



2016 IN REVIEW, LOOKING FORWARD TO 2017

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Thinking Small on a National Scale: The Russian President's Annual Address to the Federal Assembly on 1st December 2016

Hans-Henning Schröder, Bremen

Abstract

On 1st December, Vladimir Putin delivered the annual presidential “state-of-the-nation” address to the Federal Assembly. His address provided an overview of developments in Russia during 2016, broken down into four sections—ideology and domestic politics, health and social policy, economy and science and foreign affairs. The address was a *tour d’horizon*, which touched on all areas, while carefully omitting a range of relevant problems. Politically, the speech focused solely on an appeal to national greatness and unity. In terms of content, there was little new. The media’s reaction reflected this: the website *politcom.ru* ran the headline “The address of the ‘small things’” and *Vedomosti* characterised the address as “No time for sensations”.

“Stagnating Stability”

Russia’s ruling regime is stable at the end of 2016. The political leadership controls the country and is widely accepted by the population. It successfully conducted nationwide elections and organized solid majorities in representative bodies on both the federal and regional level. The regional administrations collaborate closely with the centre, which can rely on the support of the most important mass media outlets.

However, there are also symptoms that point to underlying problems. Even though the Duma elections brought a clear majority for the pro-government party “United Russia”, voter turnout was lower than usual. In Moscow and St. Petersburg, only 30% of the eligible voters went to the ballot box, and of these 30% only 30–40% voted for “United Russia”. That means that the government party was only able to mobilize 11–15% of the eligible voters in Russia’s main metropolises. Apparently, the majority of the population in Russian cities with over a million inhabitants do not readily identify with the political party, upon which the political leadership relies.

The weakness of this political foundation could become problematic should criticism of the leadership increase, as is quite possible, in light of negative economic growth and the decline in real incomes (see Figures 1 and 2 on p. 7). In comparison with other European countries, the Russian population, per capita, has only limited resources at their disposal—wealth per capita is higher even in China, Turkey, Latvia and Estonia. Furthermore, wealth in Russia is extremely unequally distributed (see Figures 1 and 2 on p. 8). This social constellation is prone to conflict. Indeed, public perception considers the difference between the poor and the rich as a serious problem (see Figures 1 and 2 on p. 9). Yet, at the moment, there is little willingness to protest and there is no organized opposition, which could challenge the prevailing political regime.

The daily newspaper *Vedomosti* has aptly coined this situation—in which the economy is not progressing, and yet the political situation is safely controlled by the centre despite latent social tension—as “stagnating stability”.

An Overview of the Annual Presidential Address

As noted above, the current context for Russian politics is, in December 2016, a stable one, but one which has the prospect of upheavals that will have to be taken into account in forthcoming years. This is something that the annual address to the Federal Assembly could have focused upon, but the experience of previous addresses’ suggested that we should not expect such a critical self-appraisal of Russian politics. Nonetheless, the annual address serves to convey some idea of what the leadership of the administration and society wants to be the subject of public discourse—and which problems it would prefer to conceal.

This year, the annual address lasted 68 minutes, which is eleven minutes longer than the previous year’s. It was structured in four sections: the first, dealt with domestic political questions; the second, discussed single issue-areas in social and societal politics; the third, delved into developments in the economy, business and science; and the fourth, addressed foreign affairs.

President Putin began with internal developments in Russia. The core message was one of a commitment to “patriotic values” and the cohesion of the people. From this perspective, he addressed the recent Duma elections and the role of the governmental party, followed by touching briefly on the topic of civil society, and then discussing current controversies in the cultural sphere.

The social section of the address, firstly, tackled demographic questions and the problems facing the health care system. Subsequently, the president went on to mention education and research and the role of charitable Non-Governmental Organizations.

By way of some remarks about ecology and road infrastructure, Putin transitioned to the economic section of the address. He enumerated some successes, but also stressed his desire to solve the fundamental problems facing the national economy, by among other methods noting the need for structural reform of industry and the encouragement of entrepreneurship. Further topics were the capability of the banking sector, digitalization and the extension of science.

The final section of the address was devoted to Russia's international position. Putin observed the growing aggressiveness of other governments towards Russia, but also held out an offer for collaboration, although he demanded that this be based on a dialog among equals. He also reflected on the integration of the Eurasian region, Russia's relations with China and India and cautiously formulated his expectations about an improvement in relations with the US, in connection with the victory of Trump in the US Presidential election. Russia's military and intelligence activities abroad were given an honorable mention. He closed the address with a call for the Russian people to show self-confidence and work for the future.

In sum, the address was a *tour d'horizon*, which touched upon all areas, while omitting a set of nagging questions. It contained nothing really new. This was reflected in the reaction by the media: the website *politcom.ru* ran with the headline "The address of the 'small things'" and *Vedomosti* characterized the address as "No time for sensations".

The Economic Situation and Action Program

Although it only appeared as the third of the four sections, economic policy was doubtless the main topic of the address. This is because the future development of the relationship between "power" and "people" and between the core leadership and the population is dependent on overcoming the Russian economy's weak growth.

The president's statements about the economic situation were accurate, but general in nature. Putin rightly declared that the drop in growth since 2014 can partly be ascribed to external factors, but that the fundamental problems are essentially self-made: capital, technological knowhow and qualified personnel are lacking, entrepreneurial competition is underdeveloped and the market is skewed. He put a positive spin on the situation, noting that the decline in economic performance is slowing, the reserves of the central bank are increasing and inflation remains lower than in the previous year. This was a rather sober judgement of strengths and weaknesses. Going forward, Putin announced that develop-

ment goals will be defined systematically and exactly in the name of solving the fundamental problems of the Russian economy step by step.

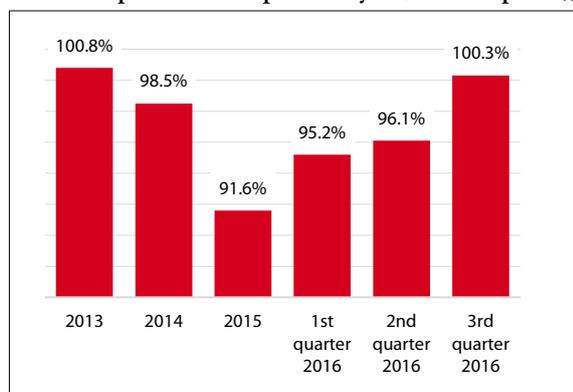
However, in terms of concrete policy, what the president then offered was rather thin: He praised progress in the agrarian sector, but had to admit that this had been achieved through the partition of the Russian agrarian market from the EU, through protectionist action. He lauded the positive development of arms export sales and invited the arms sector to increasingly launch civil products—a concept that previously failed in the Soviet Union: it was not possible to balance the underdevelopment of the manufacturing sector in this way. In addition, Putin pointed to the rapid growth of the IT sector, whose 7 billion USD export revenue is equal to only half that generated from arms exports. He claimed that manufacturing exports have also risen. He called for the government to work out a plan to ensure that the Russian economy 2019–2020 grows faster than the world economy and to "strengthen Russia's position in the world economy". How this goal was to be accomplished, he left open. Neither did the address develop a strategic plan about how to increase production in the manufacturing sector to reduce Russia's dependence on primary commodity exports.

Equally, he had little to say about how the business climate can be improved. The address noted that the security agencies should not pressurize honest entrepreneurs in their pursuit of tackling white-collar crime. With that he repeated a declaration from the previous year which has obviously had no effect. This time, he directly mentioned that fake accusations were fabricated to put pressure on entrepreneurs. Indeed, there have been a series of cases in which successful entrepreneurs were brought to court to face fake accusations and had their companies seized in a cool and calculating way. However, Putin did not announce any concrete steps to prevent this happening again.

Concerning the banks' situation, the president explained that the Russian banking system is, in the meantime, able to act as a substitute for the decrease in foreign credits. He lauded the cleaning of the banking system by the central bank and the development of the financial sector outside of the banking system. Indeed, in this context, he did not react to the fact that the volume of investments in Russia have declined since 2014 and that the figures only suggest an upward trajectory from the third quarter of 2016: (see Figure 1 overleaf)

Another topic covered was that of the capacity of Russian industry to innovate and its adaptation to the new digital reality. He reported on efforts to promote science and referred to the National Science and Technology Development Strategy, which has now been

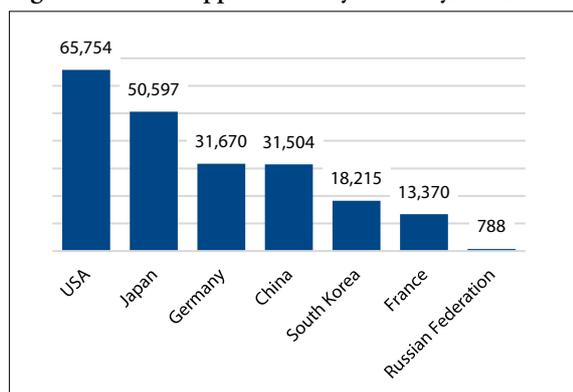
Figure 1: Capital Investment in Russia (in % compared to the previous year (wrt. the corresponding quarter of the previous year; current prices))



Source: Details from Rosstat <http://www.gks.ru/free_doc/new_site/business/invest/Din-inv.xls, 11 December 2016; http://www.gks.ru/free_doc/new_site/business/invest/inv16.xls, 11 December 2016>.

signed. As in the other passages about economic policy, the address remained vague and did not touch on Russia's significant shortcomings concerning innovation. The European Patent Office's statistics show that Russia lags far behind other developed industrial countries in terms of patent applications—seen as a good indicator of the capability of an economy to innovate:

Figure 2: Patent Applications by Country, 2015



Source: Details of the European Patent Office <[http://documents.epo.org/projects/babylon/eponet.nsf/0/00CB374174B8B835C1257F68004AAB2D/\\$File/Filings_by_country_of_origin_2006-2015_en.xlsx](http://documents.epo.org/projects/babylon/eponet.nsf/0/00CB374174B8B835C1257F68004AAB2D/$File/Filings_by_country_of_origin_2006-2015_en.xlsx), 29 September 2016>.

As this suggests, there exists a substantial need to reform. However, Putin did not offer a political concept to foster greater economic innovation in his address.

Overall, the president did, indeed, name some of the most important problems facing the Russian economy in his address. He, however, provided only abstract thoughts on addressing them and neglected many other

important topics. He did not elaborate on the privatization of state enterprises. Given the outrage about the privatization of *Bashneft*, throughout which the large scale manufacturer Yevtushenkov and Economic's Minister Ulyukayev were detained by the security agencies, this omission is incomprehensible. Putin also had nothing to say about the off-shore activities of Russian corporations. In 2012 he had championed a policy of de-offshorization, while the panama papers, which also concerned Russia, were published in spring 2016. In short, then, Putin chose to ignore a lot of important topics and did not formulate a credible strategy on how to overcome the weak growth of the economy.

Social Policy, Education, Civil Society and Science

Like on economics, the presidential address only covered some of the most pressing social and societal questions in Russia. He started with demographic developments, noting Russia has seen an increase in its birth rate, and then went onto discuss problems related to health care. He reported on the development of a system of advanced training to remedy the insufficient training of some medical doctors, and also on the necessity to make use of the possibilities for telemedicine in a huge territorial country like Russia. Putin also spoke about the regulation of the pharmaceutical market and the expansion of the ambulance aviation network. These are all important projects, but rather singular issues. He did not address healthcare policy in general.

From healthcare, Putin moved on, without pause, to the educational system. He announced a further expansion and dissemination of initiatives to ensure schools produce creative and independent-thinking people and to encourage the development of capacities to address complex challenges. A clear strategy on education policy was not, however, outlined in the address.

The president spent somewhat longer discussing an expansion of voluntary initiatives. He devoted long passages to the development of civil society in the form of "Non-Profit Organizations" (NPO—these are actually NGOs—Non-Governmental Organizations) in the social sphere. He attributed great significance to the voluntary character of such social work. This corresponds with the trend in recent years for the state to fund non-political NGOs, whose role is take over charitable work and to also support it with resources. These measures obviously aim to integrate civil society as long as such activity does not lead to criticism of the state.

The president did not offer even a sentence about the moratorium on pension payments, which since 2015 has sunk pensioners' real income and the contributed further to the unequal distribution of wealth.

“...for Russia”—Nationalist Rhetoric as a Socio-Political Agenda

It is possible to deduce from the ideological passages, which opened the annual address, that the president is well aware of the significant problems that burden the everyday lives of the population. In this opening, Putin praised the unity of the people, its readiness to stand together even under difficult conditions and to unite around “patriotic values”. “It is this readiness to work for our country’s sake and this sincere and deep-seated concern for Russia that form the foundation of this unity we see”. Justice, truth, trust, respect, responsibility, high morale, self-fulfillment—the speechwriters placed all these ideologically highly-charged terms in two paragraphs of the speech.

It is not without irony that a president, who in the end is responsible for reductions in real wages and huge disparities in wealth, and yet simply ignores these issues in his speech, states that: “[the Russian] People take any injustice and untruth very much to heart. This is a distinguishing feature of our culture in general.”

This nationalist rhetoric, which the annual address heavily drew on in its first minutes, evokes a national feeling of unity, with the speaker implying a moral-cultural superiority for his point of view and warning of the dangers of a “weak state”. As seen elsewhere, it was noted, a “weak state” enables interventions from outside and opens the door to foreign inspired adventurism, coups and anarchy. According to Putin’s address, Russia does not want that: “we are a single people, a united people, and we have only one Russia”.

After this appeal to national unity, Putin tackled some recent public controversies. Without mentioning any names, he criticized the aggressive attacks directed at intellectuals for expressing their opinions. Nobody, says the president, can prohibit freedom of thought and the right to express one’s position. One can assume that Putin was referring, among others, to the Raikin debate.¹ Even though he criticizes the attacks of the nationalist right on artists like Raikin, Putin, at the same time, notes that public debate should essentially be all about prioritizing the nation and its unity. Insofar as the president ostensibly calls for a reconciliation between “liberals” and “nationals”, between critics of the *status quo* and the representatives of nationalist politics, his leadership clearly supports the latter groups, by advocating “traditional values”, nation and family, and compliance with the rules of a civilized discussion.

By aligning its audience with national traditions, the president positions Russia in counterpoint to the values underlying the UN Charter (1945), the Helsinki Final

Act (1975) and the Paris Charter (1990). He constructs a national value consensus, which aims to immunize Russian society against any demands for democratization from outside—e.g. by the OSCE or the Council of Europe. It is hard to interpret this call for the unity of the “people” and his appeal to national feelings as anything other than an attempt to preemptively delegitimize any protests against injustice and the deterioration in living conditions in forthcoming years.

However, the exaltation of unity, which the address also relates to the Duma elections, deliberately ignores the current political process in Russia. In this way, Putin neither commented on the low turnout for the Duma elections, nor the variety of replacements and resignations of politicians and high ranking officials in the last few months. Taking this into account, the domestic political section of the address was very unsatisfactory.

Foreign Policy as a Side Issue

Putin’s remarks about foreign policy were also limited. The war in Syria was only mentioned once, while he did not dwell at all on the situation in the Ukraine. The address did not talk of Crimea as a problem for Russian foreign policy. Europe and the EU were not discussed, even though over 40% of Russia’s external trade continues to be conducted with the EU. The OSCE and the future of European security were not worthy of a sentence in the president’s address. He portrayed Russia as victim of pressure and disinformation campaigns and demanded a dialog of equals. The address positioned the deepening of relations with the countries of the Eurasian Economic Union and the Asian-pacific region as the principal directions for Russian foreign policy in the years to come.

With respect to the US, Putin chose his words cautiously: he renounced polemics and signaled his willingness to engage in an equal partnership with the Trump administration. A collaboration between Russia and the USA to solve global problems is, according to the Russian president, in the interests of the whole world. With these statements, the self-perception still circulating within many Russian politicians’ heads shines through: They still see themselves as “the other superpower”, who solves the world’s problems in cooperation with the US. There is no recognition that the world changed permanently after 1991. That, internationally, it is now China along with the US that have decisive influence. That, economically, Russia offers the world only limited possibilities and is of lesser interest than China, the US, Japan and the Euro area (the Russian GDP is around the same level as Italy’s). The group around Putin that constitutes Russia’s political leadership either does not realize this state of affairs or believes that Russia is able

1 See [Russland-Analysen 324](#) (in German)

to compensate for this weakness through the aggressive deployment of military means.

Vabanque—Hoping for Trump and a Rise in the Oil Price

The 2016 Presidential address did not develop a credible social and economic political program for the forthcoming years. Politically, the speech focused solely on an appeal to national greatness and national unity.

This is astonishing given the current situation in Russia. The third Putin administration has entered troubled waters. The economy, which is highly dependent on growth in world markets, is stagnating, while there is no perceptible willingness to implement structural reforms. The last attempt to do so was Medvedev's reforms in 2009, which propagated the four "I's"—investment, innovation, infrastructure, institutions. These reforms, however, failed. The Putin administration has ignored the ideas of the previous government—it does not even name, let alone discuss, the most urgent problems: how to overcome the disparity between rich and poor, the burdensome legacy of the Yeltsin era and the transformation from a planned- to a market-economy in the 1990s. Instead, latent social tensions in Russian society are covered up by nationalist rhetoric. Great risks have been taken in foreign policy, in order to obtain prestigious successes in Ukraine as well as in Syria, but which are having a great impact on domestic policy.

Yet, it is questionable whether the regime will be able to preserve the status quo either domestically or internationally in the long-term, if the prevailing structural conditions do not change soon. It would seem as if the Russian political leadership are tacitly betting on a rise in the global oil price and a change in American foreign policy under Trump.

A rise in oil prices would lead to an easing of tensions around economic and social problems in Russia and stabilize the regime in the medium term. A political change in US foreign policy, granting Russia greater leeway in the Middle East and in Europe could under certain circumstances enable a kind of "Yalta-2" arrangement to be reached, whereby the EU and the US would withdraw from Russia's "sphere of interest" and give it free reign in the post-Soviet space. Should both developments come to pass, this would justify the risks taken by Putin's government in 2014 and 2015.

If, however, these two cases do not occur, the Putin administration will be confronted with huge problems both domestically and in its foreign policy. Judging by the 2016 annual address, there is currently no strategy as to how to deal with that scenario. Moreover, Putin's leading circle is clearly being reorganized, with some key positions now newly staffed. There is, as yet, no visibly clear pattern to these changes. At present, the president himself seems rather unenthusiastic. This was evident in his annual address, which in spite of all its nationalist rhetoric seemed rather 'patched together' and avoided many important questions. It is unclear why the president refrains from naming prevailing problems and from formulating political solutions. It may be that a change in power amongst the ranks of the leadership is taking place, which has not yet been completed, and therefore, this new elite cohort has not yet defined its strategy. Perhaps, they do not want to confront society with the real problems for as long as the nationalistic placebo effect is working. And, perhaps, they will be lucky with Trump and the oil price—then some of Russia's problems will simply sort themselves out!

Translated by Rafaela Catena

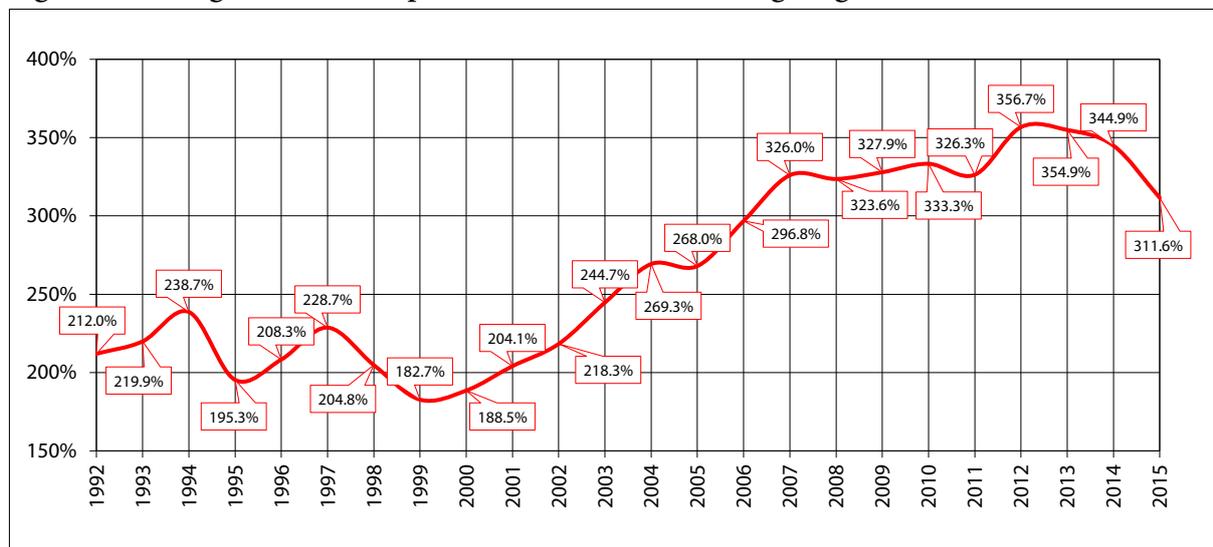
About the Author

Prof. Dr. Hans-Henning Schröder taught at the Free University Berlin. He is a member of the editorial board of the Russian Analytical Digest and the co-founder of its German sister publication *Russland-Analysen*.

STATISTICS

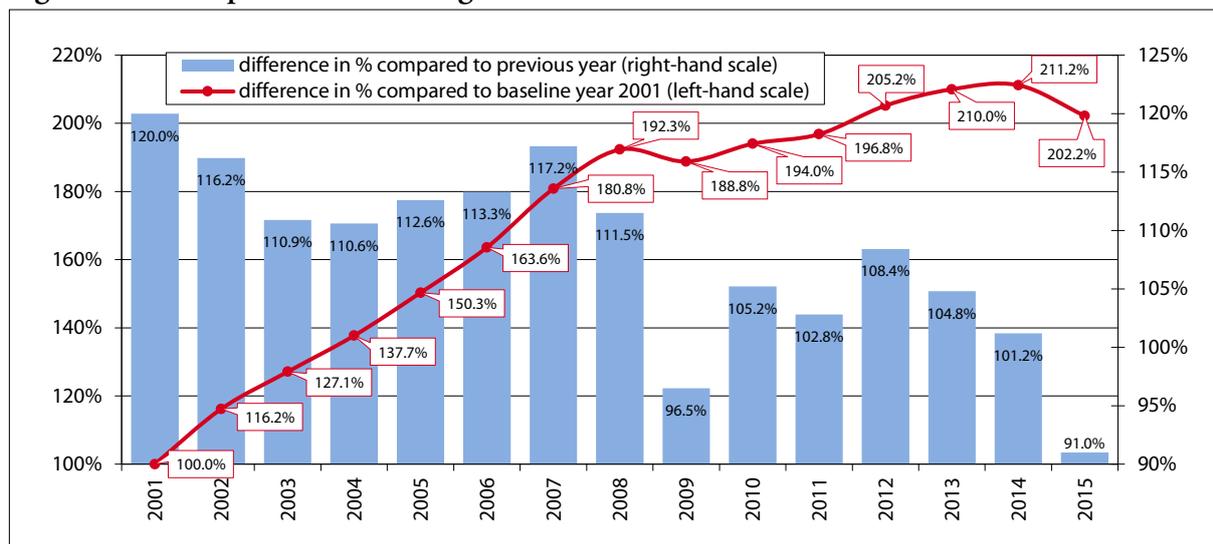
Development of Real Income in Russia

Figure 1: Average Income Compared to the Minimum Living Wage*



*100%: official minimum living wage; source: <<http://cbsd.gks.ru/#>, 28 November 2016>

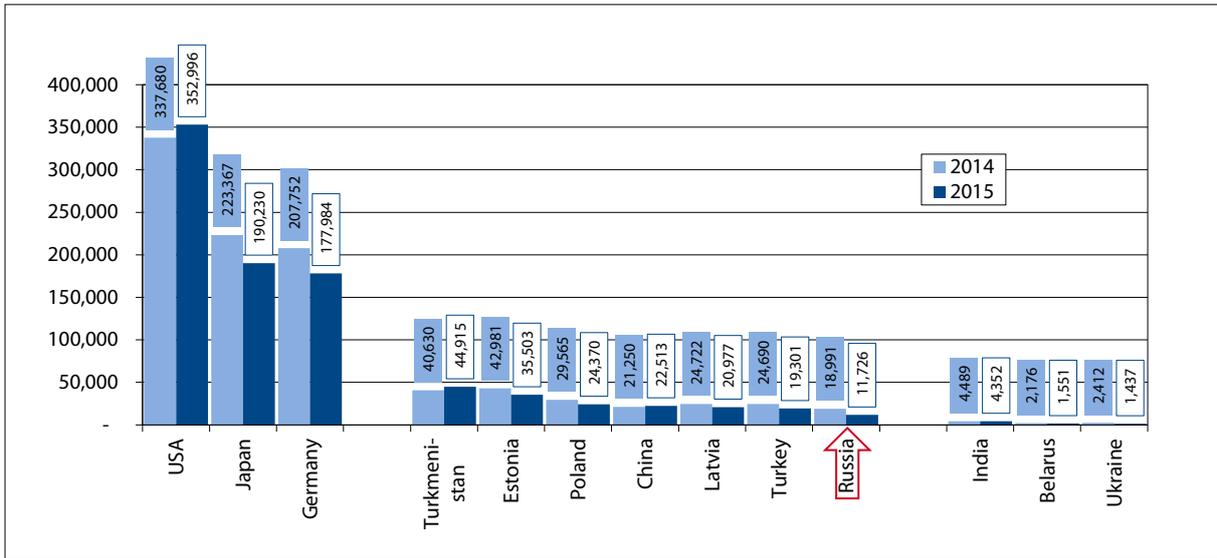
Figure 2: Development of Real Wages in Russia 2001–2015



Source: <http://www.gks.ru/free_doc/new_site/population/trud/sr-zarplata/t5.xlsx, 20 October 2016>

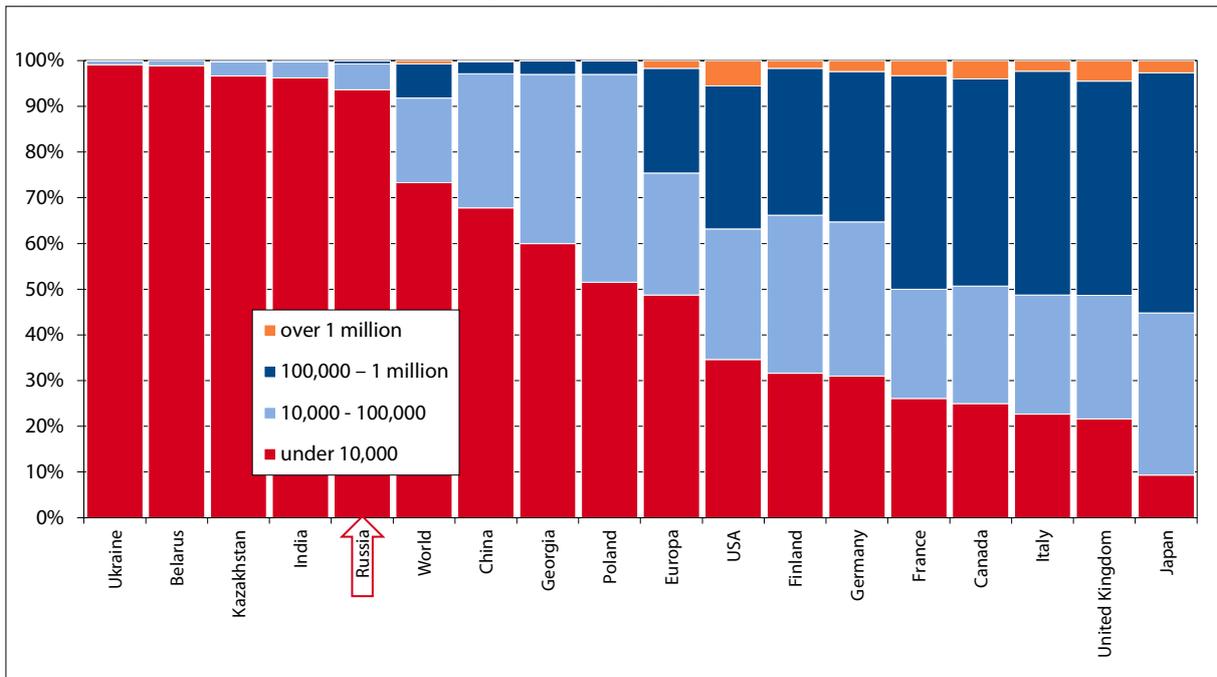
Wealth in Comparison

Figure 1: Average Wealth per Adult in Selected Countries 2014 and 2015 (USD)



Source: Credit Suisse Research Institute: Global Wealth Report 2016, Zurich: Credit Suisse 2016 Wealth per Adult Data by Country for 2014 and 2015 (Corrected XLS) <<https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/global-wealth.xlsx>, 23 November 2016>

Figure 2: Distribution of Adults (%) by Wealth Range (USD) in Selected Countries

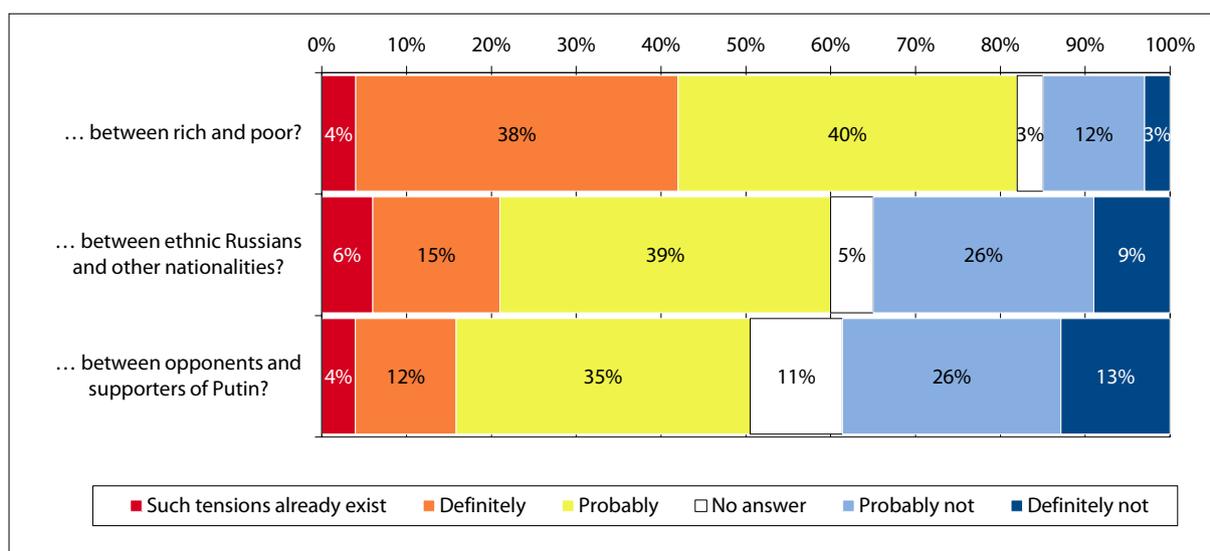


Source: Credit Suisse Research Institute: Global Wealth Databook 2016, Zurich: Credit Suisse 2016 <<https://publications.credit-suisse.com/tasks/render/file/?fileID=52E06942-9DB4-D827-84BABB554A232F8>, 23 November 2016>, p. 106–110

OPINION POLL

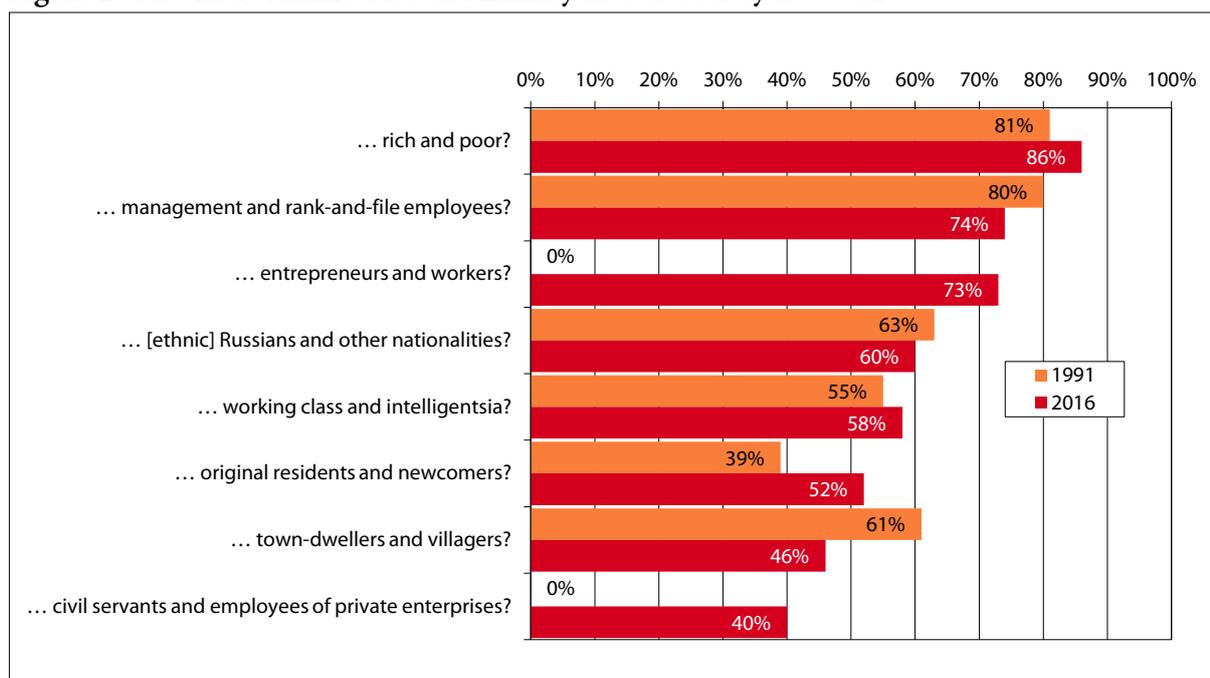
Perception of Social Inequality in Russian Society in 2016

Figure 1: Are There Significant Differences Within Present Russian Society (May 2016) That Could Lead to Tensions ...



Source: representative opinion polls by Levada Center, 27–30 May 2016 <<http://www.levada.ru/2016/06/27/tochki-raznoglasiy-v-obshhestve/>, 28 June 2016>

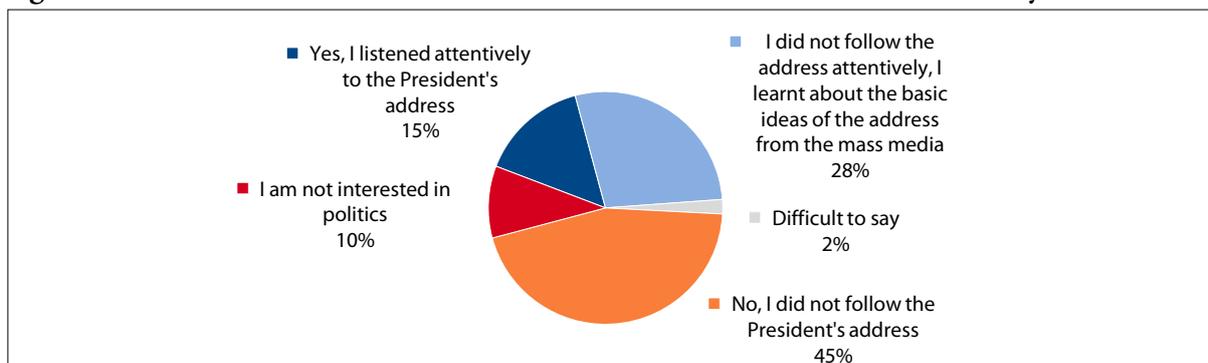
Figure 2: Are There Animosities and Enmity in Our Society Between ...



Source: representative opinion polls by VTsIOM, 29–30 October 2016 <<http://wciom.ru/index.php?id=236&uid=115947>, 15 November 2016>

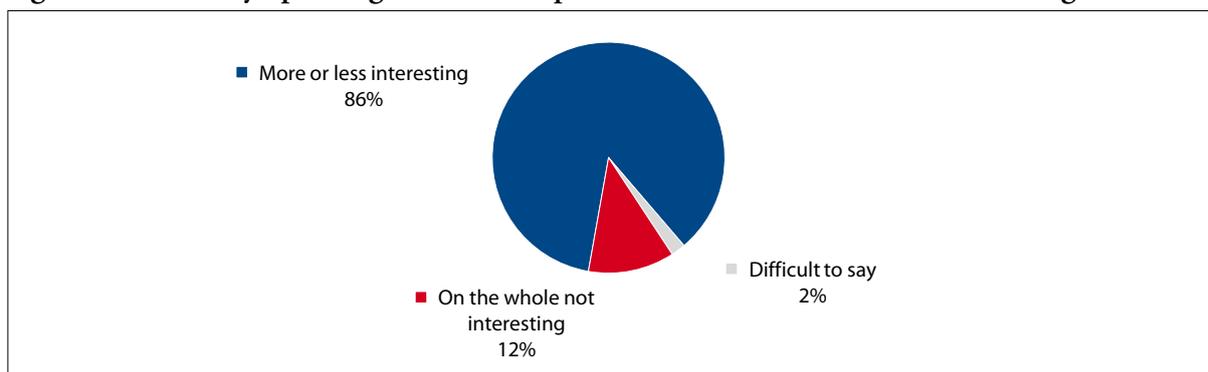
Reactions to Putin's Address to the Federal Assembly

Figure 1: Did You Follow the President's Annual Address To the Federal Assembly?



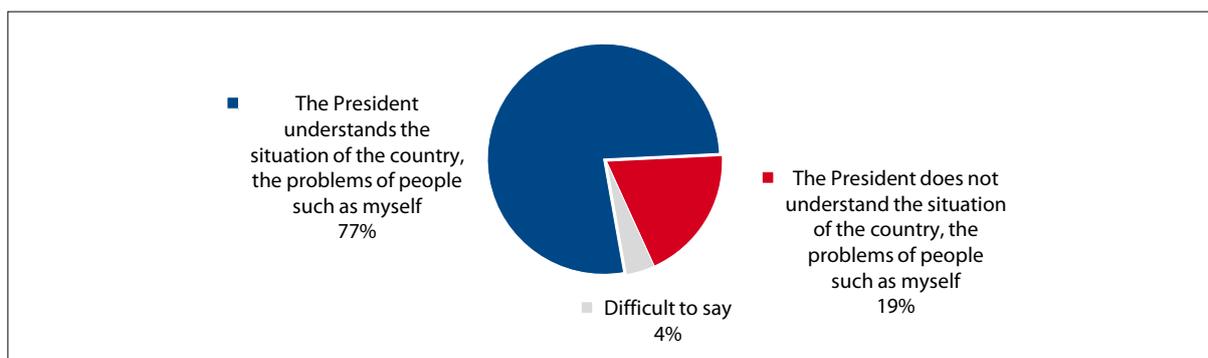
Source: representative opinion polls by VTsIOM, 3–4 December 2016, <<http://wciom.ru/index.php?id=236&tuid=115991>, 9 December 2016>

Figure 2: Generally Speaking, Were the Topics of the President's Address Interesting or Not?



Source: representative opinion polls by VTsIOM, 3–4 December 2016, <<http://wciom.ru/index.php?id=236&tuid=115991>, 9 December 2016>

Figure 3: Specifically Speaking: Judging by the President's Address, Do You Think the President Understands the Real Situation of the Country and the Problems of People Such as Yourself?



Source: representative opinion polls by VTsIOM, 3–4 December 2016, <<http://wciom.ru/index.php?id=236&tuid=115991>, 9 December 2016>

Gambles That May Actually Pay Off?—Russian Foreign Policy

Aglaya Snetkov, Zurich

Abstract

2016 has definitely been a notable year for Russian foreign policy and one in which many of its gambles appear to have paid off. The Putin regime continued to make bold use of force, both conventional as in the case of Syria and Ukraine and non-conventional or non-linear measures as in the case of the cyber-attacks on the US. As well as making active foreign policy choices, it was also a year in which Russia seemed to profit from many other international trends. In particular, the apparent rise of populism in the West, symbolized by Donald Trump's election to the US presidency in November. Whilst we will have to wait until 2017 to see how these events are translated into policy-making in practice, the Putin regime does seem to be ending this year on a high.

2016 was a particularly eventful year for Russian foreign policy, in which it has once again catapulted itself into the role of the pre-eminent villain in international affairs. At the same time, some of the gambles taken by the Kremlin seem like they could actually have paid off (at least in terms of the goals set for them by the regime), if the apparent 'successes' in its push in Syria, the election of Donald Trump in the US, and the proclaimed wave of populism sweeping Europe are anything to go by.

Moving from crisis to crisis across the year, the Putin regime continued to make bold use of force, both conventional as in the case of Syria and Ukraine and non-conventional or non-linear measures as in the case of the cyber-attacks on the US. In this respect, the Kremlin's domestic and foreign agendas remain tightly intertwined, whereby the assertion of Russia's international role persists as a major priority in the name of securing the regime at home. With this aim in mind, Russia's foreign policy in 2016 solidified the impression that it should now be considered a power that not only talks tough, but also acts forcefully to defend its interest both in what it regards as its region and beyond.

As well as making active foreign policy choices, 2016 was also a year in which Russia seemed to profit from many international trends. In particular, the apparent rise of populism in the West, symbolized by Donald Trump's election to the US presidency in November and the Brexit vote in the UK in July. Whilst we will have to wait until 2017 to see how these events are translated into policy-making in practice, the Putin regime does seem to be ending this year on a high.

Syria: Doubling Down on Military Operations

In many respects, 2016 saw the continuation of trends already witnessed during the last few years. Notably, in terms of the Putin regime's willingness to use force to further what it sees as its national interests. The most illustrative example of this has, of course, been Rus-

sia's ongoing support for Bashar al-Assad's regime in Syria. Indeed, Russian military operations in support of Assad's regime, launched in September 2015, have continued apace. Against a background of sustained criticism from different quarters and multiple failed attempts at negotiating a ceasefire (most prominently, at the Geneva peace talks in February and US–Russian talks in September), the Russian regime, as part of a wider coalition with Syrian and Iranian counterparts (together with support from Hezbollah), have clearly positioned themselves as determined to continue with the military campaign. Across the year, a substantial push has been made towards key military targets, such as Aleppo, Palmyra, Homs, Hama and Idlib.

Operationally, the ongoing restructuring of Russian military capabilities and increased defense expenditures seem to have borne fruit in terms of military effectiveness. Russian military support for the Assad regime does appear to have turned the war around in the Syrian regime's favor. In so doing, the Russian regime and military hope that they have put to rest the ghost of the military weaknesses exhibited during the 2008 campaign in Georgia.

Critically from a domestic perspective, the Putin regime has proven very adept in managing domestic perceptions about the campaign. Through the careful use of official reporting and propaganda, there seems to have been little negative fallout from this campaign at home. This is in spite of a wave of international condemnation, accusations about the extremely high civilian casualties as part of the operations (estimates run in the high thousands, although the exact number of casualties since the start of the Russian campaign in 2015 vary greatly between sources) and the apparent targeting of key infrastructure and soft targets, such as hospitals, that could amount to war crimes. Yet, as Sergei Davidis rightly points out, Russia saw few, if any, protests against its campaign in Syria at home. Indeed, the majority of the Russian population seem either happy

to align themselves to the official stance or are mostly just disinterested in a military campaign taking place very far away from their immediate borders.

Nonetheless, while it has taken on an active military role in Syria, it remains highly unlikely that Russia will emerge as a new security provider on the global stage, in the wake of the growing reluctance of Western powers to play this role. In other words, it remains improbable that, in the years ahead, Russia's campaign in Syria will come to function as a blueprint for Russian external security policy in regions far away from its borders.

Eastern Europe: the On-Going Impasse in Europe's 'Forgotten War' and Growing Tensions Beyond It

Closer to home, tensions over Ukraine continued, in particular concerning the ongoing fighting along the line of contact in Donbass. Regular flashpoints and casualties remain on-going and open-ended, with many analysts now characterizing it as Europe's 'forgotten war'. With the peace process stalling, entrenched diplomatic friction persists between Russia, Ukraine and the West over the lack of progress towards the fulfilment of one another's obligations under the Minsk II protocols. Indeed, in November 2016, the International Criminal Court (ICC) found that Russia's actions in Ukraine amounted to an 'international armed conflict' between Russia and Ukraine, rather than an internal matter. The year ended with the Western economic sanctions regime against Russia still in place, and the Kremlin, in turn, extending its own counter-sanction measures until 2017.

Simultaneously, concerns about Russia's use of 'hybrid' tactics in Eastern Europe have grown. Russia's air force continued to carry out frequent incursions into the NATO airspace, the Baltic fleet and the base in Kaliningrad have been equipped with nuclear capable missiles and several military exercises were held in close proximity to NATO member states, further ratchetting up tensions. As announced at its summit in Warsaw in July, NATO's has responded in kind, with plans to increase its support for Eastern Europe, with four new battalions set to be stationed in this region. In addition, individual member states are set to provide more active military support to their East European allies, with for example the US sending more military support to Poland, the UK planning to send fighter jets to Romania and 800 personnel to Estonia, Italy sending increased support to Latvia, and additional German troops to be deployed in Lithuania. In spite of ad hoc meetings between the two sides within the format of the NATO–Russia council, the overarching dynamic remains one of distrust, frequent sabre rattling and an ongoing military buildup in Eastern Europe.

Russia and the Rise of Populism and the West: Enemies Within?

Aside from ongoing military frictions in Eastern and Northern Europe, major concerns have also been raised regarding Russia's apparent attempts to meddle in the West's wider affairs. Most notably, the Putin regime's use of covert political, social and economic ties with different "anti-establishment" and often "far right" European political groups, as a means to undermine a united front between Western allies. Indeed, the apparent wave of populism sweeping across Europe, seen in the Brexit vote in July and the apparent rising support for populist forces in France (National Front) and Germany (Alternative for Germany), would seem to be of benefit for Russia's current position towards Europe. Following on from its much discussed and controversial role in the US Presidential elections, concerns have been voiced regarding Russia's possible influence on the upcoming elections in France in April and in Germany in September. As well as debate over the implications of a victory for the more pro-Russian presidential candidates in France, either Marine Le Pen or François Fillon, for the European stance vis-à-vis Russia.

According to many, however, the main positive outcome of the year for Russia is the election of Donald Trump as US president. Given the way the US Presidential election campaign played out, the specter of Russia is set to reverberate in the US for some time to come. Most significantly, in relation to the apparent Russian-executed cyber security hack of the Democratic National Committee, with the emails hacked then published by WikiLeaks. Thomas Rid notes that this was in effect the use of *kompromat* against Hilary Clinton. Whilst the US intelligence community, particularly the CIA and FBI, continue to dispute the exact nature and provenance of this cyber security breach, and analysts continue to argue over the extent to which these hacks were more pro-Trump or rather anti-Clinton, the 2016 elections have become the moment when 'the Russian factor' returned to the top of agenda in the US, even if this is not sustained in the years ahead. Indeed, if the Kremlin's involvement in the cyber hack is proven beyond doubt, this action would not only signal a particularly audacious move on the part of the Putin regime, but will escalate fear about the Russian cyber security threat to foreign political institutions to a much higher level. The expulsion of thirty-five Russian diplomats by the Obama administration in December was said to be in retaliation against the cyber security hack allegedly orchestrated by Russia.

The election of Trump itself could also potentially signal a shift in the US policy towards Russia, if his advisers or appointments are anything to go by. For

example, the selection of General Michael Flynn to be the next National Security Advisor or Rex Tillerson's, the chief executive of ExxonMobil with known connections to Russia, appointment to the post of the Secretary of State seem to point towards a more pro-Russia stance than the Obama administration. Whilst Putin appears to have many supporters amongst US conservatives and the alt-right movement, at this stage, it is difficult to say whether the unexpected, but perhaps from the Russian-point of view rather fortuitous, election of Trump will result in a blossoming new relationship between Moscow and Washington. Withholding a verdict seems prudent given that previous US Presidents have begun their terms by promising a reset in relations with Russia, only for these resets and temporary upturns in relations to crumble soon after.

The election of Trump, the Brexit vote and the rise of populist parties and movements across Europe has meant that the most prominent discussion in political and analytical circles during 2016 has been about the apparent rise of populism in the West. Within this context, some have discussed the notion that the Putin regime with its focus on populist and patriotic politics could represent the new norm, rather than an exception, in global power politics. Indeed, a shadow appears to have been cast over the West, with concern that well-established notions, such as globalization, liberalism and the current configuration of the global order, are not as well supported by many of their own citizens as had been previously thought. However, caution is needed when comparing populism in the West and Russia.

Firstly, whilst populism, nationalism and anti-globalization fervor in the West seems to be largely a bottom-up phenomenon that has apparently taken the establishment by surprise, this dynamic is obviously not evident in Russia. In Russia, the pernicious mixture of patriotism, revanchism and anti-Westernism is the product of a very top-down and regime-led process, which seems, in turn, to have resonated with the Russian population, if Putin's high popularity ratings are anything to go by.

Secondly, within official Russian discourse, the place of populist anti-establishment sentiments is filled by anti-Westernism. In spite of the prominent role of such anti-Westernism in the Kremlin's discourse over recent years, it remains quite an unstable and potentially temporary (at least in terms of the most extreme threads to this discourse) narrative, because the regime continues to suggest that relations with the West could be regularized if and when the West starts to take Russia seriously and treats it as an equal once more. In this way, the anti-Westernism of the Putin regime does not exhibit the same level of negation of the 'other' (i.e. the establishment) as demonstrated by the populist movements in the West.

Thirdly, in spite of all the talk of counter-sanctions, production substitution and the need to revamp its domestic economy, the Putin regime's position is neither in essence an anti-globalization one, nor as in favor of economic nationalism, as some of the populist hardliners in Europe or the US. Hence, whilst as noted above, the Russian regime is obviously keen to build relations with populist groupings in the West, this does not mean that their ideologies or political programs are completely aligned. Indeed, for Russia, these relations are much more about finding cooperative partners, in order to undermine what they see as the anti-Russian establishment in the West, rather than facilitating the spread of a particular Russian-brand of populism.

Where similarity can be found between populism in the West and the Putin regime is that both are predominantly a domestic phenomenon, arisen out of local circumstances. Due to this trajectory, whilst similarities maybe found between the two, the respective push and pull factors driving their domestic development are substantially different from one another. It is therefore unlikely that a single populist coalition could ever be formed that includes both Russia and Western populist forces.

The Continued Push to the East

In counterpoint to the tension with the West, 2016 also saw the continuation of another trend within Russian foreign policy over recent years, the attempt to expand its international partnerships, particularly with regards to the so-called push to the East. The year saw an ongoing strengthening and deepening of relations with China, despite the negative and lingering legacy of Russia's intervention in Ukraine and active involvement in Syria. For Russia, China remains a key ally, although the economic asymmetry between the two is becoming ever more prominent, with Russia increasingly a junior-partner in a relationship that is more and more centered on Russia's supply of energy to China.

Elsewhere, the twist and turns in the Russian-Turkish relationship again grabbed headlines. Over the course of the year, the animosity between Ankara and Moscow, following the shooting down of the Russian Sukhoi Su-24 plane by the Turkish Airforce in November 2015, thawed. The breakthrough in relations came following the anti-regime coup attempt in Turkey in July, after which Putin came out strongly in support of Erdogan. Although both sides are seemingly determined to get their relationship back on track, they remain sensitive to shocks, not only because they find themselves supporting different sides in the Syria conflict, but also as a result of one-off events, such as the recent fatal shooting of Andrei Karlov, the Russian ambassador to Tur-

key. And this event did not seem to derail Russia and Turkey brokering a ceasefire deal for Syria at the end of December.

The 2016 Russian Foreign Policy Concept

At the close of the year (30 November), a new Foreign Policy Concept was approved by President Putin. As others have noted, this new document does not represent a radical change from the previous 2008 or 2013 document, with only a few themes cast differently. A key theme that continues to permeate the concept is the promotion of Russia's 'position as a center of influence in today's world', with a particular emphasis on Russia's historic role in the world. Rather than stressing that Russia is part of a wider European civilization, the new concept draws distinctions between Europe and Eurasia, with Russia now presented as an independent pole within the international system. In so doing, it places the blame for global instability squarely on western governments for seeking to contain others and imposing their own perspectives on the international system. Also noteworthy is that the new concept highlights the role and use of force and military might in international affairs. Whilst concerns about the ongoing global terrorist threat, WMDs, cyber security and information security are reiterated. The usual emphasis is also placed on the role of the UN and international law, with apprehension expressed about the use of the principles of human rights and responsibility-to-protect to 'exert political pressure and interfere in the internal affairs of states, including by destabilizing them and overthrowing legitimate governments'. Indeed, according to the doctrine, the changing situation in the world continues to preoccupy Russian policy makers, with the impact of globalization, uneven development and disparity identified as key causes of global tensions, alongside civilizational struggles.

In regional affairs, relations with Belarus are allocated a special place, whilst Ukraine is mentioned only twice. Even then, the concept talks about the 'Ukrainian internal conflict' or Russia's interest in 'developing political, economic, cultural and spiritual ties with Ukraine in all areas based on mutual respect and commitment to building partnership relations with due regard for Russia's national interests.' More widely, the usual importance is accorded to the Eurasian Economic Union and Collective Security Treaty Organization, somewhat less so for the Commonwealth of Independent States, as the key institutional mechanisms of the region.

When it comes to relations with the West, the West is blamed for the ongoing crisis in Russian–Western relations, with Russia apparently averse to the creation of 'dividing lines' in Europe. Whilst little mention is

made of sanctions, the EU continues to be described as an important economic and foreign policy partner for Russia, and a particular emphasis is given to bilateral ties with Germany, France, Italy and Spain. Less mention is made of its relations with the US, since the document was drafted prior to Donald Trump's election, at a time when Clinton's victory seemed most likely and therefore previous trends in relations were to be expected. Nonetheless, it is noted that Russia 'is interested in building mutually beneficial relations with the United States of America', but only if it gives up 'its restraining course'.

A lot of emphasis is also placed on Russia's push to the East, both within the frameworks of the SCO, East Asia Summit, ASEAN Regional Forum and economic cooperation in Asia-Pacific, but also crucially in terms of its relations with China. Cooperation with China is noted as covering multiple issue-areas, whereby 'Russia views the convergence of principled approaches adopted by the two countries to addressing the key issues on the global agenda as one of the core elements of regional and global stability'. Regarding Syria, the document emphasizes Russia's ongoing support of the status quo, noting that it 'supports the unity, independence and territorial integrity of the Syrian Arab Republic as a secular, democratic, pluralistic state with all ethnic and religious groups living in peace and security and enjoying equal rights and opportunities.'

All in all, the 2016 Foreign Policy Concept does not represent a radical change in course for the Russian foreign policy. Furthermore, considering the increased regularity with which new concepts have been produced in recent years, and the potential for changes in Russian relations with the US and its European partners in the near future, the 2016 concept may quickly become obsolete.

Looking Ahead

In sum, 2016 has definitely been a notable one for Russian foreign policy. Some of the gambles taken look like they could potentially pay off. However, only time will tell whether if this is indeed the case. At this point, it remains unknown whether the election of Trump to the US presidency will result in a real thaw in relations. It is also too early to discern whether a political reconfiguration in Europe will, one, further develop and, two, push Europe in a more pro-Russian direction, or at least mean an end or loosening of the ongoing sanctions regime. In other words, it still remains to be seen whether, in the near term, Russia will once again be brought in from the cold.

However, it does seem that the Putin regime's populist and patriotic rhetoric no longer looks quite as at odds with wider trends in the West. Crucially, 2016

has also become a year in which the West's attention has increasingly turned inward, with the EU's ongoing attempts to manage the fallout from Brexit, the rise of populism and the potential, though unlikely, derailing of the European project, and the US establishment's attempts to make sense of the election of Donald Trump as president. And, in these circumstances, a key ques-

tion is whether the West has the time, energy or space to adequately deal with or manage the Russian question, amidst this wider reconfiguration of political forces and domestic constellations. Equally, the key concerns for Russia are also domestic—the faltering economy, the looming presidential elections in 2018 and the ongoing security and survival of the Putin regime.

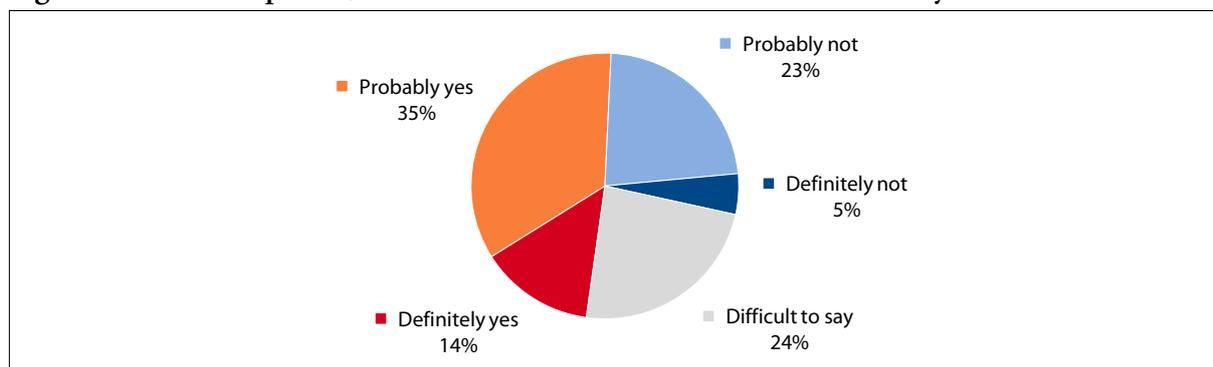
About the Author

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OPINION POLL

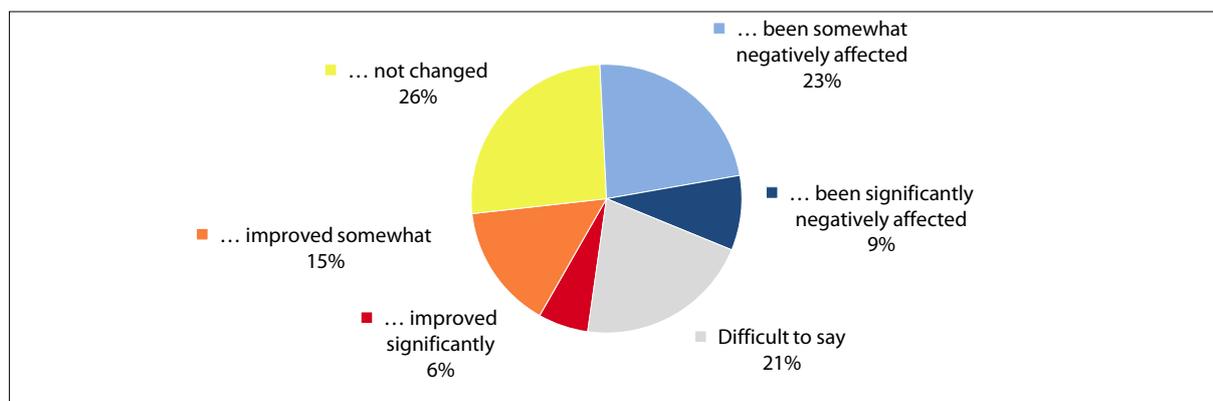
Russian Attitudes Towards the Syrian Conflict

Figure 1: In Your Opinion, Should Russia Continue the Intervention in Syria?



Source: representative opinion polls by Levada Center, 21–24 October 2016 <<http://www.levada.ru/2016/10/31/sirijskij-konflikt/print/>, 31 October 2016>

Figure 2: How Have the Russian Air Attacks in Syria Influenced Attitudes Towards Russia in the International Arena? Attitudes Towards Russia Have ...



Source: representative opinion polls by Levada Center, 21–24 October 2016 <<http://www.levada.ru/2016/10/31/sirijskij-konflikt/print/>, 31 October 2016>

2016 in Review: Russian Domestic Politics

Vladimir Gel'man, St. Petersburg/Helsinki

Abstract

2016 was a routine year of further consolidation of Russia's authoritarian regime. Using a strategy of three "Ds"—disengagement, destruction, and disinformation—almost all domestic challenges to the Kremlin's dominance were eliminated, the popular legitimacy of the political order has been restored to a certain degree, and even the stiff competition between interest groups for access to rents has not really challenged the political status quo.

Unlike previous even years, such as 2012 or 2014, 2016 has not brought major changes in Russian domestic politics, comparable with Putin's return to the presidency or rally around the flag after Russia's annexation of Crimea. Rather, it was a routine year of further consolidation of Russia's authoritarian regime, and the Kremlin successfully realized its goals. Almost all real and potential domestic challenges to the Kremlin's dominance were eliminated (at least, in the short term), the popular legitimacy of the political order (seriously shaken during the wave of mass protests in 2011–2012) has been restored to a certain degree, and even the stiff competition between interest groups for access to rents has not really challenged the political status quo.

In essence, the recipe for the Kremlin's success in 2016 can be considered through a 3D prism—these three "Ds" being disengagement, destruction, and disinformation. The trend towards the building of an efficient propaganda machine, together with the extensive use of coercive threats against the regime's rivals alongside the previously visible political demobilization, saw 2016 become a logical extension of what the Kremlin has achieved so far.

Elections without Choice?

Elections to the State Duma, held on 18 September 2016, fully restored the pre-2011 equilibrium of unilateral dominance by United Russia (UR) in the lower house of the Russian parliament. The Kremlin has learned several lessons from its failure at previous parliamentary elections and effectively employed political and institutional tools to secure full-fledged control over the electoral process. First and foremost, the parliamentary electoral system has changed once again. While the 2007 and 2011 State Duma elections were held under proportional representation (PR) with a 7% threshold, in 2016 a mixed electoral system with a 5% threshold (similar to those used in 1993–2003) was restored: 225 seats are designated to single-member districts (SMD), and 225 seats are distributed proportionally according to party-list voting. Previously, the use of a mixed electoral system in Russia had resulted in significant influence for local

notables in SMD races, against the background of the Kremlin's weak political control over the regions. However, the installation of PR offered limited benefits for regional chief executives: they had little chance to place their nominees in parliamentary seats nationwide, but were responsible for the delivery of votes to the Kremlin's party in their respective regions. The restoration of a mixed electoral system provided them with a balanced combination of both positive and negative incentives in terms of conducting their campaigns in the regions, because of their primary role in SMD races. Unsurprisingly, the geography of SMDs in many regions led to gerrymandering in favor of rural areas, where local political machines could operate in full swing without serious resistance. In fact, given the strength of regional political machines, UR won in almost all SMD races except those, where it refused to nominate its candidates in favor of other parties, who are also loyal to the Kremlin. While in PR races, UR performed just a little bit better than in 2011, SMDs delivered unchallenged dominance to "the party of power" in the State Duma (see Tables 1 and 2).

Yet another factor of the campaign was change to the electoral schedule. All previous State Duma elections had been conducted in December, but in 2016 polls were held in September. This move aimed to decrease public interest in the elections, because of the summer vacation season and thus lower voter turnout (and leave ample opportunities for manipulations during the polling day) and diminish the possible effects of negative campaigning (which had been visible during the 2011 elections). At the same time, the Kremlin intended to avoid major scandals and accusations concerning electoral unfairness. The list of parties that were allowed to run was extended to 14 entities (*vis-à-vis* 7 parties in 2011 elections), including "non-systemic" entities, such as PARNAS (which received less than 1% of the vote). Although these measures largely served as camouflage, the Kremlin's maneuver bore major fruits. The officially reported turnout decreased to less than 48%, and in big cities, just about one third of voters cast their ballots. According to some estimates, the scope of elec-

toral fraud in various forms was somewhat comparable with those in 2011. However, no major protests were observed after the polls. In 2016, Russia's voters, who were actively engaged in politics during the previous parliamentary elections and its aftermath, turned to disengagement, if not apathy: many of them abstained from voting, as well as from other forms of political participation. Why?

Fear and Loathing in Russia

The repressive turn of the Kremlin, launched after the 2011–2012 protests, aimed to avoid the risks of anti-regime mobilization in the wake of the coming election cycle and beyond. This turn was also driven by economic constraints—the economic recession against the background of the declining global oil prices and international sanctions (as well as Russia's counter-sanctions) left no room for further buying of loyalty from fellow citizens: quite the opposite, real wages and pensions in Russia were decreased just before the elections and will decline further in coming years. The Kremlin effectively used a repertoire of repressive policies, which included: (1) harassment and intimidation of the regime's rivals, both individuals and organizations (first and foremost, NGOs, which were considered as nodes of networks of anti-regime activism); (2) increasing the regime's control over the spread of information, ranging from the replacement of leaderships in media outlets to the extension of anti-extremist laws; and, (3) regime-induced hysteria around “culture wars”, which was effectively employed as a tool for the consolidation of public opinion around the regime and to publically discredit its opponents.

The combination of new harsh regulations and their selective enforcement became the essence of this systematic and consistent “politics of fear” in Russia, which had reached its goals by 2016. Despite the rise in the number of economic protests (such as those of truck drivers, who united against the introduction of toll road payments), these were largely localized and contained by regional governments. At the same time, the number of participants in anti-regime protests decreased, hundreds of activists and regime opponents fled the country, fearing criminal prosecution and/or further “tightening of the screws”, and many independent organizations were either closed down, or diminished their voice, imposing self-censorship, and often, being stigmatized as “national traitors”, were locked into their narrow niches and faced numerous troubles. In 2016, *rbc.ru*, the media holding, owned by Mikhail Prokhorov, was forced to replace its leadership and moderate its contents; a number of other media resources, including *Novaya Gazeta* and *Vedomosti* (let alone a number of local sites), were pressured under libel cases, and sometimes reduced their critical

tone towards the Kremlin. During 2016, the official list of “foreign agents”, compiled by the Ministry of Justice, extended to 148 entities, including the largest Russian network of human rights activists, Memorial, as well as the most reputable polling agency, the Levada Center. The number of political prisoners in Russia, according to Memorial, increased to 52 by October 2016 (while in October 2015 this number was 40). Still, it remains relatively low in comparison to many authoritarian regimes across the globe.

In addition, the threats of violence against the regime's opponents have been expanded, and pro-regime activists (such as National Liberation Movement, NOD) and other militant groups (such as “Orthodox activists”, etc.) operated under informal protection from the Kremlin. Previously, practices of non-state political violence were typical only in the North Caucasus, but in 2016 they began to spread across the country. Although no acts of violence comparable with the 2015 murder of Boris Nemtsov have been observed as of yet, the atmosphere of loathing affected some fields beyond politics: the number of scandals over forced closures of art exhibitions and other cultural events, because of pressure from pro-regime actors, greatly increased in Russia, thus sending visible signals to everyone.

Predictably, the repressive turn had a major devastating impact on opposition parties and their supporters before the 2016 State Duma elections. Yet, systemic opposition parties, such as the Communist Party of Russian Federation or Just Russia aligned with Kremlin and only criticized some of its policies: they preferred preservation of the status-quo to regime changes. Non-systemic opposition parties were severely pressured by the Kremlin, and their mobilization capacity remains very low. PARNAS, which claimed to provide an umbrella for the campaigns of various anti-regime activists, experienced major schisms, and failed to cooperate with Yabloko for the same limited pool of voters. The most visible opposition leader, Alexey Navalny had been legally disqualified from balloting and some of his allies boycotted elections without making any effect on disengaged voters. The 2016 State Duma elections represent a striking contrast with those of 2011, when Navalny and other opposition figures effectively organized a negative anti-Kremlin campaign, under the slogan “vote for anyone but United Russia!” Instead of the enthusiasm and hope of 2011–2012's “winter of discontent”, doom and gloom dominated Russia's political landscape in 2016.

Television, the Fridge, and Rents

Against the background of the post-2014 economic decline, many analysts and pundits predicted the rise

of anti-regime sentiments among Russians, despite the comprehensive propagandist efforts of the Kremlin. These expectations are often discussed in terms of a battle between the TV and the fridge, as the two major information sources for ordinary citizens (i.e., propaganda vs. consumption). In 2016, despite some decline of popular trust in the media, the power of TV remains unshakable: a number of surveys demonstrated high and genuine public support for Putin and for Russia's regime (in November 2016, 56% of Levada Center survey respondents stated that the country is going in the right direction, 86% approved of Putin's rule, and two thirds supported the continuity of his presidency beyond 2018). One should admit, however, that the decline in real incomes among the Russian population has been sensitive only vis-à-vis their previous peak of 2013–2014 (over 10% by various estimates). While the well-being of most Russians, in 2016, returned back to the level of 2011–2012, it does not even slightly resemble those of the 1990s. In fact, the fridge remains full enough, even though its contents are a little less plentiful due to a gradual decrease in the consumption of goods, clothes, and food. This is why political immobility for the sake of the preservation of the status quo seems to be a reasonable preference for a large part of Russians. In this respect, the effect of aggressive and comprehensive state-led propaganda has not been related to an endorsement of the Kremlin as such, but rather to persuade the public about the lack of viable alternatives to it. At least in 2016, the disengaged Russians tend to buy this argument, and given this perception, they have not demanded major political changes.

While mass politics in Russia remained calm in 2016, elite politics witnessed several major reshuffles. While Putin fired his long-term ally, Sergei Ivanov, from the job of the head of presidential administration and appointed Anton Vaino as his replacement, the Kremlin's chief political strategist, Vyacheslav Volodin, became the chair of the State Duma after the elections, being replaced by the former prime minister and head of Rosatom, Sergei Kirienko. With respect to the coercive apparatus, a new

player, the National Guard, led by Putin's former bodyguard, Viktor Zolotov, was established in 2016, absorbing some of the powers and apparatus of the Ministry of Interior and other federal services. According to some assessments, the ongoing hidden, but stiff competition between various agencies (Office of the Prosecutor General vs. Investigative Committee, etc.) increased in 2016, because of the shrinking pool of rents available to Putin's cronies. Several high profile criminal cases, launched in 2016, involved not only the arrest of a regional governor (Nikita Belykh in Kirov oblast, joining the list of previous suspects in Komi and Sakhalin oblast), but also accusations against the heads of some federal agencies (chief of the custom service Andrey Belyaninov). In November 2016, Alexey Ulyukhaev, the minister of economic development and the long-standing "systemic liberal" in the government, was accused of bribery and lost his job in the wake of a hostile takeover of oil company Bashneft, by the top management of state-led oil giant Rosneft, led by another of Putin's long-term ally, Igor Sechin (Ulyukhaev and his ministry opposed this deal). The struggle for rents dominated the preparation of the state budget for 2017–2019, approved by UR's super-majority in the new State Duma: while military and security spending projections increased, many welfare costs (including those for public health) were either decreased or transferred to regional budgets (which lack funds anyway).

To summarize, in 2016, the Kremlin succeeded in entrenching Russia's politico-economic order and in avoiding major challenges to its dominance, despite the economic slowdown and poor prospects for further growth and development. The other side of this coin is that not only did the Kremlin's 3Ds approach meet little resistance, but also almost nobody in Russia perceives of realistic positive scenarios for the country. As a title for the year look no further than the new book, published in October 2016, by St. Petersburg scholar and analyst Dmitry Travin, "Will Putin's System Survive until 2042?" Yet, major challenges for Russia may arise much earlier than this date.

About the Author

Vladimir Gel'man is a Professor in the Faculty of Political Science and Sociology, the European University at St. Petersburg and Finland Distinguished Professor at the Aleksanteri Institute, University of Helsinki.

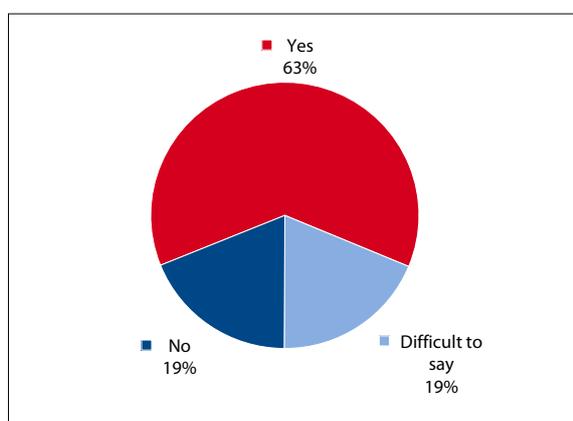
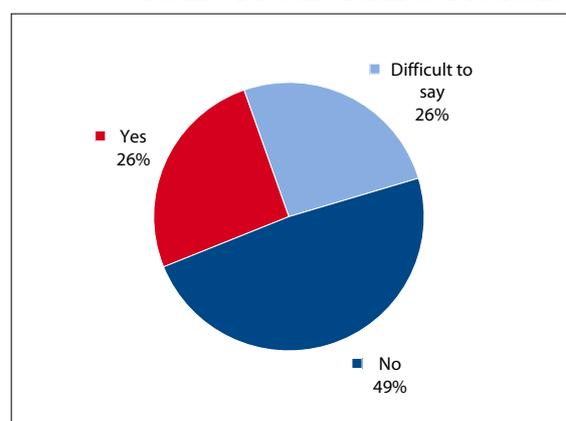
Table 1: State Duma Elections, 2007–2016, Party List Voting

Party/year (% party-list votes)	2007	2011	2016
United Russia	64.3	49.3	54.3
Communist Party	11.6	19.2	13.5
LDPR	8.1	11.7	13.2
Just Russia	7.7	13.2	6.2
Others (total)	7.1	3.5	11.0

Table 2: Distribution of Seats in the State Duma, 2007–2016

Party/year	2007	2011	2016	
			total	(party-list + SMD seats)
United Russia	315	238	343	(140+203)
Communist Party	57	92	42	(35+7)
LDPR	40	56	39	(34+5)
Just Russia	38	64	23	(16+7)
Others (total)	0	0	3	(0+3)

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Should Putin Continue as President after 2018?**Figure 1: Would You Like to See Putin Continuing as President after the Expiration of His Present Term as President in 2018?****Figure 2: Is It Possible That a Leader Will Appear in Russia Before 2018 Who Is Capable of Replacing Vladimir Putin as President after the End of Putin's Present Term as President?**

Source: representative opinion polls by Levada Center, 21–24 October 2016, <<http://www.levada.ru/2016/11/16/alternativa-vladimiru-putinu-2/>>, 17 November 2016>

The Russian Economy in 2016

Philip Hanson, London

Abstract

Russian output was declining year on year during 2016, with the prospect of a sluggish recovery at best during 2017. This state of affairs is put in perspective by comparison with the West. The main features of the economy in 2016 are reviewed. Prospects for 2017 are assessed.

In 2016 Russia was in worse shape economically than the developed West. That was no mean achievement. The global economic crisis and its aftermath have damaged both Russia and the West, but not in equal measure or in closely similar ways. What is distinctive about the current Russian economic difficulties? Why is there so much concern about ‘stagnation’? How has Russian economic policy responded to the crisis? What are the prospects for the near future?

An East–West Perspective

From mid-2014 Russia demonstrated once again its economic sensitivity to a fall in the oil price. Western sanctions added to the country’s difficulties. In 2015 and 2016 Russian economic activity declined. In the G-7 countries, in contrast, output was sluggish but continued to edge upwards.

In 2016 Russian GDP was expected to decline by at least half a percentage point year on year. This was an improvement: the figure for 2015 was -3.7%. Growth had been slowing after 2012, while the oil price was still high. The contrast with the rapid growth of 1999–2008 was stark. Then Russian economic growth had easily outpaced that of the West. Figure 1 illustrates.

Figure 1: Russia and the G-7: Real GDP Growth, 2000–2016 Expected (Annual % Change)



Sources: IMF World Economic Outlook database, October 2016

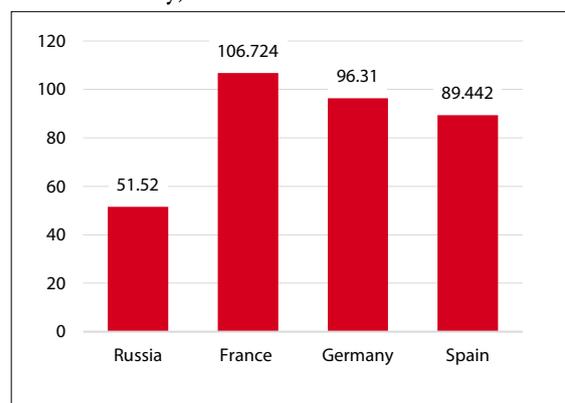
Hence the talk, not so much of recession but of stagnation (*stagnatsiya*): Russia’s policy-makers note that their

nation’s share of global output has been edging downwards since 2012, and the economy is no longer catching up the developed West, even at a time when the Western economic system is in difficulties. And there is still a lot of catching up to do, as Figure 2 illustrates.

Russia should, as a medium-developed country, be able to grow faster in the medium term than the developed economies. It has a technological backlog to catch up, and good educational levels. The working-age population is declining, it is true, but total employment is not, and in any case, investment in research and development and in physical and human capital could offset a lack of growth in labour inputs. Such investment however is not happening, for reasons to be considered later.

It is the failure in recent years to narrow the gap behind the developed West, and the lack of any obvious prospect of doing so, that lies behind the concern with ‘stagnation’. Russia may well return to growth, but if it is slow growth that does not at least maintain the nation’s share of global output, it is treated in Russian political discourse as *stagnatsiya*.

Figure 2: Russia, France, Germany and Spain: GDP Per Person Employed, 2015 (‘000 \$, Current International Dollars at Purchasing Power Parity)



Sources: as Figure 1 and Rosstat

Developments in 2016

This year, as noted above, the level of economic activity will be down by significantly less than it was last year.

Consumer-price inflation will be lower: an end-year figure of about 5.8% will represent a substantial improvement on last December's 12.9%.

During 2016 members of the government repeatedly spoke of signs that the recession was coming to an end. So far the decline has slowed but not ended.

Table 1: Russia: Economic Indicators in the First Ten Months of 2016 (Year-on-Year % Change Unless Otherwise Specified)

GDP	-0.8
Industrial output	0.3
Construction	-5.0
Real wages	0.5
Retail sales	-5.3
Grain harvest	15
Unemployment (% rate end of period)	5.2
Balance of payments current account (\$bn)	16.0
Balance of payments: net private capital flow (\$bn)	-10.4

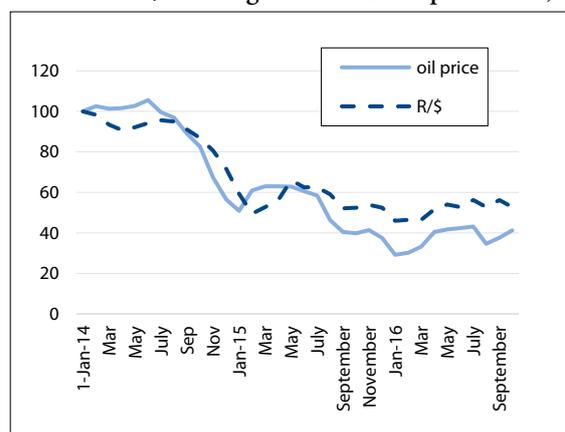
Sources: Alfa Bank; Central Bank of Russia

As inflation has come down, real wages have edged up again, but households have gone into economising mode. They are saving rather than borrowing. Retail sales remain depressed. The overall decline in economic activity in 2015–16, at somewhat more than 4%, is shallower than that of 2009 (7.8%), but already more prolonged and with a more severe effect on household consumption. Good weather has helped to create a record grain harvest in 2016, but that is a rare piece of good news.

What are the immediate causes of this disarray? Some of them are external. The oil price, though no longer falling like a stone, remains at levels well below those of recent history. The rouble remains at levels well below those of 2013 or early 2014 though its volatility has declined along with that of the oil price. The close linkage between the oil price and the rouble-dollar exchange rate is shown in Figure 3 (The simple correlation between the two series shown in that Figure is 0.953.)

Sanctions continue to limit Russian state and business access to external finance, perhaps taking about 0.5% off annual GDP growth. The average growth rate of the countries with which Russia trades (an average weighted by their shares in Russian exports) is about 2%. The outside world is not about to come to the rescue.

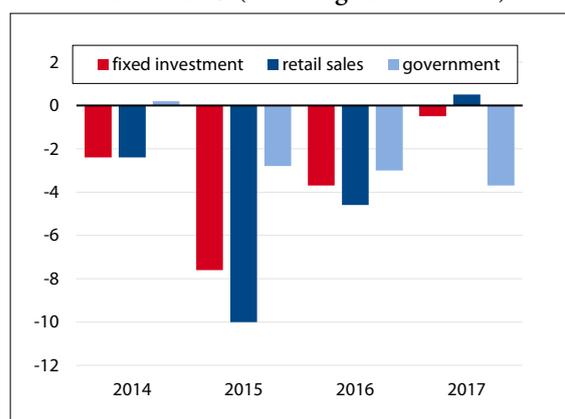
Figure 3: The Brent Oil Price and the Rouble–Dollar exchange rate, 1 January 2014 to 1 October, 2016 (Monthly, Indexes 1 January 2014 = 100, Exchange Rate in Cents per Rouble)



Sources: Central Bank of Russia and euroinvestor.com

Domestic demand is weak, and likely to strengthen only slowly. Fixed investment, never high by the standards of 'catching-up' countries, stagnated in 2013 and has fallen since. Consumer demand has been hit by a period of falling real personal incomes—the fall being due primarily to the surge in inflation triggered by rising import prices as the rouble fell. Government current spending is subject to an austerity drive, now planned to extend even to military spending. See Figure 4.

Figure 4: Indicators of Russian Domestic Demand, 2014–2017 (% Change Year on Year)



Sources: Rosstat; MinEkon; for government in 2016 and 2017, author's estimates.

Underlying Domestic Problems

Evidently, Russia has encountered a perfect storm: falling oil prices above all. But the problems with GDP growth and investment pre-date the annexation of Crimea and the fall in oil prices. Growth in 2010–11 did not

return to the rates of 1999–2008. Thereafter it slowed. What had changed?

The oil price, though historically high, was no longer rising strongly. Employment growth was stuttering. The role of the state in the economy was tending to rise and net private capital outflows, though below the panic level of 2014 (\$152 billion), were substantial. In these circumstances systemic weaknesses that had been present all along, may have become more apparent as binding constraints on growth.

The weak rule of law may be crucial. Every prescription for strengthening Russian economic performance includes a reference to improving the business climate. It seems that there is a problem about the business environment whose existence is universally acknowledged. Exactly what it is, tends to be left unspecified. There is talk of more state support for small business, tax breaks and a reduction in red tape. Sometimes reforms to the judiciary and law-enforcement agencies are mentioned, but usually without elaboration. The elephant in the room is asset-grabbing. In the words of Yulia Tseplaeva of Sberbank, ‘What sort of [tax] exemptions and stimuli can we talk about if at any moment an official can take away your business.’ (*Vedomosti*, 9 May 2016)

The problem is that business rivals with good political connections to corrupt law-enforcement agents and courts can get the main owner of a company put in preventive detention on trumped-up charges, usually of ‘economic crimes’, and secure control of all or part of the victim’s business in return for their freedom.

The number of cases of economic crimes ‘detected’ is often taken as an approximate indicator of the amount of asset-grabbing going on. That number has been increasing as economic conditions have worsened. The number detected by the FSB has risen from 1586 in 2012 to 2926 in 2015 and 1988 in the first half of 2016 (Nikolai Petrov and Kirill Rogov in *New Times*, 14 November 2016).

This ingredient in Russia’s business environment deters people from opening and growing businesses and thus helps to keep investment comparatively low. If the phenomenon has been getting worse, this effect will have become more damaging.

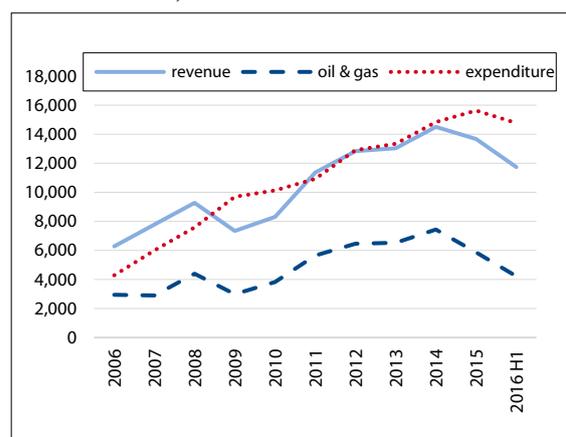
Policy in a crisis

Whatever the institutional weaknesses in the economy, macroeconomic policy has, for better or worse, been orthodox in a Western, liberal sense. The Central Bank of Russia (CBR) let the rouble float in November 2014 and switched its policy focus from the exchange rate to inflation targeting. It is true that the rouble promptly sank and inflation surged, but the foreign exchange reserves stopped melting away and in time consumer-price inflation has come down towards the CBR’s end-

2017 target of 4%. The bank has kept interest rates well above inflation (the CBR’s key rate in late 2016 was 10% while consumer inflation was about 6% and falling). This is unpopular with business, but so far Putin has given CBR chair Elvira Nabiullina his backing.

Fiscal policy has also been orthodox. On 28 October the government submitted to the Russian parliament a draft federal budget for 2017 and budget plans for 2018 and 2019 that entailed real-terms cuts in expenditure. Spending in 2016 had already been cut earlier in the year. The present budget plans are based on an assumption, insisted upon by the Ministry of Finance (MinFin), that the Urals oil price will average \$40/barrel through 2018. The oil price is crucial for federal budget revenue, as Figure 5 indicates.

Figure 5: Russian Federal Budget: Total Revenue and Expenditure and Oil and Gas Revenue, 2006–16 (Billions of Roubles, Current Prices)



Source: MinFin. Note: the first-half figures for 2016 have been crudely annualised by doubling them.

The budget plans, however, may be less secure than the CBR’s monetary programme. Indeed Nabiullina lists budgetary policy as one of the uncertainties with which the CBR has to contend. The cuts have been contentious, reportedly provoking angry exchanges within the government. Presidential elections loom in 2018, and Prime Minister Medvedev has already said that if the oil price goes higher than the \$40/barrel budget assumption, spending limits can be reconsidered.

In short, the fiscal policy stance is one of austerity but, as in other countries pursuing so-called ‘fiscal consolidation’, it is a policy under siege.

Prospects

In 2017 a new economic strategy is to be unveiled and discussed. It is unlikely to be coherent. If it is, and if is

significantly different from the present operating principles, it is unlikely to be adopted. Two teams—a ‘liberal’ group led by former finance minister Aleksei Kudrin and a group with statist inclinations led by Boris Titov and Sergei Glazyev—are working on their programmes which are then to be synthesised into a single strategy aimed at raising the growth rate of the Russian economy to about 4% a year. The Kudrin group espouse austerity, the Titov-Glazyev group advocate stimulus. It is hard to see how a joint plan of substance can emerge. Both say they want to improve the business environment, but moving towards a rule of law without profound political change may be difficult.

A gradual recovery of household consumption, together with a continued positive trade balance (even without a sustained rise in the oil price), is likely. The financial reserves can, on present fiscal plans, just about

last out while the federal budget deficit is reduced from its 2016 level of about 4% of GDP. The Reserve Fund will be almost entirely drawn down during 2017, but that leaves the National Welfare Fund, with a further reserve of about 4% of GDP available. The curious ‘privatisation’ of Bashneft by the state-owned Rosneft and the further privatisation of 19.5% of Rosneft, by sale to a Qatari wealth fund plus Glencore, will help out, however murkily. So the public finances can probably muddle through.

A slow recovery of output, with GDP increasing by about 1%, is widely expected. Nobody can predict the oil price, but it may well do better than is assumed in the budget plans. That would solve the most acute problems—leaving the longer-term problem of sluggish growth still to be faced.

About the Author

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ABOUT THE RUSSIAN ANALYTICAL DIGEST

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