

# FROM STAGNATION TO CUL-DE-SAC?

170

THE ROOTS AND TRAJECTORY OF RUSSIA'S TROUBLES

Sinikukka Saari

FIIA BRIEFING PAPER 170 • February 2015



ULKOPOLIITTINEN INSTITUUTTI  
UTRIKESPOLITISKA INSTITUTET  
THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

# FROM STAGNATION TO CUL-DE-SAC?

THE ROOTS AND TRAJECTORY OF RUSSIA'S TROUBLES



Sinikukka Saari  
Senior Research Fellow  
The Finnish Institute of International Affairs

FIIA Briefing Paper 170  
February 2015

- The traditional cornerstones of the popularity of the Putin regime – stability, growing prosperity, the increased status of Russia in international affairs – seem to be rapidly eroding, which has led many observers to predict major changes in Russia in the near future.
- However, there are significant structural issues – alongside the mechanisms of ‘political technology’ and the outright oppression of dissent – that support and maintain the Putin regime, regardless of its malfunctioning and undisputed failings.
- Even in the unlikely event of Putin suddenly disappearing from the political scene, significant hurdles remain for the restructuring of the Russian economy and political system. No major modernisation or reform mode is to be expected.
- The EU and Finland should base their policies on a realistic assessment of Russia’s long-term trajectory. There are unlikely to be any shortcuts to success, and no western policy is likely to produce positive results in the short term. What is needed now is a long-term perspective and principled policies, while acknowledging that only the Russians can change Russia’s political direction.

The EU’s Eastern Neighbourhood and Russia research programme  
The Finnish Institute of International Affairs

## A looming cul-de-sac?

Russia is in big trouble. The annexation of Crimea and the war in Eastern Ukraine, as well as the Western sanctions that followed, have pushed Russia and its economy on a downward spiral. The value of the rouble has fallen by about 50 per cent against the dollar in a year, Russian companies are struggling to acquire international loans and are expected to have difficulties paying them back, and capital is flying out of the country in record-breaking quantities and at great speed – all of which is aggravated by the falling global oil prices.

President Vladimir Putin seems to be truly at a loss when it comes to what is happening in the Russian economy and how to fix it. Furthermore, the traditional cornerstones of the popularity of the Putin regime – stability, growing prosperity, the increased status of Russia in international affairs – seem to be rapidly eroding. All this has led many observers to predict that what we are currently witnessing is merely the calm before the storm.

Despite the fact that most Russians have already felt the impact of the economic crisis in their daily lives, opinion polls consistently show strong public support for Putin and his policies. The current popular support for Putin and his agenda cannot be explained away by the workings of the Russian propaganda machine alone.

It is worthwhile to recall that even during the lowest ebb in 2012–13, Putin's popularity never dipped below 60 per cent.<sup>1</sup> Indeed, there are significant factors that maintain the Putin regime. At the same time, these factors ensure that no significant reforms are likely to be carried out.

Furthermore, the shadow of these factors will in all likelihood extend beyond Putin's tenure (be it until 2018 or longer). In practice, this means that even in the absence of Putin, significant hurdles remain for far-reaching reforms and the restructuring of the Russian economy and political system. The elite will still have a vested interest in maintaining a system

guaranteeing their possessions, and the majority of Russians are likely to prefer a paternalistic strong state guaranteeing their welfare.

Unless more dramatic developments – such as mass unemployment and dramatic cuts in services – take place, the regime is likely to maintain its position, albeit with newly-built and differently-shaped cornerstones of popularity. The systemic failings will nevertheless remain and worsen.

## The economy: national interests above all

Although Putin has blamed external enemies and “currency speculators” for the collapse of the rouble, Russia's economic crisis was an accident waiting to happen. It is no surprise that the Russian economy is stagnating and the oil price is falling; rather, it is surprising that this is happening only now.

In order to understand the economic choices that the Russian leadership has made over the years, one has to look at the ideas behind the economic thinking. Vladimir Yakunin, the head of Russian Railways, Putin's long-time friend and a member of his inner circle, claims that the “fundamental reference point” for Russia's economic ideology is national security. Also important (although secondary to national security) is “social humanism” – namely the state providing well-being for citizens whose freedoms have been “harmonized with the interests of society”.<sup>2</sup>

Yakunin explicitly condemns liberal and neoliberal ideologies as enemies of Russia's “nationally-minded” economy. The economic success of the Russian economy should be measured against its ability to ensure Russia's national interests, not against the “false benchmarks” of economic liberalism, he claims.

According to Yakunin, instead of mimicking the successes of Western economies – and being much weaker in comparison with them – Russia should base its economic success on its comparative advantages: hydro-carbons and other valuable raw materials, as well as close inter-linkages between

---

1 In country-wide opinion polls by the Levada Centre, Putin's approval rating was at a record low of 61 per cent in November 2013. The current approval rating (from December 2014) is 85 per cent. Available at: <http://www.levada.ru/indeksy>.

---

2 V. I. Yakunin et al., *Economic Policy Ideology*. Moscow: Governance and Problem Analysis Centre, 2009, pp. 226–231.

the state and business. In this “nationally-minded” way of thinking monopolies are good, not bad; protectionist measures are good, not bad; and maintaining unprofitable *monogorods* – Soviet-era cities built around a single factory – in far-away locations is good, not bad.

It is notable that this belief in the uniqueness of the Russian economy is also shared by the majority of Russians: in a country-wide poll, 77 per cent of respondents agreed with the statement that Russia will become “a prosperous country only by differentiating itself from the West and taking a different path from the West”.<sup>3</sup>

The modernisation of the military and nuclear industries is an example of how Russia’s “nationally-minded” economy seemed to be producing win-win solutions from the point of view of both national security and competitiveness in the world markets.

At the turn of the millennium, many experts had all but written off any future for Russia’s defence-industrial complex inherited from the Soviet Union, but by 2013 Russia was practically on a par with the US in arms exports, and had sold arms worth over 13 billion dollars to almost 60 countries.<sup>4</sup> The modernisation of the arms industry and military-industrial research has also supported the massive modernisation programme of the Russian armed forces that got underway in 2008.

Likewise, Russia has actively developed nuclear energy products of various types and sizes for global markets. In 2012, the state-owned nuclear energy company Rosatom had orders for 19 reactors to be built abroad and plans to sell 30 more by 2030. Hand in hand with this development, Russia is modernising its nuclear weapon arsenal.

The underlying idea was that the modernisation of the strategic sectors would trickle down and spread to other sectors of the economy. There is no indication of this dynamic taking place. The energy sector dominates the underperforming economy and

monopolies protect the massive and uncompetitive state-owned and state-controlled businesses.

For well over a decade, the Russian elite could insist that they had got it right: despite the growing corruption, energy dependence and lack of transparency, Russian growth rates were much higher than those in Western countries. This seems to have led to the underestimation of the serious weaknesses inherent in the Russian economy and the political system that is closely intertwined with it.

The Urals crude oil price currently stands at 45 dollars per barrel, when a year ago a barrel cost 106 dollars. Some sources expect the price of crude oil to decline slightly in 2015 before increasing modestly in 2016.<sup>5</sup>

Although not unexpected or unprepared for, the plummeting oil prices come at a very inconvenient time for Russia: simultaneously with the EU and US sanctions and the economic downturn. It appears that the Russian “nationally-minded” economy could not quite escape the global interconnections and “false benchmarks” of liberal economies after all.

### **Politics: obsession with stability and unity**

Only one and a half years ago, Alexei Navalny – an opposition figure waging a one-man war against the party of “crooks and thieves” – received 27 per cent of the mayoral vote for Moscow and Putin’s popularity floated around 60 per cent.

The common dissatisfaction with the regime in 2011–13 was certainly real and not exclusively urban-bred. In Moscow, the protests were directed more against Putin and his regime, but in the regions the dissatisfaction stemmed from the practical failings of Putinism rather than from disagreement with the goals and agenda of the regime or with the regime per se.<sup>6</sup>

---

3 Levada Centre opinion poll, 23 December 2014. Available at: <http://www.levada.ru/eng/68-russian-citizens-consider-russia-superpower>.

4 SIPRI’s global arms transfer database. Available at: <http://www.sipri.org/databases/armstransfers>.

---

5 Forecast provided by the US Energy Information Agency. Available at: [http://www.eia.gov/forecasts/steo/pdf/steo\\_full.pdf](http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf).

6 Mikhail Dmitriev and Daniel Treisman, The Other Russia: Discontent grows in the Hinterlands. *Foreign Affairs*, vol. 91 (2012), no. 5, p. 59.

Critics outside Moscow were not disenchanted with the *vertikal' vlasti* but they were frustrated due to the lack of it. The term means governing from the top and it is commonly used to describe Putin's policies of centralising power in the presidential administration and the federal state at the expense of locally elected officials.

If only the system had worked like Putin promised it would: the top level deciding what needed to be done and the lower ranks performing their duties efficiently and effectively for the common good, with all the precision of a Swiss watch.

In reality, the system resembles an unreliable Soviet timepiece bought from a local market: corrupt officials providing bad services and avoiding all forms of responsibility, while pocketing resources for their personal enjoyment.

For instance, nationwide surveys carried out in Russia in 2013 showed that 77 per cent of respondents were not satisfied with the medical services, and 72 per cent were unhappy with the state of the education system.<sup>7</sup> In many cases, the problem is not that the state is not spending enough. The problem is that the inefficient and corrupt system cannibalises the resources allocated for the improvement of services.

Sustaining the system Putin created has proved to be increasingly expensive: in order to ensure the stability and functionality of the system, every wheel of the machinery needs to be oiled with money, and yet even then (or possibly because of it), the system performs badly. And now, when the crisis is ongoing and frictions could be appearing, even more money is needed – just at a time when it is in short supply.

Seriously combatting corruption would require building a transparent, accountable system of governance and the rule of law, as well as strengthening the civil society and free media environment. Although press freedom and freedom of expression are not issues that the majority of Russians claim to

---

7 Levada Centre opinion poll on Russia's healthcare system, 19 September 2014; Levada Centre opinion poll on Russia's education system, 22 September 2014. Available at: <http://www.levada.ru/eng/healthcare-system-russia>, and at: <http://www.levada.ru/eng/education-system-russia>.

care much about,<sup>8</sup> they nevertheless crave for the *impact* of those freedoms on a societal level.

For Putin – like for so many other authoritarian leaders around the world – political opposition, independent civil society activism and a critical free press are all threats that are weakening the state and the regime.

However, the liberal democratic tradition sees the lack of these structures as a weakness that will become more pronounced over time, and in particular at a time of crisis. In Russia, power is currently so personalised that Putin's political survival is understood to mean the survival of the state. A case in point that illustrates this way of thinking is the often-cited comment by Vyacheslav Volodin, Putin's deputy chief of staff, that “without Putin there is no Russia”.<sup>9</sup>

Fiona Hill and Clifford Gaddy of the Brookings Institution have argued that Putin's existential fear of revolution and disunity stems from the experience of the Soviet Union's unexpected and quick fall after allowing for greater pluralism and attempting to reform its ill-functioning structures.<sup>10</sup>

Since Putin's comeback as president amid public expressions of dissatisfaction in 2012, non-governmental organisations, research institutes, media outlets and bloggers and activists in social media have all been affected by new tightening legislation and practices.

Tightening the screws at home was intended to eliminate the danger of a “colour revolution” in Russia, which it probably succeeded in doing – at least in the short term. It also framed those arguing for pluralism and changes in policy as enemies of

---

8 Only 3 per cent of respondents were anxious about restrictions on human rights and democratic freedoms (such as restrictions on the freedom of the press) in a Levada Centre opinion poll, 22 September 2014. Available at <http://www.levada.ru/eng/what-makes-russians-most-anxious>.

9 No Putin, No Russia, *The Moscow Times*, 23 October 2014. Available at: <http://www.themoscowtimes.com/news/article/no-putin-no-russia-says-kremlin-deputy-chief-of-staff/509981.html>.

10 Fiona Hill and Clifford G. Gaddy. *Mr. Putin: Operative in the Kremlin*. Washington DC: Brookings Institution Press, 2013.

the state, and in this way turned public debate into a security issue.<sup>11</sup>

A concrete example of how this was done is the law on foreign agents that was passed in July 2012. The law requires non-governmental organisations that receive funding from foreign sources to register as “foreign agents”. The Justice Ministry can also add organisations to the list, which now includes organisations working on various issues such as LGBT rights, election observation, women’s rights, soldiers’ rights and Sakharov’s legacy.<sup>12</sup>

Despite all this reframing of the issue, public opinion polls from 2012–13 suggest that Putin’s popularity did not pick up. The domestic measures eliminating the protests failed to bring unity. Putin chose to turn back the tide with a massive information war, the capturing and quick annexation of Crimea, and the sending of Russian troops and military equipment to Eastern Ukraine.

Domestic considerations are likely to have been among the factors behind Putin’s aggressive moves in Ukraine. He regained unity in Russia and seems to have silenced domestic critics such as the nationalist opposition – for now. Although basic societal services are as bad as before, in the minds of many Russians the shortcomings of the regime have now been compensated for – or at least alleviated – by a more active foreign policy and by the symbolic value of gaining Crimea.

The leaders also try to avoid responsibility over bad policies by blaming Russia’s evil enemies for all its hardships and failings. This has been a feature of Putin’s recent public speeches and comments: Russia has become a strong and influential state, and due to this, Western states are now attacking Russia with sanctions and other measures. Russia is by no

means responsible for any of this; if not Ukraine, the West would have come up with something else.

Putin seems to have succeeded in mobilising the nation. Anti-Western attitudes are at record-breaking levels: 73 per cent view the US negatively or very negatively; and 63 per cent of respondents see the EU in a negative light.<sup>13</sup>

The old cornerstones of Putin’s popularity – stability and growing prosperity – seem to have been replaced by enemy images and the independent and aggressive foreign policy that many in Russia see as evidence of Russia’s growing status as a superpower.<sup>14</sup>

However, this unity and popularity will not be easy to maintain. Although Putin’s aggressive policy in Ukraine has been greeted with enthusiasm by many, a clear majority of Russians believe that the most important hallmark of a “superpower” is the high standard of living of its citizens.<sup>15</sup> Although most Russians have already felt the impact of the sanctions, most of them still have their jobs, enjoy all the same benefits as before and can still look to the future with optimism. Although regional differences are great, the overall unemployment rate in Russia is still a modest 5 per cent.

At a recent Davos Forum in Switzerland, former Minister of Finance Alexei Kudrin painted a dim picture of Russia’s future, saying that mass lay-offs were imminent. According to him, if oil prices stay at the current level and Russia continues to spend on social services and on the military as before, Russia’s gold and foreign currency reserves – which are currently below 380 billion – will effectively be spent in 18 months.<sup>16</sup> After this, the only available

---

11 In international relations this type of re-framing process is labelled “securitization”. After an issue has been reframed as a matter of security, extraordinary means are enabled and considered to be legitimate. For more, see Barry Buzan et al., *Security: A New Framework for Analysis*. Boulder: Lynne Rienner Publishers, 1998.

12 The Human Rights Watch updates the list of organisations labelled foreign agents at <http://www.hrw.org/news/2015/01/18/russia-government-against-rights-groups>.

---

13 Levada Centre opinion poll, 18 December 2014. Available at: <http://www.levada.ru/eng/international-relations>.

14 Levada Centre opinion poll, 23 December 2014. 68 per cent of respondents believe that Russia is a superpower. The number is the highest ever in post-Soviet Russia. Available at: <http://www.levada.ru/eng/68-russian-citizens-consider-russia-superpower>.

15 Ibid.

16 Dmitry Zhdannikov, Russia’s Kudrin says mass layoffs show crisis deepening, *Reuters*, 24 January 2015. Available at: <http://uk.reuters.com/article/2015/01/24/uk-russia-crisis-davos-kudrin-idUKKBNOKX0F520150124>.

remedies will be cuts and restrictions, in which case cracks may start to appear in the national unity.

Kudrin recommends a more selective use of reserves and the implementation of a reform programme. The advice seems sensible, but from Putin's perspective it looks risky as the reforms would have an immediately negative impact (even if their longer-term impact were positive).

Indeed, Kudrin's school of thought is challenged by nationally-minded and isolationist economic thinkers such as Yakunin, and presidential advisor Sergei Glazyev. They advocate measures to cut transactions and assets from the West and to develop parallel institutions that would compete with the dominant Western ones.<sup>17</sup>

It is likely that Putin will avoid making budgetary cuts or carry out far-reaching, systemic reforms in the name of short-term stability. This is likely to further damage Russia's economy and later push the system deeper into crisis.

Despite the competing views on how to tackle the economic crisis, the elite seem to be united in their support for Putin. Yevgeni Minchenko, a director of the International Institute for Political Experts, has claimed that the targeted sanctions have even strengthened the unity of this group.<sup>18</sup> However, if the economic downturn starts spiralling and the elite start to fear for their own survival, this may change.

In a recent presidential press conference a question was voiced about the possibility of a "palace coup" in Russia. Putin dismissed the question cryptically by claiming that would not be possible, as there are "no palaces in Russia".<sup>19</sup> Anyone who has ever set foot on Russia's vast territory knows that there is no shortage of palaces in the country.

---

17 Igor Yurgens, The West vs. Russia: The Unintended Consequences of Targeted Sanctions, *The National Interest*, 8 October 2014.

18 Minchenko Consulting, 'Politbyuro 2.0 i postkrymskaya Rossiya', 22 October 2014. Available at: [http://www.minchenko.ru/netcat\\_files/File/Politburo%20October%202014.pdf](http://www.minchenko.ru/netcat_files/File/Politburo%20October%202014.pdf).

19 Transcript of Putin's press conference on 18 December 2014. Available at: <http://eng.kremlin.ru/news/23406>.

Yet, even in the event of an elite coup, it would be naïve to expect a liberal-democratic turn in Russia. The system has effectively discredited and eliminated the structures that would encourage civic activism and pluralism in society, and the powerful elite has an interest in maintaining a similarly functioning semi-isolationist system in Russia.

### No quick wins available

Regardless of sanctions or political decisions in and around Ukraine, Russia is on a downward trajectory towards a cul-de-sac – but the looming dead-end is still in the distance and the advance towards it is slow.

There are currently no significant challengers to the Putin regime from the top or below. However, the Russian history suggests that if and when frictions appear, the development is likely to be quick and unpredictable.

It is unlikely that Putin will reinvent himself even as a partial reformer. On the contrary, he is likely to continue tightening the screws while maintaining the "nationally-minded" economy and the closed political system as long as he can. Even in the unlikely event that he nominally chooses the reformist path, the reforms would be likely to remain superficial and ineffective.

In Washington and Brussels – and no doubt in Helsinki, too – the two most often-heard arguments against sanctions, or any other political measure conflicting with short-term economic interests, are that 1) rightly or wrongly, the Russian economy is simply too big to fail and hence political concessions should be made in order to secure the future of economic transactions; and 2) that the interconnectedness of the Russian and Western economies is the best way to ensure that Russia will develop into a "normal" state.

These arguments are somewhat contradictory, although often voiced by the very same people. The global economic interconnectedness is likely to make small states follow the same rules as the bigger ones, but big economies can rely on their size and crucial importance to others. The thesis that Russia is "too big to fail" is a case in point for how this latter argument works in practice. The bottom line

is that in Russia today, security comes before the economy, and there is very little one can do from the outside before this order of preference changes.

The EU and Finland should base their policies on a realistic assessment of Russia's long-term negative trajectory, while fully understanding the significant risks embedded in the current state of affairs. It is important to realise that in the coming years, no quick wins will be available. Hardly any western policy is likely to produce positive results in the short term, so it is of the utmost importance to set the long-term goals wisely, and to stick to them.

While channels of communication at all levels are important to maintain, more resources and activity should be directed towards civil society, expert, and people-to-people contacts. Under the current conditions, even this will be a challenging task.

What is needed now is a long-term perspective and principled policies, while acknowledging that only the Russians can change Russia's direction. Options that are no longer available include any form of "special relationship" with Russia (à la Finlandisation), or the outside-in transformation and direct transference of norms and models from the West to the Russia of the 1990s.

The Finnish Institute of International Affairs  
tel. +358 9 432 7000  
fax. +358 9 432 7799  
www.fiia.fi

ISBN 978-951-769-441-4

ISSN 1795-8059

Cover photo: Nickolas Titkov / Flickr (The cover photo features a street sign of a Moscow street called 'Crimean dead-end'.)

Language editing: Lynn Nikkanen

The Finnish Institute of International Affairs is an independent research institute that produces high-level research to support political decision-making and public debate both nationally and internationally.

All manuscripts are reviewed by at least two other experts in the field to ensure the high quality of the publications. In addition, publications undergo professional language checking and editing. The responsibility for the views expressed ultimately rests with the authors.