



Russia in Decline: Three Possible Scenarios for the Future

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It is widely believed that contemporary Russia's decline started right after the annexation of Crimea, when, in the course of less than one week, the Kremlin almost irreversibly predetermined the future of the entire nation. By acting as an aggressor—breaking international law, bilateral and multilateral agreements, and the general rules of conduct of post-Cold War Europe—Russia has embarked on a path leading to economic decay and international isolation, which potentially threaten to ruin Russia as a state.

There is no need to argue that Russia is a state in decline today, but I believe it is necessary to highlight that its course was, to some extent, predetermined even before the annexation of Crimea. The Russian economy, which had grown impressively throughout the 2000s, was hit quite hard during the 2008–2009 crises, with GDP shrinking by 7.8 percent in 2009. In 2010, it returned to 4.5 percent growth—the highest rate seen to date. Despite average oil prices reaching above \$100 per barrel from 2011 to 2013, by the end of 2013, Russia's GDP grew by only 1.3 percent, sliding down to 0.6 percent in 2014. Even if there had been no war in Ukraine, sanctions or low oil prices, Russia would be facing a systemic economic crisis. The existing model of state capitalism that lives off of commodities exports [1]—redistributing revenues among the population and stimulating consumer spending to catalyze business activities [2]—exhausted its potential for growth in 2013. The economic crisis and the government's inability to deliver the same level of satisfaction among the population drives the Kremlin to pursue foreign military adventures, increase its indoctrination campaign via state propaganda, and launch limited witch hunts for the “enemy within” and abroad. All of these factors that began before the annexation increased drastically due to ongoing wars in Syria and Ukraine, and resulted in what could best be described as a management downturn with no sound plan of action.

We take two assumptions for granted in order to frame this thought experiment. First, the main goal of the current government in Russia is to remain in power for as long as possible, as has been proven by the last 16 years of Vladimir Putin in power. Second, predicting the possible scenarios of Russia's development after Putin's departure from power is pure guesswork, thus

we look at the next eight years of Russia's development (assuming that Putin will inevitably run for office in 2018 and not remain in power after 2024).

Given the existing trajectory, one can envision three possible scenarios for the future.

Scenario 1: Realistic—Slow Decline, Manageable Instability

For the past 15 years, Russia has been saving up money. Thanks to former minister of finance Alexei Kudrin, Russia was able to create decent reserves that, today, stand at \$379 billion (from only \$13.6 billion in 2000). [3] By far, the reserves are key to understanding the seeming calmness over Moscow's economic challenges today. In 2008, when reserves stood at almost \$600 billion, the Kremlin was able to cushion the fall by spending 30 percent of the reserves, assured that oil prices would bounce back, which did at that time. Today, even if oil remains in the \$40–50 per barrel range, the Russian economy will not collapse, but will continue to slow down, allowing Russia to adapt to the given circumstances. As we already see today, government policy is to raise and introduce new taxes and duties as well as strengthen and support state corporations and large banks that inevitably lead to a new era of “grey business.” This resembles the practices of the 1990s. Instead of paying all taxes and duties, small- and medium-size businesses will downgrade the quality of their goods and services, delegitimize parts of their business to avoid higher taxation, or go completely under. That will lead to more low-level corruption, but maintain barely acceptable—yet still acceptable—conditions for small- and medium-sized businesses. The majority of Russians will search for additional opportunities to earn money, take second jobs, limit their purchases, and downgrade the quality of goods they consume. The government will continue its support of public servants (teachers, doctors, etc.), pensioners, police, and security services to meet at least minimal standards of living, while providing credit to large, state-owned businesses.

Three groups of Russians will continue to flee the country:

1. Liberal-minded and general opposition-minded Russians—journalists, activists and researchers—will continue to be pressured by the state to emigrate, with more and more exemplary cases of imprisonment convincing most of them that it is better to continue their work abroad than to rot in jail. The numbers of Russian expatriates living in the Baltics, Poland and Germany will continue to grow significantly.
2. Educated and qualified specialists will soon follow, provided they find job offers abroad. Given the devaluation of the ruble and shrinkage of the job market, the most experienced and “worldly” would prefer to work from Warsaw, Riga and Tallinn, rather than barely making it in Moscow or Saint Petersburg. Such a trend is already highly visible in the IT sector.
3. Business and former state employees who can buy their place in the West, may use their significant funds, acquired while working in Russia, to emigrate. There is an impressive cohort of businesses that, following promises of the state, “hung around” during the downslide since 2014, waiting for oil prices or economic growth to bounce back in 2016;

but seeing profits evaporate and taxes grow, they now use any remaining opportunities to leave the country freely.

Learning the lessons of the Soviet Union, Moscow will not close the border entirely. Further limitations are possible, but opportunities will remain for those who wish take their dissatisfaction with the Kremlin's decision-making abroad, leaving niche groups from Kaliningrad to Vladivostok to protest and irritate the state. As with the protestors of the past couple of years, the regime will allow for one-topic manifestations focused strictly on social or economic issues. In managing groups one by one, the state will most likely avoid the mass protest movements seen in 2011–2012. To ensure the bankruptcy of the idea of organizing mass movements, state repression will continue to target individual leaders and members of the opposition, prosecuting and jailing them for short- to medium-term sentences.

Domestic Russian life will turn toward a combination of economic degeneration, soft repressions and stable immigration.

In foreign policy, this will mean the continuation of the trend set after the annexation of Crimea: A combination of besieged fortress rhetoric with military build-up on the western flank [4] and ongoing managed instability in eastern Ukraine. Moscow will try to prevent new sanctions from being introduced, compensating for existing limitations by multiplying the loopholes to bypass existing constraints via bilateral agreements with western European counterparts, and attempting to create new coalitions to counter terrorist threats. The Kremlin will try to achieve the status of an *ad hoc* ally for Western nations while allowing China to increase its financial and strategic presence in Russia's Far East and Siberia, and not resisting China's gradual takeover of Central Asia as a financial, transport and security region dependent on Beijing.

While maintaining control over its economic decline and any dissenting activity at home, Russia will not aggravate further its relationship with the West. Limiting itself to rhetorical confrontation, Russia will continue managing Ukrainian instability, selling its strategic access to the Central Asian region, and accepting Chinese economic hegemony over Siberia and the Far East.

Scenario 2: Pessimistic—War Mode

The aggravating economic crisis will lead Moscow to recognize the high likelihood of mass protests against the regime, pushing the Kremlin to increase instability on its borders. Given that remaining in power would still be its main motivator for taking any action, this would lead to open conflicts and war as an excuse to introduce strict political, social and economic limitations at home.

To be clear, even the pessimistic scenario does not envision a direct assault on NATO states, as such actions would not support the goal of keeping Putin in power. NATO member states have the capacity to destroy the Russian economy—even without nuclear threats—in a matter of months by introducing embargoes on Russian exports (especially oil and gas), destroying banking by killing the SWIFT system, and depleting Russia of imports that would lead to food shortages and comprehensive paralysis of the economy.

Moscow could instigate a NATO assault on Russia on the territory of its closest neighbors (theoretically Moldova and Belarus), convincing Russia's domestic population that the only way to prevent open war with NATO would be a preemptive strike on Kyiv. Whether in the form of a hybrid campaign, or the open use of its military, Russia could unleash a campaign to secure full control of its western non-NATO member states.

The state of war would allow Moscow to launch a full-scale campaign of arrests inside the country, targeting the vast majority of opposition figures, leaders of protests and independent business representatives who would oppose the gradual takeover of the remaining top echelons of the economy, as well as medium-sized businesses, by the state and state-affiliated entities.

“War mode” would allow the Kremlin to introduce unprecedented measures, suppressing all dissent, assuming tighter control of society as well as bureaucratic structures. Such a model would produce guaranteed subordination for a short period of time, but can scarcely produce long standing, institutionalized results.

An even more aggressive stance in foreign policy would lead to the further alienation of Russia's closest allies, as well as China, and other BRICS countries. The “Iran” of the 2010s is a highly risky and unstable model that would actually speed up the process of decline, risking sudden collapse rather than gradual deterioration.

Scenario 3. Optimistic—Limited Reforms

The least likely scenario is Moscow realizing the counter productivity of its current course, and, like the Soviet Union of 1985, deciding to launch a limited reform program to ensure the survivability of leaders in power today. Unlike the Soviet Union of 1985, the Russian Federation has several mechanisms to ensure positive tendencies with limited risks.

First of all, Moscow will need to limit its presence in Ukraine considerably, fulfill its obligations under Minsk II, and leave eastern Ukraine. Although any progress on Crimea can hardly be envisioned under Putin, Russia's constructive position on eastern Ukraine will produce a positive effect, leading to the lifting of at least some sanctions.

Domestically, Moscow could opt for limited liberalization of political life, allowing the opposition to take part in elections and rolling back restrictive laws affecting civil society and media freedoms. Economically, it could opt for lowering taxes and attracting foreign investment and technological transfer.

The Direction of the Decline

Even though scenarios two and three are highly unlikely, Moscow could combine elements of all scenarios. However, looking at the developments of the past couple of years, it is highly probable that actual developments will result from a combination of the first and second scenarios.

Several features of the decline should be highlighted.

1. Russia's economy will continue to shrink, limiting its influence on the global economy especially with respect to Europe—specifically, Russia's share of the European gas market will continue to shrink, lowering the European Union's dependence on Russia.
2. Russia will continue to become less interesting for potential investors as the purchasing power of the ruble fades. Thus, the Russian market, attractive in the 2000s, will continue to lose luster. From industrial goods to food exports, Russia will continue to offer less demand, and institutional deterioration will force potential investors to rethink investing in Russia, no matter the industry.
3. Economic deterioration in Russia will lead to the growing exodus of Russian nationals abroad, primarily to European Union countries. Considering the risks of domestic conflicts in the Caucasus, the number of emigrants might rise drastically over the foreseeable future.
4. Russia is increasingly losing its control over its neighbors, including its Eurasian Union partners. One should expect further leaning of Belarus toward the EU, and the Central Asian states toward China.
5. Russia's ability to control frozen conflicts on its periphery—Nagorno-Karabakh, Transnistria, Abkhazia and South Ossetia—will deteriorate, leading to the escalation of the conflict, thereby raising the necessity to interfere on the part of the European community.
6. Russia's decline is leading to the strengthening of China's position in the region, especially in the Far East. Russian dependence on China as an investor and crisis credit donor will increase.
7. Moscow's capabilities to influence the Middle East will inevitably decrease, raising the question of the survivability of Bashar al-Assad in Syria.

The key question to ask is what will be the actual tempo of the deterioration of the economic state of affairs in Russia? Even limited involvement in Syria and Ukraine has accelerated negative trends for the Russian economy considerably; any new campaign would, to an even greater extent, threaten economic sustainability at home. But the need to secure the political loyalty of the population calls for additional actions abroad, ever raising the stakes for Moscow. Russia is heading toward an implosion that will undeniably affect all of its direct neighbors, as well as the key powers that will have to manage the results of the Kremlin's policy today: China, the European Union and the United States.

Notes

1. Kirill Rogov, *Can "Putinomics" survive?*, ECFR, 5 June, 2015, http://www.ecfr.eu/publications/summary/can_putinomics_survive3049.

2. Vladislav Inozemtsev, The end of the consumer economy, Intersection Project, 5 August, 2015, <http://intersectionproject.eu/article/economy/end-consumer-economy>.
3. International Reserves of Russian Federation, Central Bank, http://www.cbr.ru/hd_base/Default.aspx?Prtid=mrrf_m, visited on March 18, 2015.
4. Pavel Luzin, Art of Fortification, Intersection Project, March 16, 2016, <http://intersectionproject.eu/article/security/art-fortification>.

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