

Russia: say 2018, think 2024

By Emily Ferris

To understand what Russia will look like as a place to do business in the coming years, look beyond Vladimir Putin's inevitable victory in the March 2018 presidential election. Russia is thinking bigger than 2018. Many of the government's security, political and economic strategies have been worked out until at least 2024, the end of Putin's fourth term in office. Although Putin is popular, and appears in control of the political and security environment, the administration's social contract is wearing thin in places. To divert attention from growing economic frustrations, Putin in the coming six years must maintain popular belief in the "siege mentality" narrative – the idea of a salient threat from the West that seeks to destabilise Russia's national security at any moment.

The way that Putin chooses to navigate his relationship with the population, through a combination of control and economic incentives, will have serious implications for Russia's security environment and relationship with the West in 2018 and beyond. While Russia's difficult relationship with the West is unlikely to prompt significant restrictions on the Western business community, the Russian Far East will become increasingly important to monitor, both as a flashpoint for protests and as an opportunity for investment.

Keeping an eye on public opinion

Public opinion still matters to politicians, even in countries where electoral processes are not entirely transparent. Putin is powerful, but he is at the top of a large, unwieldy political apparatus. His strategy is to give his subordinates broad policy outlines. They interpret his wishes accordingly. It doesn't always go according to plan. In education and healthcare, Putin promised to redistribute central funds. In reality, that money found its way into the pockets of corrupt federal and regional officials and businesspeople. Putin is aware of how this plays to the public. He has tried to rein in public officials' excesses, but he is not always able to do so.

The centralisation of power and funding has deepened long-standing economic and social divisions between Moscow and the regions. The Far East is an area to watch in this regard. In 2017, opposition groups across the country spearheaded protests against allegations that public officials were leading extravagant lives. These protests gained particular traction in the Far East, including Vladivostok. This is unusual: the Far East does not usually foster much support for the opposition. But revelations of officials' multiple residences, coming amid delayed or unpaid workers' wages and the closure of factories and mines, drove the public to protest.

The authorities will be keeping an eye on this trend in the coming years. But their plans to address economic pressures in the Far East will not have immediate effects. Putin in 2017 announced the extension of certain regions' debt repayments to Moscow – some for more than 12 years – in the hope that the economy recovers before then. In a bid to encourage joint investment projects



in the Far East and to improve economic conditions in the region, the Russian authorities are courting Japan and China, dedicating an entire department to promote deals there.

Tax breaks and special economic zones will also make the Far East a more attractive part of Russia for foreign investors. But disagreements with Japan over the disputed Kuril Islands, alongside Russia's mistrust of Chinese influence in Central Asia, will delay progress on these projects. Plans to construct a land bridge between Russia's Sakhalin Island and Japan in 2018 are more symbolic than practical or necessary, and tangible benefits for citizens of the Far East will take years to materialise.

Government strategy – incentives and control

For Putin to maintain control over Russia until 2024, the authorities must catch the future population early. The youth vote is more important than ever. The authorities have noted opposition leader Alexei Navalny's youthful following and have responded by trying to revamp the incumbent United Russia's image. This is the first generation of voters inspired by social media and digital campaigns. The Kremlin's modern makeover includes attempts to host technology forums or present political ideas through slick online videos instead of Soviet-style speeches. The authorities are also delaying the introduction of unpopular regulatory changes until after the presidential election. Plans to increase compulsory insurance contributions have been put off until 2019, while an initially five-year strategy to reward parents on the birth of their first child has been extended until 2021.

Should economic incentives fail to satisfy the regions and the public, the authorities will turn to the security services to ensure order. In this regard, the National Guard (NG) will play an increasingly prominent role in the coming years. The NG was established in 2016 with the purpose of ensuring crowd control. It reports directly to Putin and has wide-ranging powers, including permission to use force against people deemed a threat. Many of Navalny's supporters are students, against whom the authorities can – and have – easily applied serious pressure, including threatening them with the loss of their university places. The NG will see to it that fledgling political movements are unlikely to gain serious traction, and any repeat of the widespread civil unrest of 2012 will not be permitted. Ultimately, Putin's tight control over both the government administration and security forces will mean very little political liberalisation is permitted.

Foreign interventions – what's next for Russia?

For Putin to remain a strong leader until 2024, he must find a way to prolong the siege mentality and unify his people around a Russian nationalistic ideal. Putin's personal popularity ratings always improve during Russia's foreign interventions – as evidenced in Crimea and Syria – and sustaining high military spending is a priority for the next six years. In the wake of the Crimea annexation,



the modernisation of Russia's military capabilities worries other nearby countries, not least the Baltic states. Russia has given no indication that it is planning a military intervention there, but is content to cultivate continued weariness among the Baltic states. Russia will seek to influence other political processes in Europe in the coming years, with the dual aim of encouraging the emergence of political allies and showcasing its ability to effect political change.

Moscow considers countries from the former Soviet Union to be within its historic "sphere of influence", and will continue to keep tight tabs on security and political developments there, searching for opportunities that could be beneficial. For example, Russia will maintain a high intelligence penetration of the Baltic states, as it considers NATO's military consolidation in the region to be a severe security threat.

While Russia views the West as a serious security and political threat, during Putin's fourth term Moscow will be more focused on furthering its own strategic goals than deliberately antagonising the West. Countries such as Ukraine and Moldova are prime candidates for Russian involvement in the coming years. Ukraine has presidential and parliamentary elections due in 2019. Russia is highly likely to use its media agencies to conduct campaigns in the country highlighting the limited concrete benefits that Ukraine's pro-Western government has delivered for its people. Meanwhile, Moldova's parliamentary elections scheduled for November 2018 are of great interest to Moscow. The pro-Russia Party of Socialists is likely to perform well, which could see a Moscow-friendly government installed in Moldova and grant Russia another ally in Europe. The plausible deniability of these "soft power" manoeuvres will further entrench Russia's poor relationship with the West, but will play well at home, highlighting the negative aspects of Western-oriented governments.

Foreign investment to remain welcome

Foreign investment will remain welcome, despite the siege mentality. The authorities are well aware that encouraging foreign investment should stimulate the economy, which is set to perform sluggishly in the coming three years. Indeed, raising Russia to among the top 20 countries in the World Bank's Doing Business ratings by 2020 has been one of Putin's key goals since 2012. Most importantly, Russia distinguishes between diplomatic disputes and the foreign business community. Even as US-Russia relations in 2017 arguably reached their nadir, and tit-for-tat restrictions were introduced on US and Russian media and diplomatic staff, the Russian authorities stopped short of targeting US businesses, conscious that this could spook other foreign investors.

Russia's continued reliance on oil and gas for the bulk of its revenue, combined with formal restrictions on foreign investment in this sector, will hold back the economy during Putin's next term in office. Although the authorities pay lip service to economic



diversification and OPEC production cuts, Russia's oil production will remain high. A new profit-based tax system to reduce taxes on oil production will come into force in 2019, to the advantage of large domestic producers, highlighting Russia's intent to squeeze out foreign oil companies and remain natural resource dependent.



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