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ARTICLES

A FOCUS ON THE POST-SOVIET SPACE

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RUSSIA IN CRISIS? PROSPECTS FOR THE FUTURE

ABSTRACT

The aim of the article is to outline the implications and prospects for Russia after the financial and political crisis. On one hand, Russia can continue on the current path, which has survived the impact of the global financial crisis, but which is increasingly putting the country into stagnation. On the other hand, it can attempt to modernize itself – both economically and politically – in order to prepare itself for the challenges of the modern world.

Key words

financial crisis, political crisis, protests in Russia, Russia's foreign policy, modernization of Russia

1. An introduction

A driving force of the Russian policy remains the idea of regaining, the lost after collapse of the Soviet Union status of power state.¹ In February 2008, then-President Vladimir Putin unveiled Russia's development strategy to 2020, often

¹ *The Foreign Policy Concept of the Russian Federation*, 12.07.2008.

referred as “Russia 2020.”² Very ambitious plans were formulated, but according to the document the main goal was – to make Russia the fifth largest economy in the world after the United States, China, India, and Japan. But a few years later, in the wake of the global financial crisis, as well as social riots after parliamentary elections Russia faced pretty other prospects.

The goal of this paper is to outline the implications and prospects for Russia after the crisis – financial of 2008 and political – as a result of frauds in parliamentary elections in December 2011.

2. Was there Russian Winter?

On December 4, 2011 in the parliamentary elections the ruling party in Russia received according to official figures about half of the votes (49.3%) and 238 seats, of 450, in the State Duma. But observers have discovered fraud, which have called into question the election results. Two of the most respected analytical centers in Russia, Dmitry Oreshkina’s Mercator Group and the Voice association, have estimated that United Russia’s results were inflated by 15% to 20%. This has led to massive civil protests of estimating 80 to 100 thousand people in Moscow in the largest civil assembly since 1991.³

At the end of December it has turned out that the protests were not an incident, contrary to the previous opinions and Kremlin hoped. The protest movement emerged as a reaction to the fraud in parliamentary election, and a demanded of fair elections is unifying protest claim. They insisted upon new elections to the State Duma and the postponement of the presidential poll, set for March 4. They also called for the removal of the chair of the Central Electoral Commission, however the more radical wanted Putin’s departure from the political scene. The problem was that sole replacing Putin would not solve Russia’s problems, but a major constitutional change away from a neo-czarist system is more needed.⁴

The crucial in understanding the Russian protest phenomena is that the protesters were making headlines, however there is a silent majority in Russia who are still preoccupied with their own private matters, are politically apathetic, usually vote for the authorities in power, and detest Moscow and Muscovites almost as intensely as some of the Kremlin’s more fiery propagandists detest

² *Putin’s Keynote Speech to State Council – Text*, “Rossiya TV” 08.02.2008.

³ S. Aleksashenko, *Russia: Politics, First of All*, “International Economics Bulletin” 15.12.2011.

⁴ D. Trenin, *Protests in Russia*, 29.12.2011.

the United States. Most of them still support Putin, either as their champion or simply the default choice.⁵

The essence is that there is still no political alternative to the ruling party, no structured party of the newly grown opposition, no leadership that can lead protesters, and create a new well-organized and effective opposition. Let's combine it with the rather permanent features of Russian society, and we got the answer why rapid massive social changes seem to be not so sure in the short-term perspective. Russian society is broadly speaking passive. Patience of Russian nation has been historically proved. Russians are very much incentivized to hold on to what they have got, rather than to seek other sorts of solutions – particularly collective solutions that would require a change in the rules of the game – the rules that have got them to where they are. What is more, there is unspoken rule in the society way of thinking, namely a non-interference pact of staying out of politics in return for pursuing the prosperity relatively unimpeded by the state and by its representatives. The elite and the state are free to play their politics, which is largely irrelevant to most citizens, while citizens are more or less free – certainly much freer than they were 20-odd years ago – to pursue their own lifestyles and livelihood. All in all, they do not care about the elections, which are seen as an intra-elite clash.

The December 2011 protests have been considered by the authorities as the most serious challenge to their power since the collapse of the Soviet Union. Because of the complexity of the situation and the stake of the game the Kremlin had in principle a limited choice of options. The first option was to crack down on the protesters by using force. The second option was to mobilize so called counterforce movement to label the protesters as “paid agents of the West.” Next alternative was to use some pretext to declare a state of emergency to postpone elections or hold them under conditions of martial law. And finally, the most realistic was to take up a complex pre-election strategy combining populism moves towards the poorer social strata, partial concessions to the protesters, and dialogue with the opposition. And what was undertaken by Moscow is the last scenario. Then-president Medvedev in his annual state of the nation address declared some political proposals being in fact concessions to the protesters such as restoring direct elections of governors canceled by president Putin or simplifying the registration of political parties. According to his proposals the number of signatures were going to be reduced, in particular to register a party 45 thousand signatures were required, and it was going to be reduced to 500;

⁵ Ibidem.

the requirement of collecting signatures to register a party in parliamentary and regional government elections was to be abolished; and the number of signatures to register a candidate in presidential elections had been greatly reduced from 2 million to 300,000 for independent candidates, and to 100,000 for those biased to the party.

So, what Putin took up to make people believe in his “new” more moderate and liberal face? First and foremost he distanced himself from the party United Russia seen as a regime party or “the party of swindlers and thieves” and brought new people, to the Russian politics.⁶ Hence the candidacy for president of the billionaire Mikhail Prokhorov, who was believed to share liberal views, but in fact was clearly operating at the government’s inspiration, and this action was supposed to put to fragmentation of the newly born opposition’s electorate in the presidential elections. Not surprising was then that Prokhorov was registered as a candidate, even though media stated that he submitted his application after the deadline.

The same intention seemed to lie behind the announcements that new liberal parties were to be formed under the auspices respectively of Aleksei Kudrin,⁷ a former Finance Minister, and Boris Titov, head of the *Dyelovaya Rossiya* association for medium-size business, who has played a role in the Kremlin’s political projects.⁸ Kudrin’s ties to Putin left questions about his ability to play a key role in any new political force, particularly after the protests featured chants of “Russia without Putin” and “Down with Putin.”

3. Economic crisis and what to do with it?

The 2008–2009 crises hit Russia especially hard, underscoring its vulnerabilities. Oil went from 145 USD per barrel in July 2008 to 36 USD in January 2009. In the decade leading up to the onset of the crisis, Russia’s GDP had soared from 200 billion USD to 1.8 trillion USD, one of the fastest growth rates in the world. But in 2009, Russia’s GDP fell by 7.9%, the largest drop of any of the Group of 20 countries.

⁶ M. Rojansky, *The Russian Protests and Putin’s Choices*, “The Carnegie Policy Outlook” 2011, December.

⁷ Kudrin, 51, was finance minister throughout Putin’s 2000–2008 presidency. He remained in the post when Putin became prime minister and steered Medvedev into the presidency because he faces a legal bar on a third successive term.

⁸ J. Rogoża, *Eastweek*, Centre for Eastern Studies, 4.12.2012.

After Russia pulled out of recession in 2009, it initially witnessed almost twelve months of brisk growth. This growth ground to a halt in the summer of 2010, however. The situation worsened the strongest drought in at least half of century, and a bad harvest, which faced a weak domestic demand and limited capacity to increase exports of raw materials resulted in a slow down the economy. But in 2011, Russian economy as a whole has performed well enough. The GDP grown from 4.3% in 2010 to 4.5% in 2011, what was still much below pre-crisis data but much better than o many European countries. There are at least two reasons of such an economic growth. First, the annual average price of Russian oil was slightly less than 110 USD/barrel, a record high. This resulted not only in a small fiscal surplus, but also enabled the government to inject some revenue into a reserve fund. What is perspective for Russia, namely the political crisis over Iran will maintain high prices of the oil in the future. The second factor is a low level of inflation. According to the economists it will help in improving the fiscal policy.

Looking forward to 2013, the ministry forecast annual growth between 3.9% and 4.5%, several percentage points short of “Russia 2020” growth targets. Moreover, the draft budgets assumed that oil will stay in the 76–79 USD per barrel range, but even at that world market price, experts envision deficits whose state financing could lead to a serious rise in inflation.

Vladimir Putin has vowed to almost double Russia’s per capita GDP within a decade. To do that, he will need both to implement reforms and maintain firm political control. The political field will probably be expanded to include loyal liberals whose job will be to publicly make the case for reforms, carry them out, and possibly be blamed for them later. Ironically, while abandonment of reforms during the “fat years” of the oil boom underwrote a certain acceptance of the current political system, a new round of reforms – and especially their botched implementation – may lead to intense dissatisfaction with and popular mobilization against the government’s policies.

Prospects for future growth are not promising, however. Russia’s investment levels (21–22%) are well below what they should be for a developing economy (25–30%). Russia’s dependence on the oil price is as strong as ever. Two-thirds of Russian exports and half of its federal budget revenues depend directly on the price of oil. The country’s current economic model is only sustainable if the price of oil continues to climb, as it did from 70 USD to 100 USD per barrel within the last year. Should it stabilize, the budget will be immediately affected, and the macroeconomic situation will weaken.

Yegor Gaidar, Russia's first post-Soviet prime minister, several years ago argued that the mid-1980s drop in world oil prices contributed to the oil-dependent Soviet Union's collapse. Although numerous other factors also played a role in its dissolution, some analysts now see similar vulnerabilities for a post-Soviet Russia that has become greatly dependent on high energy prices for its economic and political sustainability.

4. International challenges

The December upheavals in Russia did not shake too much Russia's foreign policy, which priorities and main directions definitely remain. There are however a few factors which may have an impact on Russian diplomacy. First, the Prime Minister Vladimir Putin accused Secretary of state Hilary Clinton on instigating protests. The accusation blamed popular uprisings around the Arab world on Western scheming, and it came as Washington and Moscow diplomatically clashed over the developments in Syria in 2011. Prime minister rejected Clinton's repeated criticism of a parliamentary vote that gave Putin's United Russia party nearly 50% of the vote amid widespread reports of fraud. Putin has often accused the West of meddling in Russian affairs, a tested tactic to deflect attention away from the country's problems.

The future of the U.S.-Russia reset and of the cooperation between Moscow and Washington on Iran and Afghanistan shaped 2012 elections in both the United States and Russia. Russians were afraid that the Republican candidate would give up the reset. But the truth is, that even Obama in his second term has no strong ties to Vladimir Putin. Their relations have been downright frosty ever since Obama's first visit to Moscow, where he attempted to define Putin as the product of the "bad old past" while hailing Medvedev as the "wave of the future."⁹ This is why Dmitri Medvedev is a "face" in the Kremlin to rebuild relations with the United States and to strengthen Russia's partnerships with key European states, notably France and Germany. Medvedev being a "liberal modernizer" helped to build special connections with Nicolas Sarkozy and Barack Obama.

More generally, Russia's foreign policy being reshaped in documents in 2009 and 2010 has been realizing the strategy assuring Russia's national security and providing external resources for technological modernization. The main source of modernization remains the European Union, hence the

⁹ N.K. Gvosdev, *Resetting the Russian Reset in 2012*, "The National Interest" 17.11.2011.

development of “modernization partnerships” with the UE countries depends more on improvement of the relations with the U.S. So due to the vital needs of the modernization the West will make up Russian priorities in international strategy. It will be based on two pillars – dealing simultaneously with the EU as a whole and its individual member states, first of all Germany, France, Italy, and Spain as long-time favorites, but efforts to reconcile with Poland have been a major new development. There are moves under way to “reset” relations with the UK, another EU member state traditionally skeptical of Russia.

A very useful forum will remain the UN Security Council, where Russia possesses the right to veto. The Kremlin is still wary of the use of force, basically by the United States, in local conflicts, and insists on resolving conflicts by using diplomatic and political means. The main attention will be focused on Middle East, generally on Iranian problem, its nuclear program, and possibility of Israeli or American intervention.

For Russia the most useful seems to be special partnership with Iran, which would help Moscow to place itself right in the first circle of the Middle Eastern politics. Russian political choice is based on the recognition of Iran’s growing importance as a regional power, what along with Iranian-American hostile affairs gives Russia possibilities to strengthen its international role, and finally loose the label of younger partner in relations with the United States. Moscow has been gaining enormously from Iranian-American hostility. Any setback in Russia-Iran relations would impact on the lucrative commercial contracts, affecting both Russia’s nuclear enterprises and its sprawling military-industrial complex.¹⁰ That’s why the international pressure on Russia did not make Moscow reduce its cooperation with Teheran. On the other hand Russian leaders have few illusions about the nature of the Iranian policy. Russia generally is not complacent about Iran’s nuclear program, it realizes the dangers of proliferation in the world’s still most combustible region. Hence Moscow has demanded to send the spent fuel back to Russia. To keep the balance, Russia has supported four UN Security Council resolutions on Iran, three of which impose light sanctions on that country, and has been a key member of the “six” (alongside with the other four permanent members of the Security Council and Germany) that deal with the Iranian nuclear program. The solution of that problem, Moscow insists, can only be the diplomatic one, because a country the size of Iran and of its reserves cannot be prevented by force from acquiring nuclear weapons, should it really

¹⁰ The Bushehr construction project created job opportunities for 300 Russian firms.

decide to go for it. Thus, the only way to prevent Iran from nuclear weaponization is to reach an agreement with the regime.¹¹

From Russian perspective the revolutionary developments in the Middle East – the so called Arab Spring, which have seen longstanding leaders depart from power in Tunisia, Egypt, Libya and severely threatened other Arab regimes, has been a chance, as well a challenge for Russian diplomacy. First of all, being a traditional power, Russia upholds a traditional understanding of sovereignty and the principle of non-intervention. During the biggest upheaval in the Middle East in modern history, Russia involuntarily positioned itself as a “silent bystander.”¹² There are a few reasons of Russian “wait and see” policy according the Arab revolts. Firstly, the Arab uprisings raise some fears for the Kremlin, which may associate it with “colored revolutions” in the post-Soviet territory, and Russia concerns that these represent a further manifestation of the “colored revolutions” in the former Soviet space where political change was aided by Western democracy promotion and the shadowy activities of Western intelligence. Secondly, there is also a fear that the uprisings provide a justification for Western-led “humanitarian” interventions and an opportunity for NATO to expand into the territories of North Africa and the Middle East after its attempts to penetrate Ukraine and Georgia have been, at least temporarily, thwarted. Thirdly, Russia is also keeping an eye on the growing Islamist insurgency in the Middle East, which may sneak in to post-Soviet republics, first of all in to the Caucasus and Central Asia, and will bring to the negative knock-on effects, threatening to destabilize the close neighborhood. At the same time however, there are positive aspects of the Arab uprisings to the Russian policy, such as the steep increases in oil prices, assuring at least for now, significant earnings for Russia, which is quickly becoming a leading supplier of energy sources. That is why Russia’s behavior was rather flexible, as well volte-face, and Russia was following the wait-and-see policy.¹³

In Syria, Russian economic and security stakes are much higher than in other Middle Eastern countries. Russia has made considerable inroads in the Syrian energy sector, having recently signed a 370 million USD contract to construct a gas pipeline leading to al-Rayyan, a gas processing plant near

¹¹ D. Trenin, *Russia’s Policy in the Middle East: Prospects for Consensus and Conflict with the United States*, Washington 2010, p. 14.

¹² K.L. Afrasiabi, *US Rebuffs Russian Ingenuity on Iran*, “The Asian Times” 20.07.2011.

¹³ R. Dannreuther, *Russia and the Arab Revolutions*, “Russian Analytical Digest” 2011, No. 98, p. 2.

Palmyra, and a multibillion dollar preliminary contract to build an oil refining and petrochemical complex in Syria. Aware of Damascus' inability to purchase Western weapons, Moscow has successfully carved out a niche market for its arms industry there, with contracts worth 6 billion USD. In 2005, Russia wrote off 73% of Syria's debt in return for preferential treatment for Russian businesses in the Syrian market. Assad's fall, thus, can greatly endanger all these gains, especially if members of the long-oppressed Muslim Brotherhood make their way to high offices. In its attempt to please the Syrian government, Moscow has included the party on its list of terrorist organizations.¹⁴

Not only is Syria one of Russia's largest arms export customers, with current and pending deals valued at 10 billion USD, but Al-Assad's regime is also significant Russian security partner in the Middle East. The Russian navy is dependent on Syrian ports to sustain its operations in the Mediterranean Sea and the Persian Gulf.¹⁵ The Syrian base is the only toehold Russia has in the Mediterranean region, and the Black Sea Fleet counts on the Syrian base for sustaining any effective Mediterranean presence by the Russian navy. With the establishment of US military bases in Romania and the appearance of the US warship in the Black Sea region, the arc of encirclement is tightening. It is a cat-and-mouse game, where the US is gaining the upper hand. Take it more generally, Russia does not wish to see a pro-Western government in Syria, because it would negatively affect its ability to use its only naval base in the Middle East, located at the Syrian port of Tartus. More importantly though, the Kremlin is seriously concerned with the precedents that a repeat of "Libyan scenario" might set for the public in Russia's near-abroad.¹⁶

5. Conclusions

Russia once again finds itself at a historic crossroads. On one hand, it can continue on the current path, which has survived the impact of the global financial crisis, but which is increasingly put Russia into stagnation. On the other hand, Russia

¹⁴ N. Khorrami Assl, *Russia's Middle East Ambitions*, "Al Jazeera" 03.09.2011.

¹⁵ Russia offers a military and political umbrella to Syria, and in return, the Russian Navy can use the Syrian ports in the Mediterranean Sea. Intelligence reports indicate also that there are more than 2,000 Russian military advisors in Syria training the Syrian armed forces. The Mediterranean Sea access is extremely valuable for the Russians who helped build a huge modern port in Tartus, 150 miles south of Damascus.

¹⁶ N. Khorrami Assl, *op.cit.*

can attempt to modernize itself – both economically and politically – in order to prepare itself for the challenges of the modern world. The stakes are high, but the outcomes remain uncertain despite President Medvedev's enthusiastic rhetorical embrace of a “modernization” vision for Russia.

Many scenarios have been written considering Russian future, but the most serious challenge to the close future of Russian international position lies in the Arab Spring. The Middle East is not a priority for Russia, but it is of rising importance because of security threats coming from the region, economic interests, as well as political bargains with the United States. The future of Russia in the Middle East depends on the implications of the Arab revolts, which have been shifting the regional balance of power. In such a dynamic situation Russia tries to defend its multibillions contracts, being signed mostly by old “allies,” and to take the opportunity to place itself in a flexible position in the new political environment. Definitely, Russian future interests make Moscow not to disregard American and Israeli role in the region, which seem to be weakened as a result of the shifts in the Middle East. But Russian strategists must also focus on the challenging Moscow new, Turkish-Egyptian, axis in the Middle East as potentially able to counterbalance the Iran-Syria pillar.