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Less Than a Full Deck: Russia's Economic Influence in the Mediterranean

Joanna Pritchett

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Summary

Russia's intervention in Syria in 2015, and then subsequently in Libya, marked its return as a major actor in the Mediterranean. Much has been made of Russia's use of all elements of statecraft, including diplomatic, ideological, military, and economic instruments, to advance its interests in this region, a vital shipping and transit corridor. A closer look at Russia's economic tool kit in this region, however, suggests concerns about Russian economic capabilities are likely overstated.

Russia's most important economic tools in the Mediterranean are its energy resources, arms exports, and ability to launder money through corrupt networks. These tools have complemented Russia's diplomatic and military activities, particularly in areas where economic systems and rule of law have been weaker. Where Russia has been successful, it has increased a country's dependence on Russian money, oil and gas, and/or arms, giving it a say in a country's policymaking, particularly on matters of importance to Russia, and a way to undermine U.S. and the North Atlantic Treaty Organization's (NATO) influence in the region.

In particular, Russia's unique economic tools have helped it manage its otherwise difficult relationship with Turkey, which depends on Russian oil and gas and is a new customer for Russian nuclear power and weapons systems. Turkey is a unique example in the Mediterranean where Russia already had a substantial trade and investment relationship beyond hydrocarbons, and then used these newer, more subversive tools to build its influence. These same tools have allowed Russia to gain more influence in Egypt, Algeria, and to some degree Cyprus over the last decade.

These tools have proved of limited utility elsewhere, however, as they have not been backed by the traditional instruments of economic statecraft: trade in non-energy goods and services, foreign direct investment, and development assistance. Russia has trailed the United States and Europe, and in some cases China, in deploying these fundamental economic elements of foreign policy in the Mediterranean region. Based on economic data available, Russia's bilateral trade with individual Mediterranean countries is low, its investment levels in most Mediterranean countries are insubstantial, and it is not giving large quantities of development assistance to the poorer countries along the Mediterranean's eastern and southern rims. The lack of these traditional economic ties is surprising, given Russia's military and diplomatic efforts to increase its influence in the region. Without them, Russia's economic diplomacy in the region is highly based on symbolism and the relationships lack sustainability over the long term, which undercuts its geopolitical ambitions in the Mediterranean.

If Russia's ambitions in the Mediterranean region are limited to maintaining access, currying favor with key decisionmakers, and remaining a nuisance to NATO, then its current level of economic ties

is likely sufficient. If Russia aims to grow its influence and clout with more countries in the region, however, its current economic tool kit does not appear to be large or sophisticated enough to achieve this.

Economic statecraft is an important tool in any country's foreign policy. Trade and investment deals link countries together in vital ways to improve living standards in each country. They also build relationships between people—politicians, business leaders, students, tourists—that promote mutual understanding and respect for each other's cultures. The United States and the European Union (EU) have generally excelled in building these types of economic ties in the post–World War II era, and economic data show they continue to be the dominant economic powers in the Mediterranean. Continuing this leadership in the economy will likely ensure that Russian influence in the Mediterranean remains a manageable, if persistent, problem for the West.

Introduction

For nearly a decade now, Russia has pursued a more aggressive foreign policy, seeking to return to countries and regions beyond its immediate neighborhood where it has been absent since the end of the Cold War.[1] One such region is the Mediterranean, where it has used a variety of tools to expand its influence in the littoral countries of this critical transit corridor for global shipping and trade. With the Black Sea, the Mediterranean is Russia's critical outlet to the world's oceans and it has long been a major arena of its geopolitical and commercial pursuits.[2] While Russia pulled back from the region at the end of the Cold War to focus on its domestic problems, its intervention in Syria in 2015, and then in Libya, marked its return as a major actor in the region. Much has been made of Russia using all elements of statecraft, including diplomatic, ideological, military, and economic instruments, in pursuit of its goals in the Mediterranean. However, a closer look at its economic tool kit suggests concerns about its capabilities are overstated.

Russia's most important economic tools in the Mediterranean are its energy resources, arms exports, and money laundering through corrupt networks. These tools have complemented Russia's diplomatic and military activities, particularly in the Middle East, North Africa, and the Balkans. Where Russia has been successful, it has increased dependence on its money, oil and gas, and/or arms, giving it a say in a country's policymaking, particularly on matters of importance to Russia, and a way to undermine U.S. and NATO influence in the region. These tools have proved of limited utility, however, as they have not been backed by other traditional means of economic statecraft such as trade in non-energy goods and services, foreign direct investment, and development assistance. Russia has trailed the United States and Europe, and in some cases China, in deploying these more fundamental economic instruments of foreign policy in the Mediterranean. Without them, Russia's relationships lack sustainability over the long term, which undercuts its geopolitical ambitions in the region.

Economic Tools at Russia's Disposal: Energy Resources, Arms Sales, and Money Laundering

Energy Resources and New Energy Development

The largest economic tool Russia can bring to bear in the Mediterranean, or anywhere, is its vast supply of oil and natural gas. Energy exports have consistently totaled half of its export earnings worldwide.[3] Russia has used its position as the key oil and gas supplier repeatedly against its closest neighbors, such as Ukraine, through rewards and punishment, to keep them in line with its policy choices.[4] In the Mediterranean, however, where Russia does not have a monopoly on energy supplies as in many of the former Soviet states, energy is an important lever but not necessarily an instrument of coercion. Maintaining and expanding influence in the energy field require continuous effort by Russia to expand its network of gas pipelines, as well as gaining footholds in new gas development projects. With new gas discoveries in the Eastern Mediterranean and large, although diminishing,[5] demand for oil and gas throughout the region, energy politics are central to Russia's tools of statecraft in the region.

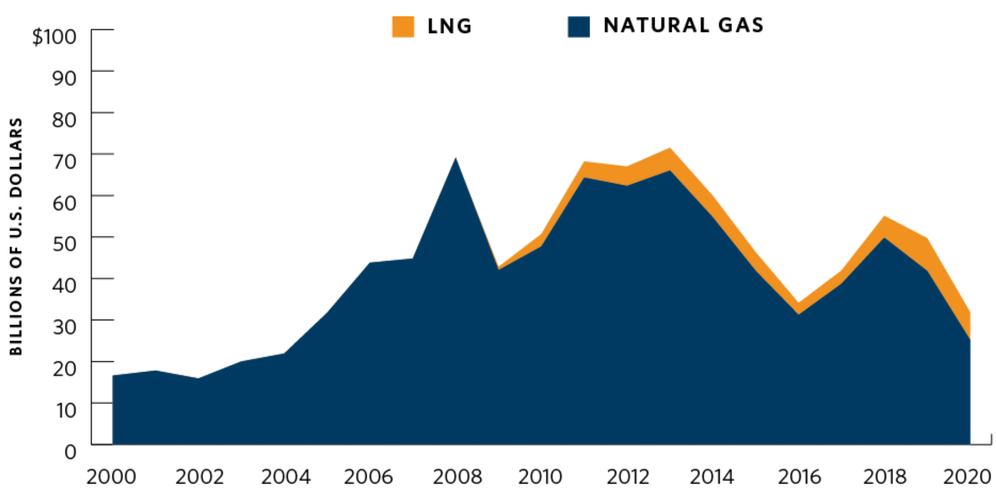
Not all Mediterranean countries import Russian gas, as distance and/or local supplies make Russian piped gas cost-prohibitive or unnecessary. These factors force Russia to focus on Southern Europe, but it must do so with Turkey serving as a central node and partner, especially since its previous efforts to build pipeline infrastructure around the country have come to naught. The Kremlin has been remarkably successful in maintaining increasingly close energy cooperation with Ankara despite being on opposite sides of three different regional conflicts in recent years,[6] largely by compartmentalizing disagreements and playing to President Recep Tayyip Erdoğan's disenchantment with the West and ambitions to make Turkey a regional gas distribution hegemon. Russian-Turkish energy cooperation has led to the completion of several large-scale pipeline projects.[7] Beginning with the Blue Stream pipeline, which was completed in 2003, new pipeline projects have increased Turkey's consumption of Russian gas while allowing Russia to bypass Ukraine to send gas to Southern European destinations—a clear win for both countries. As of January 2020, when the Turkstream pipeline across the Black Sea began operations, Turkey stopped receiving Russian gas through the Trans-Balkan Pipeline from Ukraine, which it had done since the mid-1980s.[8] The second phase of Turkstream envisions extending the pipeline through Bulgaria all the way to Hungary, weakening Ukraine's position as a transit state and transforming Turkey into a more important node for gas deliveries to Europe, again a win for both Moscow and Ankara.

Still, the example of Turkey illustrates the limits of natural gas as a lever of influence for Russia. The shale gas revolution has drastically brought down the cost of natural gas, reducing the revenues Russia can gain from gas sales, while the EU's Third Energy Package has limited its monopoly power over gas distribution. According to data from the Bank of Russia, the country's revenues from global gas exports peaked in 2013 at $71.5 billion, and they have not returned to near that level since, with the global recession spurred by the COVID-19 pandemic in 2020 bringing the total down to $32 billion, a level not seen since 2005 (see Figure 1).[9] Moreover, the spread of liquefied natural gas (LNG) technology allows countries to import gas from anywhere, free from a dependency on pipelines that are costly to build and maintain. By expanding its use of LNG (as the third-largest importer in the world in 2020), Turkey no longer has to rely solely on piped gas from Russia, Azerbaijan, and Iran, but is diversifying its supply from at least seven new partners, including increasing volumes from the United States.[10] In 2020, Russia remained Turkey's largest gas supplier at 16.3 billion cubic meters, but imports of gas from the United States grew by 144 percent to 3 billion cubic meters (see Figure 2).[11] Turkey also has long-term contracts for LNG with Algeria and Nigeria. Moreover, by becoming a central node in Russia's gas distribution system, Turkey gains the same leverage Ukraine used in the past—the ability to negotiate down the price it pays for its own imports in order to allow Russian gas to flow through its territory and on to the rest of Europe. Taken together, these steps have reduced Russia's ability to use gas as political leverage with Turkey, even if they have not eliminated it. Moreover, cooperation on gas projects is in the interests of both countries as they look to expand their influence in Southeastern Europe.

Russian gas companies have also expanded aggressively into new markets in the Mediterranean, offering financing and expertise to develop new fields. In 2008, Russia's Gazprom began oil and gas exploration in Algeria, after signing a memorandum of understanding in 2006 with Algeria's state-owned Sonatrach.[12] The partnership has confirmed reserves in the El-Assel basin through exploratory wells but has not yet begun commercial production. In 2017, Russia's Rosneft purchased a 30 percent stake in the Zohr gas field off Egypt (other partners are Italy's ENI at 50 percent, BP at 10 percent, and the United Arab Emirates' Mubadala Petroleum also at 10 percent), the largest discovered in the Mediterranean.[13] Production at Zohr has exceeded the joint venture's expectations, reaching 2.7 billion cubic feet per day by August 2019.[14] Russian firm Novatek has a 20 percent stake in a consortium (along with France's TOTAL and Italy's ENI) to explore Lebanon's offshore fields. The agreement was signed in 2018 but production has not yet started.[15] These deals ensure Russia remains a key player in all gas discussions in the Mediterranean.

FIGURE 1

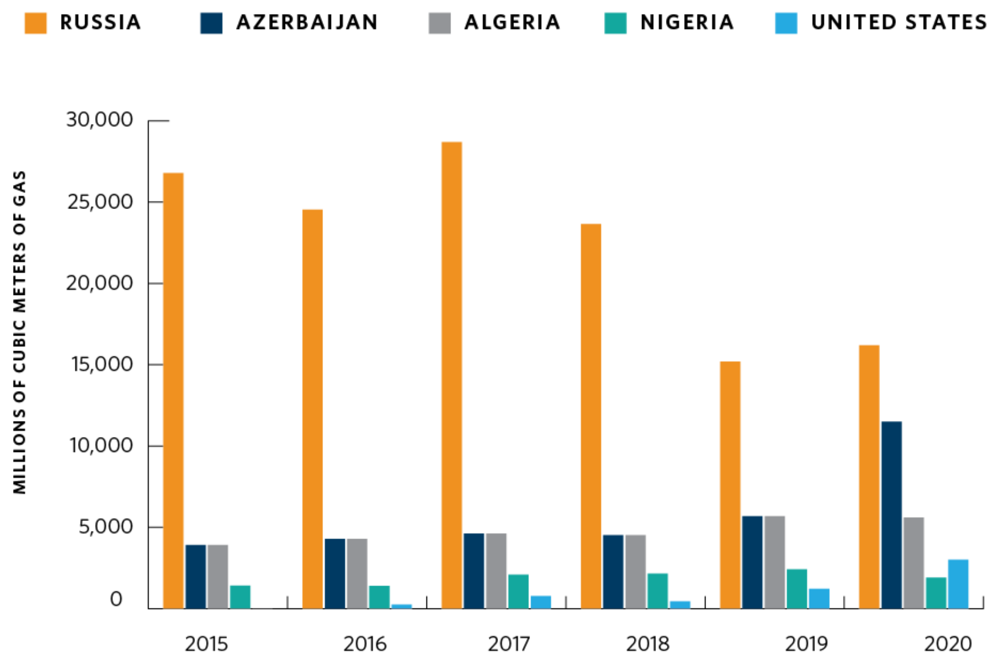
Total Value of Russia's Gas Exports



SOURCE: Bank of Russia Energy Export Statistics

FIGURE 2

Turkey's Gas Imports

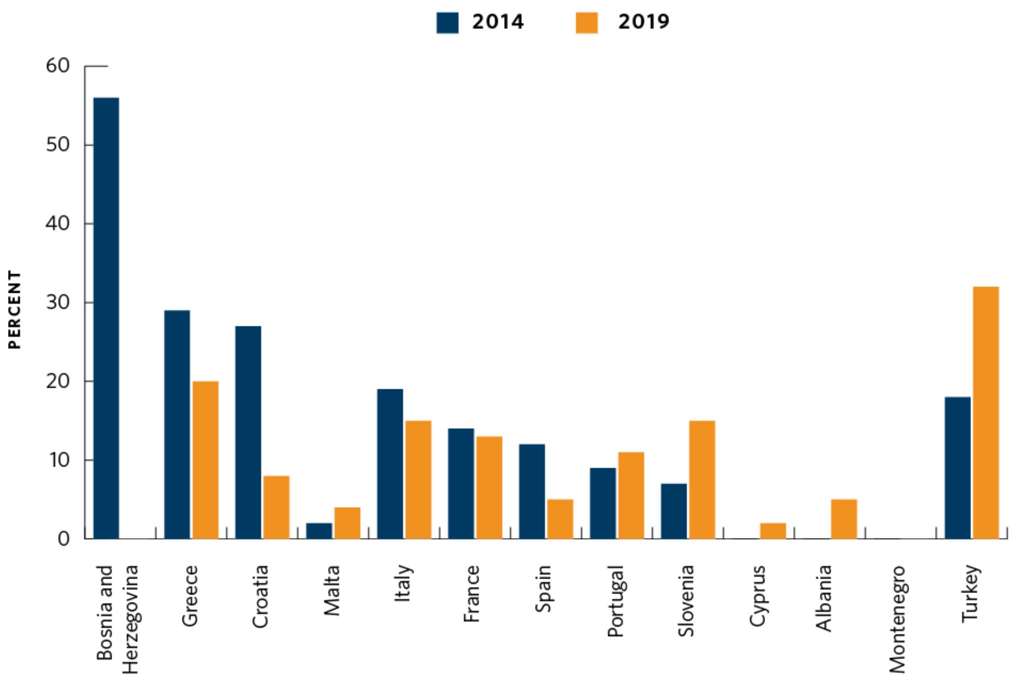


SOURCE: Eurostat, Turkey's Energy Market Regulatory Authority

While natural gas gets most of the attention, oil and oil products constitute around 80 percent of Russia's energy income, with piped and liquefied natural gas contributing 20 percent.[16] Oil is the largest source of funds for Russia's state budget including its foreign policy adventures.[17] All twenty-one Mediterranean littoral states have imported some oil from Russia since 2012, although not all in substantial quantities. European countries, as the largest economies of the region, are the largest consumers of Russian oil, but the countries in the Eastern Mediterranean and North Africa have generally purchased less than $100–$200 million worth annually.[18]

Dependence on Russian oil might at one time have been a lever of political influence in some European countries of the region, but the Mediterranean is of declining importance to Russia as a customer. In 2013, Mediterranean countries consumed 20 percent of Russia's oil exports; in 2020 this figure was 15 percent.[19] The drop comes largely from European countries reducing their consumption (see Figure 3). The reduction in imports of Russian oil was likely market-driven, rather than geopolitically motivated, as oil is a widely traded commodity whose price fell substantially after 2014. Mandates to move toward cleaner energy sources and fewer emissions have also driven down the EU's demand for oil and will continue to do so over the coming decades. Overall, the substantial drop in Europe's demand for Russian oil lessens the potential impact of this arrow in Russia's quiver.

FIGURE 3
Share of Oil Imports From Russia



SOURCE: Eurostat Imports of oil and petroleum products by partner country

Nuclear Power Plants

Another key part of Russia's economic influence tool kit globally is the conclusion of deals to build nuclear power plants abroad. The Russian national security establishment views civilian nuclear power exports as an important tool for projecting influence as well as creating revenue streams for sustaining intellectual and technical capabilities and vital programs in Russia.[20] Nuclear power plants are expensive, however, and not without risk. They can be of dubious value to the host government, or saddle the state nuclear power monopoly Rosatom with debts it cannot collect. Therefore, Russia has more often than not overpromised and underdelivered when signing agreements to build nuclear plants. Most are never fully implemented. The Mediterranean, which has plentiful conventional energy resources, has not been a major target of Russia's nuclear ambitions. On the European rim, France and Spain have domestically owned nuclear programs and both have committed to reducing nuclear power, while Italy shuttered its program after the Chernobyl disaster in 1987.[21]

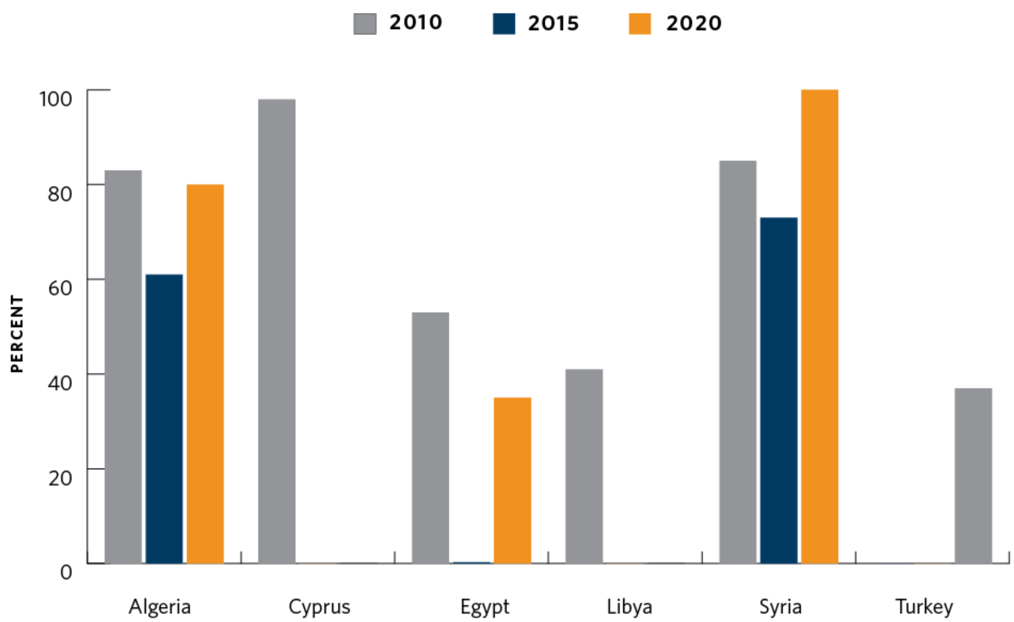
Rosatom has signed agreements, however, with Turkey and Egypt for large nuclear plant projects. Turkey signed its agreement in 2010 under which Rosatom will build, own, and operate the country's first nuclear power plant at Akkuyu, which will have a total capacity of 4,800 megawatts (MW).[22] This model means Rosatom will have a long-term presence at Akkuyu, with near-complete operational control over the plant. The company plans to open the first unit of the four-unit plant in 2023, in time for the hundredth anniversary of the Turkish republic.[23] In the case of Egypt's plant, which is also supposed to deliver 4,800 MW, the country's authorities will operate it after construction, but Russia will have a long-term role in training Egyptian workers and providing and disposing of fuel. While Egypt has sought to build a nuclear power plant for decades, the decision to sign with Rosatom in 2015 over bids from U.S., Chinese, French, and South Korean firms lacked transparency, and observers suspect it may have been taken as a step to encourage Russia to restart tourism to Egypt, which Russia had halted earlier in the year.[24] Egypt has contracted with U.S. firm General Electric and with Australian consultancy Worley Ltd. for other parts of the project, however. Approximately 85 percent of the financing for the plant will come from a $25 billion loan from Russia, and some in Egypt have said the plant is unnecessary given that the country has an electricity surplus with its current supply sources. Construction has not yet begun.[25] Like other Rosatom projects around the globe, the Turkish and Egyptian nuclear power plants appear to be geopolitical projects of somewhat dubious economic merit, but it seems unlikely Russia would be able to replicate this model elsewhere in the Mediterranean.

Arms Sales

Continuing its decades-long legacy, Russia was the world's second-largest exporter of arms, after the United States, between 2016 and 2020.[26] According to the Stockholm International Peace Research Institute (SIPRI), it accounted for 20 percent of all arms exported during this period. Russia's arms sales provide it direct engagement with foreign countries' leaders, relationship-building tools with their militaries, and profits for its arms-producing enterprises. This is a major tool Russia uses for influence in the Mediterranean, but with most of the northern littoral states being NATO members, its arms-sales relationships focus on the eastern and southern ones (see Figure 4).

Of these countries, Algeria, Egypt, and Turkey deserve special mention. Algeria remains Russia's largest client in the Mediterranean, having been one since Soviet times. Between 2016 and 2020 it was also the largest arms importer in Africa and the sixth-largest in the world, importing 4.3 percent of all the arms imported globally during this period.[27] Given Algeria's demand for weapons and its ability to pay for them, maintaining market share in the country has been a priority for Russia in the region. In 2006, Moscow agreed to write off $4.6 billion in debt from the Soviet era in exchange for Algeria signing $7.5 billion in new contracts for weapons purchases.[28] Following this deal, Russia supplied over 80 percent of Algeria's imported arms from 2006 to 2013. Starting in 2011, however, Algeria began to diversify its imports, concluding deals with France, Italy, Germany, and even China for ships and accompanying weapons, armored personnel carriers, and armed unmanned aerial

FIGURE 4
Share of Arms Imports From Russia

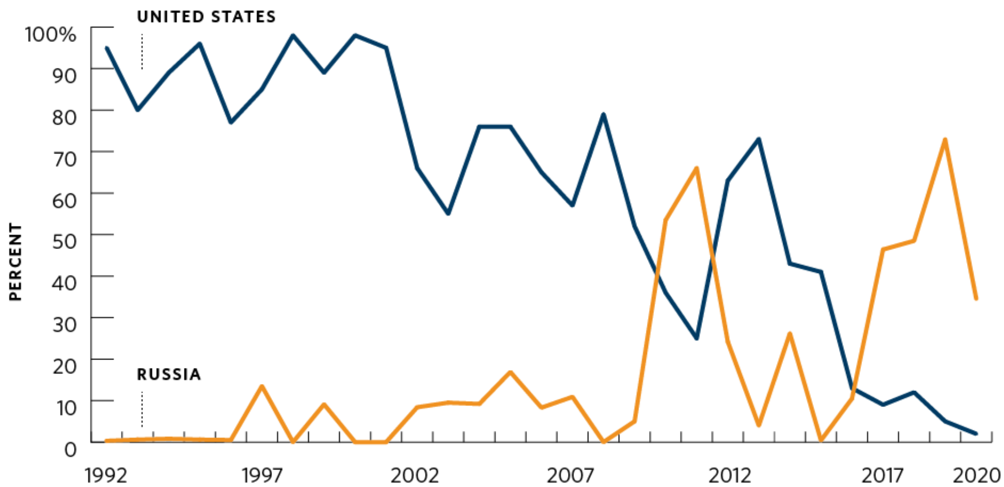


SOURCE: SIPRI Arms Transfers Database

vehicles.[29] As delivery on these contracts was made, Russia's market share dropped to 55 percent between 2014 and 2016. After 2016, Russia worked diligently to regain its position, selling and transferring sixteen combat aircraft, forty-two combat helicopters and two submarines to Algeria through 2020. Maintaining market dominance is important to Russia, but this volatility suggests that it cannot rely on past sales to remain competitive, even in its key markets.

Egypt is a newer success story for Russia. The United States reduced arms sales to the country during and after the Arab Spring, eventually freezing arms exports in the wake of the military taking over the government in 2013. That embargo lasted two years, until the multiple ongoing conflicts in the Middle East forced then U.S. president Barack Obama's administration to reverse course.[30] Russia filled this gap left by the United States and rapidly expanded its arms sales to Egypt. Arms contracts, in general, take time between signature and delivery, so the effect of this increased procurement from Russia can be seen in arms transfer data starting only in 2016, when Russia and the United States transferred roughly an equal value of weapons to Egypt (see Figure 5). Since then, the value of Russia's supplies has exceeded that of the United States, and has included fifty combat aircraft and forty-six ship-borne combat helicopters. These sales have also led to closer military cooperation, including joint exercises.[31] While President Joe Biden's administration has announced it will continue

FIGURE 5
Market Share of Egypt's Arms Imports



SOURCE: SIPRI Arms Transfers Database

to supply Egypt with arms despite concerns over human rights abuses,[32] the previous years of delay created an opening for Russia and a desire on the part of Egyptian leadership to diversify away from just one supplier.[33]

Turkey is also a success story for Russia's arms sales strategy. As a long-standing NATO ally, Turkey did not purchase Russian arms between 1950 and 2017, other than some second-hand armored personnel carriers and helicopters in the early 1990s to be used by the police.[34] Instead, Turkey imported arms only from other NATO allies, and developed its own arms industry. According to SIPRI, from 2016 to 2020 Turkey dropped from being the sixth-largest arms importer to the twentieth, due to the development of its own defense industry.[35] Yet in 2017, it agreed to purchase the S-400 missile defense system from Russia over the strong objections of the United States and other NATO allies. At the same time, the U.S.-Turkish relationship had deteriorated over differences on cooperation with Syrian Kurdish forces, the 2016 attempted coup in Turkey, and the subsequent U.S. refusal to extradite cleric Fetullah Gülen, as well as Washington's reluctance to sell Patriot air defense systems on Turkish terms. Turkey felt the United States and NATO had done little to help it reduce its vulnerability to attack from the conflict in Syria.[36] Moscow capitalized on this frustration with the West and vulnerability to Russia's role in Syria to offer the S-400 system, which Erdoğan quickly accepted. This sale was a clever move to drive a wedge between Turkey and its NATO allies, as the United States was forced to respond by removing Turkey from the F-35 fighter jet program for fear of release of sensitive technology to Russia through the S-400 system. Discussions reportedly continue between the Turkish government and the Biden administration on a path forward on the issue of the S-400 system, which Turkey has tested but which is not yet in full use.[37] In this case, the sale of a weapons system met Russia's economic, military, and geostrategic goals in one tidy package—a model Russia likely will look to replicate elsewhere, if the right factors are present.

Money Laundering

Russia is frequently accused of using illicit financial transfers, corruption, and other organized criminal activity as economic tools of influence.[38] Although it is generally difficult to link alleged illicit financial transfers from Russia directly to its government, in many cases they can be traced to individuals, companies, and other Russian-owned networks with ties to the Russian state. Through money-laundering schemes, funds obtained illegally in Russia can be moved out of the country and then used to buy real estate or other legitimate goods and services, transferring them into what otherwise appear to be legal assets. Such "dirty" money (or even "clean" money) transferred out of the country can be used to fund corruption or other illicit dealings in the destination country that further Russia's geopolitical interests.

In the Mediterranean, there are numerous examples of allegedly illicit Russian money flowing to both legitimate and illicit businesses, particularly along the northern littoral states. One of Russian opposition politician Alexey Navalny's anti-corruption movies centers on the luxury Pomegranate hotel in Greece, which he alleges is owned by Artem Chaika, the son of Yuriy Chaika, who was Russia's prosecutor general until 2020, and by Olga Lopatina, the ex-wife of Deputy Prosecutor General Gennady Lopatin.[39] In 2015, Navalny accused the two Chaikas of owning a network of criminal enterprises across Russia, and that the Pomegranate hotel was just one of the enterprises they used to launder the proceeds. Navalny also accused Lopatina of connections to an organized criminal gang, and claimed she owned a large villa near the hotel.[40]

In the notorious Laundromat scheme allegedly involving money-laundering of over $20 billion, the money was funneled out of Russia to many countries around the world including some in the Mediterranean.[41] According to the Organized Crime and Corruption Reporting Project (OCCRP), Cyprus, Turkey, and Italy were the end destination for large sums of this money, with other smaller recipients in the region including Slovenia, France, Spain, Greece, Croatia, and Egypt. While the OCCRP was not able to track the owners of all the bank accounts involved, it found that the main users of the scheme were wealthy Russian businessmen who had made their fortunes through connections to the government.

Russian money has no larger destination in the Mediterranean than Cyprus. The country's low tax rate, double taxation treaty with Russia, and—until recently—low diligence on the source of funds, made it a top destination for Russian money since the end of the Soviet Union. At the time of Cyprus's financial crisis in 2013, there was an estimated $32 billion in Russian cash in Cypriot banks, more than the country's annual gross domestic product (GDP) at the time.[42] Russian bank loans to Russian-owned companies registered in Cyprus totaled another $30–$40 billion.[43] By another estimate, Russia was the source of 25 percent of inward and outward foreign direct investment (FDI) flows in Cyprus at the time, as Russians "roundtripped" their money between the two countries.[44] Russians lost billions of euros in the bailout of Cyprus that followed the 2013 financial crisis, but the EU's bailout conditions converted some of those losses into shares in Cypriot banks, unintentionally giving some control over these banks to the Russians the EU had been trying to force out.[45]

Even after the large losses from the 2013 financial crisis, Russian money continues to flow to Cyprus. After it, in order to boost the economy the government offered a "golden passport" scheme for those investing at least €2 million in the country. Russians accounted for nearly half of the 3,153 passports awarded between 2013 and 2020 under the scheme, including some individuals who are now sanctioned by the United States and the EU.[46] After a review of the program, Cyprus began the process of revoking the citizenship it gave to twenty-eight individuals, but their identity has not been made public. According to data published by the Bank of Russia, in 2019 Russia's FDI in Cyprus was 50 percent of all of its FDI positions globally.[47] Some of this investment is then transferred to other parts of the EU, making it more difficult to trace back to Russia. The Russian money going in and out of Cyprus has included legitimate transfers and some that funded criminal activity, such as money stolen from the Russian treasury and funneled through the now-shuttered FBME bank in Cyprus, and then used to fund the production of chemical weapons in Syria.[48]

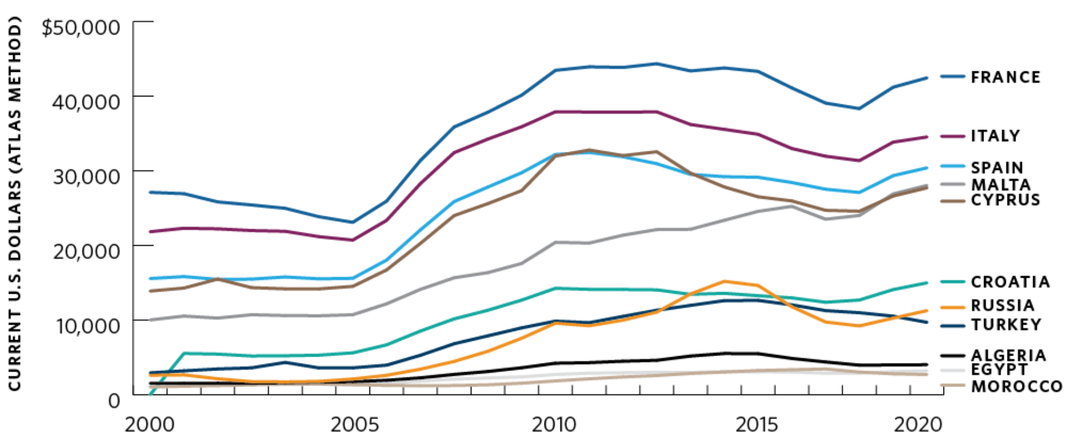
Analysts have long worried about the leverage these vast flows of money and people give Russia over Cyprus's policymaking and politicians. Certainly, adding Russians to the country's voter rolls can have an impact on future elections, or on how decisions are made inside the government, and Russian emigrés have started a political party in the country to do so.[49] In one small example, the anti-corruption activist and former owner of Hermitage Capital in Russia Bill Browder has accused a Cypriot government official of helping a Russian mobster launder his money through a property purchase in Cyprus.[50] In a larger one, there have been no arrests to date in the FBME bank case. While Cyprus has not blocked the EU's semi-annual renewal of sanctions on Russia for its aggression in Ukraine, as some feared, decisions such as the 2015 deal allowing Russian naval ships to access the country's ports are evidence of the leverage Russian money can have.[51]

Efforts by the EU and the United States to push Cyprus to improve its anti–money laundering practices have worked to some extent, as a 2019 report on its compliance with Financial Action Task Force regulations showed.[52] The report concluded that several measures had been deployed since the previous 2011 report to deal with the major money laundering and terrorism financing threats facing the country, and that the banking sector had become more effective in mitigating these risks. Still, the report highlighted that the authorities must do more to pursue the proceeds of criminal activity generated outside Cyprus, which it identified as the largest threat to its financial system. Cyprus also missed the January 2020 deadline to translate the EU's fifth anti–money laundering directive into domestic legislation.[53] After a rebuke from the European Commission, the parliament finally passed the required legislation in February 2021, but it is too soon to evaluate how these changes will be implemented. This indicates that the flows of Russian money remain alluring to Cyprus's policymakers, who continue to struggle with balancing its rule of law commitments as an EU member state with the desire for foreign funding to grow its economy.

Russia's Missing Economic Tools: Trade, Investment, and Development Assistance

While Russia has used energy, weapons sales, and money laundering to build influence in several Mediterranean countries, it does not have, or has not been able to use as effectively, the normal major tools of economic statecraft, such as trade in non-energy goods and services, foreign direct investment, and development assistance, to build leverage in the region. Limited economic growth in Russia, along with its relatively small post-Soviet industrial base, leaves little room for building deep trade and investment relationships abroad. Low levels of domestic investment, in large part due to weak rule of law and little respect for property rights as well as fiscal austerity, mean Russia does not have enough resources to spur growth at home. Real GDP in Russia has grown on average by an anemic 0.9 percent annually between 2012 and 2019, and the COVID-19 pandemic is estimated to

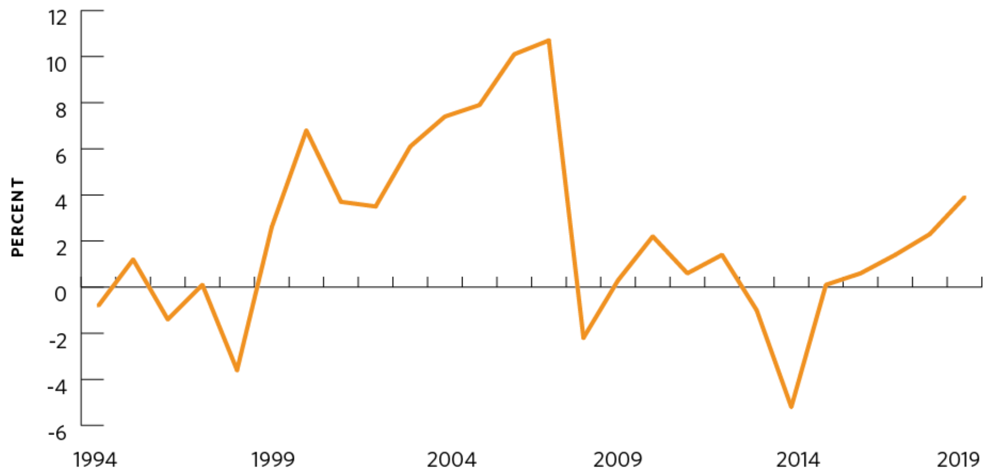
FIGURE 6
Gross National Income Per Capita



SOURCE: World Bank World Development Indicators

FIGURE 7

Russia's Overall Balance of Payments as a Percent of GDP



SOURCE: IMF International Financial Statistics

have shrunk the economy by a further 3.1 percent in 2020.[54] Gross national income per capita began to fall after 2013. Russia is substantially poorer on a per capita basis than all the EU member states on the northern shores of the Mediterranean (see Figure 6). Living standards in Russia are roughly on par with those in Turkey but are higher than those in the countries on the southern coast of the Mediterranean.

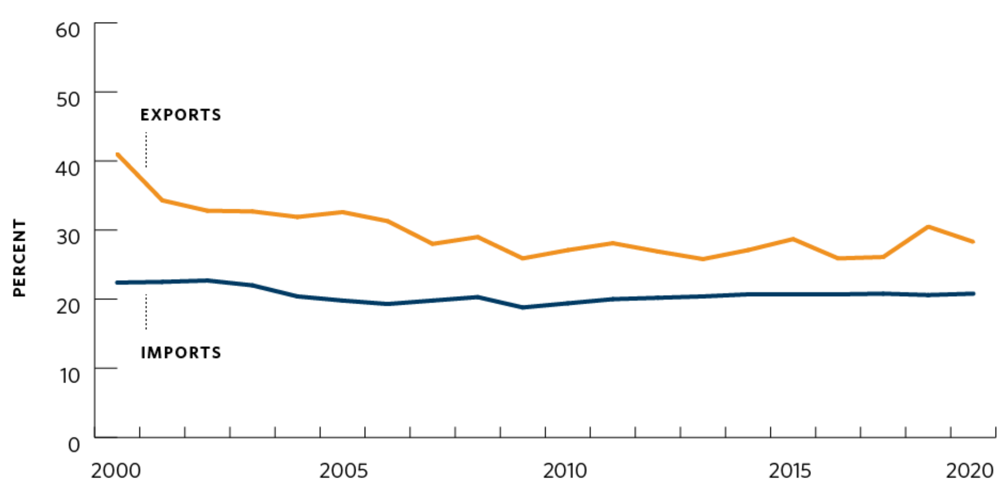
Russia's government has relatively large foreign currency reserves built up over the past two decades. It could use some of these to fund development projects abroad, but thus far it has not done so. Falling international oil prices and Western financial sanctions ended Russia's decade of massive balance of payments surpluses (1998–2008), and the government is no longer accumulating foreign currency reserves at the rate it previously did (see Figure 7). Still, these boom years and the tight fiscal policies of President Vladimir Putin's administration left the Russian government with little foreign debt (13.8 percent of GDP in 2018) and a large sovereign wealth fund.[55] Low debt and large reserves are walls of a fortress that help protect the economy from international shocks, such as new sanctions, but they also keep it isolated from the rest of the world and cause growth to stagnate.[56] These isolationist choices limit the power of Russia's economic tool kit in the Mediterranean, when compared to other actors in the region. Russia simply does not produce much of the goods and services consumers in the region want, and, other than nuclear power plants, it does not have the technology and resources to compete with China or the West on major infrastructure deals.

Trade Relationships

Russia's trade statistics do not indicate a country promoting trade as a major tool for building up dependence and influence globally or in the countries of the Mediterranean. The percentage of Russia's GDP derived from exports fell between 2000 and 2009, reaching a low of 26 percent (see Figure 8). Since 2009 it has been essentially flat. The rate of imports has also been constant at around 20 percent of GDP since 2000. Hydrocarbons dominate this limited trade, as discussed above. Beyond these, Russia exports mostly primary commodities (precious metals and stones, iron and steel, cereals) rather than more advanced manufactured goods that a global economic powerhouse would normally export (see Figure 9).

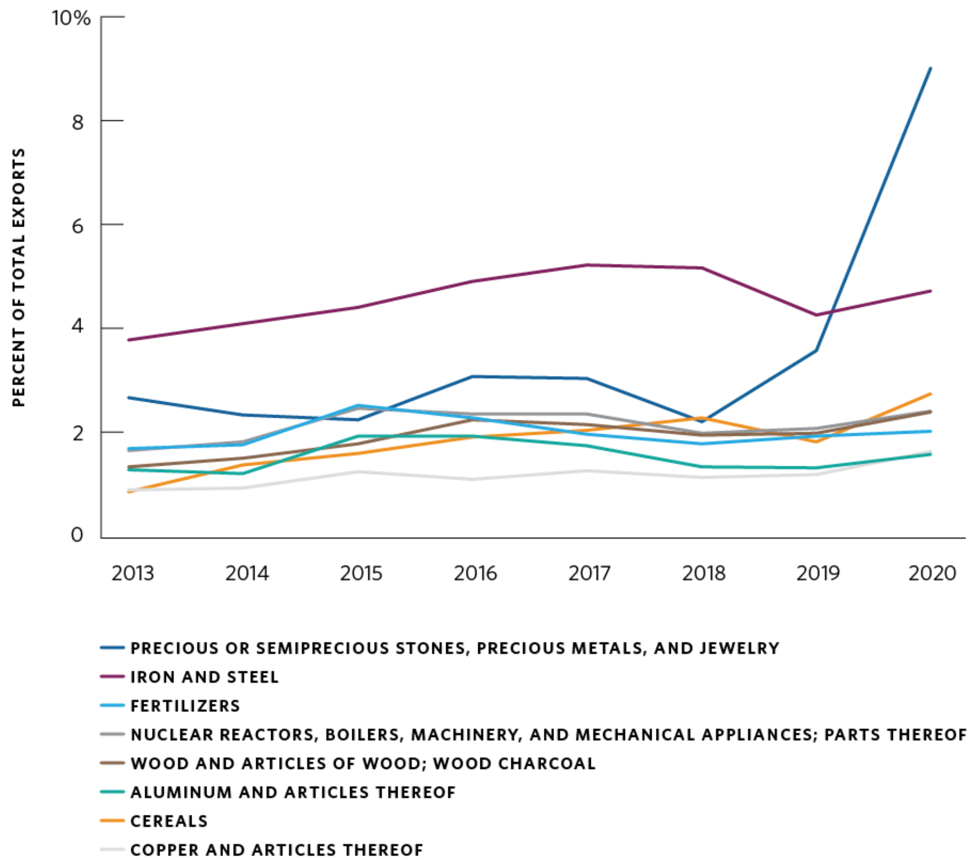
The twenty-one states of the Mediterranean have played a declining, but still important, role in Russia's limited trade. While in 2013 they accounted for 18 percent of Russia's total global trade, by 2020 that share had shrunk to 14.4 percent.[57] The drop comes almost entirely from a steep decline in the value of Russia's trade with Italy after 2014, when the EU and Russia imposed sanctions on each other in response to Russia's military aggression against Ukraine, and simultaneously the price of oil went into a steep decline. By 2019 Turkey overtook Italy as Russia's largest trading partner in the Mediterranean, and each country accounted for just under 4 percent to Russia's total trade in 2020. Other than with Italy, the share of each Mediterranean country in Russia's trade has remained consistent, indicating trade is not becoming a more important part of its influence tool kit in the region.

FIGURE 8
Russia's Trade as Share of GDP



SOURCE: IMF International Financial Statistics

FIGURE 9
Russia's Top Non-Hydrocarbon Exports



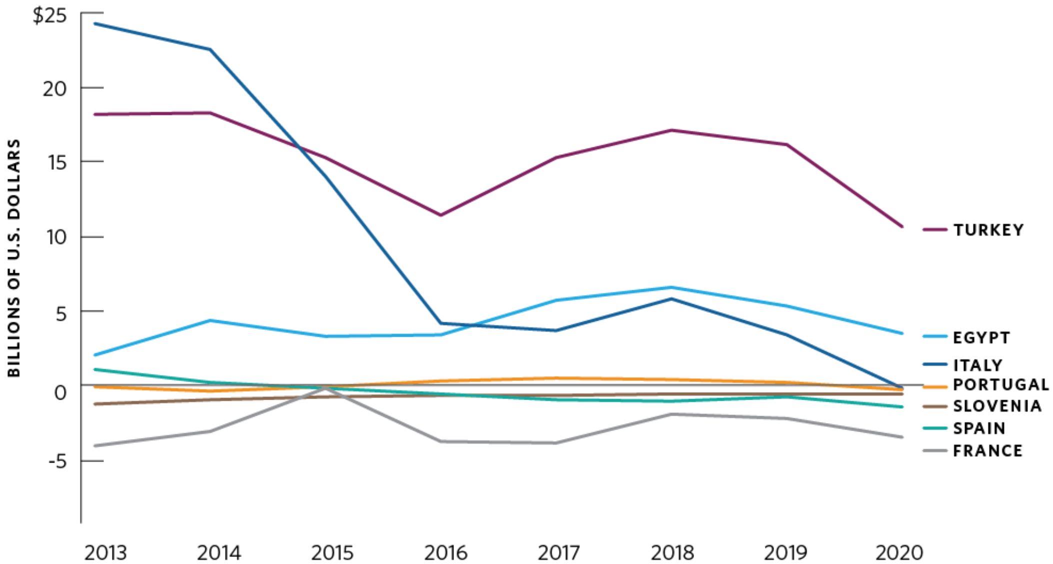
SOURCE: Russian Federal Customs Service via Trade Data Monitor

If trade between Russia and a Mediterranean country were particularly one-sided, or concentrated in a specific, vital industry, in Russia's favor, this would give it an important tool for influence. However, the three largest economies in the region—France, Italy, and Spain—as well as Portugal and Slovenia have trade surpluses with Russia (see Figure 10). Fifteen other Mediterranean countries have a consistent trade deficit with Russia, however. Turkey and Egypt have the largest trade deficits, and therefore deserve a deeper examination, as does the change in Italy's trade with Russia since 2014.

While Soviet-Turkish trade was roughly balanced throughout the Cold War, after the Russian financial crisis in 1998 Turkey's energy imports from Russia surpassed the amount of goods Russia could afford to buy from Turkey.[58] This pattern in goods trade has continued through the Putin-Erdoğan period, with oil and gas exports from Russia to Turkey consistently worth twenty times any single import category from Turkey. The size of the trade deficit narrows but remains significant if services

FIGURE 10

Russia's Trade Balance With Selected Mediterranean Partners

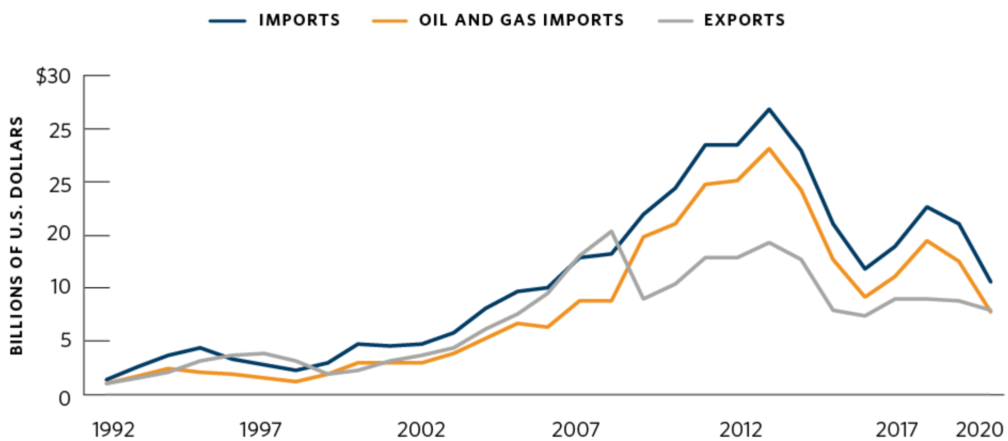


SOURCE: Russian Federal Customs Service via Trade Data Monitor

are included, as Russia is consistently in deficit to Turkey in trade in services (by $6.4 billion in 2019), consisting mostly of Russian tourism to Turkey ($5.7 billion in 2019 exports) and construction services ($1.1 billion in 2019 exports). In addition to these two sectors, Turkey exports mostly fruit but also machinery and passenger vehicles to Russia. When a political crisis erupted between the two countries in 2015 after Turkey shot down a Russian fighter jet on its border with Syria, Moscow turned to trade sanctions on fruit and tourism to punish Ankara. While there was a cost to Russia for these measures, Turkey took the bigger hit, forcing Erdoğan to apologize for the incident.[59] In April 2021, Russia imposed another tourism ban on Turkey, likely to signal discontent over Turkish support to Ukraine.[60] Turkey's trade deficit with Russia continues to be a political vulnerability and is likely to continue to be a valuable influence tool for Moscow.

Turkey is the exception, however, that proves Russia's lack of trade power in the rest of the Mediterranean. It is not clear that Russia could pull off a similar policy victory through trade sanctions against any other Mediterranean country. For example, Egypt's smaller trade deficit with Russia comes not from hydrocarbons but from wheat purchases. Egypt imports 35 percent of its wheat from Russia, the largest supplier for the country. But Egypt also accounts for 19 percent of Russia's wheat exports, making it the second-largest importer for Russian producers. Were Moscow to cut off wheat exports to Egypt as a political measure, it would discover, as Turkey found with Russia's ban on its fruit, that finding new markets quickly for a vast amount of perishable exports is not easy. Therefore such a

FIGURE 11
Italy's Trade With Russia



SOURCE: Italy's National Institute of Statistics via Trade Data Monitor

move would likely be equally harmful to Russia as it would be to Egypt, and not a useful tool of influence. In addition, Egypt used to earn over $3 billion annually from Russian tourism, but Russia stopped all charter flights to the country in late 2015 after a terrorist incident on a charter flight. This cut tourism revenues from Russia to essentially zero, but it did little to change the political dynamic between the countries, despite billions of dollars in lost revenue for Egypt. The two countries announced in April 2021 they would restart the flights. The timing of the announcement, however, seemed linked less to improved safety measures at Egyptian airports than to the dynamics of Russia's relationship with Turkey, as it coincided with the latest tourism ban on the country.

Russia's trade with Italy shows how vulnerable its reliance on hydrocarbons makes it in the larger global trading space. The two countries had rather balanced trade until 2009, when the value of the oil and gas Italy imported from Russia exceeded the amount of mostly manufactured goods and machinery Russia could afford to buy from Italy, given the global financial crisis (see Figure 11). As the price of oil and gas fell after 2014, however, the trade values returned to more of a balance.

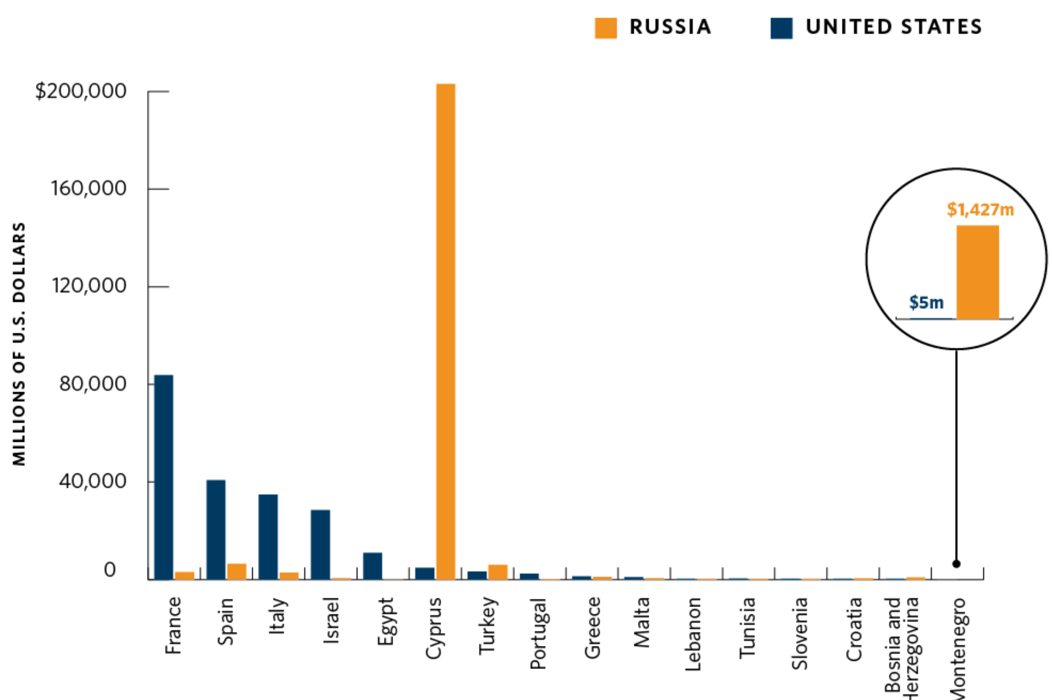
Over the long run, as Italy and the rest of Europe turn away from fossil fuels, and the Eastern Mediterranean develops its own energy resources, Russia will be left with a commodity of less and less value to trade for the high-quality goods it currently imports from Italy and Europe. Without investment to grow and modernize its manufacturing sector, Russia's trade surplus with the Mediterranean is likely to shrink over time, giving it less leverage over the region. Therefore, trade is not, and likely never will be, a coercive tool for Russia in the Mediterranean.

Foreign Direct Investment

As with trade, the statistics for its FDI do not indicate that Russia is using investment as a major economic tool of influence in the Mediterranean, whose countries looking for investment are likely to link their economies to more active partners. Russian firms invest abroad at a lower rate compared to their country's GDP than U.S. ones do (see Figure 12). This rate has grown since 2013 but not consistently. It is also misleading as an overall indicator, as between 40–50 percent of total Russian FDI is in Cyprus, leaving little to invest elsewhere, although some of this money does leave Cyprus for other destinations.

Other than in Cyprus, Russian FDI in most Mediterranean countries is tiny, even when compared to the size of the host economies, and is dwarfed in almost all cases by U.S. and EU investment. One notable exception to this, however, is Montenegro. In 2019, Russia was the largest foreign investor in the country, with its total investment equaling 26 percent of the country's GDP, down from a peak of 33 percent in 2015. This investment is concentrated in real estate and tourism infrastructure.[61] Tourism generally accounts for 20 percent of Montenegro's annual GDP, and a visa-free regime allows Russians to be the largest source of tourists to the country. As of 2020, however, Russians are not heavily invested in other industries. In 2005 Russian oligarch Oleg Deripaska's Central European Aluminium Company bought the Podgorica Aluminium Plant, at that time the largest employer in

FIGURE 12
2019 FDI Positions



SOURCE: Bank of Russia and U.S. Bureau of Economic Analysis the country, which then went bankrupt in 2008.[62] This lack of industrial investment contrasts sharply with newer Chinese investment in Montenegro, which is focused on highway construction and the rehabilitation of a thermal power plant, allowing China to overtake Russia as the largest investor in the country in 2020.[63] Even at its peak, however, the high level of Russian investment in Montenegro was unable to influence its geopolitical direction—despite Moscow's attempt to foment a coup in 2016, the country has joined NATO and it has also stood with Ukraine in its conflict with Russia.[64] If Russia's outsized importance for Montenegro's economy could not change the country's policy orientation, Russian FDI is unlikely to be a significant source of leverage in other countries of the region.

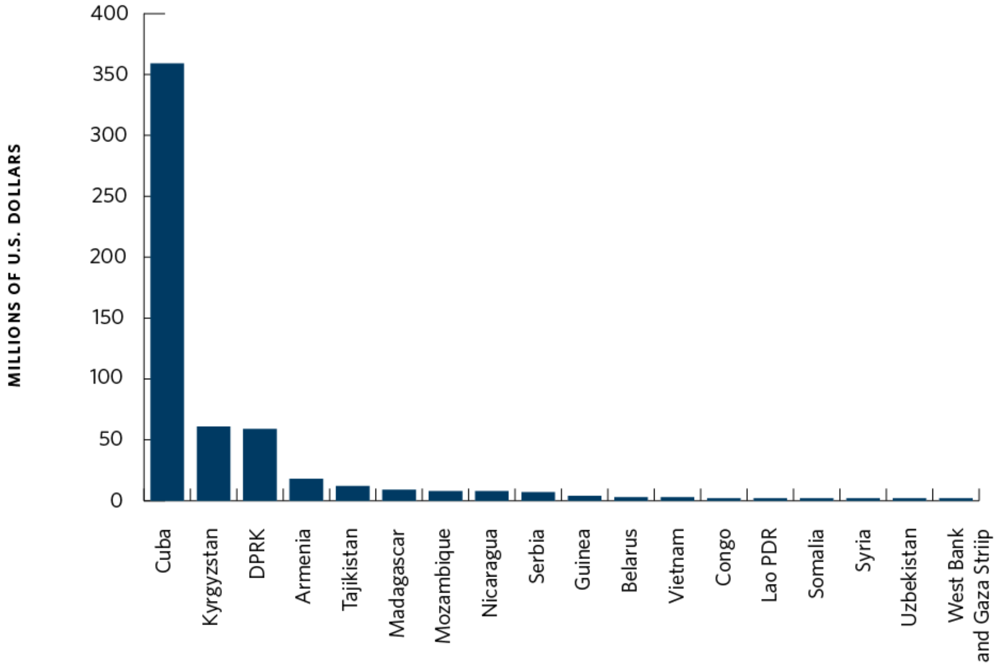
Official Development Assistance

Official development assistance is not a major tool of Russian policy in the Mediterranean. The Soviet Union was masterful at using its large development assistance budget to exercise influence abroad: for example, to shape votes at the United Nations or to support ideologically compatible countries.[65] After the breakup of the Soviet Union, economic collapse in the 1990s turned Russia into a net recipient of financial aid, rather than a donor. This situation was reversed in the mid-2000s, when booming energy export revenues allowed it to once again join the ranks of donor nations.[66]

As with other donor nations, Russia supplies the Organisation for Economic Co-operation and Development (OECD) with data on its assistance, but this data is not as complete as that provided by others. Still, the data gives some insights into its development assistance. In 2018, the latest year for which detailed data is available, 68 percent of Russia's $628 million in bilateral aid was in the form of debt relief, with only 25 percent as "country programmable aid," or the type of assistance that is directed at specific programs and projects. By comparison, the average for country programmable aid among OECD members was 49 percent. In 2018, of all Mediterranean countries only Syria and the West Bank and Gaza were listed as receiving any Russian aid, each with $2 million (see Figure 13). By not providing them with more development assistance, Russia is missing an opportunity to build goodwill in the countries on the eastern and southern shores of the Mediterranean, especially as they need economic development more than they need the weapons systems it does provide them with and that only perpetuate the region's conflicts.

FIGURE 13

Russia's Bilateral Development Aid for 2018



SOURCE: OECD

Conclusion

Russia does not appear to be using the traditional forms of economic statecraft to build influence in the Mediterranean. Its non-energy trade with the region's countries is low, its investments in most of them are insubstantial, and it does not give large quantities of development assistance to the countries that need it. The lack of such economic ties is surprising, given Russia's military and diplomatic efforts to increase its influence in the region.

Russia has succeeded, however, in using the strengths it does possess—energy resources, weapons industry, and money laundering—to develop some key relationships in the region. In particular, its unique economic tools have helped it manage a difficult relationship with Turkey, which depends on its oil and gas and is a new customer for its nuclear power and weapons systems. These same tools have allowed Russia to build more influence in Egypt, Algeria, and to some degree Cyprus over the last decade. If Russia's ambitions in the region are limited to maintaining access, currying favor with key decisionmakers, and remaining a nuisance to NATO, then its current level of economic ties is likely sufficient for these goals. If Russia aims to grow its influence and clout with more countries in the region, however, its current economic tool kit does not appear to be large or sophisticated enough to achieve this.

Economic statecraft is an important tool in any country's foreign policy. Trade and investment deals link countries together in vital ways to grow living standards for the people of each country. They also build relationships between people—politicians, business leaders, students—that promote mutual understanding and respect for each other's cultures. The United States and Europe have generally excelled in building these types of economic ties, and economic data show they continue to be the dominant economic powers in the Mediterranean, with wide-ranging and diverse ties. Sustaining this leading economic position will likely ensure that Russian influence in the Mediterranean remains a manageable, if persistent, problem for the West.

About the Author

Joanna Pritchett is a visiting scholar and detailee from the Department of State. She has been in the Foreign Service since 2007, serving overseas most recently as the internal politics unit chief at the U.S. Embassy in Colombo, Sri Lanka. She has previously served as deputy chief of the political and economic section at the U.S. Consulate General in Istanbul, Turkey, and at the U.S. Embassies in Berlin, Germany, and Baku, Azerbaijan. In Washington, she was a country officer for Germany and country officer for Ukraine. Prior to joining the department in 2007, Pritchett worked in management consulting and at the NATO Parliamentary Assembly.

Pritchett earned a master's degree in international affairs from the Johns Hopkins School of Advanced International Studies, where she concentrated in European security issues. She earned a bachelor's degree in European history and a certificate in finance from Princeton University.

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