ In other words, even though military R&D spending remains a well-funded aspect of the US defense effort, the likelihood that a cutting-edge technology will be developed using private rather than public money – and, therefore, privately owned – is now much higher than it was forty years ago. Given that the US federal tax base will be strained by escalating health care and other entitlement costs, this downward trend is set to continue or even accelerate in the 2020s. Predictably, similar patterns are already asserting themselves in other Western democracies.

At the same time, the private technology companies that have taken on the mantle of primary R&D funders have become key players in a global economic model that is based on open exchange and non-discriminatory treatment. As part of deliberate offshoring and outsourcing strategies pursued over the last three decades, many of these same companies have become dependent on complex and highly specialized global supply chains, often

Gross Domestic Expenditure on R&D

In constant 2005 billion USD (PPP)



Source: UN Educational, Scientific and Cultural Organization

centered on manufacturing sites and service providers in China or other emerging economies. In many cases, these dependencies have resulted in the transfer of proprietary knowledge as well as significant know-how, be it surreptitiously or by design. During that same period, Chinese foreign direct investment (FDI), in the form of acquisitions of US companies or assets, has increased from less than 50 million USD per year to a record 44.2 billion in 2016 alone. While the largest influx of Chinese FDI has been into the real estate sector, investments in information and communications technology have come second.⁷

Aside from economic activities, narrowly defined, the transfer of specialized knowledge from advanced,



Western-style economies to emerging countries has been further accelerated by other forms of legitimate international exchange, especially in tertiary education and the applied sciences. While the net impact of the steady rise in the number of foreign students and researchers is difficult to quantify, there is no doubt that government-run initiatives such as China's Thousand Talents Plan have been designed to siphon off high-value research findings from abroad. Even without such carefully orchestrated activities, however, the repatriation of Western-trained scientists and engineers at the rate of tens of thousands per year constitutes one of the most impressive instances of global knowledge transfer ever undertaken. Because most cutting-edge technologies are now ostensibly commercial in nature, state tools such as classification and export control are often inapplicable and the recourse to effective restrictions difficult to legitimize.

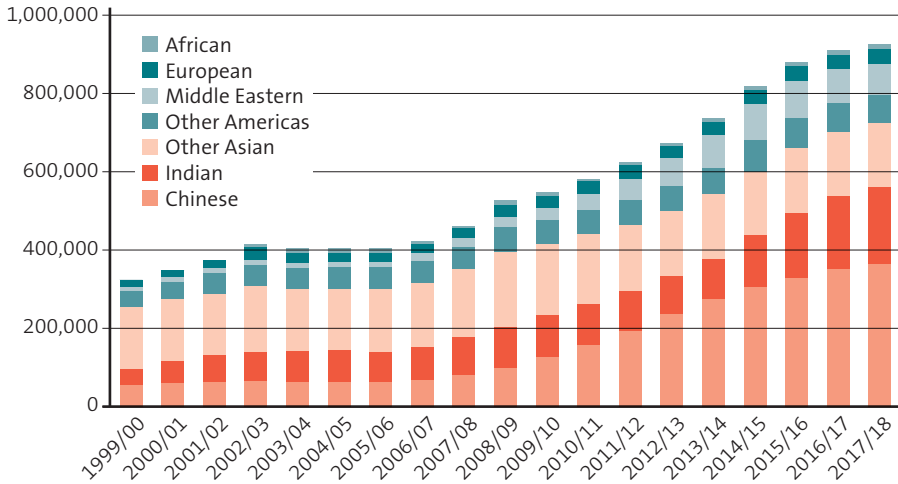
Lastly, Western government bureaucracies, private companies, universities, and other entities are being subjected to a panoply of intelligence and criminal activities. This includes massive cyber incursions as well as other technical collection efforts, along with more traditional approaches to industrial espionage using trained agents or "non-traditional collectors," such as

academics and businessmen. These intrusions have frequently been aided by a naïve approach to information security on the part of Western entities, and a corresponding lack of stringent precautionary measures, even among military organizations and defense contractors.⁸ Although a small number of high-profile hacks and human intelligence activities have received most of the public attention, the impact of economic espionage goes far beyond these high-profile incidents. The boundaries between such state-sanctioned theft and various non-state criminal undertakings are often fluid, and likely to remain so.

These factors are rendering the idea of tightly controlled – let alone exclusive – government ownership of cutting-edge technologies obsolete and enabling far broader access to the bases of future military innovation. By the same token, they are contributing to the emergence of potent indigenous innovation hubs in a number of emerging economies, among which China has profited the most. Even though other actors – India, Malaysia, Indonesia, the Philippines, Thailand, Vietnam, and Brazil, to name a few – have also made significant gains, Beijing's efficacious exploitation of the open technology ecosystem's opportunities and vulnerabilities is in a category of its own.



International Students at US Universities



Source: Institute of International Education

While concerns about relative gains have long been muted in the commercial sphere and the efficiency of the globalized model of technology development and high-tech manufacturing remains widely accepted, Western democracies are being reminded that the same set of principles may not be equally applicable to matters of national security. From the perspective of the long-term defense planner, the triumph of open, networked supply chains and the prevalence of private-sector R&D in promising fields such as artificial intelligence, biotech or quantum computing take on a different complexion. Unfortunately, the resulting dilemmas are not easily resolved.

The Limits of Policy Interventionism

The trends sketched out above are structural and long-term in nature. If this were not the case, a solution to the problem of relative military decline might entail a selective acceleration of Western technological advances in the defense sector, without impinging on the civilian economy. This would mean that the attempts of strategic rivals to nullify or leapfrog current advantages would be rendered ineffectual simply by outperforming them in the defense segment, without causing any undue collateral damage. Regrettably, such a straightforward solution is not in the cards. To understand why, we must first explore the



relationship between commercial and military technology development in somewhat greater detail.

While contributions to the current debate sometimes seem to suggest otherwise, the dependence on commercial technology in defense innovation is not a new phenomenon, although its full scale and consequences are only now becoming apparent. In fact, advanced weapon systems of the current generation – generally fielded during the late 1990s and 2000s – have long relied on commercial products in key areas. The backbone of the US advantage in air-to-air warfare, the F-22A *Raptor* air superiority fighter, is a case in point. The heart of the F-22's advanced combat capabilities – its computing architecture – was originally based on a microprocessor developed in the early 1980s and never released to the civilian market: the Intel i960MX. However, this changed after the aircraft became operational in the early 2000s, with an upgrade of the entire architecture to the PowerPC standard. Launched by Apple, IBM, and Motorola in the early 1990s, this was a commercial technology, intended not for military use, but for the growing personal computer market. PowerPC microprocessors were used in iMacs and iBooks until 2006. Similarly, the F-22's high-speed serial bus, which transfers data between the various

internal components of the aircraft, is a version of Apple's civilian FireWire standard.

What is of interest here, though, is not that the basic technologies underpinning the F-22's advanced data processing were commercial in nature. Rather, it is the extreme lengths to which the prime contractor and various subcontractors had to go to fully embed these technologies and make them suitable for combat-critical military use.⁹ While it is tempting to assume that these intricate and time-consuming requirements will apply to a lesser extent to current commercially-driven technologies in fields like computer vision and machine learning, the opposite is bound to be true: as the level of complexity of embedded commercial technologies continues to rise, the need for extensive adaptation, systems integration, and testing will further increase. Because the systems architectures of advanced military platforms are at the heart of their cutting-edge capabilities, this work will be highly classified and performed by specialized defense contractors, as it has been in the past. In other words, there is every reason to believe that leading tech firms will continue to provide the technology base and the defense industry will continue to provide the capability. Whereas the former will spread



around the globe with ease, development of the higher tiers of future combat systems will still require the costly services of capable systems integrators and other specialized contractors that are available only to a select few in the international system.

Although this may sound like good news, it raises serious questions for the West's attempt to prolong its military superiority. Even though many Western observers assume that liberal democracies will continue to outperform any strategic rival where the integration of commercial and military technologies is concerned, this is not inevitable. Given that their economic model is based on free enterprise, limited state interference and the rule of law, the ability of the Western democracies to co-opt or coerce private corporations headquartered on their territory to do their strategic bidding generally comes in the form of standard financial incentives. The same is mostly true of their relationship with major defense contractors.

Unfortunately, this does not necessarily apply to rivals that may be able to combine the advantages of the market in fostering innovation and allocating resources with state interference to further a particular conception of the national interest. Hence, the US and Chinese defense-relevant industrial

bases may both be inefficient, but Beijing's tight grip on providers of strategic goods and services within a framework of "civil-military fusion"¹⁰ means that inefficiencies barely matter once political priorities get in the way of market mechanisms. Skyrocketing cost, in other words, may not function as an effective restraint on a system like China's. Overall, state capitalism may not be better at fostering innovation but it would appear to be more effective at distorting specific segments of the economy in line with current strategic priorities. While the net economic impact of such distortions may well be negative, in the context of this discussion, it is beside the point.

This should lead us to rethink Western policy interventions designed to arrest the ongoing slide in military capability. The most obvious example of such an initiative is the Pentagon's so-called Third Offset Strategy. Launched in 2014 by then-Secretary of Defense Chuck Hagel, it was described as a "department-wide effort to identify and invest in innovative ways to sustain and advance America's military dominance for the 21st century."¹¹ Modeled on two Cold War-era offset strategies, which sought to balance the numerical superiority of the Warsaw Pact, first with a broad variety of nuclear weapons and later with guided munitions, long-range



sensors and battle networks, this was primarily intended to address growing US-China competition in the Western Pacific.

In 2015, the architect of the Third Offset, Deputy Secretary of Defense Robert O. Work, set out a number of technological priorities clustered in the fields of artificial intelligence, machine autonomy, learning systems, and human-machine interfacing. These were expected to play a central role, especially during the first phase of the initiative. To gain direct access to the commercial actors at the forefront of this anticipated revolution, the Department of Defense set up a Defense Innovation Unit Experimental (DIUx) in Silicon Valley. As of 2016, the Department expected to spend only 18 billion USD on Third Offset priorities over a five-year time frame.

As some observers have since noted, the strategy appears to have shed its primarily techno-centric approach in favor of nearer-term operational concerns, in accordance with the broader defense priorities of the Trump administration.¹² While it is not yet clear in which direction the next Secretary of Defense will take the United States' defense innovation efforts, four years into the initiative its bureaucratic momentum appears to have stalled. Given the limited resources it has so far been

able to mobilize, the ability of the US defense bureaucracy to shape technological innovation in the commercial sector appears limited. The controversy surrounding Google's participation in the now infamous Project Maven – a machine learning initiative that was publically linked to the United States' targeted killing programs – illustrates the point.¹³

Hence, those who had placed their hopes in the technological *deus ex machina* of a Third Offset have largely fallen silent. As Robert Work noted, there is reason to believe that it is, in fact, still the United States that is being offset in the Western Pacific.¹⁴ To the extent that similar techno-centric efforts are under way in other Western nations, their chances of success inspire even lower levels of confidence. There is a chance, of course, that the Third Offset may be revitalized or that more circumscribed initiatives will succeed.

That said, the underlying issue may be more fundamental in nature than many observers – in particular in the Euro-Atlantic sphere – acknowledge. Western-style market economies may be capable of unsurpassed efficiency in creating the conditions for rapid commercial innovation. But when it comes to mobilizing the commercial sector to advance the state's strategic



priorities, the dirigiste measures available within the state capitalist framework may prove more effective from the standpoint of medium-term advances in military technology.

The Future of the Military Balance

How will these trends impact the military correlation of forces and shape major combat operations? In this regard, two aspects deserve particular attention: The first is the growing ability of actors like China, Russia, and India to press for parity in some established areas of Western advantage, such as air and missile power. The second concerns the question of whether – and to what extent – longer-term trends in technology development can be offset by effective force employment and superior fighting skill.

The technological advantage of Western military forces has long been reflected in operational, if not always in strategic, outcomes. As we have seen, the Persian Gulf War was a landmark event in this regard. Notable operational successes have forced non-Western actors to come to terms with the realities of Western military dominance and to seek long-term options to offset it that go beyond cheap, asymmetric fixes. One option has been to aim for an advantage or for rough parity in at least some categories of guided munitions that can

undergird a determined territorial defense. This has included air-to-air missiles (AAMs) and surface-to-air missiles (SAMs), but also conventionally armed ballistic and cruise missiles designed for attacks against enemy air bases, ports of entry, and command and control facilities.

Though Russia has long been held back by its weak economy, late-Soviet and Russian technology has played a key role in offsetting the Western advantage in the air and at sea. Long-range, “double-digit” SAMs like the SA-10 *Grumble* (S-300P) and SA-20 *Gargoyle* (S-300 PMU-1/2) form the backbone of the air defenses of many non-Western military powers. The newer SA-21 *Growler* (S-400) complex is now also being offered up for export. Similarly, Russian technology has played a significant role in non-Western AAM development, including the new Chinese PL-10 and PL-15 missiles.¹⁵ Meanwhile, Russian cooperation with India has resulted in the high-supersonic *Brahmos* anti-ship missile and similar collaborative armaments programs may enable the move towards hypersonic munitions in the coming decade.¹⁶

Meanwhile, in the field of conventionally armed ballistic missiles, China has made the most impressive advances. The PLA now fields a large



and diversified arsenal for potential use against Taiwan as well against US and allied air fields in the region. While many of these developments have been discussed under the moniker of anti-access/area denial (A2/AD), China's focus, in the event of a conflict, appears to have shifted from raising the cost of any US intervention to defeating it outright.¹⁷ China also appears to have pulled ahead of Russia in stealth and counter-stealth technologies. While the problems China has encountered in pursuing these capabilities have long been touted as a sign of its inability to catch up, the innovation dynamics of the past should not be automatically extrapolated into the future. The recent advances the China Electronics Technology Group Corporation claims to have made in the field of quantum radar, which would render current approaches in low-observable aircraft design largely ineffectual, should serve as a wake-up call in this regard.¹⁸

To get a sense of the past dynamic of military capability development, the "pacing" Taiwan scenario continues to offer an excellent benchmark for the growth of China's regional military power. The shifting tone of Western analyses of such a conflict over the past three decades is instructive. While the Taiwan crisis of 1996 reinforced Chinese vulnerability, two decades later,

the PLA's capability level has evolved in line with the 750 percent increase in its defense budget. According to one study, the US would still be able to wrest air superiority from the PLA Air Force, but as early as 2010 the forces required to do so had increased tenfold and the vulnerability of US bases in the region had grown exponentially. By 2017, according to one RAND study, "continuous improvements to Chinese air capabilities [made] it increasingly difficult for the United States to achieve air superiority within a politically and operationally effective time frame, especially in a scenario close to the Chinese mainland. These developments also raise the probable cost of a war in terms of lives and equipment."¹⁹ Given that the PLA could achieve this shift while still relying on limited technological means, most of which belonged to the era of the highly successful Second Offset Strategy, there is little doubt that the relative standing of the United States in such a scenario will continue to deteriorate.

In this regard, it is useful to consider the United States' reliance on stealthy aircraft like the F-22 and the semi-stealthy F-35, which is believed to have been compromised by PLA cyber espionage. While neither the indigenous Chinese J-20 and J-31 semi-stealth aircraft, nor the Russian



Su-57 are fully operational or available in significant numbers, the US philosophy of “first look, first shot, first kill” is already being undermined by improved air defense search radars operating outside the frequency range that is effectively countered by current stealth technology.²⁰ Further increases in processing power, long-range infrared sensors, passive radar, and improved missile seekers are going to further exacerbate this situation – even if the promise of quantum radar, which would rely on entangled photons for unambiguous detection at longer ranges, fails to materialize.

Given that air-to-air combat and strike warfare have long been areas of Western strength, it seems likely that the overall exchange rates between Western and non-Western forces in future conflict scenarios would be more balanced than at any time since World War II. Due to the growing lethality of opposing forces, Western militaries may become more likely to avoid costly confrontations and correspondingly less likely to heed their alliance commitments.

Nor is the prospective decline of the Western margin of superiority limited to these specific fields. Russia and China are highly capable in the cyber domain, and continue to invest in anti-satellite capabilities. Given the

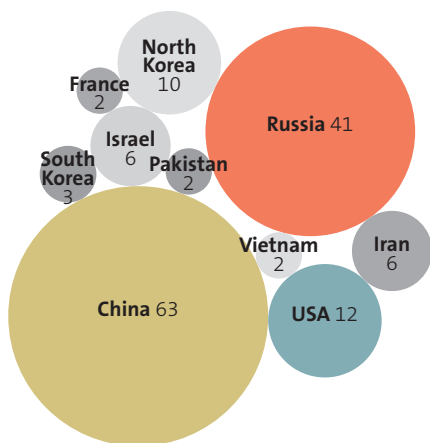
projected massive investments in the coming years, it has been argued that China’s advances in a broad range of artificial intelligence technologies should constitute a “Sputnik moment”²¹ for the United States, with implications far beyond the defense field. Although their economic bases are less impressive, other non-Western actors are likely to follow suit. While the use of long-range weapons, unmanned and autonomous systems, and improved electronic warfare and cyber support can all serve to lower costs and casualties, the upshot is that similar options will likely be available to capable opponents. Moreover, a military such as the PLA may be in a position to employ the same technologies, with many fewer constraints, than Western-style armed forces.

Technology-focused approaches may not constitute the best solution to this dilemma. Given the high levels of education, technical competency, and relatively high tolerance for independent decision-making that are often seen as characteristic traits of Western democracies, an emphasis on superior combat training, distributed command authority, and creative force employment may represent a more promising avenue for a new offset strategy. Insofar as techno-centric initiatives can contribute to such a shift, human-machine teaming has

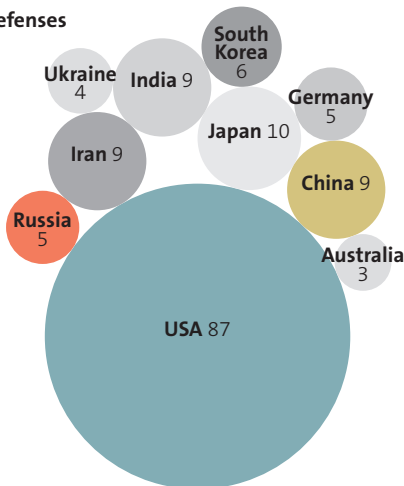


Initiators and Defenders in Major Cyber Theft Incidents, 2000 – 2018

Initiations



Defenses



Sources: CSIS; DCID

the potential to amplify any pre-existing skill differentials. That said, it should not be taken for granted that liberal societies will enjoy inherent advantages in the utilization of this particular cluster of technologies in the future – nor should any one family of emerging technologies be unduly emphasized over others.

Protecting the Defense Knowledge Base

While an exclusive focus on technological solutions is unlikely to accomplish the aim of maintaining Western military superiority, the question of whether an advantage in key areas can be retained in the long run remains relevant. Several recent developments

are worth mentioning in this regard. For one, an increased application of national security instruments to knowledge-intensive industries is already taking shape, especially in the United States. Hence, the Trump administration has taken a hard line on Chinese property theft and introduced measures to ensure a higher level of protection for a so-called National Security Innovation Base.²² The Trump approach is instructive, in that it has both increased the United States' freedom of action in counter-ing Chinese intrusions and stoked a debate about the abuse of national security instruments for commercial advantage, or even to tactically shape the domestic political discourse.



A limited and targeted application of additional protections designed to avoid the transfer of sensitive knowledge to potentially hostile actors will be unavoidable if some level of economic and military advantage is to be retained in the long run. That said, the danger that such instruments will be inappropriately applied to other, less sensitive sectors of the economy clearly cannot be discounted. A broad-based recourse to state interference would almost certainly have a stifling effect on the civilian economy. The dilemma of balancing national security and economic liberty is thus likely to remain with us for the foreseeable future.

The ability of Western democracies other than the United States to follow suit and impose controls on their knowledge ecosystems will be limited by pragmatic economic interests and concerns about economic freedom. Nonetheless, the pressure to act will continue to build. Following domestic initiatives in a number of member states, the European Union has already resolved to implement additional measures to ensure better screening of FDI. Since national security concerns remain for the individual member states to sort out, the impact of any such regulations will remain uneven. While investment screening is a step forward, it appears unlikely that the proposed measures will suffice in the

longer term. Any further steps will be much more difficult to negotiate, in part due to increasingly effective foreign lobbying efforts.

It is likely that knowledge-based advantages in the defense field will continue to decline, even though the West retains options to minimize them. The combination of targeted research in more tightly controlled environments, limited interventions in the market, and expanded counterintelligence programs could contribute to the maintenance of narrower, but nonetheless meaningful, advantages for the foreseeable future. Whether such programs can be successfully implemented remains to be seen, especially in the highly fragmented European context. Balancing state interventions in the free exchange of knowledge with legitimate civilian imperatives will remain a delicate matter. Finally, while many in the West appear impervious to the historical record in this regard, broad-based technological superiority is not a necessary precondition for maintaining highly capable armed forces.

Although the danger should not be overstated, a failure to arrest the ongoing slide towards conventional military parity could further weaken US alliance commitments and security assurances in the face of revisionist



challengers. This may be true even in the absence of any major crises or military conflict. While the effects on the international order would be primarily indirect and difficult to fathom, growing pressure for US military retrenchment is difficult to reconcile with the maintenance of an alliance system based on a presumption of indivisible security. A focus on the mechanisms of technology diffusion will be necessary to minimize further losses in comparative military advantage. At the same time, a techno-centric approach may no longer be sufficient to arrest this dynamic. How best to draw on non-material advantages in an age of intense technological competition, and how to emphasize them as a viable foundation for deterrence vis-à-vis future peer competitors, should be major concerns for strategic and operational-level theorists.

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CHAPTER 3

Russia's Eurasian Strategy

Jeronim Perović

In light of its rift with Ukraine and tensions with the West, Moscow is seeking a more influential role in the post-Soviet space and is reorienting its policy towards Asia. Rather than breaking with the West, Russia wants to reposition itself as a central Eurasian great power. In order to gain influence in “Greater Eurasia” and accrue additional international leverage, Russia has led the way in creating the Eurasian Economic Union, a surprisingly robust multilateral organization that is reshaping the regional geopolitical and economic landscape. Eurasia is changing. It is time for Europe to pay attention.



The presidents of Russia, Kazakhstan, and Belarus signing the treaty which established the Eurasian Economic Union in Astana, May 29, 2014. *Mikhail Klimentyev/RIA Novosti/Kremlin /Reuters*



Russian President Vladimir Putin has never made it a secret that he considers the dissolution of the Soviet Union a “major geopolitical disaster,” and he has, on numerous occasions, spoken out in favor of closer association among former Soviet republics.¹ Russia has in recent years stepped up its efforts to secure its influence in the post-Soviet space, and has done this increasingly also through the strengthening of multilateral regional organizations, namely the Eurasian Economic Union (EAEU), consisting of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan.

It would be misleading to see Russian integration efforts simply as an attempt at restoring the old Soviet Union. While the EAEU has turned into the most successful regional integration project since the Soviet Union’s break-up in 1991, Moscow’s ultimate goal is not so much to reconstruct a strong supranational state, like the Soviet Union, but to maintain as much control as possible over developments in its post-Soviet vicinity. Facing challenges from an expanding European Union in the west, and China’s rise in the east, Moscow aims to use multilateral organizations like the EAEU as yet another tool in its efforts to strengthen Russia’s position in an ever more competitive international environment. Russia wants to perform the role of Eurasia’s doorkeeper, making sure the

states of the region remain within its sphere of influence and preventing them from joining Western institutions. At the same time, through regional alliances, Moscow seeks to boost its standing in world affairs, hoping to increase its leverage when engaging with other powerful states and organizations.

Russia’s position in post-Soviet Eurasia is still uncertain, and remains contingent upon the interests of the states of the region, as well the behavior of outside powers. Even though some of Russia’s post-Soviet neighbors are now tied closely within the framework of the EAEU and other regional organizations, they are nevertheless unwilling to give up their political sovereignty, and also want to see a tangible profit from their association with Russia. The Kremlin understands that coercion might backfire, and that it needs to make sure the Russian-dominated EAEU is successful and attractive to all of its members, and not seen as serving Russian interests only. While Russia will not allow any member to leave the union, the bargaining power of states associated with Russia is not necessarily weak. Also, while Russia still is the most important actor within the post-Soviet space, Moscow faces competition in the region as other states, and especially China, have been making increasing inroads.



Through regional organizations such as the EAEU, Russia hopes to contain Chinese influence, especially in Central Asia, and develop a more coordinated approach towards China and other powers engaged in the region.

This chapter looks into the nature of current integration processes in the post-Soviet space. Though Russia cannot and will not abandon Europe any time soon, the shift towards Asia, and Moscow's efforts to strengthen ties with its neighbors, will ultimately have consequences for Russia's international standing and relations with the West and Asia. While European-Russian economic relations have suffered due to political tensions, trade between the EAEU and Asia has increased significantly. Also, with the US engaged in a trade war with China, economic cooperation and trade in the larger Eurasian and Asia-Pacific region is likely to continue to expand. It is time that Europe, which has so far rejected entering into a dialogue with the EAEU, reconsidered its policy. Otherwise, Europe might be passing up economic opportunities, and Russia and the whole of Eurasia will continue to drift eastward.

Russia and the Post-Soviet Space

Russia has always considered the post-Soviet space to be a zone of vital interest. While officially recognizing

the former Soviet states' independence, Moscow has accepted its neighbors' sovereignty only insofar as their policies are not seen as detrimental to Russian national interests and its claim of regional predominance. As a putative great power, Russia sees this claim legitimated by common history and culture, ethnic, economic and political ties, as well as larger security considerations. During most of the 1990s and well into the 2000s, Russia did not pursue an active integrationist policy. If Russia was economically weak, its neighbors were still weaker, and Moscow was able to maintain its hegemonic position and dictate the terms of relationships. Russia felt comfortable with the situation as it was and saw no need to push for re-integration. Moreover, Russia's focus was rapprochement with the West and the broadening of trade and economic ties with Europe.

It was from early 2000s onwards that Russia set out on a more proactive policy towards the states in its immediate neighborhood. This was connected with three major developments: *First*, under Vladimir Putin's presidency, Russia became politically and economically much more stable than during the Yeltsin years, and due to higher incomes from the sale of oil and gas abroad, the Russian state had also more resources at its disposal to



support an active foreign policy. *Second*, while Russia was stabilizing under Putin's increasingly authoritarian leadership, the Kremlin saw itself confronted with democratic upheavals and regime change in its near abroad. The revolutions in Georgia in 2003, in Ukraine 2004 and (to some extent) in Kyrgyzstan in 2005 brought new elite groups to power, which were reform-minded and sought cooperation with the West. *Third*, and most importantly, Western states and organizations made inroads into the post-Soviet space. The Baltic states became members of North Atlantic Treaty Organization (NATO) in 2004, and both the European Union and NATO concluded partnership agreements with a number of other post-Soviet states. At the same time, China became more engaged economically, especially in Central Asia. Russia lost some of its leverage in the sphere of energy transportation, as a number of pipelines were built circumventing Russian territory with the help of foreign companies. While gas and oil from Azerbaijan is now reaching Western markets via Georgia and Turkey, oil and gas pipelines connect Central Asia directly with China.

Towards Multilateral Integration

As Russia saw the post-Soviet zone slipping from its grasp, the Kremlin reacted: In 2002, under Moscow's lead, six former Soviet republics,

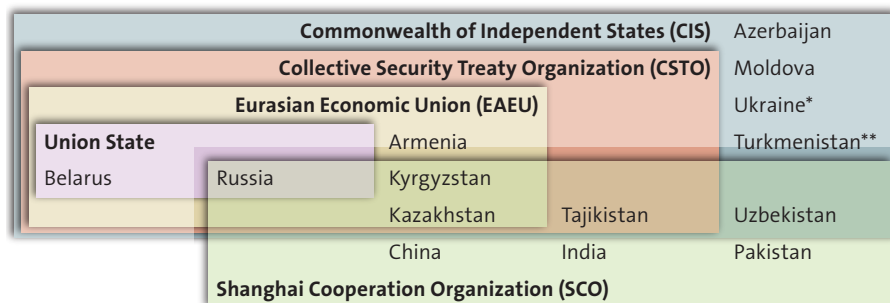
Russia, Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, and Belarus, decided to transform the Collective Security Treaty (established in 1992) into a military alliance, the Collective Security Treaty Organization (CSTO). While this organization has not yet turned into an effective, fully fledged security alliance like NATO, the individual members have committed themselves to working together more closely, they are regularly holding common military exercises and, most importantly, Russia or any other CSTO member has the right to veto the establishment of new foreign military bases in CSTO-member states. Also, in 2007 the organization concluded an agreement with another major security organization, the Shanghai Cooperation Organization (SCO), which has developed into an important forum for dialogue among all the main powers of the Asia-Pacific region on security, political, and economic issues.²

The empowering of existing regional organization such as the CSTO and the conclusion of agreements with other regional organizations indicated the new course of Russian foreign policy at the time: Moscow wished to strengthen those regional organizations it was able to dominate and sought to build up relations with other states and organizations. As in



Regional Organizations in the Post-Soviet Space

As of December 2018



Sources: CSTO; CIS; Eurasian Economic Commission; SCO; Union State

* status disputed

** associated member

the field of security, various economic groupings with shifting numbers of countries were created during the 1990s, but these organizations were not very effective. Beginning in the early 2000s, Russia began to counter the influence of outside powers by strengthening its economic position with the help of some of Russia's large state-controlled energy companies, including Gazprom, Lukoil and RAO UES.³ It was only in 2008–2009, however, that Moscow intensified its integration efforts in a multilateral framework.

Based on the Eurasian Economic Community organized in 2000 by Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, integration was intensified with the launch of a custom's union in 2010, joined also by Armenia (but not Tajikistan). In 2011,

eight members of the Commonwealth of Independent States (CIS), Russia, Belarus, Kazakhstan, Ukraine, Moldavia, Armenia, Kyrgyzstan and Tajikistan, agreed on the formation of a free trade area. A year later, Russia, Belarus and Kazakhstan deepened economic integration by organizing the Common Economic Space. On May 29, 2014, the presidents of the three states signed a treaty establishing the EAEU, and on January 1, 2015, when the agreement came into force, Armenia and (in August 2015) Kyrgyzstan joined the organization.⁴

From Greater Europe to Greater Eurasia

For most Russian foreign policy specialists, the idea of Eurasia remained marginal until it was reinvigorated by Vladimir Putin during his tenure as Russian prime minister. In an article



published in *Izvestiia* in October 2011, Putin provided the idea of Eurasia with a new conceptual framework.⁵ Rejecting the notion that the formation of a new union among post-Soviet states was to be seen as a “revival of the Soviet Union,” he suggested that a “powerful supranational association” was capable of becoming “one of the poles in the modern world.” Trying to diffuse the notion that a future Eurasian Union might be seen as an attempt to “cut ourselves off” or to “stand in opposition to anyone,” Putin presented this project as part of a future “Greater Europe” stretching from “Lisbon to Vladivostok.”

Essentially, what Putin proposed was the establishment of a free trade area between the European Union and the emerging Russian-dominated Eurasian bloc. This idea, however, received a blow in the aftermath of the Ukraine crisis and the ousting of president Viktor Yanukovich in February 2014, when it became clear that the new Ukrainian leadership hoped to establish closer relations with Europe. Sanctioned and isolated by the West in retaliation for the annexation of Crimea and military support for pro-Russian forces in eastern Ukraine, Moscow needed to adjust its Eurasian strategy. The Kremlin intensified efforts to strengthen its influence in the post-Soviet space, and gave more

weight to the Asian vector in its foreign and economic policy. Russia’s turn to the East started before the Ukraine crisis and as a result of China’s economic rise. But the Ukraine crisis accelerated Moscow’s geopolitical reorientation. In a symbolic move and in order to underline Asia’s new importance, in May 2014 Moscow and Beijing signed a 30-year deal worth 400 billion USD to deliver gas from Russia to China via a new pipeline, finalizing an agreement that had been negotiated on and off for nearly twenty years.⁶

In line with Russia’s domestic discourse regarding the right to a follow its own, “sovereign” path to democracy, the alignment with China dovetailed with the country’s quest for a “sovereign” path in its foreign policy. As highlighted in a report by a group of leading Russian foreign policy experts, strengthening cooperation with China seemed not only politically and economically advantageous, but also marked a “moral” turn, as both countries were seeking “to promote a non-Western pattern of global development”, striving to protect their “national sovereignty” and increasing “their influence.”⁷ Russia was not closing its doors to Europe, but “the Great Eurasian” project was now also open to China, as Putin declared during the 2016 Petersburg Economic Forum.⁸



This rhetorical shift highlighted the fact that Asia had gained in economic importance for Russia. However, the Kremlin knew it could not afford to break with Europe; this would have been economically damaging and clashed with the country's cultural identity. Also, while Asia has become more important to Moscow as an economic partner, Russia is still only a minor factor for most Asian countries. There is still a mismatch between the declared political goals of closer Chinese-Russian relations and actual Chinese investment, especially when it comes to Russia's underdeveloped Far Eastern territories, which border China and are in need of investment. Moreover, while Russia is part of Beijing's Belt and Road Initiative, which aims to build up infrastructure in order to link China with Europe and other global markets, it is not central to the undertaking, as most of the projects are in Central Asian states and Kazakhstan in particular.

Russia's shift to Asia acknowledges new geo-economic realities, but should also be seen as a narrative strategy and function of its policy towards Europe: Given the tensions with the West and the fact that Brussels is not interested in a dialogue with Moscow or the EAEU, a plausible way to get back to Europe is through Asia and through the strengthening of its position in the post-Soviet

Eurasian space. Many in Russia believe that, by forming coalitions with other powerful states, Moscow will have more leverage in dealing with Brussels.⁹ Russia's turn to the East is, in part, an attempt to gain international leverage and eventually form a more equal relationship with Europe.

Potential and Limits of Eurasian Integration

From Moscow's point of view, building Greater Eurasia means that Russia remains at the center of everything that is going on in its immediate neighborhood, or what Russian officials call the larger "Russian World" (*Russkii mir*). If Russia's goal is to prevent its neighbors from independently forming trade and political connections, Moscow will need to maintain control over regional developments. Russia has therefore been striving to deepen mutual interdependencies and to tie its neighbors together in an increasingly dense network of military, security, political, and economic relations. The EAEU is not the only, but currently the most important tool for fostering closer regional alliances and ensuring continued Russian dominance.

The prevailing view among Western observers is that the EAEU is not an effective regional organization comparable to the European Union, but rather



a Russian-controlled group of states which would rather align with Brussels, if they were given the possibility. Accordingly, there is skepticism that the EAEU will turn into an effective multilateral organization, as none of the members, including Russia, seem willing to cede substantial power to a supranational body.¹⁰ Others doubt that an organization dominated by authoritarian states will achieve much in terms of integration, as the removal of internal barriers on trade and the movement of goods, people, and services usually demands a certain openness, the application of the rule of law, and economic liberalization, none of which is in the interest of authoritarian rulers.¹¹ Some point out that in authoritarian states, loyalties tend to be with the respective national political leaderships, and in case of disagreements, EAEU bureaucrats might prefer not to take risks and to stick with decisions taken by their respective governments.¹²

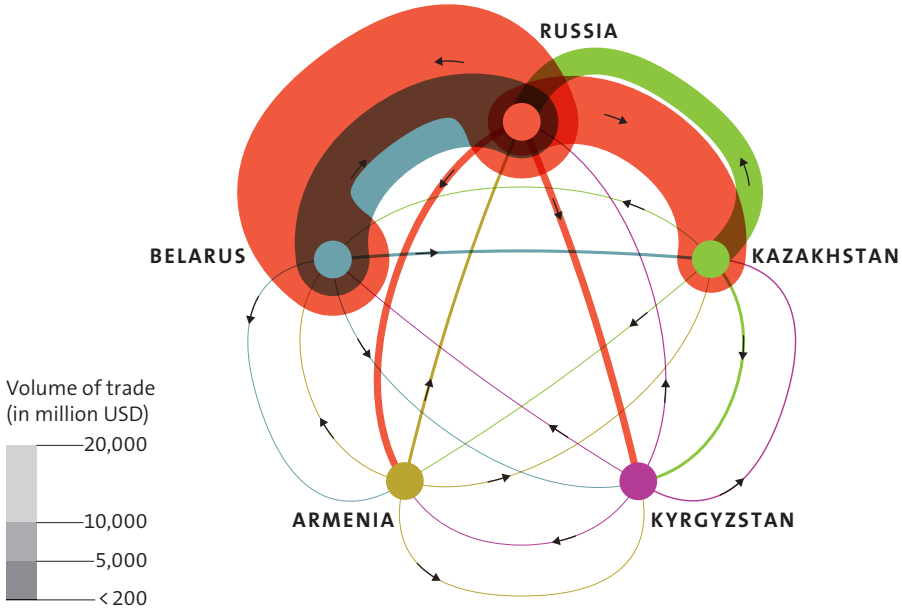
Even though it is likely the EAEU will face obstacles as it develops further, no other multilateral organization created in the post-Soviet space has achieved a higher degree of integration. The EAEU treaty is a technical document with no overarching ideology or specific values inscribed. The signatories pledge to deepen economic integration and remove barriers to the free movement of goods, services, capital

and workforce; they also agree on the specifics of the decision-making process and the set-up of an institutional architecture, which is largely modeled on the European Union. While the most important decisions are taken by the Supreme Eurasian Economic Council, which is comprised of the heads of its member states, the daily work is carried out by the Eurasian Economic Commission (EEC), which is a permanent body based in Moscow, and consists of two representatives of each member state. Other important governing bodies of the EAEU include the Interstate Council, at the level of heads of governments, and the EAEU Court of Justice, which is based in Minsk.¹³

As with all multilateral organizations, removing internal barriers on trade and the movement of goods, services and people infringes upon national sovereignty. The fact that the EAEU has achieved harmonization of external customs tariffs means that decision-making about tariff issues has now been effectively transferred from the national states to the union level. The EAEU has also managed to abolish, at least to a large degree, internal customs borders and has reduced internal constraints on labor mobility and capital movement. Even though the EAEU's existence has been marked by petty trade wars, economic crises,



Economic Ties Between EAEU Members in 2017



and disputes over trading rules, there has been progress as well: For example, the EAEU recently succeeded in creating a common market for the free circulation of pharmaceutical products, after agreements were reached on common standards regarding registration, production, and handling of medicine.

Especially ambitious is the EAEU's plan to create a common energy market. By 2019, the union envisions a common electricity market, and, by 2025, a common market for oil and gas. If realized, this would give EAEU

operators unrestricted and equal access to energy networks in other EAEU countries. Also by 2025, the EAEU plans to eliminate all obstacles and limitations to transport via road, rail and water. For the purpose of creating a unified transport zone and a common internal market for transport services, the EAEU aims to create a uniform electronic transport control system. The member states have also agreed to establish a common supranational body on financial market regulation by 2025 in order to ensure the regulation of a future unified financial markets.



Given the amount of work already done, as well as the institutional structure put in place, it seems unlikely that the EAEU will falter any time soon. The bureaucratic apparatus of the EEC has grown to over 2000 employees; this body, which is currently chaired by former Armenian prime minister Tigran Sargsyan, is taking over responsibility of an increasing amount of laws.¹⁴ Therefore, the more realistic scenario is that the EAEU will increase its degree of integration, achieve further positive economic results, and continue to forge trade agreements with other states and organizations. In fact, after the difficult initial years, the economy within the EAEU-zone is showing signs of recovery. Further positive news will make the project more attractive, not only to current members, but to third parties as well. For example, Uzbekistan, although not a formal EAEU member, is currently harmonizing its import tariffs with EAEU norms. In 2017, Moldova became the first state to be granted official observer status to the EAEU. In the meanwhile, over a dozen states and several international organizations have concluded cooperation agreements with the EAEU.

The Russian Challenge

The challenge with this type of integration is that the EAEU is not so much about joining together in a

community of equals, but about individual states associating themselves with Russia. In the EAEU, Russia is accounting for some 87 percent of the union's total GDP, and makes up for some 80 percent of the EAEU's population.¹⁵ Russia's annual military budget exceeds the combined spending of all the other EAEU members by a factor of twenty. Because of these massive regional asymmetries, the cost of a member state dissociating itself from Russia could be very high. As the Ukrainian case has demonstrated: leaving or staying is potentially a matter of war and peace, and it seems that the individual EAEU members are well aware of this. Having learned from the Ukraine experience, leaving the union was never on the agenda of the new leaders who came to power after Armenia's "velvet revolution" in spring 2018.

The member countries are thus very careful in dealing with Russia, and are mindful of the Kremlin's sensitivities. But since they know how important this union-project is to Russia politically, they also have a fairly large maneuvering room, and their negotiating position vis-a-vis Moscow is not necessarily weak. For example, every time Russia's closest ally, Belarus (which is united with Russia in the framework of the Russia-Belarus Union State created in 1997), does not get



from Russia what it wants, it threatens to boycott integration projects and Russia, which is not interested in yet another conflict, usually tries to accommodate Belarussian interests, for example by lowering energy prices or by writing off debts. Notwithstanding membership in the EAEU, both Kazakhstan and Armenia have concluded an Agreement on Comprehensive and Enhanced Partnership (CEPA) with the European Union, which is in fact a “light” version of the EU Association Agreement with the prominent exception of sections on trade policy, which are now in the competence of the EAEU. Kazakhstan also continues to negotiate deals with China, and has been one of the key drivers behind the idea to reactivate the establishment of a union among all the five post-Soviet Central Asian states.

But Russia too, at times puts its economic interests above those of the union. When the other members of the union declined to follow Russia imposing punitive measures in response to EU economic sanctions against Russia for its aggressive actions in Ukraine in 2014, or did not support sanctions imposed by Russia on Turkey in 2015, Russia ignored this and went ahead imposing its own sanctions on Western (and later Turkish) goods. If Russia sees its interests at risk, it tends to disregard the

restrictions a common regime would usually impose. At the same time, however, Russia also understands that especially since the Ukraine crisis, its neighbors react more sensitive to any form of real or perceived political and economic pressure.

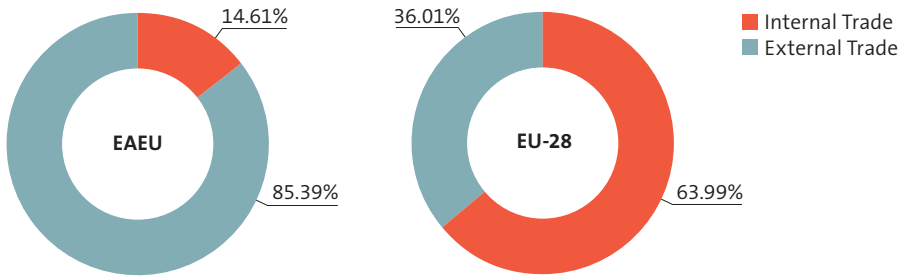
Although it is clear that Russia, as the most powerful of all the members, has the largest amount of influence over the decision making process within the union, the key decisions are reached in consensus among all heads of states and it would be wrong to assume that Russia can simply ignore the interests of others. In fact, by promoting the EAEU as an institution which serves to protect the interests of all of its participants, Moscow is well aware that coercion as a means to keep the union together is likely to backfire, and therefore tries to alleviate these countries' fears of Russian dominance. While Russia wants to avoid that integration becomes a burden to its own economy, it also needs to make sure the union is successful and not seen primarily as a Russian dominated project, obliging Russian goals only.

The Rationale to Join the Union

Even though Putin has been stressing the economic advantages of deeper integration among former Soviet republics, it seems quite clear that Moscow's

External and Internal Trade: The EU and the EAEU Compared

2017



Sources: Eurostat; Eurasian Economic Commission; Ricardo Giucci, Anne Mdinardze, "Die Eurasische Wirtschaftsunion. Analyse aus einer handelspolitischen Perspektive", *Berlin Economics* (2017).

primary interest was never so much in the economic side of the project (after all, the current union accounts for only about 6 percent of Russia's overall trade), but the larger geopolitical and geo-economic gains. Following the logic that "great powers do not dissolve in some other integration projects but forge their own,"¹⁶ Russia has been seeking to establish the union as an important international actor and economic heavyweight in order to raise its own standing in world affairs. In fact, given Russia's importance to all of the member states, most of the trade and other economic issues could be dealt with bilaterally between Russia and the individual states of the region. This is especially true for Belarus, whose trade is almost exclusively with Russia, but not with other EAEU members. The overall level of internal trade among the member states is still relatively low,

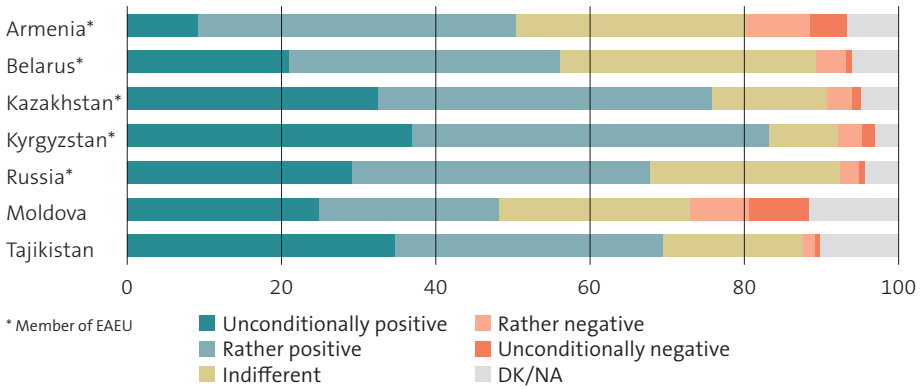
accounting for only 14.6 percent of total trade in 2017 (for comparison: in the EU, around 64 percent of trade was between members of the union in 2017).¹⁷

Even though the external trade of most individual members is much higher than internal trade (in the case of Russia and Kazakhstan, this is due to the fact that these countries export most of their oil and gas outside the EAEU-area), there still is a certain logic in fostering closer cooperation, namely due to strong legacies from the past, which manifest themselves not only in integrated rail and road transportation networks, energy connections and common technical standards originating from Soviet times, but also in the socio-cultural sphere. It is telling, in this respect, that even though the economic success of



Public Attitude Towards the EAEU

What is your attitude towards the decision to create the Eurasian Economic Union (EAEU)?



Sources: Eurasian Development Bank; Igor Zadorin et al., "EDB Integration Barometer – 2017", *Centre for Integration Studies* (2017).

integration has been moderate so far, the populations of individual member states seem to have a largely favorable view of regional integration.

Another major reason is that by joining the union, these states were also accommodating various other interests: the bulk of Kazakhstan's external trade is currently with Europe, and most of the country's foreign direct investment is of European, US and increasingly also Chinese origin. Still, for a land-locked state like Kazakhstan, with most of its transportation and energy infrastructure still oriented towards Russia, joining the union was a logical consequence in order to get better access to the global market. Moreover, Kazakhstan hopes to contain Russia within a

rules-based organization, fearing that Moscow could one day lay claims to the northern, Russian populated part of Kazakhstan. Armenia joined because of Russian pressure, but also because of promises of cheap energy and protection against Azerbaijan, Armenia's main antagonist in the conflict over Nagorno Karabakh. Belarus relies to a significant degree on continuous shipment of cheap Russian oil and gas. Russia is the primary destination for labor migration, mostly from the Central Asian members and Armenia, and economically weak countries like Kyrgyzstan and Armenia depend to a large degree on Russian investments and loans from the Eurasian Development Bank (which includes all EAEU members and Tajikistan). Therefore,



choosing not to integrate might have resulted in potentially painful Russian punitive actions for each of these four states.

To be sure, joining the EAEU put initial stress on the economies of Armenia, Kazakhstan and Kyrgyzstan, since they all had significantly lower tariffs and needed to raise these in order to match the higher Russian tariffs; also, hopes of a quick economic upturn was soon followed by initial disillusionment, as the combination of Western sanctions and lower oil prices hit not only the Russian economy, but also the other EAEU member states engaged in trade and economic exchanges with Russia. Also, integration did not always come at a benefit. This was especially the case of Kyrgyzstan, which, instead of exporting more of its agricultural products after joining the common EAEU market, now faced sudden though competition from Kazakhstan, Russian and Belorussian companies in its own domestic market.

However, since the union is now the common framework to regulate economic and trade relations, all members may potentially benefit from deals negotiated through the EAEU with third parties. Conversely, concluding free trade deals with the EAEU may be interesting for these parties too, since the customs union means that duties

are only levied once, and that goods can then circulate more or less freely throughout the economic space.

The EAEU and China

After concluding a first Free Trade Agreement with Vietnam in 2016, the EAEU Supreme Council has prioritized seven further countries with which it seeks to conclude free trade agreements: China, Iran, India, Egypt, Israel, Singapore and Serbia.¹⁸ Of these, Iran and China have already signed comprehensive economic agreements, and Singapore a Memorandum of Understanding. In the meanwhile, Jordan, Morocco, the Faroe Islands, Cuba, Mongolia, South Korea, Cambodia, Ecuador, Chile, Peru, and Thailand have signed memoranda of cooperation with the EEC as well. While the most likely future member of the EAEU is Tajikistan, countries including Syria, Tunisia, the Philippines, Pakistan, and Turkey have shown interest in closer cooperation. The EAEU is also engaged in talks to establish cooperation with international organizations, including APEC (of which Russia is a member), ASEAN, the Andean Community, the CIS, Mercosur, as well as several other international organizations. The EAEU also seeks official observer status at the WTO, but has so far failed to establish formal relations with the European Union.



After the signing of a provisional free trade agreement with Iran in May 2018 with the purpose to form a full-scale free trade area in the future, the EAEU has also, in May 2018, reached an agreement on economic and trade cooperation with China. The deal with China could be of great importance should this indeed pave the way to the conclusion of a comprehensive Free Trade Agreement. The two sides express their desire to “create the conditions for the development of mutual trade relations” and the “promotion of economic relations.” The EAEU and China are also “[r]ecognizing the importance of conjunction of the Eurasian Economic Union and the Belt and Road initiative as a means of establishing strong and stable trade relations in the region.”¹⁹

The purpose of the deal with China is, from a Russian perspective, to contain Chinese influence in the post-Soviet space, in Central Asia in particular, and coordinate policy with other EAEU members. Agreeing on a common position towards China might be in the interest of all EAEU members. Currently, China decides where and in which projects it wants to invest, and directly negotiates with each EAEU member. Over the past seven years, China has invested almost 100 billion USD in EAEU member countries in 168 projects, many of which are part

of Beijing's Belt and Road initiative.²⁰ The bulk of this investment has been directed towards Central Asia. While Kazakhstan has been the largest recipient of Chinese investment in absolute terms, China's engagement also has a significant economic impact on smaller and less diversified economies. In Kyrgyzstan, for example, China's share of the country's foreign direct investment has increased to 37 percent, and China accounts for 28 percent in Kyrgyzstan's total trade turnover. Due to large loans for various projects, China holds 41 percent of Kyrgyzstan's external debt.²¹

Kyrgyzstan's possible financial dependence highlights the risk small economies face when incurring too much debt. But larger countries also feel uneasy about China: While Kazakhstan's political elite emphasizes political sovereignty, there is an understanding that the alliance with Russia serves as a counterbalance to China's growing presence in the region, which is felt also through the large number of Chinese migrant workers or cheap Chinese goods undercutting domestic producers.²² Moreover, as important as recent Chinese financial assistance and investments are to the Central Asian states, there is a danger that these states are building projects which might benefit long-term Chinese economic interests, but not the



states in question. Given China's economic might, and since all the states of the region are in need of investment, Beijing's negotiating position is strong. As a result, EAEU member states sell their goods on terms mostly favorable to China. This includes natural resources, which the region has in abundance, as well as agriculture, which has become increasingly important.

Since China has increased the import of agricultural products, agreeing on a common policy might be in the interest of the EAEU. The EAEU framework could also be used to harmonize certain standards, as this might stimulate business cooperation and remove bureaucratic red tape. Direct dialogue between the EAEU and China will not replace bilateral links; rather, the EAEU might help to facilitate better mutual relations, and improve the EAEU members' negotiating position. Moreover, if the EAEU concludes free trade agreements with other important Asian states, namely India, this would open other markets and reduce the risk of overdependence on China.

In sum, should Russia manage to convince EAEU members to agree on common policies towards China (and other third states) this could be to the benefit of each country. However, it would also mean more commitment

and coordination among the EAEU member states, which would draw them further into the Russian orbit.

Russia, the EAEU and Europe

While China and other Asian states have been willing to cooperate with the EAEU, much of the EAEU's success will ultimately depend on the European Union's attitude. Notwithstanding the growing economic importance of Asia, the European Union still is the EAEU's biggest trading partner, accounting for about half of the EAEU's total exports, and about 40 percent of its imports (though the share of imports from the larger Asia-Pacific region is now higher than from the European Union). Moscow has therefore been pushing for the establishment of formal relations between the EAEU and Brussels, and the conclusion of a free trade agreement is one of the declared goals of the EEC's foreign policy.

Brussels has rejected formal dialogue with the EAEU, largely for political reasons. It is reluctant to provide legitimacy to an organization dominated by authoritarian states. Also, Brussels is loath to establish relations with a union seen to be controlled by Russia. Formal recognition of the EAEU would mean increasing cooperation with Russia, a country against which the European Union and other



External Relations of the EAEU

As of 2018



Source: Eurasian Economic Commission

Western states have imposed sanctions due to Moscow's aggressive actions against Ukraine. In a November 2015 letter to Vladimir Putin, EU Commission President Jean-Claude Juncker tied recognition of the EAEU to the implementation of the Minsk agreements.²³ Brussels still perceives the EAEU as Russia's geopolitical tool, and seeks to develop ties with states in the region along bilateral lines.

To be sure, Russia is the dominant power within the EAEU. But it would be wrong to see this union as a purely Russian-controlled organization,

as Russia cannot simply impose its will on the other members. However, since EU membership is currently out of the question for most of the post-Soviet states, the EAEU is the only alternative. As the EAEU has been slowly but steadily forming an internal market, and economic and trade policy increasingly falls under the jurisdiction of the union, the maneuvering room of individual states, especially when it comes to foreign trade affairs, has been shrinking. Also, by successfully forging international cooperation agreements, the EAEU is emerging as a more visible

international actor, and the role of its permanent bodies, namely the EAEU's Commission, is growing. All of this means that the EAEU is unlikely to fall apart any time soon.

While other states and regional organizations, including China, have begun to acknowledge these new realities, the Europeans have been standing aside, thereby risking to lose out on potential opportunities for trade, foreign investment, exchange of know-how and technology transfer. In economic terms, Brussels and the EAEU would benefit from lowering trade barriers and harmonizing technical standards. A study prepared in 2016 on behalf of the Bertelsmann Stiftung predicts a substantial increase in mutual trade if trade barriers between the EU and the EAEU are lowered as part of a free trade agreement; eastern EU members, most of all the Baltic states, but also Slovakia, Finland, Poland, or Germany, would profit significantly from freer trade.²⁴ Coordination would also be fruitful when it comes to the creation of a common EAEU-wide energy market. Europe is a key consumer of Russian and Kazakh oil and gas, and any changes in the Eurasian energy market will have repercussions for consumers outside the EAEU.²⁵ Moreover, the initiation of a dialogue would give the states in between the two economic areas, namely Ukraine, Moldova and

Georgia, a chance to perform the role of intermediaries between the two blocs, instead of becoming geopolitical battle zones.

Rapprochement with the EAEU would build confidence on both sides and ease current political tensions. EU sanctions (and Russian counter-sanctions) have hurt Russia, states tied to Russia via the EAEU, and neighbors engaged in trade and economic relations with Russia. Finally, tying the whole Eurasian area more closely together would facilitate better connections between Europe and Asia, as it would improve conditions for transit and trade. Should relations between Russia and Europe improve, the whole dynamic on the Eurasian continent might change to the benefit of all. Europe should take note of the profound changes in its eastern neighborhood and reconsider its stance toward the EAEU.

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CHAPTER 4

Russia's Renaissance in the Arab World

Lisa Watanabe

In order to secure its status as a major external powerbroker in the region, Russia is reviving Soviet-era ties with a number of countries in the Middle East and North Africa, as well as forging new ones. Moscow lacks a clear strategy – its approach is pragmatic, engaging a variety of regimes and employing a range of policy instruments. Yet it lacks the economic clout and desire to take on great power responsibilities in the region. Russia is likely to boost its regional profile through economic and military cooperation, as well as through diplomacy, capitalizing on the West's absence or missteps.



Russian President Vladimir Putin welcomes Syrian President Bashar al-Assad during their meeting in Sochi, May 17, 2018. *Mikhail Klimentyev / Sputnik via Reuters*



Russia is returning to the Middle East and North Africa (MENA). Following a temporary absence after the collapse of the Soviet Union, Russia's presence in the MENA region has been steadily growing since 2000. Although the region does not have the same significance for Russia as the post-Soviet space, China or India, developments can negatively affect Russian national interests and security. Gaining influence in the region, as well as recognition of its status as one of its major international stakeholders, is consequently important. Moscow has accordingly sought to re-establish relations with traditional partners across the Arab world, as well as to develop ties with a number of other countries in the region. In the Arab world, relations have generally been forged or deepened through incrementally developing economic and military-security cooperation. However, since Russia's 2015 intervention in the Syrian conflict, Moscow has also been engaging militarily and using high-powered diplomacy as additional foreign policy instruments. Although there are many similarities with the Soviet form of engagement in the region, Moscow's current approach is distinctly non-ideological. This, as well as Moscow's emphasis on state-led transition to democracy, makes Russia an attractive partner for many regimes in the Middle East and North Africa.

Not surprisingly, much attention to-date has focused on Russia's involvement in the Syrian conflict. The degree of Russian engagement in Syria, as well as the benefits Moscow has reaped from it, have been considerable. However, the Syrian case is, in many respects, exceptional. Given Moscow's already close relations with the Assad regime and Syria's importance for regional stability, the Kremlin was willing to become heavily involved militarily, and even risk confrontation with the US, in order to back Assad. However, Russia is less invested elsewhere in the Arab world and has thus far exercised caution in its actions. Its engagement takes a variety of forms, depending on the context. This chapter looks specifically at how Russia has succeeded in reviving relations with two of its traditional allies, Algeria and Egypt, and is seeking closer links to another Soviet-era ally, Libya. Together, these cases help to illustrate that, although Russia is seeking to gain a firmer foothold in the MENA region, its expanded presence has often been at the behest of local actors and frequently in response to a void left by the West.

Russia's Return to the MENA Region

Russia has a historical legacy in the region to build on. Soviet support for pan-Arabism led to strong ties with



several countries in the Arab world, particularly throughout the 1950s and 1960s. At this time, especially close ties with Algeria, Egypt, and Syria were forged. As Egypt moved closer to the United States in the early 1970s, Libya replaced it as a key Soviet ally in the MENA region. The collapse of the Soviet Union would cause relations with these states and other allies in the MENA region to come to a near standstill. The exception was Syria, with which Russia maintained fairly strong ties. Russia's relative absence from the region continued during the 1990s, as it grappled with its own internal challenges.

When President Vladimir Putin first took office in 2000, this trend was reversed. Ties with Soviet-era Arab allies have been revived and strengthened as part of a broader aim of increasing Russia's presence in the MENA region, and being recognized as one of its powerbrokers.¹ Moscow has also forged relations with a number of other Middle Eastern countries, including Israel, Iran, Jordan, Lebanon, Turkey and Gulf Cooperation Council (GCC) states. It has generally focused on incrementally building up relations by using a number of policy tools, including arms sales, broader trade relations, and cooperation in the military-security and energy spheres. Pragmatism has played an important

role in facilitating the development of Moscow's presence in the region. Russia is willing to work with existing regimes on all sides of regional divides. Russia also recognizes that many local regimes do not wish the United States to dominate the region, and has seized upon opportunities created by a desire on the part of some regimes to diversify their strategic partners. It has also typically stepped in when a lack of robust Western engagement has been evident.

Nothing has done more to consolidate Russia's return to the region than its intervention in the Syrian conflict. Moscow has employed a wider range of policy tools in the Syrian context than elsewhere. In the 2000s, as Moscow forgave three quarters of Syria's Soviet-era debt, Russian arms sales to Syria increased, and Damascus agreed that Russia could renovate its Soviet-era naval base at the port of Tartus.² Then, after the civil war began in 2011, Moscow used diplomacy to try to prevent United Nations Security Council (UNSC) resolutions from being used to facilitate regime change, as had been the case in Libya in 2011. While Libya was not strategically important enough to risk confrontation with France, the United Kingdom, and the United States, Syria was different. Moscow's relations with the Assad regime were relatively



strong. Syria was also seen as central to stability in the Middle East and thus critical to a range of Russian economic interests. As a result, Moscow was ready to put its full weight behind the Assad regime.

Defense of the Assad regime moved from diplomatic to military support in September 2015, when Russia intervened in Syria. This was the first time since the collapse of the Soviet Union that Russia had done so beyond its “near abroad”. No doubt there was a fear at this point that the Assad regime might collapse, spurring Moscow on. However, Western hesitancy, especially on the part of the United States, surely played a role in the Kremlin’s calculus. Whatever the precise calculations in Moscow, military intervention paid off. Moscow’s air support turned the balance on the battlefield in favor of regime forces. By 2018, the Assad regime controlled over half of Syrian territory, compared to a mere quarter prior to Russian military intervention.³ One of Moscow’s key objectives had thus been achieved.

Once the Assad regime was in control of strategically important areas of the country, Russia stepped up its high-powered diplomacy. Along with Turkey and Iran, Russia launched the Astana process in early 2017, which focused on establishing de-confliction

zones to reduce the level of violence and pave the way for political negotiations.⁴ By initiating an alternative mediation track to that of the United Nations, and one that excluded the United States, Moscow used high-powered diplomacy to shift peace talks away from discussions of regime change, as well as to boost Russia’s legitimacy as a major international stakeholder in the Middle East.

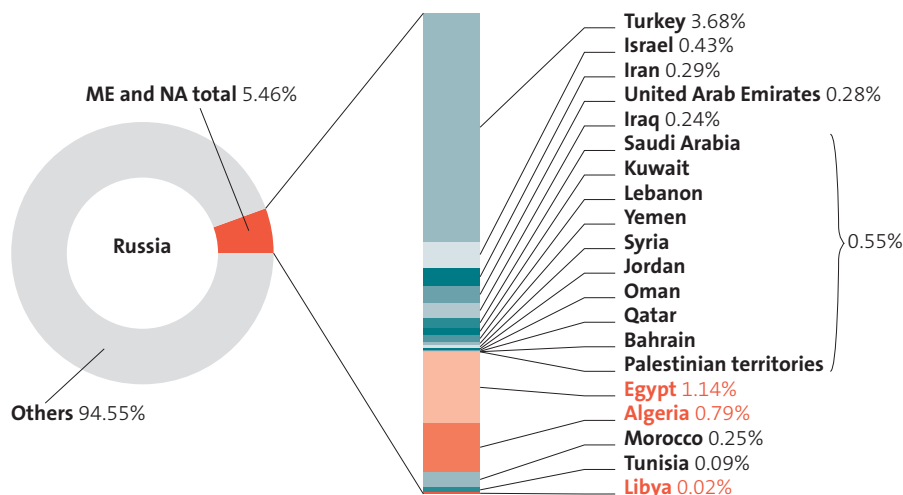
Intervention in the Syrian conflict is set to have a number of additional benefits for Russia. Substantial military cooperation between Russia and Syria is likely to continue over the longer term. Some of Russia’s armed forces will remain in Syria to help secure the Assad regime in a post-conflict scenario. The extent of Syrian dependence on Russian arms supplies means that Syrian armed forces will continue to rely on Russian weapons and materiel for some time to come. In addition, Damascus has agreed that Russia can expand its Tartus naval base and use it, as well as the Khmeimim airbase, for several decades. Although the Tartus facility is small, its expansion will help Russia increase its presence in the Eastern Mediterranean and the Middle East.⁵

Moscow no doubt hopes that its companies will benefit from reconstruction efforts once the conflict



Russia's Trade Turnover with the MENA Region

As of 2017



Source: Federal Customs Service of Russia

ends. Russian companies are eager to win lucrative reconstruction contracts and are set to receive preferential treatment. Yet, so too are Iranian and Chinese companies. Reconstruction of Syria will also require a substantial amount of international aid and assistance, and Russia alone will be unable to finance this. The fact that Moscow has been attempting to secure European and US funding for reconstruction efforts is telling. Although Europeans and the United States are reluctant to do so as long as the prospect of free and fair elections are not part of a negotiated settlement, Beijing has already indicated a willingness to help finance reconstruction. Consequently,

the opportunities created by reconstruction will not be Russia's alone, but shared with a number of other international actors.⁶

Syria represents an example of Russian engagement in the Arab world that would be hard to replicate elsewhere, at least for the time being. The Arab world, and the MENA region specifically, is not a priority for Moscow. Beyond arms sales, Russian trade with the region remains fairly minimal. Outside of Syria, Russia has not invested enough to support a regime to the extent that it has the Assad regime, particularly if there is a risk of conflict with the West. Although



Russia has succeeded in reviving ties with other traditional allies, its level of engagement, as well as the benefits accrued from it, have been more modest. This is partly due to the extent of local demand for cooperation with Russia and the latter's own reluctance to take risks for regimes that are not deemed critical to Russian interests. That said, Russia has successfully carved out a place for itself alongside the United States and European states in Algeria and Egypt, and is attempting to do so in Libya by drawing on its experience in the Syrian conflict.

In Algeria, Algiers Sets the Terms

Algeria and the Soviet Union were allies during the Cold War. Yet, the extent of their cooperation was always limited by Algeria's policy of non-alignment. Relations with the Soviet Union were conceived in Algiers as a counterweight to those with France and the United States, rather than an attempt to align with the Soviet Union. A window of opportunity to deepen Algerian-Soviet relations came in 1963, as a result of the War of the Sands between Algeria and Morocco over disputed border areas. The perception in Algiers was that the United States had lent support to Morocco in the conflict, rendering Algeria open to overtures from the Soviets. From this point on, arms supplies, as well as the training of military officers and

personnel, formed a key part of Algerian-Soviet relationship. However, even in the area of military cooperation, Algeria began to try to diversify its relations during the mid-1980s, particularly as a result of improved relations with France. Economic relations between Algeria and the Soviet Union were never significant.⁷ In fact, trade with the United States would become far more important than that with the Soviet Union towards the end of the Cold War.

In the post-Cold War period, relations between Algiers and Moscow intensified in the 2000s, as Russia sought to capitalize on the previously close relations between the Soviet Union and Algeria. This came at a time when Algiers sought to end its international isolation following a decade of civil war. In 2001, the two countries signed a strategic partnership that catalyzed an intensification of relations. One of the main elements of the partnership focused on arms supplies. The Algerian army was largely equipped with Soviet materiel, which made Russia a logical supplier. Moscow provided an additional incentive by offering to cancel Soviet-era debt, which amounted to 29 percent of Algerian foreign debt at that time, in return for orders of arms for the equivalent amount.⁸ The value of arms purchases from Russia



subsequently rose, with a significant increase in the mid-2000s that coincided with Algeria's effort to modernize its army. Military training and sharing of experience, as well as intelligence sharing on terrorist-related topics increased. However, Russia failed in its bid to establish a naval base in Mers Al-Kabir. From the perspective of Algiers, this would have amounted to a violation of its independence.⁹

Energy cooperation formed another key aspect of the strategic partnership. In 2006, Algeria's state-owned hydrocarbon company, Sonatrach, signed a memorandum of understanding with the Russian state-owned oil and gas companies, Lukoil, Gazprom, and Souyouzgaznef to collaborate on oil and liquefied natural gas exploration. In 2008, Sonatrach also granted Gazprom exploration and exploitation rights in the El-Assel gas field. Several years later, in 2014, Sonatrach invited Gazprom to explore and develop 30 gas fields as part of the Algerian government's drive to discover new hydrocarbon resources. The same year also saw Russia's state agency in charge of nuclear energy, Rosatom, and the Algerian ministry of energy sign a bilateral agreement to construct, operate, and service nuclear power stations and research reactors across Algeria, with the first power plant set to be constructed by 2025.¹⁰

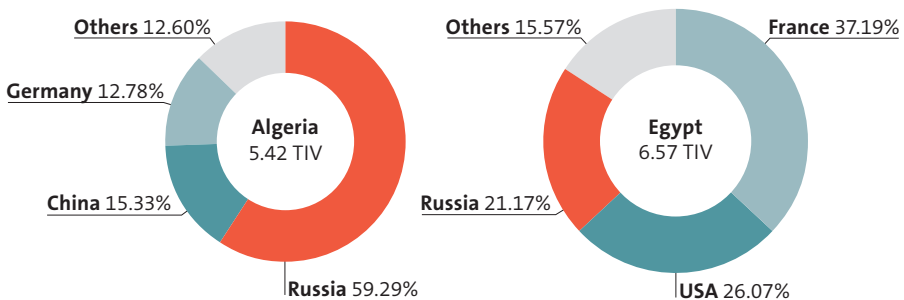
These developments notwithstanding, the extent of ties between Russia and Algeria is heavily circumscribed by Algeria's fierce independence and economic nationalism. Strengthened relations with Russia have always been counterbalanced by relations with other countries. Although arms purchases from Russia increased in the first decade of the 2000s, Algiers has consciously attempted to diversify arms supplies. From 2013 to 2017, Russian arms supplies accounted for only 59 percent of total arms purchases. The second and third largest suppliers were China (15%) and Germany (13%).¹¹ Algeria has also sought to develop its own defense industry with the aim of increasing its autonomy. As part of its aim to balance its strategic relations, Algeria has sought greater military cooperation with the North Atlantic Treaty Organization (NATO) within the framework of the Mediterranean Dialogue, particularly in the area of counterterrorism. Counterterrorism cooperation between Algeria and the United States has also been strengthened since the 9/11 terrorist attacks.¹²

Apart from arms sales, Algeria's trade with Russia remains relatively modest. Even in the energy sphere, Russian investments are relatively insignificant compared to those of other countries. Despite the inroads that they



Russia as an Arms Supplier: Algeria and Egypt

As of 2017



TIV: Volume of arms exports – the SIPRI Trend Indicator Value (TIV) relates to actual deliveries of major conventional weapons based on the known unit production costs of a core set of weapons.

Source: SIPRI

have made in the hydrocarbon sector, 80 percent of the total hydrocarbon production is owned by Sonatrach, and the remaining 20 percent is dominated by Western companies, primarily American and British.¹³ Though intensified Algerian-Russian cooperation, particularly in the gas sector, has generated fears that the two countries could collude in setting gas prices and restricting supplies to Europe, which relies heavily on both countries for its gas, Algeria's energy interests do not always overlap with those of Russia. Algeria values its reputation as an autonomous actor in the energy sphere. The importance of Western investment in Algeria, as well as the role of Europe as its main gas customer, means that Algeria has little incentive to engage in price setting or the restriction of supplies with Russia.¹⁴

Entry Points in El-Sisi's Egypt

For several decades during the Cold War, Egypt was one of the Soviet Union's principal allies in the Arab world. Ties deepened in the 1950s, as relations with the West soured following the 1956 Suez Crisis. Egyptian-Russian ties were deepest in the military sphere – Egypt wished to strengthen its army and the Soviet Union was ready to supply arms on favorable terms, as well as train Egyptian military officers. Military cooperation reached unprecedented levels after Egypt (then known as the United Arab Republic) was defeated by Israel in the 1967 Six Day War, and the Soviet Union acquired access to Egyptian naval and air bases. Economic and technical assistance also formed part of the Egyptian-Soviet relationship. The Soviet Union helped finance and



provide expertise for domestic development projects, including the prestigious Aswan Dam.¹⁵ Despite the depth of their relations, Egypt's need for an ally that had influence in Israel, as well as one that would be ready to work for peace in the Middle East, led Cairo to turn to the United States after 1972.

During the first decade of the 2000s, Russia made some progress in rekindling ties with Egypt. US pressure to embark on political reforms rendered President Hosni Mubarak amenable to developing relations with Russia, particularly with regard to trade and energy cooperation.¹⁶ The relationship only really blossomed in the wake of President Mohammed Morsi's overthrow in July 2013. The coup and the subsequent crackdown on Morsi's supporters led the Obama administration to suspend a considerable amount of military aid to Egypt, as well as to block deliveries of military equipment. An opportunity for Moscow to strengthen its relations with Egypt thus presented itself, and Russia seized upon it. However, this was only possible due to a deliberate effort on the part of Morsi's successor, President Abdul Fatah El-Sisi, to pursue a multi-dimensional foreign policy, aimed at reducing dependence on any one international power.

When El-Sisi became president in 2014, Russia extended offers of un-

conditional cooperation, which led to a steady increase in ties. Much like during the early decades of the Cold War, relations have become densest in the military-security sphere. In 2014, an arms deal worth some 3.5 billion USD was signed by Egypt and Russia, which was reportedly financed by Saudi Arabia and the United Arab Emirates. This was followed by the creation of a joint Commission for Military-Technical Cooperation, joint military and counter-terrorism exercises, and a 2017 agreement that grants Russia access to Egyptian airspace and the use of military bases and vice versa. Egypt has also allowed the deployment of Russian special forces to Egypt, near the Libyan border, in order to carry out missions in Libya and provide assistance to a Libyan militia engaged in counter-terrorism operations in the eastern part of the country.¹⁷

Economic cooperation has also increased, largely as a result of expanding trade relations and the creation of a Russian industrial zone in Port Said on the Mediterranean coast. This will enable Russian companies to benefit from agreements Egypt has with African countries, the European Union, Mercusor, and other Arab countries that grant preferential treatment for goods manufactured in Egypt.¹⁸ Cooperation in the energy sector has



also grown. In 2017, the Russian state-owned company, Rosneft, won additional rights to develop the Zohr gas field. Increased cooperation in the energy sector is largely due to a 2015 agreement in which Russia agreed to construct a nuclear power plant in Egypt, 85 percent of which is to be financed through a Russian loan. The plant will be maintained over a 60 year period by Rosatom.¹⁹

Closer ties with Egypt are also politically beneficial for Russia. In 2015, Egypt abstained from a UN General Assembly resolution calling on all UN members not to recognize Russia's annexation of Crimea. Egypt has also largely aligned its stance on Syria with that of Russia. In 2016, Egypt voted with Russia against a French draft UNSC resolution for a ceasefire in Aleppo that would have included the establishment of a no-fly zone. At the same meeting, Egypt voted in favor of a resolution tabled by Russia that would have enabled continued airstrikes and thus helped the Assad regime to retake Aleppo. More recently, in 2018, Egypt was a vocal critic of US, UK and French airstrikes in Syria in response to the use of chemical weapons.²⁰

Relations between Egypt and Russia are set to develop further following a 2018 agreement on a comprehensive partnership and strategic cooperation.

Russia can be expected to reap additional economic and political benefits from this. Even so, ties with Russia do not represent alternatives to those with other major international partners in the West, notably the United States, or key regional partners, such as Saudi Arabia and the United Arab Emirates. Even in the military sphere, where relations are densest, Russia's share of Egypt's arms market is still less than that of either France or the United States.²¹ This is not to say that Russia could not gain a larger share of the Egyptian arms market in the future. However, replacing major weapons systems could not realistically take place over the short term. Arms purchases from the United States are, moreover, part of the terms of the 1979 Peace Treaty between Egypt and Israel, and thus need to be maintained.

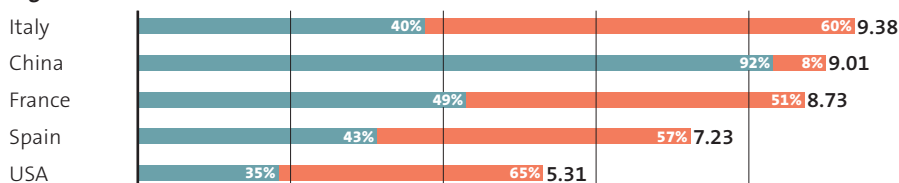
Russia's economic relations with Egypt remain fairly modest. Despite increased trade between the two countries, Egypt's trade with China, Saudi Arabia, the US, and several European countries is far more significant. Investment in Egypt is also dominated by companies from Europe, the United States, the United Arab Emirates, and Saudi Arabia.²² Russia's presence in the natural gas sphere is similarly overshadowed by other investors, which means that cooperation in the energy sector, as in Algeria, is largely



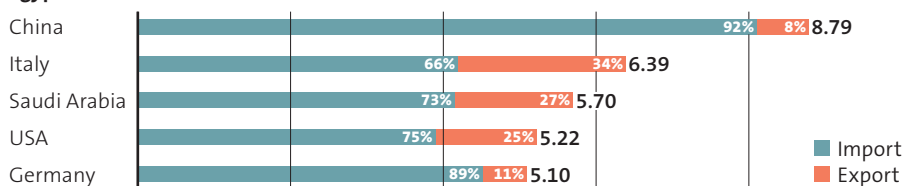
Top 5 Trading Partners of Algeria and Egypt

Turnover in billion USD in 2017

Algeria



Egypt



Source: World Bank

limited to development of Egypt's civilian nuclear energy program.

Expanding relations significantly beyond their current scope would prove difficult, particularly as long as the Egyptian regime continues to seek a balance in its relations with major international powers. Russia would not only have to compete with Europeans and the United States, but also with China. Beijing recently concluded a comprehensive strategic partnership with Cairo. Cooperation between the two countries has already led to Chinese investment in some of Egypt's major domestic economic projects, including the construction of a new administrative capital, and Cairo is

eager to attract further Chinese investment.²³ That said, Russia has made the most of an opportunity to increase export revenues, and to gain a firmer footing in one of Washington's traditional allies in the Arab world. This alone is an achievement.

Echoes of the Syrian 'Model' in Libya

As Egypt turned towards the United States in the early 1970s, and the Soviet Union lost a major ally in the southern Mediterranean, the Soviets took a greater interest in Libya, both as a source of revenue and a means of counterbalancing US influence in the MENA region. The Qaddafi regime was interested in Soviet arms,



and sought an ally that could protect it from US interference. As in the Algerian and Egyptian cases, Soviet-Libyan relations were strongest in the military sphere. The Soviet Union began supplying arms to Libya in 1975. Over the next decade, thousands of Russian soldiers were stationed there. Libya was, however, not important enough to the Soviets to risk confrontation with the United States. Soviet-Libyan relations cooled after the United States carried out airstrikes in Libya in retaliation for the 1986 bombing of a West Berlin nightclub, which was believed to have been planned by the Qaddafi regime.²⁴

Relations between the Qaddafi regime and the West improved after Western sanctions imposed in response to the bombing of the Pan Am flight 103 were suspended, in 1999, and then lifted, in 2004. However, in return for the surrender of Libyan intelligence officers implicated in the Pan Am 103 attack, and the regime's renouncement of its weapons of mass destruction programs, Qaddafi expected more than Libya received. As a result, he looked to revive relations with Russia. In 2008, Russia forgave Libya's 4.5 billion USD Soviet-era debt in return for contracts believed to be worth 5 to 10 billion USD. These deals included arms sales, the construction of a high-speed railway between Sirte and Benghazi by Russian Railways, and gas

transportation networks by Russia's Gazprom. The Qaddafi regime also granted Russia access to the port in Benghazi for its naval fleet.²⁵

When the rebellion began in early 2011, Russia took a pragmatic approach. It did not come to the aid of the Qaddafi regime, though it did abstain from voting on UNSC Resolution 1973, which called upon all UN member states to use all necessary means to protect civilians against regime forces. It did so partly because it believed that the mandate was too broad and could be used to try to bring about regime change, and partly because it was not invested enough in the Qaddafi regime to veto it. Although the regime had purchased arms from Russia, many of the other contracts it had agreed to in principle never materialized amid competition with US, French, and UK interests in Libya.²⁶

As the rebellion descended into a civil war, cooperation between Russia and Libya came to a virtual halt. As a result of the NATO-led 2011 intervention, mandated by UNSC Resolution 1973, Russia is thought to have lost some 4 to 4.5 billion USD. It also lost the right to use the Port of Benghazi. Although Russian firms attempted to resume contracts for arms purchases, the construction of the high-speed



railway, and natural gas development, they suffered from Russia's image as a counter-revolutionary force that had failed to support the rebels against the Qaddafi regime. As a result, Russian companies tended to lose out to US and European firms.²⁷

However, the outbreak of civil war in mid-2014 led to growing Russian interest in Libya. Moscow initially appeared to be trying to replicate in Libya what it has done in Syria. In the Syrian civil war, Russia stood firmly behind the Assad regime. As a result, it was able to use its influence with Assad to become an indispensable interlocutor in any negotiated settlement of the conflict. In recognition for its support, Russia has secured the long-term use of air and naval bases, and hopes that its firms will benefit from future arms deals and the reconstruction of the country's infrastructure, including in the energy sector.

In the early phase of the Libyan conflict, Russia put its weight behind a former Qaddafi-era general, Khalifa Haftar, who leads an eastern-based militia, which refuses to recognize the UN-backed Government of National Accord (GNA) in Tripoli. Haftar's anti-terrorism narrative provided a convenient guise for Russia to support his campaign in eastern Libya. Russian special forces and military advisors

are believed to have been assisting Haftar's forces either from eastern Libya or from across the border in Egypt. In addition, reports that personnel from Russian private security companies have also been deployed to areas under Haftar's control have emerged. Haftar has also been invited to Moscow, where he is believed to have lobbied for Russian arms supplies, and, in 2017, he was invited to board a Russian aircraft carrier on its way back from Syria, during which he was rumored to have promised Russia access to the port in Benghazi. Moscow has also printed 3 billion USD worth of banknotes for the GNA's rival, eastern-based government, much to the consternation of the Central Bank of Libya in Tripoli.²⁸

By providing Haftar with military assistance and promoting him as a potential future political leader, Russia has not only helped his militia to fight radical Islamist forces, but also to capture territory, including some of Libya's most important oil terminals. This has made him a necessary interlocutor in peace talks, even though he has sought to derail the 2015 UN-brokered Libyan Political Agreement (LPA) that aims to reconcile Libya's warring factions. Haftar's increased clout also reduced the likelihood that eastern politicians allied with him would compromise with



their rivals in Tripoli. Amid the subsequent stalemate in the UN peace process, Moscow came to be seen as one of the only countries, along with perhaps Egypt, capable of convincing Haftar to accept the LPA in principle and to reinvigorate the peace process. Attempting to replicate the Syria model seems to be paying off.

The ease with which Moscow was able to use high-powered diplomacy in the Libyan conflict was partly made possible by the relative absence of the United States in the peace process. The Obama administration chose to focus on counter-terrorism in Libya, and was loath to get any more involved to a country that appeared peripheral to its core security concerns. This stance has largely been maintained under the Trump administration. Europe, for its part, has been in disarray over Libya. Although the European Union imposed sanctions on several political figures in order to help broker the LPA, individual European states have failed to unite behind the LPA. France and Italy, in particular, have been working at cross purposes in Libya, supporting different local factions and competing as mediators in the conflict. Thus, a void was left for Moscow to fill.

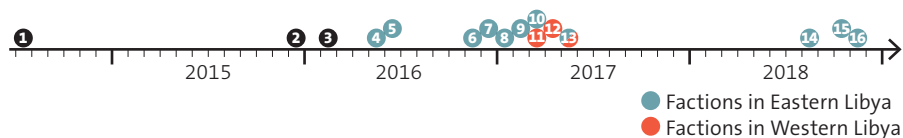
However, bringing Haftar on board the UN-backed political process proved more difficult than expected.

It also became evident that Haftar would be unable to conquer major population centers in Western Libya, including Tripoli and Misrata, where powerful militias nominally loyal to the GNA are based. Haftar's forces would have needed much more substantial military assistance from Russia to do so. While some observers expected Russia to more heavily intervene in Libya, Moscow has been reticent to do so. Libya does not have the same geostrategic significance as Syria. As a result, Russia altered its approach to Libya over the course of 2017. It began to reach out to the prime minister of the GNA in Tripoli, Fayez Al-Serraj, as well as representatives from Misrata. Moscow also began to stress that it was pursuing a policy of equidistance with regard to Libya's factions, and the Russian Ministry of Foreign Affairs and the Duma established a contact group charged with forging contacts to help Moscow engage with all relevant political factions in the country.²⁹

Russia's current approach to Libya is pragmatic and limited by the complexities of the Libyan conflict. Placing its weight behind Haftar helped Moscow consolidate its role as a key international stakeholder. However, Haftar is no Assad. He is not the head of a regime that can prevail over opposition groups, but rather the leader



Russia's Engagement in Libya: Mid-2014 to 2018



- 1 **July 2014** Outbreak of Libyan Civil War
- 2 **December 2015** Russia supports UN-brokered Libyan Political Agreement
- 3 **February 2016** Russian state-energy company, Rosneft, signs a cooperation and investment agreement with Libya's National Oil Corporation
- 4 **May 2016** Haftar-allied Central Bank of Libya issues banknotes printed by Russia
- 5 **June 2016** Libyan militia leader Haftar visits Moscow for talks
- 6 **November 2016** Haftar visits Moscow for talks
- 7 **December 2016** Haftar visits Moscow for talks
- 8 **January 2017** Haftar boards a Russian aircraft carrier and video-conferences with Russian defence minister, Sergei Shoigu
- 9 **February 2017** Russian private security contractors sent to areas controlled by Haftar
- 10 **March 2017** Prime minister of the GNA, Faye Al-Serraj, meets with Russian foreign minister, Sergei Lavrov
- 11 **March 2017** US claims Russian Special Forces Operations unit deployed to western Egypt to assist Haftar
- 12 **April 2017** Misratan delegation received in Moscow for talks
- 13 **May 2017** Russian diplomacy helps bring about a meeting between Haftar and Al-Sarraj
- 14 **August 2018** Haftar visits Moscow for talks
- 15 **October 2018** British intelligence officials claim that Russia is moving troops and missiles into Libya
- 16 **November 2018** Haftar meets with Shoigu in Moscow ahead of Italian summit on Libya

Sources: Aljazeera; ECFR; Foreign Policy; Gulfnews; ISPI; Libya Herald; Libyan Express; Middle East Monitor; Reuters; The Arab Weekly; The Guardian; The New Arab

of a militia that has the capacity to control only parts of Libyan territory. With elections due to be held in 2019, Moscow appears to be looking toward the future. As in Syria, reconstruction is likely to imply large contracts for foreign companies, and Moscow will want Russian firms to benefit from these opportunities. In addition, Libya has large deposits of oil and gas that

could be explored and exploited in the future. Keeping its options open makes sense, particularly since Russian firms will have to compete with French and Italian ones that have a stronger foothold in Libya.³⁰

The Road Ahead

Russia is making inroads in several key states in the Arab world. The Arab



uprisings, and the uneven response of the West in responding to subsequent developments, have created openings that Russia has been able to fill, and to do so in a way that differs from European and US engagement.³¹ Moscow's acceptance of existing regimes and emphasis on state-led transition to democracy make it a comparatively easier partner than Europe or the United States, even if the latter have in reality often balanced concerns about stability with democracy promotion. As a result, Russian engagement offers more options to states that wish to reduce dependence on any one international actor or resist pressure from civil society or external actors for democratic reform.

Russian inroads in the Arab world also come at a time when the United States lacks a clear strategy towards the Middle East and North Africa, and the European Union still struggles to exert influence. The Obama administration underestimated the gains that Russia would reap from its military intervention in the Syrian conflict, as well as subsequent high-powered diplomacy. Largely thanks to Russian intervention, the Assad regime has survived, and now has no reason to accept a negotiated solution to the conflict that would threaten its survival. The Trump administration's recent equivocations on the future of US troops

in Syria casts additional doubt as to whether the United States is really a major stakeholder in the conflict, thereby boosting Russia's image as an alternative force for stability in the region.

Although Russia lacks the economic power to become an alternative to the West, it is likely to continue to strengthen its presence in the MENA region through its pragmatic and flexible approach. Russia has traditionally supplied arms to many countries in the region. Their militaries are thus familiar with Russian materiel and may prefer it, particularly since it is often sold on favorable terms. Russia's nuclear technological know-how is also of interest to many regimes in the region, and Moscow has proved ready to loan countries the funds to finance the construction of power plants and reactors. Arms sales and energy cooperation are thus likely to remain the main policy instruments employed by Moscow to engage regimes and to garner influence in the region.

However, these vectors of influence alone are not enough to secure Russia's status as a key powerbroker in the region and, thereby, enable it to influence decisions that are decisive to regional stability. As a result, Moscow may be expected to invest greater diplomatic resources in the region's



conflicts, taking advantage of opportunities to boost its profile where the West is absent or divided. This is likely to stop short of taking on the responsibilities of a major power in the region. As the Libyan case demonstrates, few states in the region are important enough for Moscow to put its full weight behind local regimes or conflict parties. Moscow is thus liable to proceed with caution. Over the near term, it may be content with carving out a greater role for itself alongside the West and, in particular, the United States.

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