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The Domestic Foundations of Russian Foreign Policy

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Abstract: This paper explores some of the structural features of Russia's political system post-1991 that lay behind the decision to launch the disastrous war in Ukraine. The creeping authoritarianism since Vladimir Putin became president in 2000 prepared the ground for the aggression against Ukraine in 2014 and the invasion in 2022. The checks and balances on presidential power were neutralized, and the bloc of security officials became increasingly influential. A campaign of state patriotism, promoting the restoration of Russia as a great power, served to prepare Russian society for war. Yet while the political system was becoming more authoritarian and more stridently anti-Western, Russia's prosperity was still dependent on trade with the West. Putin gambled that the Ukrainian war would be short, and that the West would be divided and indecisive in response. Ordinary Russians and the business elite in particular stand to lose massively from Western efforts to isolate the Russian economy in retaliation for the invasion of Ukraine.

Keywords: Russia; Ukraine; war; foreign policy; militarization.

Introduction

This paper seeks to examine the shifts in Russia's domestic political and economic institutions which made possible the disastrous invasion of Ukraine in 2022. At the beginning of the Putin era there was widespread optimism that Russia was on a path to a capitalist economy, integrated with the West, and that it had adopted the institutions of electoral democracy. These developments, if true, would have made it increasingly unlikely—if not impossible—for Russia to launch a genocidal war on Ukraine. The paper re-examines our understanding of the politics of Putinism to show that behind the creeping authoritarianism was something more than Putin's desire to secure his grip on power and enrich himself: Russian society was being prepared for war.

The Ukrainian war is explained by Russia's geopolitical rivalry with the West and Putin's desire to prevent further NATO encroachment on the territory of the former Soviet Union. Clearly, these external drivers were key in shaping Putin's decision to go to war. But leaving aside the geopolitical context, this paper seeks to explore the structural features of Russia's domestic political system post-1991 that made possible the disastrous war in Ukraine: the Innenpolitik (domestic politics) that lies beneath the Aussenpolitik (foreign policy). The German terms seem appropriate since Vladimir Putin is living in Bismarck's nineteenth-century world of imperial expansion, where war is a habitual tool for the promotion of national interests.

On Putin's watch, Russia intervened with military force in Georgia (2008), Ukraine (2014), and Syria (2015), along with indirect involvement through mercenaries in Libya, Chad, and Mali from 2018 on.1 Clearly, the authoritarian regime that Putin has engineered was accompanied by a reversion to Russia's traditional historical pattern of reliance on
the military as the backbone of the state. The increasing concentration of power in Putin’s hands removed the checks and balances of a democratic system which could have blocked the path to all-out war with Ukraine. The growing censorship of the media and civil society reduced the scope for debate and the chance for alternative channels of information to percolate up to the decision makers. Increased spending on the security forces and their veneration in state ideology made it more likely that military solutions would be sought to the challenges facing Russia. The question of Russian political identity, and the way that Soviet and Tsarist history is brought into play in defining Russia’s relations with the outside world, are also highly relevant to understanding Russia’s war on Ukraine. Putin’s historical revisionism is beyond the scope of this paper but is well covered in other sources.

Post-Soviet Russia emerged as a shaky electoral democracy that, according to Freedom House, achieved its maximal level of democracy in 1992. The 1990s were dogged by corruption, a breakdown of the rule of law, and a brutal war to suppress the independence of Chechnya. Vladimir Putin was chosen as Boris Yeltsin’s successor at the end of 1999 and elected president in 2000—the first transition of power in Russia’s 1,000-year history that followed some sort of constitutional due process. Under Putin, however, the level of political freedom steadily eroded, while Putin adopted a more confrontational policy toward the West, as signaled by his 2007 speech to the Munich Security Forum.

Since the Soviet collapse, Russia’s leaders have mostly pursued integration into global economy, which involved adoption—and adaptation—of Western economic institutions. Trade (imports and exports combined) as a share of GDP grew from 10-15 percent at the end of the 1980s to close to 50 percent by the 2000s. At the same time, in the broader Russia society, tropes of hostility toward global integration were still prevalent. After the political crisis caused by Putin’s return to the presidency in 2012 and the annexation of Crimea in 2014, the Kremlin began to disengage Russia from the West, politically and economically. But despite Putin’s rhetorical commitment to economic independence from the West, actual implementation of import-substitution projects was slow, leaving Russia vulnerable to the sanctions that were imposed after the 2022 invasion.

Putin’s first two decades in power left a contradictory legacy. Russia’s growing authoritarianism and hostility toward the West sat uneasily with the fact that its economic prosperity depended heavily on integration with the very Western economies whose values and influence Putin increasingly openly resented. These contradictions came to a head with Russia’s invasion of Ukraine in February 2022.

**Putin’s Authoritarian Regime**

The Russian political system is weakly institutionalized compared to other advanced industrial societies. Formally, there is a constitution and institutions of democratic rule, but in practice the Kremlin violates those norms when it chooses to do so and has been at pains to strip the electoral system of genuine competition. The legal system is in place, but for politically connected people it can be short-circuited.
Over his 22 years as president (including four years as prime minister, 2008-2012), Putin has consolidated power in his own hands to an extraordinary degree, and at the same time he restored the capacity of the Russian state both at home and abroad. Analysts disagree over the extent to which Putin is a personal dictator, capable of getting what he wants over each and every issue; or more of a broker, balancing competing factions in and around the Kremlin. The two key groups that form the backbone of the Russian elite are the people running the security agencies (the *siloviki*) and the new capitalist class, the oligarchs. These two groups stand atop of a large state bureaucracy composed of millions of loyal officials that administer and monitor Russian society. After his accession to the presidency, Putin used the *siloviki* to rein in the autonomy of the leaders of Russia’s 89 regions and to push the oligarchs out from political power. At the same time, in addition to the institutional bureaucracies of the *siloviki*, Putin relied heavily on an inner circle of trusted aides, who have personal connections to him going back to the 1990s, when Putin was working in the St. Petersburg mayor’s office. From 2004 on, once the Putin regime had been consolidated, the *siloviki* and the inner circle were able to expand their own personal control over economic assets, expropriating or buying out existing owners.

How is it that this small group of men can rule with an iron hand a large, diverse country of 145 million people spread over 11 time zones? In order to understand the current configuration of power, it is important to look back at the collapse of the Soviet state in the 1990s and its recuperation in the 2000s.

After becoming president in 2000, Putin moved quickly to restore what came to be known as the “power vertical.” In the Soviet Union, the Communist Party had provided a tightly controlled bureaucratic chain of command which reached down into every school, factory, and military unit in the country. The Communist Party vertical operated in parallel to the multiple ministerial bureaucracies that ran Soviet industry, agriculture, and government agencies. The Communist Party tried to coordinate the workings of the state Leviathan, to ensure that the Kremlin’s current priorities were being addressed, and kept an eye on the mass population to ensure its political quiescence.

After the failed August 1991 coup, the Soviet Communist Party was banned. When it was reconstituted as the Communist Party of the Russian Federation in 1993, it no longer had a privileged position inside state institutions: it was just another opposition political party. This meant that post-Soviet Russia lacked the central control bureaucracy that the Communist Party had provided. Instead, those coordination functions were the responsibility of the presidential administration at national level, and to the regional leaders in Russia’s then 89 provinces. After 1995 the regional governors were directly elected, and thus had a source of political legitimacy independent of the Kremlin. The new Russian state was more ethnically homogeneous than the old Soviet Union, since Russians made up 80 percent of the population as opposed to just 53 percent in the former USSR. But 32 of the provinces were ethnically designated republics, whose leaders were called presidents. In the 1990s most of the ethnic republics jealously guarded their newly won autonomy, finding
ways to avoid paying federal taxes and passing laws which violated federal legislation. Many of the non-ethnic regional governors followed suit.\textsuperscript{14}

Yeltsin found his economic reforms blocked by the Congress of People’s Deputies. In October 1993 he used the army to disband the Congress and then held a referendum in December 1993 to introduce a new constitution and a State Duma with limited powers vis-à-vis the presidency. However, pro-Yeltsin parties fared poorly in elections to the State Duma in 1993, 1995, and 1999, and the Kremlin was stalemated by the opposition-controlled Duma throughout Yeltsin’s time in office. Between 1995 and 2000, for example, not a single federal budget was approved by the Duma in advance.

Yeltsin is typically portrayed as the founding father of Russian democracy. However, Archie Brown points out that nearly all the key features of liberal democracy were introduced by Gorbachev, not Yeltsin: free media, competitive elections, freedom to travel, private property, etc.\textsuperscript{15} (Yeltsin’s one innovation was the introduction of direct election of regional governors.) It is also overlooked that the army played a key role in Yeltsin’s rise to power—refusing to support the coup in August 1991, and then obeying Yeltsin’s order to shell the congress in October 1993. That meant Yeltsin had little choice but to agree to the army’s plan to invade Chechnya in December 1994—so the military foundation of the post-Soviet political system did not start with Putin.

On December 31, 1999, Yeltsin nominated Putin as his successor, and he won election in March 2000. Putin moved quickly to restore the “power vertical,” aiming to create a single pyramid of patrimonial power in place of the multiple competing power centers of the 1990s.\textsuperscript{16} He forced out the major owners of the two leading independent television stations, Boris Berezovsky and Vladimir Gusinsky, and arranged for them to be taken over by Kremlin-loyal corporations. He created seven new federal districts (okrugy) to monitor the regions, ensuring that they paid their taxes, brought their laws into compliance with federal legislation, and delivered votes for Putin and his party, United Russia, in elections.\textsuperscript{17} Each okrug had a head answering directly to Putin, and there was a presidential representative in each region reporting directly to them. Geographically, the okrugy were based on the federal military districts, and most of the presidential representatives were former military or KGB officials. This new vertical chain of command was effectively a replacement for the old Communist Party network. It led to a rapid improvement in tax collection and—to a lesser extent—the capacity of the federal government to implement its policies. The new tax code introduced in 2003 sharply increased the proportion of taxes collected by the federal center.\textsuperscript{18} In 2004, Putin used the excuse of the terrorist attack on the Beslan school in North Ossetia to abolish the direct election of regional governors: one of the few remaining elements of electoral competition in the Russian political system. At that point Freedom House downgraded Russia from “partly free” to “unfree.”

Russia is a hybrid regime combining formal democratic institutions (a constitution, regular elections) with the informal exercise of power by a ruling elite. Autocrats can use
their control over the media to win elections and manage society without the need for crude repression.\textsuperscript{19} In authoritarian regimes of the Russian type, elections are regularly held to maintain the appearance of democratic accountability, and the regime has to adjust its tactics to accommodate changing social moods and needs.\textsuperscript{20} Election management tools include spoiler candidates, workplace mobilization, the cooptation of opposition leaders, and the falsification of results. Most of these techniques were already deployed in the 1990s and were carried over into the Putin era.\textsuperscript{21} A key strategy to ensure the desired outcome is to fragment the opposition: encouraging weak opposition parties to run (and lose) creates an image of competition while posing no real threat of a transfer of power. At the same time, a powerful personality cult was built up around Putin as a national leader, floating above the messy business of party politics, and aided by populist performances such as his annual “direct line” television show in which he fields calls from citizens around the country.\textsuperscript{22} In 2020 Putin consolidated his grip on power by rewriting the constitution to enable him to serve for two more terms after 2024: in effect, president for life.\textsuperscript{23}

At the same time, Putin took steps to rebuild Russian national identity, focused on patriotism and pride in Russia’s return to the world stage as a great power. In the 1990s, Russia was torn by competing interpretations of national identity and the appropriate ideological foundation for the new/old Russian state. The very proximity of Russian and Soviet identities made it difficult for Russians to define themselves in opposition to their Soviet past, as was a common strategy of nation-building elites in most of the other post-Soviet states. Russia inherited from the Soviet Union a multi-ethnic federal structure and global power worldview which made it difficult for Russian elites to adopt the strategy of a “nationalizing” state built around the ethno-nationalism of the majority population.

There were at least four competing visions of the appropriate identity narrative for the Russian Federation: a multi-national state; an ethnic state (“Russia for the Russians”); a civic state (neutral as to ethnicity); and an imperial state (ruling over other peoples and territories). The multi-ethnic and civic views were dominant in the Russian government’s thinking in the 1990s—though these two approaches contradicted each other in crucial respects, such as the special status of the ethnically-designated republics within the Federation. Under Putin, the emphasis shifted toward an imperial state—stressing the legacy of the Tsarist and to a lesser extent Soviet past. Radical nationalists promoted a more ethno-national approach, but the Kremlin cracked down on the extreme Russian nationalist groups.\textsuperscript{24}

Under Putin, the state invested heavily in patriotic education and the promotion of new symbols, while pushing rival visions of Russia’s national narrative to the margins of the political system. After Putin’s return to the presidency in 2012, he put a new emphasis on the ethnic component in Russian identity, including a prominent role for the Orthodox Church. This trend accelerated after the annexation of Crimea in 2014. Putin stresses continuity with the “1,000 year history” of the Russian state, while elevating the Soviet victory of 1945 into a virtual state religion. Moscow increased the pressure on non-Russian ethnic
groups to assimilate to that core culture—tightening restrictions on the teaching in native languages in the ethnic republics in 2018, for example. (Chechnya is a notable exception to this homogenizing trend.) This narrative was pushed out through the educational system; through museums and public rituals, and through television and cinema—with an endless supply of patriotic blockbusters.\textsuperscript{25} In addition, a network of government-led voluntary organizations was created to engage the community in patriotic action, especially young people—such as Nashi (Ours) and the Youth Army.\textsuperscript{26} These groups were founded in the wake of the “color revolutions” that swept incumbent autocrats from power in Georgia, Ukraine and Kyrgyzstan in 2003-2005, a development that greatly alarmed Putin, and which he attributed to Western interference. In retrospect, we can see that the steady and systematic militarization of Russian society (or at least the efforts in that direction), in response to a perceived Western threat, laid the groundwork for the annexation of Crimea in 2014 and the invasion of 2022. Some experts did see the importance of this development before the crisis of 2022.\textsuperscript{27}

At the same time as Putin was building this state patriotism narrative, Putin was, as Oxana Shevel notes, “purposefully ambiguous” about where the borders of the Russian state should lie, and which ethnic groups belonged within it.\textsuperscript{28} After 2007, Putin promoted the concept of the “Russian world” (\textit{Russkii mir}), claiming affinity with ethnic Russians and Russian language speakers living beyond the boundaries of the Russian Federation.\textsuperscript{29} This view resonated across the political spectrum in Russia—especially with regards to Crimea. Back in 1997 Russia and Belarus announced their intention to form a “union state,” a project that has proceeded in fits and starts, with the creation of a customs union in 2010. Further integration—such as Belarus introducing the Russian ruble as its currency—has been delayed due to President Alexander Lukashenko’s unwillingness to lose his independence, and his prickly personal relationship with Putin. But the union with Belarus is one indicator of Putin’s likely long-run intentions for Ukraine.

In 2008 Putin stepped down from the presidency, in line with the constitution’s two-term limit. However, he moved sideways to the post of prime minister while his loyal aide Dmitry Medvedev became president. Rather than let Medvedev serve two terms as president, in September 2011 Putin announced that he would be returning to the presidency the next year. In part this was because of the Arab Spring that erupted in early 2011, which was an unwelcome reminder for Putin of the capacity of pro-democracy crowds to topple dictators. The Arab Spring culminated in NATO’s intervention in Libya—something which Putin resented. He opposed Western actions to promote regime change, fearing that Russia could be next. Also, the action in Libya replicated NATO’s bombing of Serbia in 1999 in support of Kosovo independence: a critical turning point in the deterioration of US-Russia relations.

Putin’s announcement that he was returning to the presidency helped fuel mass protests in Moscow and other cities challenging the results of the December 2011 State Duma elections. After he was elected president in May 2012, Putin cracked down hard on the protesters, and moved further to the right. He encouraged a series of legislative measures appealing to “traditional” Russian values in opposition to degenerate Western
values (including a ban on foreign adoptions and LGBT propaganda) and cracked down on civil society groups receiving foreign money. The authoritarian shift after 2012 broke the “live and let live” modus vivendi that had previously prevailed between the oligarchs and the siloviki. The business community was seen as too close to West, and likely to sympathize with the pro-democracy protestors. The policy shift led to growing tension between the competing economic and political logics driving the Kremlin’s policy.

The annexation of Crimea in March 2014 and Russian support for the separatist insurrection in Donbas was the culmination of the deterioration of relations with the West over the previous decade. Putin saw the overthrow of the pro-Russian president Viktor Yanukovich in February 2014 as a Western-inspired plot to pry Ukraine out of the Russian sphere of influence. Sevastopol, Crimea, was the home port of the Russian Black Sea fleet, and thus a vital strategic asset for Russia. The fact that Crimea was majority ethnic Russian, and had only been transferred to Ukraine from the Russian Federation in 1954, gave Putin the opportunity to combine his geopolitical interests with the theme of defending ethnic Russians. Putin’s approval rating leapt from 69 percent to 81 percent in the month after the annexation of Crimea, and to 88 percent by October 2014. The sanctions played into the anti-Western, conservative nationalist narrative which the Kremlin had been promoting, especially since 2012. Previously, Putin’s approval rating had tracked the ups and downs of Russia’s GDP growth rate: after 2014, this ceased to be the case. Putting Russian society on a war footing, facing off against the alleged threat from the West, provided Putin with a framework to justify cracking down on political opposition and thus consolidate his grip on power.

**What Economic Strategy for Russia?**

The leaders of post-Soviet Russia faced a triple challenge in trying to modernize their country’s economy. First, as the world’s largest producer of oil and gas it is burdened by the “oil curse”—a well-documented combination of pathologies that hinder the development of countries heavily dependent on oil exports: an overvalued currency, volatile exchange rates, corruption, concentration of wealth and power, etc.

Second, it suffers from the “Russian curse”: a centuries-old tradition of a strong centralized state, deemed necessary to preserve internal stability and external security of what became the largest country in the world, trying to hold a vast stretch of territory from Europe to North America.

Third, it suffers from the “Soviet curse”: 70 years of socialist central planning that reinforced the statist tradition of Tsarist Russia and adding new distortions such as a bloated military industry complex, disdain for entrepreneurship, dependency on state handouts, and informal networks of trusted partners that inhibit open competition and public accountability.

Russia’s attempt to build a competitive market economy and liberal democracy in the 1990s was, by and large, a failure. The wrenching transition that followed the collapse
of the centrally planned economy saw a 40 percent drop in GDP, rampant inflation, and a concomitant plunge in living standards. The “wild 1990s” discredited free market capitalism in the eyes of ordinary Russians—and also undermined their faith in democracy, which had accompanied the arrival of capitalism. The 1998 financial crisis, which saw Russia default on its debts and caused another 75 percent devaluation of the ruble, only reinforced that message.

When Putin was nominated acting president in 1999, he was fully aware that Russia was falling further behind the economies of the developed West. In his pre-election manifesto in 1999 he warned that “It will take us about 15 years and an annual growth of our gross domestic product by 8 percent a year to reach the per capita GDP level of present-day Portugal or Spain, which are not among the world’s industrial leaders.” (Russia did manage to reach Portugal’s 2000 GDP per capita in 2012, although its GDP still lagged 22 percent behind the 2012 Portugal level.)

In his first address to the Federal Assembly in July 2000 Putin was harshly critical of the policies of the 1990s, which led to a situation where “the growing gap between the leading countries and Russia is pushing us toward the Third World.” He argued, “We have had to choose: operate on alien aid, advice, and credits or rely on our own resources.” In practice, however, Putin recognized the advantages that could be gained from participation in the international division of labor—access to cheap capital, superior management skills, and the latest technology. He did not turn Russia away from global integration: he kept the ruble a convertible currency, lifting the remaining capital controls; and continued to pursue World Trade Organization (WTO) membership, which Russia finally achieved in 2012.

Putin moved quickly to centralize decision making, and gradually tightened the screws on political opposition. The “wild 1990s” had seen control over Russian industry fall into the hands of a few dozen buccaneer entrepreneurs, the “oligarchs.” Putin made it clear to them that they could keep their businesses, but would have to stay out of politics, and would follow Putin’s instructions when their help was needed. Putin also introduced measures to strengthen state influence over the economy. His first step was to restore state control over the oil and gas sector: the source of 75 percent of export earnings and around half of the federal budget revenues. In 2003 Roman Abramovich agreed to sell Sibneft to the state-controlled Gazprom for $13 billion. But Mikhail Khodorkovsky, owner of the largest oil company, Yukos, and Russia’s richest man, refused to cooperate. In 2003 he was arrested and sentenced to 10 years in jail, and his company was seized and merged with state-owned Rosneft. The Yukos expropriation was a turning point: it gave a green light to state officials at all levels to extort or expropriate local entrepreneurs, to have their own “mini Yukos.”

Apart from the oil and gas industry, state-controlled corporations also dominated certain other sectors, such as the defense industry and railways. Meanwhile, a small inner circle of Putin cronies became very rich thanks to their stake in a circle of key private companies and state corporations. By 2020 Russia had over one hundred dollar
billionaires;\textsuperscript{43} and the top 1 percent earn 20 percent of the national income and own 40 percent of the nation’s wealth—the highest level of concentration of wealth in any of the countries in the World Inequality Survey.\textsuperscript{44}

But Putin’s overall economic strategy was somewhat ambiguous. Part of his team consisted of modernizers who insisted that the only way to restore Russia’s prosperity and standing in the world was to embrace Western market institutions and integrate with the global economy. They were impressed by the experience of China and other East Asian “tigers,” who had prospered following opening to foreign trade and investment and integration into global production chains. Although the number of pro-market liberals shrank over the course of the Putin administration, they still hold some influential positions, including Finance Minister Anton Siluanov and Central Bank head Elvira Nabiullina.\textsuperscript{45} Mikhail Mishustin, prime minister since January 2020, is the primary example of an ideologically neutral technocrat: he was the former head of the Federal Tax Service.\textsuperscript{46}

On the other side were economic nationalists who believed that integration into the global economy has reduced the Russian economy to a “raw materials appendage” of Europe and China and undermined the political institutions and cultural norms that are central to Russian identity.\textsuperscript{47} The “nationalists” are also a diverse group, ranging from ideological Eurasianists who prioritize reintegrating the former Soviet economies, to lobbyists for Russia’s manufacturing and defense industries. They argue that erecting barriers to Western economic influence and creating an alternate trading bloc is necessary to prevent the exploitation of the Russian economy and even the possible destruction of the Russian state.\textsuperscript{48}

The global financial crisis of 2008-2009 hit Russia hard, with Russia experiencing an 8 percent drop in GDP in 2009 (and 14 percent from September 2008 to August 2009), the deepest of any of the G20 countries.\textsuperscript{49} Having learned the lesson from the 1998 crisis, the government had paid down Russia’s foreign debt and set aside a significant part of the oil revenues during the boom years, providing the state with a cushion to ride through the crisis. They managed to prevent a precipitous decline in the value of the ruble, and consequently maintained the previous level of real wages. The paying down of foreign debt and creation of a war chest to ride out financial crises was one of the signal economic achievements of the Putin regime. However, in 2022, Western sanctions included the freezing the Russian Central Bank assets held in foreign bank accounts, some 30-40 percent of the total. That along with the other measures (exclusion from the Society for Worldwide Interbank Financial Telecommunications (SWIFT) inter-bank transfer system, a ban on many categories of exports to Russia) severely constrained Russia’s capacity to import goods.

In 2012 Sergei Glaz’ev was appointed economic advisor to Putin, replacing the liberal Arkady Dvorkovich (who was promoted to deputy prime minister in charge of economic policy). Glaz’ev is a critic of globalization, arguing that it leads to the deindustrialization of mature economies, while the deepening financialization of the international economy
exposes countries to speculative bubbles while strengthening the power of the US. He believes that recycling the petro-wealth through a state-led investment campaign in infrastructure and manufacturing, behind protectionist barriers, can best preserve Russia’s industrial base. He argued for the need to create a separate international payments system with the BRICS (Brazil, Russia, India, China, and South Africa) countries to insulate themselves against Western sanctions; more investment in research and development (R&D) to prevent bans on technology transfer from disrupting key industries; and the introduction of capital controls to stop capital flight. One important strategy that gathered pace after 2012 was an effort to “nationalize the elite” by imposing limits on the assets that government officials could hold abroad, and by encouraging oligarchs to repatriate their wealth to Russia through tax amnesties. Ironically, the post-Crimea sanctions served to strengthen the dependency of Russian oligarchs on the Russian state.

In contrast, the liberals believed that it should be private business and not the state that invests in modernizing Russian industry, and that the state should focus its efforts on creating a favorable investment climate—low inflation, secure property rights, lower corruption and bureaucratic barriers, and a welcome mat for foreign investors with their know-how and technology. (Foreign owners had an equity stake in roughly one in four Russian manufacturing firms.) The main standard bearer for the liberals, such as they were, was Aleksei Kudrin, a friend of Putin who served as finance minister from 2000 until 2011. Kudrin warned in 2013 that “There are forces in the country who have long wanted . . . isolation, maybe a certain self-sufficiency. Today this has all fallen on fertile ground.”

In 2016, Kudrin was charged with drawing up a new economic reform plan at the Center for Strategic Research—the fourth such liberal reform plan since Putin came to power.

So, in the first decade of his presidency Putin was pursuing a middle path, combining continued trade openness with measures to ensure Russia’s long-term development. However, the stagnation which the Russian economy has experienced since the 2008 financial crisis suggests that Putin’s hybrid model was not working—even before the 2014 Crimea crisis.

Another plank in Putin’s economic strategy was the creation of a regional trading bloc that would be under Russia’s control and would be to a degree insulated from the global economic institutions dominated by the US and its allies. The Eurasian Economic Community was created in 2000, and that evolved into the Eurasian Customs Union in 2010, consisting of Russia, Belarus and Kazakhstan. They went on to create a Eurasian Economic Space (EES) in 2012: a single market with common tariffs and free movement of labor. Ukraine declined to join these Eurasian entities—even under the pro-Russian Yanukovich, who was elected president in 2010. However, the overthrow of Yanukovich in February 2014 following the Euromaidan protest signaled that Ukraine was pulling away from economic integration with Russia. The EES was renamed the Eurasian Economic Union in May 2014, and Armenia and Kyrgyzstan were arm-twisted into joining. But without Ukraine, and its population of 44 million, the Eurasian Economic Union was of limited economic utility for
Russia. The subsequent military confrontation and Western sanctions have pushed Russia even further in the direction of autarchy.

The Impact of the Crimea Sanctions

The imposition of sanctions on Russia in response to the 2014 annexation of Crimea changed once again the dynamic between the state and business in that country. The US relies heavily on sanctions as a tool of foreign policy, and in recent years that tool has been unleashed on Russia. Sanctions are a blunt instrument, one that only succeeds one third to one half of the time. They can also have unfortunate side effects, such as damaging US commercial interests or turning a foreign population against the US. Cognizant of these issues, the US turned to “smart” sanctions that impact individual persons and corporate entities in the target country. The first smart sanctions on Russia were introduced by the 2012 Magnitsky Act, aimed at bringing to justice the persecutors of Sergei Magnitsky, an accountant who uncovered fraud in the tax audit of William Browder’s Hermitage Capital, and who subsequently died in jail.

Days after Russia’s annexation of Crimea in March 2014, the US and the European Union imposed asset freezes and travel bans on 21 individuals deemed to be directly involved in the occupation. Over the next few months as the fighting erupted in Donbas the list of sanctioned individuals and corporate entities gradually increased. The sanctions focused on the banking sector, oil and gas technology suppliers, and defense industry firms. At first the EU was reluctant to join the US sectoral sanctions: they only signed on after Malaysia Airlines Flight 17 (MH17) was shot down on July 14, 2014, killing all 298 on board. Later that month Putin responded by imposing counter-sanctions, banning the import of foodstuffs from countries that joined the sanctions regime. In subsequent years the US widened the sanctions in response to Russian actions in Syria and interference in the US 2016 election.

The US rationale for imposing “smart” sanctions was that they would increase the costs for members of the Russian elite, without harming the well-being of ordinary Russians. That did not work. Putin’s countersanctions on food imports brought an immediate and visible impact on store shelves across Russia, and most Russians blamed the West for the shortages. (They may not even have been aware that it was the Russian government that banned the imports.) Also, the US policy seems to have been based on the premise that Russia was an oligarchy in which Putin’s rich friends would pressure him to step back when they saw that their own economic interests were being harmed. That did not happen: Putin did not seem to care that the wealth of some of Russia’s richest men, even those in his inner circle, was being curtailed.

The 2014 sanctions, cumulatively affecting over 200 individuals and corporate entities, had a serious impact on the Russian economy, shutting down some joint ventures in the energy sector and increasing the cost of borrowing for all Russian firms. The Central Bank spent $12 billion defending the ruble but it eventually relented and the ruble lost 40
percent of its value by the end of 2014. Inflation surged to 15 percent, and GDP fell 3.7 percent in 2015. The sanctions coincided with a slump in the global oil price, so it is hard to disaggregate the impact of the former from the latter.\textsuperscript{57} Evsei Gurvich and Il’ia Prilepskii estimate the impact of the sanctions as a cumulative loss of 2.8 percent of GDP over three years 2014-2017, or $170 billion—against a loss of $400 billion due to the slump in oil prices.

However, these economic costs were not sufficient to alter Putin’s position over the annexation of Crimea or the support for separatists in Donbas. Moreover, Sam Greene convincingly argued that “sanctions very usefully bind the Russian economic elite to the Kremlin, forcing them to run their financing requirements through the Finance Ministry and/or the Central Bank, giving Putin more leverage over the titans of industry than he has ever enjoyed.”\textsuperscript{58} Overall, it is clear that the 2014 Ukraine crisis saw a strengthening of the nationalist wing of the Putin administration.

Putin seems to have concluded that the relatively modest economic cost of the 2014 sanctions was a price worth paying for the acquisition of Crimea and the assertion of Russia’s political will on the international stage. From the US point of view, the sanctions did not succeed, if the measure of success is getting Russia to withdraw from Crimea and the Donbas. Some analysts credited the sanctions with pressuring Russia not to escalate the conflict, and to enter peace talks.\textsuperscript{59} But that claim is impossible to prove or disprove. What is clear is that the experience of 2014 and threat of wider Western sanctions did not deter Putin from launching the invasion of Ukraine in February 2022.

**Conclusion**

One might have imagined that Putin had learnt some lessons from the Soviet collapse, and from China’s rise—that modest economic reform is good, and that political reform is risky. But such hopes were dashed once and for all by the invasion of Ukraine in 2022. Putin’s harsh authoritarianism and foreign policy adventurism is strangling economic development—a formula that looks a lot like Leonid Brezhnev’s Soviet Union.

It is impossible to imagine any significant improvement in relations with the West, or any substantial changes in Russia’s political system, while Putin is still president.\textsuperscript{60} It is equally difficult to envision that he will be removed through a coup, still less a popular revolution. The constitutional reform of 2020 enables him to stay in power until 2036, assuming his health holds up. (He is 69 years old.) The big unknown is who will replace Putin, and whether that person will be able to dismantle the dictatorial, militarized, and anti-Western regime that Putin has forged.

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Endnotes


14. Ibid.


41. Yavoklev, “Pochemu.”


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Books: Feldman, Lily Gardner, Germany’s Foreign Policy of Reconciliation: From Enmity to Amity (Lanham, MD: Rowman and Littlefield Publishers, 2012), 20-33


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Feldman, Germany’s Foreign Policy of Reconciliation, 73-78.
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