

Chapter 6

Western Strategy toward Russia

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I am a Russian citizen. It is therefore not my job to advise Western governments on how to develop or implement specific policies, including policies towards Russia. I also strongly believe that only Russians, and not outsiders, can turn Russia into a more peaceful, democratic and prosperous country. On the other hand, I think that a more informed policy debate would be in everyone's interest. This is why I offer a few arguments that may be useful for Western policy-makers and policy advisors to take into account when developing their policies and strategies.

Everything we know about today's Russian regime is consistent with the following simple theory. This regime has neither an ideology nor a global vision. Its domestic and foreign policy choices are dictated by the logic of its political survival. The regime does not want to rely on mass repression and so prefers "hybrid strategies:" propaganda, censorship, cooptation of the elites, and limited repression against opposition. Its foreign policy should be understood as part of this continuing struggle to survive. Foreign policy adventures make propaganda narratives more convincing; the external conflicts justify the need to rally around the leader whatever his internal failures.

Previously, the regime's legitimacy was based on its economic performance. After the growth slowdown in 2012–14 and the respective decline in its popularity, the regime started looking for alternative sources of legitimacy. The annexation of Crimea came up as an excellent opportunity to boost approval ratings. As the Russian economy entered recession, foreign policy became a critical means to maintain popularity. However, some time in the fall of 2014 the government understood that further aggression could result in catastrophic economic consequences, so it decided to freeze the conflict in Ukraine and started to look for an alternative foreign policy agenda, in this case, Syria.

¹ This chapter was written in fall 2015.

Recent events suggest that, on the one hand, sanctions work and the threat of future sanctions does constrain potential aggressive behavior. On the other hand, there is also a reason to worry. As the economy is unlikely to return to fast growth, eventually the regime will face the existential risk of losing popularity and therefore may continue its foreign policy experimentation.

Whatever the immediate risks, in the long run the situation is even more worrisome. Eventually, the regime will run out of cash and will collapse. It is not clear when such regime change will take place, but given Russia's unsatisfactory economic performance, regime change will certainly happen. I am optimistic about Russia's economy and political system in the long run, but the regime change may be very turbulent. It is not at all clear that Putin's immediate successor will be better than Putin. Given that Russia is a nuclear power, there is a need for a strategy for handling future regime change. A major commitment to a kind of "Marshall Plan" supporting and re-integrating Russia into the world may increase the odds of a more peaceful and predictable transition.

Interaction between Domestic Politics and Foreign Policy in Russia

The key to understanding Russia's recent foreign policy moves is to remember that the Russian government's main objective is stay in power. This motivation is certainly not unique to the Russian government. However, it has been extremely effective in using heterodox political instruments and very innovative in developing new tools to maintain its legitimacy and popularity among the Russian public. Initially, the main source of the regime's legitimacy was its economic performance. In 1999-2008, Russian GDP grew 7 percent per year. This growth trickled down to every part of Russian society, resulted in a consumption boom and a dramatic fall in unemployment and poverty, and brought about solid support for Putin. In the 2004 presidential elections, Putin received 71 percent—much more than in his first election in 2000 (53 percent). Constitutional limits did not allow Putin to run in 2008, so he nominated Dmitri Medvedev, who obtained 70 percent of the vote—on par with Putin's own 2004 result.

Eventually, however, this growth ran out of steam. After an 8 percent decline in 2009, the Russian economy only managed to recover to pre-crisis levels by 2012, after which it again started to slow down. This was

not surprising, as the sources of the 1999-2008 growth—low initial base, rise in oil prices, cheap labor, unutilized production capacity, growth in retail lending, and the liberal reforms of the early 2000s—were exhausted. Further growth would only come from growth of productivity and new investment. To tap these sources of growth, the government should have reformed the business and investment climate, reduced government ownership and intervention in the economy, and curbed corruption. While such reforms have been drafted and announced—in particular, in Putin’s 2012 presidential campaign—they have not been implemented. This has resulted in stagnating productivity and investment, capital outflows, and in a slowdown in growth. Even before the Crimean crisis, Russia’s economic growth was close to zero.

Not surprisingly, this was accompanied by the fall in Putin’s popularity. The regime responded with increased propaganda, censorship and repression against opposition activists, and tried to raise xenophobic and homophobic sentiment. This did not help, however. Only the annexation of Crimea produced the desired effect. The regime understood that foreign policy can replace economic growth as the basis of popularity and legitimacy and has been focusing on foreign policy ever since.

Economic Dead End

Russia’s GDP is likely to have declined by 4 percent in 2015 and to decline by an additional 1-2 percent in 2016. This is all the more striking as the previous recession in Russia happened during the Great Recession of 2008-09, which hit the entire global economy. Currently, however, the global economy is growing, which makes it impossible to attribute Russian recession to external circumstances. Moreover, unlike 2009 (when reserves helped to support Russians’ real incomes), this time—for the first time in Putin’s 15 years in power—real incomes of Russians have declined by almost 10 percent relative to the end of 2013.

There is no reason to believe that Russia will return to growth any time soon. The three main factors contributing to the recession are (i) the lack of reforms and the poor business climate, (ii) low oil prices and (iii) sanctions and counter-sanctions. Given that the regime is unlikely to give up Crimea and fully withdraw from eastern Ukraine, sanctions are likely to stay.

Will there be any economic reforms? Given the cost of recession, why wouldn't the government undertake pro-growth reforms to improve its domestic legitimacy and its ability to grow its military capacity? The answer is very simple. Pro-growth reforms require protection of private property rights, enforcement of contracts and protection of fair competition. These reforms collide with the interests of key constituencies of the regime: corrupt bureaucrats, politically connected business people, and employees of the government and of state-owned companies. The regime cannot afford losing their support.

Finally, given the increased supply in the oil market and slowdown in China's growth, it is unlikely that oil prices will recover any time soon.

The government understands this very well, and has already embarked on an austerity path. In real terms, 2016 spending will be cut by about 9 percent. The Finance Ministry has proposed to end the inflation indexing of pension payments, which would be illegal under Russian law. Other major cuts will also be undertaken, especially in health and education. This will of course result in lower popularity, leading to more extensive propaganda and potentially to new foreign policy moves.

Even with these unprecedented (and strictly speaking, illegal) cuts foreseen in 2016, there is no consistent economic plan for the years thereafter. While the Reserve Fund is sufficient to fund the budget deficit in 2016 and possibly in 2017, the numbers for 2018 do not seem to add up. Not surprisingly, the government has stopped producing 3-year budgets, sticking only to annual ones.

Why Don't Russians See the Risks? Russia as an Informational Autocracy

Together with Professor Daniel Treisman of UCLA we have developed a theory of informational autocracies—modern non-democratic regimes that are based on manipulating information (through propaganda and censorship) rather than on violence.² These regimes pretend to be democratic, to have elections and to allow some free press. In such regimes,

² See Sergei M. Guriev and Daniel Treisman, "How Modern Dictators Survive: Cooptation, Censorship, Propaganda, and Repression." CEPR Discussion Paper No. 10454. Center for Economic Policy Research, London.

the leader's goal is to maintain his popularity with the public and to convince the public that this popularity is genuine. The leader wants to prevent protests rather than suppress them. Using mass violence would therefore be a problem in this case, as the very need for repression would reveal that the regime's popularity is based on force.

Our theory shows that even a rational public may—at least for a while—support such informational autocrats. Given that the only source of information is official propaganda (the other sources are shut down through cooptation or censorship), Russians cannot infer how incompetent and dangerous the current government is, as propaganda attributes all problems to bad luck and external enemies.

While Russia is not the only example of informational autocracy, it has probably gone further than others in terms of developing comprehensive and sophisticated propaganda and censorship. It has also relied on silencing elites and potential opponents through cooptation. Overall, it has so far succeeded in convincing the public that there is no alternative to today's regime—which is even more striking given the economic difficulties facing Russia today.

Our theory predicts that this cannot last forever. As Lincoln once said, "You can fool all the people some of the time, and some of the people all of the time, but you cannot fool all of the people all of the time." However, a more important implication of our work is that informational autocracies should be confronted first and foremost in the informational battleground. Whatever economic, political or social challenges they may face, these regimes may remain popular if they can control information flows.

Propaganda as shameless as in today's Russia can only be convincing if there are no objective and high-quality alternative news sources. Given that only a few per cent of Russians speak foreign languages, the effective alternative must be in Russian. There is no reason to believe that the Russian government will welcome such alternative news sources into Russia. However, in today's connected world, censorship is never perfect. Also, there is an important additional informational battlefield: the hearts and minds of Russian-speaking Europeans. Currently, they receive official Russian programs and are therefore vulnerable to the propaganda. They then translate it further to their non-Russian-speaking fellow residents, and to Russians back home. In both cases, this reinforces propaganda, as their counterparts trust the

views of Europe-based Russian speakers more than that of Russian TV anchors.

It is important not to counter Russian propaganda with “anti-Russian counter-propaganda”. The response will be effective only as long as it is consistent with Western values of professional and objective reporting. Part of Russia’s official message is that the West is hypocritical and dishonest. Sticking to the West’s fundamental values will undermine this view and will show the strength rather than the weakness of the West.

The Critical Importance of Ukraine’s Success for Russia

One of the key tenets of Russia’s official propaganda is that Ukrainian reforms are doomed to fail. Given that Ukraine is close and similar to Russia, the success of the Ukrainian revolution would disprove the Russian government’s key argument—that any alternative to the current regime would bring chaos. Given high initial corruption and the inefficiency of the economy, successful reforms in Ukraine will be difficult. However, their importance goes well beyond Ukraine. They will create an important precedent for many neighboring countries including Russia. This, in turn, may contribute to peace not only in the region but also in those parts of the world which Russia may target for further foreign policy moves.

The Role of Sanctions

Sanctions are not the main driver of Russia’s recession. Other factors, such as lack of reforms and the fall in oil prices, have been much more important. But sanctions have reinforced the impact of the drop in oil prices. In the absence of sanctions, Russia would have been able to borrow to smoothen the impact of the oil shock. Given its low level of sovereign debt, that would not have been impossible.

However, the most important effect of sanctions is the proof they offer of the West’s credibility—and thus the proof that further aggression may result in more serious sanctions. This has had major impact on the regime’s behavior. During the annexation of Crimea, the Russian government assumed that “the West is weak,” and did not expect sanctions to follow. The events in eastern Ukraine started already after the introduction of the first sanctions—and there annexation never hap-

pened. Crimea became part of Russia right after the so-called “referendum.” As for Donetsk and Luhansk, neither the May 2014 “referendum” nor the fall 2014 “elections” had any implications. Russia continues to confirm that Donetsk and Luhansk (unlike Crimea!) are parts of sovereign Ukraine.

Another important indication of the effectiveness of Western sanctions is the Russian government’s continuing fight to have them removed. Both openly and behind the scenes, the Russian government works with Western business, politicians and NGOs lobbying to end the sanctions. Finally, in Russia’s domestic debate, the “we do not care about the sanctions” stance has been retired; even official propaganda acknowledges that sanctions have had a major effect.

The “Pivot to China” that Wasn’t

The Russian government expected to replace the West with China as its main economic partner. While China claimed to be interested (and is certainly able) to invest in Russia, so far we have only seen (many) non-binding declarations. No tangible investments or loans have taken place. There may be several reasons. First, China may be waiting for better terms when Russia becomes more desperate. Second, China may understand that its relationship with the United States and with the West in general is much more important than the one with Russia. Third, individual Chinese companies take into account the multibillion dollar fine paid by BNP Paribas for violating U.S. sanctions. Finally, the domestic anti-corruption agenda in China may make it risky for individual Chinese business people to deal with the Russian government and state companies, as the latter are too corrupt.

Whatever the reason, it is clear that at least so far Russia’s hopes for pivot to China have not materialized. The volume of trade between Russia and China has actually declined, which of course is natural, given the fall in oil prices and the weaker ruble.

Should the West be Blamed for Crimea?

Another important part of the debate in the West is that the West should have behaved more carefully in talking to Ukraine and should have avoided provoking Russia. This argument may have some truth to

it—it may have been the case that American and European foreign policy makers should have paid more attention to the growing desperation of Russia's regime in its search for legitimacy. The experience of 2014 probably also implies that the West must develop a strategy of dealing with Russia both in the immediate future and in the long run. This strategy should be clearly articulated both to the Russian government and—as much as possible given the censorship—to the Russian public.

However, even if the West has made some foreign policy errors, these are mistakes, not crimes. Therefore, whoever apportions blame for what has happened equally to Russia and to the West (or even to Ukraine) is wrong. Such arguments—whether made intentionally or unintentionally—are tantamount to blaming the victim for the crime. However imperfect the victim of a crime may be, it is the criminal, not the victim, who is responsible for the crime.

The Need for Strategy

The previous Cold War ended in a regime change that was relatively smooth and peaceful. This time, it may be more turbulent. For members of the outgoing elite, the stakes are much higher. They have strong incentives to stay in power whatever the cost. It is also not clear that those who may be able to remove the current regime will be committed to peace and democracy, since the task of removing stubborn autocrats may require ruthlessness rather than peacefulness. And even if peaceful protesters take over, it is also not clear whether they would stay for long, given that economy is likely to be in very bad shape at that moment.

The West cannot change the regime—and should not even try to set such an objective. Nobody knows when and how the current regime ends. When it does, it may be unexpected. At that point, having a well-thought strategy agreed by Western countries and articulated to publics inside and outside of Russia will certainly raise chances of a less turbulent transition to a democratic and peaceful Russia. This strategy should include a roadmap for re-integrating Russia into European and global institutions, for rebuilding Russia's economy and in particular Russia's infrastructure, for reforming Russian public administration and the judiciary. Most importantly, this strategy should make sure that the post-regime-change transformation does not take place at the expense of Russia's poor and vulnerable; otherwise, these reforms will backfire and we will be back where we started.