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# THE KREMLIN PLAYBOOK

UNDERSTANDING RUSSIAN INFLUENCE  
IN CENTRAL AND EASTERN EUROPE

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A REPORT OF THE

CSIS EUROPE PROGRAM AND THE CSD ECONOMICS PROGRAM

CSIS | CENTER FOR STRATEGIC &  
INTERNATIONAL STUDIES

“...[Russia] uses overt and covert means of economic warfare, ranging from energy blockages and politically motivated investments to bribery and media manipulation in order to advance its interests and to challenge the transatlantic orientation of Central and Eastern Europe.”

June 2009 Open Letter to the Obama administration  
from Central and Eastern European Leaders

The wind “is blowing from the East... [it is possible] to construct a new state built on illiberal and national foundations [...]”

July 2014 Prime Minister Viktor Orbán’s Speech  
at the 25th Bálványos Summer Free University and Student Camp

“The U.S. Intelligence Community is confident that the Russian Government directed the recent compromises of e-mails from US persons and institutions, including from US political organizations. The recent disclosures ... are consistent with the methods and motivations of Russian-directed efforts. ... Such activity is not new to Moscow—the Russians have used similar tactics and techniques across Europe and Eurasia ... We believe, based on the scope and sensitivity of these efforts, that only Russia's senior-most officials could have authorized these activities.”

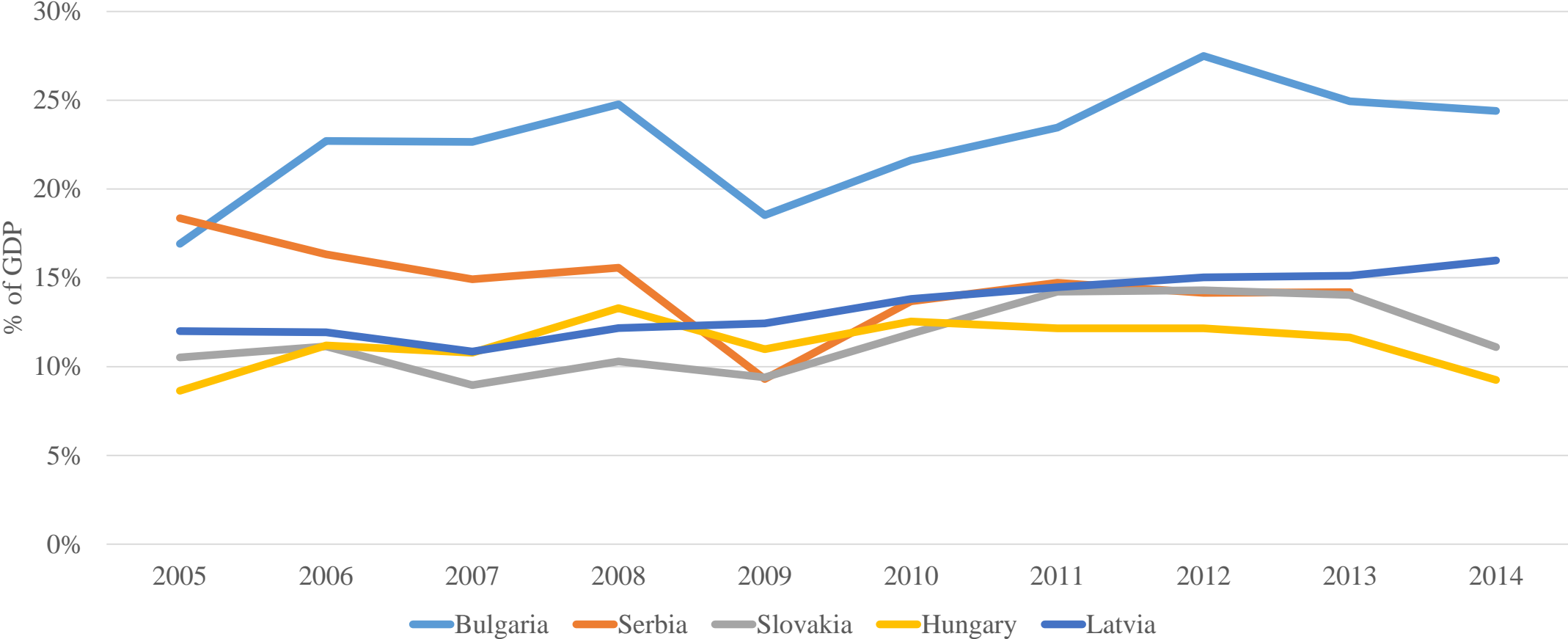
October 2016 Joint Statement from the Department of Homeland Security and Office of the Director of National Intelligence on Election Security

# Study Questions

- Is there a direct correlation between Russia's economic footprint and a deterioration in democratic standards in a country (from 2004 – 2014)?
- What is the impact and amplification of Russian economic influence in Central Europe on the health of democratic institutions and overall public confidence in democratic values in five case-study countries, Bulgaria, Hungary, Latvia, Serbia, Slovakia?
- What are Russia's overarching objectives?

# Key Economic Findings

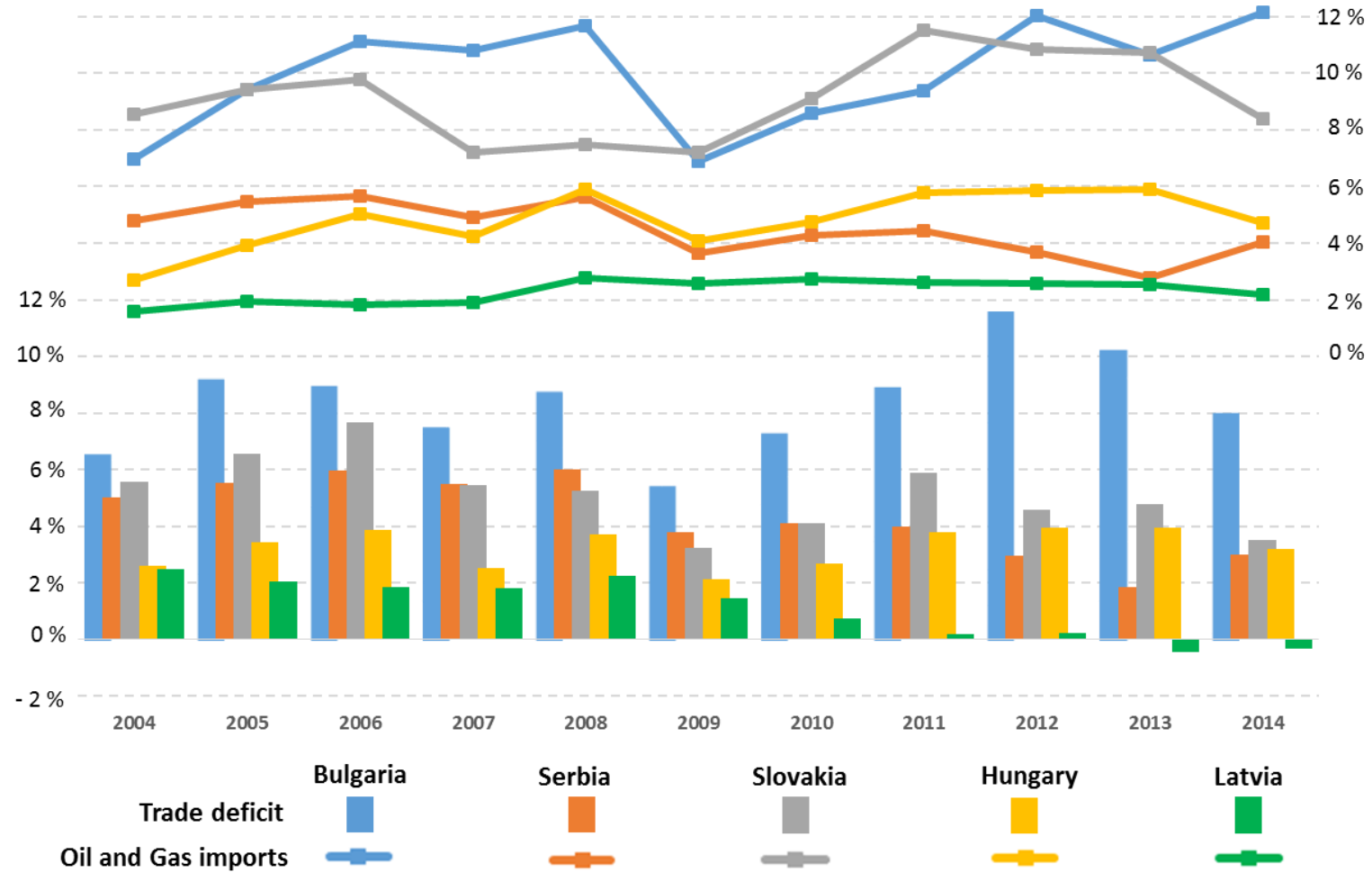
## Russian Economic Footprint as Share of the Economy\*



Source: Author's calculations based on EUROSTAT, Data from National Central Banks and Corporate Databases

\*Russian Economic Footprint as Sum of Four Indicators: 1) Energy Imports as share of GDP, 2) Total Exports to Russia as a share of GDP, 3) FDI Stock from Russia as a share of GDP, 4) Revenues controlled by Russian Companies as share of the Total Revenues in the Economy

## Trade Deficit with RF and Oil and Gas Imports as Shares of GDP



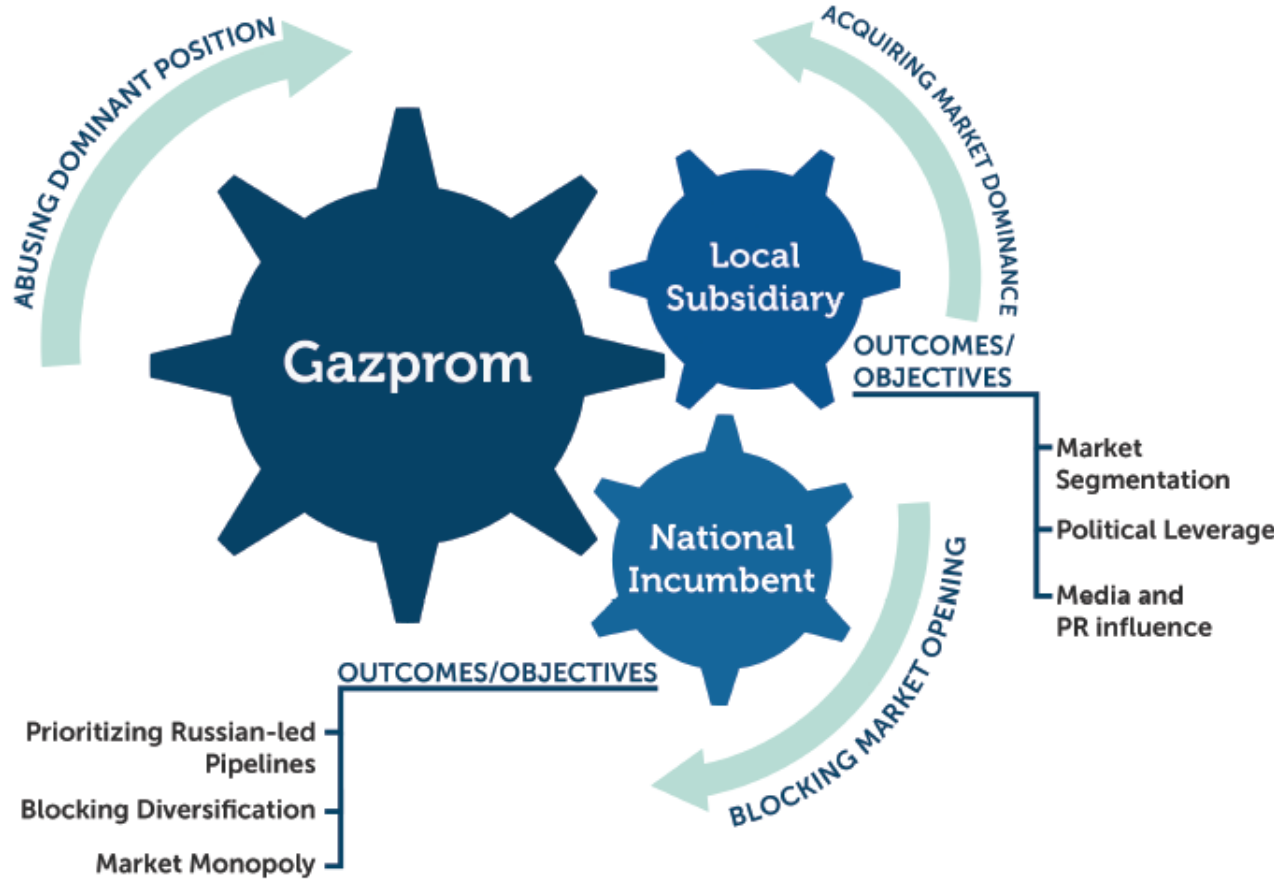
Source: Eurostat and National Statistics

## Amplifiers of the Russian Economic Footprint

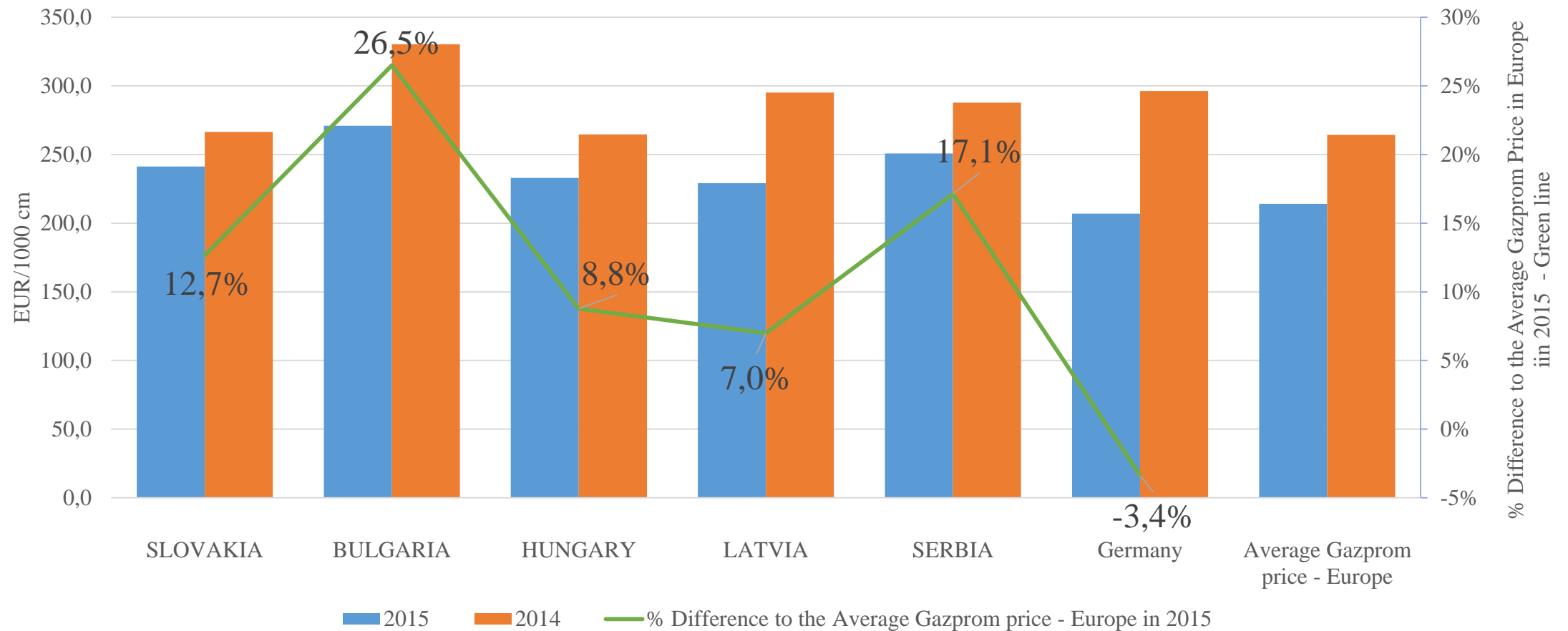




# The Model for Exploiting Economic Governance Deficiencies



## The Costs of Gas Monopoly and Dependence



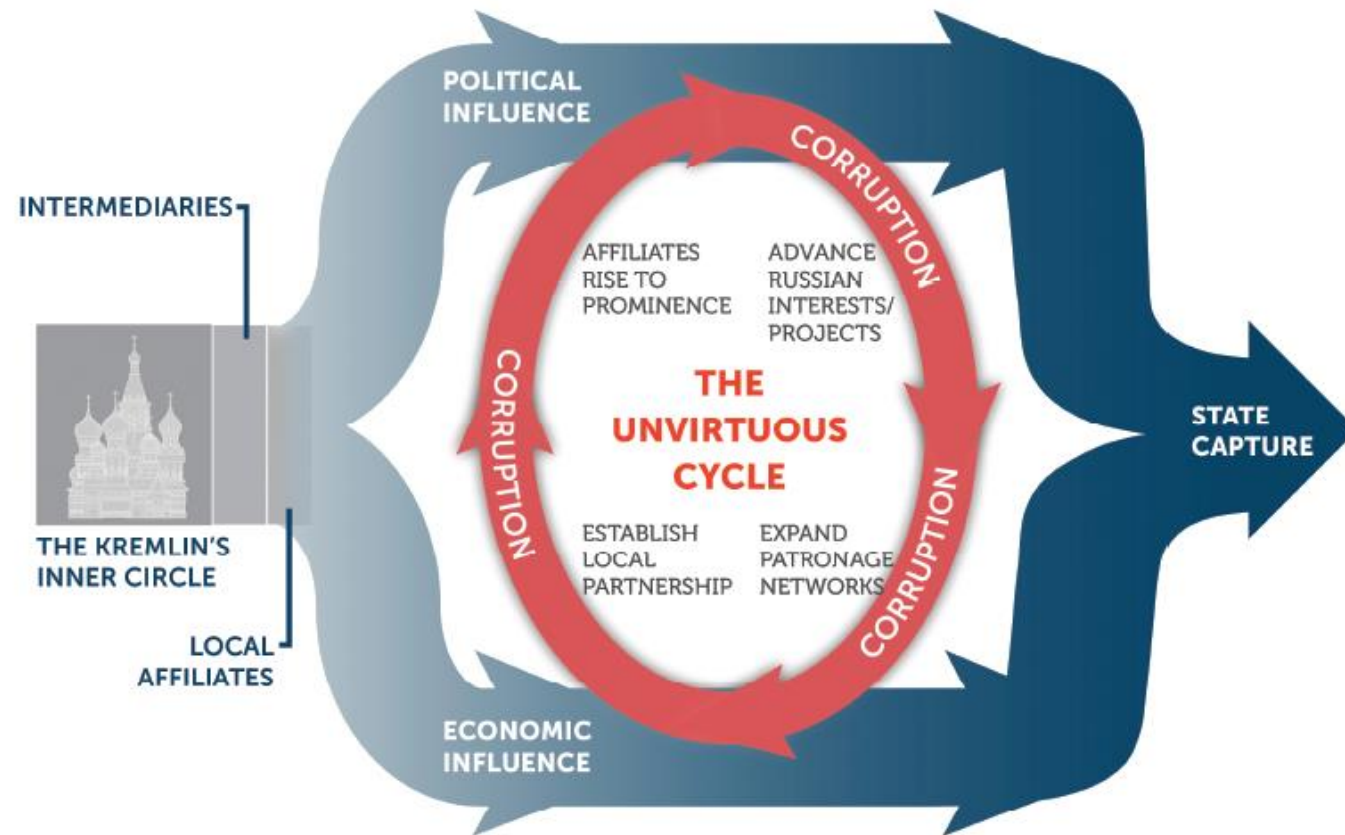
Source: Author's calculations based on the COMEX Statistics on International Trade – EUROSTAT, Gazprom

- Those countries in which Russia's **economic** footprint was on average **more than 12 percent of its GDP** were generally more vulnerable to Russian economic influence and capture
  - In **Bulgaria**, where Russia's economic presence averaged over **22 percent of GDP** between 2005 and 2014, there are clear signs of both political and economic capture, suggesting that the country is at high risk of Russian-influenced state capture
- Those countries with **less than 12 percent of its GDP** demonstrated greater susceptibility to Russian political influence
  - **Hungary** and **Slovakia** are at greater risk of political influence, which appears to be connected to efforts to deepen or maintain Russia's economic presence

- **Above the 12 percent GDP economic threshold, but with varied results:**
  - Russia's economic footprint in **Serbia** falls above the 12 percent threshold but Russian political influence appears to be more prominent, which amplifies Russia's economic influence over Belgrade's decisionmaking.
  - **Latvia** is also above the 12 percent threshold and vulnerable to economic capture, but it has demonstrated greater resistance to Russian political influence in recent years.

# Key Political Findings

## The Unvirtuous Cycle of Russian Influence



- Economic and political capture rely on **corruption as the conduit** through which Russian influence is channeled into the local environment
    - Once well positioned, agents of Russian political influence can be observed seeking to create new channels of economic influence, which can then be used to create national dependency on Russia
    - Agents of economic influence appear to create channels to exert greater political influence as they identify new sources to advocate for their interests on the local, national and international stages
- Where both economic *and* political capture can be observed, Russian influence is able to progress and result in “**state capture**”

- Russian **political** influence centers on **weakening the internal cohesion** of societies and strengthening the perception of the dysfunction of the Western democratic and economic system
  - Encouraging nationalist, conservative, anti-European and anti-American and movements within European countries which tend to be **obstructionist and reinforce the fragility** inherent within democracies.
  - Utilizing **democratically elected individuals** in positions of power to **challenge the liberal system from within.**
  - These forces can **influence debates of strategic importance to Russia**, resulting in a **paralysis** that blocks reform or generates support for alternative and more extreme political movements, accelerating political fragmentation.

- Systemic “**war on information**” campaign to further influence the domestic political environment
  - Growing empire of state-funded “independent” television, radio, and Internet outlets
  - Confuse, paralyze and disable opponents and obscure the truth
  - Restrictive media environments, end investigative journalism and politically motivated consolidation of telecom sectors indirectly assists information war
- A captured political system allows third-party actors, “captors”, to **systematically advance their private interests** and acquire privileged access to public resources.
- A model of illiberal “sovereign democracy” serves as source of **inspiration for a new generation of European leaders** who seek to maintain and extend their hold on power.



# What are the Objectives?

- Maximize **economic benefits** further enriching members of its inner circle
  - Risk of EU money implicated in procurement scandals
- Challenge and ultimately **break the transatlantic consensus** in Central and Eastern Europe, impact U.S. foreign policy goals
  - Challenge the ability of the transatlantic community to **respond to Russian military actions** in Ukraine and Syria
  - EU leaders unable to sustain **sanctions** policy against Russia, despite increasing breakdown of the cease-fire in Eastern Ukraine
  - Erodes the West's credibility and moral authority, hinders transatlantic alliance's ability to globally promote liberal democratic values
- A vital element of Russia's New Generation Warfare: "is primarily a strategy of influence, not of brute force," and its primary goal is "break[ing] the internal coherence of the enemy system and not about its integral annihilation."

# What Do We Do About It?

## US, US-EU and NATO

- Recognize the Playbook. Be prepared to dedicate a considerable amount of **policy attention** and **financial resources** to combat Russian influence and develop greater resiliency against it.
- Design a specific **high-level task force** within U.S. Treasury Department's Office of Financial Crimes Enforcement Network (FinCen) that focuses solely on **tracing and prosecuting illicit Russian-linked financial flows** if they interact with the U.S. financial system.
- Encourage NATO members to task their own FIUs with developing units that **track illicit Russian transactions**.
  - Create **automated, centralized mechanisms** to facilitate cross-border access to information and faster detection of suspicious transactions. Greater transparency on final beneficial ownership.

- Prioritize enhanced **EU-U.S. financial intelligence cooperation**
  - 2017 EU-U.S. Summit should prioritize detecting undeclared, cross-border money flows invested in strategic areas or economic sectors of the economy
  - Creation of a **specific U.S.-EU cell** ensuring effective cooperation between revenue authorities, customs and law enforcement agencies
- Elevate anticorruption by strengthening institutions as an **element of NATO's Readiness Action Plan**
  - Newly created Assistant Secretary General for Intelligence and Warning should be tasked with monitoring Russian influence in NATO member states
  - Combating Russian influence should be a prioritized program under new NATO-EU framework agreement

- Revamp U.S. government assistance to CEE and Western Balkans to **prioritize combating Russian influence**
  - State Department should issue an **annual analysis** of European states at the highest risk of Russian influence
  - Provide intelligence when appropriate and financial **support to national anticorruption and auditing offices** enabling independent investigations of complex and cross-border corruption cases
  - Strengthen **independence of the judiciary** and prosecution offices
  - Focus aid programs to CEE on **maintaining and strengthening investigative journalism** and independence of the media environment

## European Union

- Strengthen national economic policymaking and regulatory governance, transparency, and independence to **increase market diversification and competition** in key business sectors such as energy, banking, and telecom
  - Countries from the region should **enhance the transparency of national policymaking** and implementation to quickly spot and deal with capture anomalies
  - Regularly **assess the performance** of national administrations, prosecution and judiciary
- National antitrust authorities should provide **public biannual assessments** of the diversification of strategic economic sectors
  - Goal is to **clearly establish final beneficial ownership** and linkages to other market players, determine potential national security threats
- Encourage EU members to task their own FIUs with developing units that **track illicit Russian transactions**
  - Enable EU authorities to **trace and analyze questionable financial activity** originating and ending in Russia

- Enhance **anticorruption and development assistance mechanisms** to build greater resilience in EU institutions and member states
  - Enhance **EU internal benchmarking and governance mechanisms** built around its anticorruption efforts, making individual country recommendations more specific
  - Introduce **more rigorous benchmarking of rule-of-law and anticorruption efforts** as conditions for pre-accession assistance for the Western Balkans and other accession countries
  - Earmark specific EU-wide and national funds for support of rule of law, anticorruption reforms, independent journalism
  - Enhance **EU oversight of EU development funds** and require full disclosure of company ownership when meeting EU diversification requirements