

Strategic Analysis Paper

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Russia: National Involvement in the Indian Ocean Region

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Key Points

- Russia's economic growth and stability are tied to the revenues from its energy commodities.
- Large-scale corruption must be addressed if Russia is to compete successfully with Europe and China.
- Russia's political and military growth has seen its influence spread beyond its immediate neighbourhood; one aim is to be more involved in the Indian Ocean.
- Russia's relationships with China and India are likely to be major determining factors in any Russian expansion. The ability of the Shanghai Co-operation Organisation to tackle the challenging issues that it will face in the near future will have a significant effect on Russian foreign policy in the Indian Ocean Region.

Summary

Russia's strength in energy resources has led to its re-emergence as a key influential state. The growth in Russian energy exports has widened its influence from its immediate sphere to much larger regional matters. As a result, Moscow is now increasing its activities in the Indian Ocean region, especially expanding its relationship with India. The trilateral relationship between India, China and Russia, through the Shanghai Co-operation Organisation, has the potential to moderate any future regional conflict, while hopefully

encouraging economic integration for the benefit of the countries involved. Internal problems, on the other hand, exemplified by rampant corruption, constitute a barrier blocking future Russian economic development. Addressing these concerns will allow Russia to project power beyond its immediate neighbourhood, into the Indian Ocean and perhaps beyond.

Analysis

Economic Engagement

Moscow enjoys the good fortune of being one of the world's largest suppliers of hydrocarbons, while simultaneously having an energy supply monopoly over its southern neighbours. Moscow's influence in the capitals of the Central Asian republics is diminishing, however, as they emerge as important energy transit states. With inequities between Russia and Central Asia creating resentment, Moscow will need to be pro-active to ensure success in its long-term objective to expand its sphere of influence.

Moscow's influence has been greatly enhanced in recent years by an increase in foreign direct investment and greater global integration. Russia's acceptance into the World Trade Organization in 2012 will allow greater trading opportunities and economic influence, with Moscow becoming more accessible to foreign markets. The flow of capital, and resources like hydrocarbons, play a large part in Russia's capacity to influence the world. Increased foreign investment in Russia could improve its economic influence, allowing it to extend more successfully into the Indian Ocean. A 2009-10 *World Economic Forum* analysis stated that Russia is lagging behind the other BRICS countries in financial market sophistication. Russia is, however, leading in some areas of international business, including exports of goods and services and net inward flows of foreign direct investment. Russia is relatively well integrated into the world economy, but could improve if higher standard institutions can be developed, with greater corporate transparency and less state manipulation. The desire for self-sufficient export infrastructure



and the need for greater national security planning on economic and military issues, have produced different ideas of how to further develop Russia's economy.

Moscow has been developing strong economic links with China, based principally on its energy market. This may change as new gas markets in Asia emerge, with energy company Gazprom considering moving its European gas exports to China, thus illustrating the growing relationship between China and Russia, which has been steadily expanding since 1991. The Sino-Russian relationship has further improved over the last decade, as China has become a major global power in its own right. Some divergence in the relationship may occur in the near future, however, as Russia and China become competitors in several fields. Moscow has perceived Chinese actions on energy sales to the Central Asian states, as a means of bypassing competition from Russia and securing its own energy resources. So long as China continues to rise and remains susceptible to threats to its energy security, however, it will rely to a certain extent on Russia.

Military Aspects

Russia's military capability is perceived to be a key driver behind its objectives in expanding its influence. Coupled with that military capability is Russia's ability to secure its national interests, which, much like other great powers, encompasses relations with its neighbours to a great degree. Moscow views having room to strategically manoeuvre as critical and, in part, this shapes its foreign policy in the Caucasus region, Central Asia and the Indian Ocean. US intervention in the affairs of the Middle East during the first decade of the twenty-first century, and an increased presence in East Asia for the foreseeable future, may greatly enhance Russian political influence in what Mackinder referred to as the inner crescent. Russian pre-eminence within the region will have to contend with an expanding Chinese presence, as each vies for influence, with India and the US playing supporting roles based respectively on their capability or interests.

Since July 2012, there has been speculation about new Russian overseas naval bases, the first since the collapse of the Soviet Union. One suggestion is that a base will be located in the Seychelles, in the western Indian Ocean. This speculation stemmed from talks between the Russian Deputy Commander of the Main Staff of the Navy, Rear Admiral Vasily Lyashok, and the President of the Seychelles, James Michel. Many Russian naval bases have closed since the early 1990s because of a lack of stable financing. Despite denials from the Defence Ministry, President Putin has, in the past, expressed a desire to increase naval activities and restore Russia's military power.

The Indian Ocean has increased in importance in recent years, with its sea lines of communication facing potentially heightened risks of maritime confrontation between India and China, along with other support/client states. The prospect of Russia maintaining a naval base in the Indian Ocean would complicate matters; it would simultaneously be both symbolic and of strategic importance. Further, as part of its emerging role in the Indian Ocean, Russian warships are operating in co-operation with those of other states around the Seychelles and in the Arabian Sea to counter the threat of piracy.

Russian activities in the Indian Ocean have been exemplified by Moscow's participation in five joint exercises with India since 2003, known as the *Indra Project*. In July 2012, Russian Deputy Prime Minister Dmitry Rogoz and Indian Defence Minister A.K. Antony agreed that Russia would start taking delivery of the *BrahMos* supersonic cruise missile built in India, a joint-venture. The two countries have had military agreements in the past, however, that have not taken effect promptly. One example is India's purchase of the aircraft carrier *INS Vikramaditya* from Russia, which is still to be delivered after delays and price disagreements. Russia is traditionally India's major arms supplier, but past delays have led India to seek other sources, demonstrating a problem in Russia's approach to India that is of vital strategic interest. Despite these problems, India and Russia maintain a close military co-operation, which extends from exercises and equipment to development. It is a partnership that has suited both parties reasonably well.

Notwithstanding these problems, Russia and India seem intent on continuing to work together in the future. In [May 2013, India received 16 Mig-29Ks from Russia](#) – a highly sophisticated jet fighter that will facilitate Indian power projection. The commissioning of the *Mig-29Ks* is part of a US\$2.3 billion deal that includes the refit of the *INS Vikramaditya*, six *Karmov-31* naval helicopters, 45 *Mig-29Ks* and extensive pilot training. The Indo-Russian partnership is long-standing and of mutual benefit to both countries. Within the past decade, India has been able to rapidly expand the capabilities of its armed forces through joint projects with the Russian Government and defence industry. These include projects such as the *Sukhoi Su-30MKI*, an advanced air-superiority fighter variant of the *Su-30*, under which India bought 200 aircraft from Russia and is indigenously building another 72. This is not the only example, as India and Russia are currently co-operating on the development of a Fifth Generation Fighter Aircraft (FGFA) variant of the Russian PAK FA. The co-produced *Sukhoi/HAL FGFA* is in its early stages of development,

with its first flight expected early in 2014 and air force integration commencing in 2022. Additionally, Russian concerns about Chinese theft of Russian aircraft technology have made Moscow reticent about selling China modern aircraft. China has sought to purchase the *Su-35* since the early 1990s, but Moscow



The Su-30MKI, a joint project between Russia and India.
Source: www.bhmpics.com

only agreed to the sale this year. If technology theft continues, it may push Russia to deepen its relationship with India as a potential counter-balance.

Despite these concerns, China still imports much of its military technology from Russia. Examples include the March 2013 announcement by China of the purchase of four diesel-electric *Lada*-class submarines (two of which will be built in China), and 24 *Su-35* aircraft, with co-operation on the development of the *Triumf S-400* long-range anti-aircraft missile,

IL-476 transport aircraft and IL-78 aerial tankers. India similarly possesses Russian submarines, customised *Veer*-class corvettes, minesweepers, an aircraft carrier, surveillance aircraft, aerial tankers, and it co-developed the *Su-30MKI* fighter. Additionally, Russia is an important weapons supplier to Burma and has large contracts with Vietnam, confirming its substantial presence in the Indo-Pacific. Growing regional militarisation along the Indo-Pacific arc gives Russia a good opportunity to capitalise on its naval and aerospace technology. China's recent purchase of the *Su-35* may prompt other countries to acquire Russian technology, as a counter to China's capabilities.

Internal Problems

Russia's ability to maintain large and sophisticated armed forces, as outlined above, depends on Moscow having the economic foundation needed to maintain the armed forces. One of the problems in the Russian economy, however, is that corruption is endemic. Part of the problem stems from long-standing traditions that have existed up until the eighteenth century, under which government officials lived off *kormlenie*, or "feedings", and which has continued informally since then. On the other hand, poor economic conditions have made the corruption and bribery of government officials nearly institutionalised, with laws in Russia being measured by how "bribe-permissive" they are. Transparency International listed Russia as one of the world's most corrupt states, ranking it at 143 out of 180, and making it the most corrupt major economy on the Corruption Perceptions Index.

The effects of corruption on national projects, both military and infrastructure, can be massive. According to Stratfor, between five and 30 per cent of government funds are lost each year due to pervasive corruption. Putin has been hailed as challenging the entrenched system of corruption in Russia through a campaign in 2003. This was followed in February 2013 by legislation that sought to overrule the energy oligarchs and prevent government officials from having foreign bank accounts. The problem is that most of Putin's reforms have resulted in a new form of corruption, through the consolidation of energy assets under state control, rather than private. Examples of this include: the anti-corruption campaign against the CEO of Yukos, Mikhail Khodorkovsky, in 2003, resulting in his arrest; the 2009 campaign against Russian oligarchs having their savings in Cyprus and Luxembourg; and the sacking of Former Defence Minister Anatoly Serdyukov in 2012. These campaigns served to strengthen the economy in some ways, by showing that Putin was taking a strong stance on corruption, but they also served to consolidate Putin's power, increasing the centralisation of authority.



A meeting between President Vladimir Putin (l) and Mikhail Khodorkovsky (r) in 2002. Khodorkovsky is to be released from prison in 2017.
Source: www.kremlin.ru

The anti-corruption measures enacted by Moscow were long overdue. The current extent of corruption is not sustainable and, if it is not addressed, would jeopardise Russia's economic stability in the event of another global economic crisis. Putin and his government have realised this, hence the current reforms that target society as a whole, not just individuals, as was the case in Putin's first presidency. These measures have the effect of increasing Russia's attractiveness to investors and increasing its economic buffer, which was exhausted by the global financial crisis.

Beyond corruption, Russia also faces the internal struggle with its large shadow economy. According to Deputy Prime Minister Olga Golodets, nearly half of Russia's 86 million workers are employed in illegitimate businesses. The existence of such a large shadow work force means that Moscow is unable to collect appropriate taxes to implement any meaningful social reforms, without dipping into money that is reserved for major projects, mostly for the armed forces or the energy sector. The 38 million Russians who do not pay taxes represent a significant burden on Moscow, which must tend to their needs, but receives little in return. As of 2011, the latest statistics available, the shadow economy was equivalent to 35 per cent of Russia's total GDP, or nearly US\$650 billion; roughly the same as the GDP of Switzerland. Although there is a high value attached to Russia's shadow economy, the trend has been going down; its share of GDP fell from 47 per cent in 1999 to 35 per cent in 2011. These figures are disputed by Russian agencies, which say that the real figure is closer to 16 per cent of GDP. Regardless of whether it is 16 per cent or 35 per cent, however, the figure is high and in a major economy, accounts for a massive amount of lost government revenue. Should Russia again wish to become a major power, it will have to address these dual internal problems of corruption and the shadow workforce.

Political Engagement

Historically, although Russia has utilised its veto power in the United Nations Security Council, it has also been a contributor to international stability. This can be seen most clearly in Russia's anti-piracy presence in the Arabian Sea, acting independently of the Combined Task Forces 150 and 151. Russia, like China and India, has independently sent ships to address the threat to international shipping around the Horn of Africa. This follows the US and NATO deployments in 2008 and represents an effort to collaboratively combat the problem. The effort did diminish piracy within the Arabian Sea, but at the cost of increasing the use of deadly force by the pirates against targeted vessels.

Additionally, Russia has been a proactive member of organisations in the regional and global political architecture, with the goal of expanding its influence in both hard- and soft-power terms. The Shanghai Co-operation Organisation (SCO) is a grouping of China, Russia and the Central Asian republics. Though it is not a military alliance, it builds on military and security co-operation among its members. On security co-operation, the SCO has tasked resources to counter the re-emergence of a growing Afghan drug problem. In November 2011, Putin, speaking in Saint Petersburg, outlined the SCO anti-drug policy, which was established to counter the growing influx of drugs into Russia through Kyrgyzstan. The policy is based on a five year plan. This was followed by a meeting in the Kyrgyz capital, Bishkek, in April 2013,

which discussed the implementation of the plan and the potential to change it to make it more effective.

With increasing volatility in Central Asia, bringing both South and Central Asia together in an alliance could prove beneficial for regional and economic stability. The union of the SCO and its supporters, with processes and systems for addressing regional issues would help stability. To some extent, the SCO constrains Western involvement in Central Asian affairs, taking on itself the responsibility for the maintenance of regional security, stability and increasing opportunities for economic co-operation. The SCO seeks an active role in Afghanistan when international troops withdraw. Considering the organisation's support from both India and Pakistan, this could lead to more direct Russian influence in the Indian Ocean, with Afghanistan acting as a connection between the SCO and its supporting Indian Ocean countries.

Conclusion

While Russia has the drive to achieve its goals, the reality is that it is limited by its bank account. Military expansion is coming along well, with Russia acquiring naval capabilities that will once again make it a leading maritime power. Political integration is at its best since the end of the Cold War, with Moscow taking a leading role in the regional and global architecture. Russia's participation in the Shanghai Co-operation Organisation, the Commonwealth of Independent States, and the World Trade Organization, signals a renewed Russian political activism. Although Russia's coffers are likely to limit the extent to which it can be a major naval power and regional leader, it is nonetheless moving back towards the Indian Ocean. Even so, financial constraints and distrust and uncertainty between key powers in the region all mean that Russia will have to take it slowly.

Any opinions or views expressed in this paper are those of the individual authors, unless stated to be those of Future Directions International.