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Crimea, one year after the annexation: the end of the honeymoon?

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On 18 March, the first anniversary of the Russian Federation's annexation of Crimea was marked by celebrations in Russia. The main ceremony, attended by President Vladimir Putin, took place in Moscow by the Kremlin. The celebrations were intended to strengthen the social consensus on the annexation of Crimea, a step that (according to the Kremlin) saved the peninsula from the prevailing chaos and terror in Ukraine. However, the ceremony barely masked a decline in the social euphoria that burst out in Russia a year ago after the peninsula was annexed. The effects of the annexation, combined with the recession, have hit both the residents of Russia and Crimea in the last year, while the economic expectations aroused on the peninsula have not been met.

Over the past year, none of the initially announced investments in the development and modernisation of Crimea's infrastructure – which it needs for its economy to function after ties with Ukraine were severed – have been implemented. This is mainly due to Russia's growing economic problems and dwindling financial resources. The creation of a Special Economic Zone on the peninsula, which offers tax breaks for investors, will not be a remedy for its economy, either; the international sanctions and the lack of infrastructure linking Crimea with Russia mean the area will not attract foreign investors, while Russian investors are having problems with obtaining loans. The expectations of Crimea's inhabitants have also been disappointed; their salaries and pensions were raised, but high inflation has largely eliminated this increase, and a considerable part of the population has lost its revenues from tourism. The Crimean Tatars have suffered most from the annexation; their main source of income was small businesses linked to tourism, and they have become the subject of political and ethnic persecution. However, despite the accumulating problems, the incorporation of Crimea into the Russian Federation is not being questioned, either on the peninsula itself or within Russia.

Festive celebrations, pessimistic moods

To celebrate the anniversary of Crimea's annexation, a rally and concert were held on 18 March under the walls of the Kremlin, which around 100,000 people attended, and at which President Vladimir Putin and politicians from Russia and Crimea spoke. On 15 March, the state television channel Rossiya-1 broadcast a two-and-a-half-hour documentary entitled *Crimea: Road to the Motherland*, an extremely biased production glorifying Putin as the single decision-maker behind the annexation.

However, during the celebrations, it was notable that there has been a clear decrease in the social euphoria that burst out in Russia a year ago after the annexation of the peninsula, the step which has become an important factor in consolidating Putin's power. The decline in sentiment was clear during the rally and the concert at the Kremlin; the participants, most of whom were public-sector employees transported there in an organised manner, behaved passively and indifferently. The positive impact of Crimea's annexation is wearing off, as the public mood worsens under the influence of the general economic downturn. Opinion polls confirm this, including the February survey by the Levada Centre, in which the positive assessment of the situation in Russia has fallen to 54%, from 64% in August 2014.

Economic and social problems

Although Russia was determined to prove that the annexation of Crimea would be beneficial for the peninsula's economy and improve the residents' living standards, the past year has shown that these plans have not been reflected in reality.

The breaking of Crimea's economic ties with Ukraine has caused huge losses to the peninsula's economy. Crimea is struggling with problems connected with supplies of water and electricity, which previously came from Ukraine. Moreover, the economic sanctions prohibiting Western companies from doing business and investing in Crimea have also adversely affected its economy. Industrial production fell by almost 10% in 2014, and the construction sector has seen a drop of over 67%. The high cost of delivering goods from Russia by sea (by ferry across the Kerch Strait) or by air, and the limited capacity of these channels, has caused a decrease of 48% in freight traffic and 67% in passenger traffic. Inflation is now running at over 42%. The prices of food products have increased by over 50% during the year (fruit prices by 83%, meat by 64% and bread by 34%). 60% of companies have ceased operation, and the number of individual entrepreneurs has decreased threefold. Due to the fear of sanctions, branches of Western banks have left Crimea, and the larger Russian banks (Sberbank, VTB) are now operating on the peninsula through intermediaries. The telecom operators GSM, the online sales network Amazon, the Apple corporation, the McDonald's network and others have all ceased their operations. Foreign airlines have suspended their flights, and foreign cruise ships have stopped calling at Crimean ports.

Huge losses have been suffered by the tourism sector, which is the main source of income for nearly half of Crimea's inhabitants. Before the peninsula's annexation, it had been visited by around 6 million visitors a year (70% of whom came from Ukraine), most of whom rented private apartments and used local catering and recreation services. However, in 2014 Crimea attracted only 3.8 million tourists, mainly from Russia – mostly thanks to a Russian massive state-run campaign promoting 'patriotic vacations' in Crimea (in many cases, public-sector employees were even forced to spend their holidays on the peninsula). Thanks to state subsidies, summer holidays in Crimea were also arranged for Russian pensioners, invalids, children and young people. The peninsula did not see any of the profitable foreign tourists, though, as Western companies have stopped organising tourist trips to the region.

Crimea's public sector employees and pensioners had their salaries and pensions raised by around 70%, but these increases have largely been eliminated by high inflation. Financial problems caused by the drop in visitor numbers are beginning to be felt by the residents, who have traditionally made money from renting out their accommodation to

holidaymakers. It is worth noting that the upcoming tourist season is likely to be even worse for Crimea than the previous one, because many of the tourists from Russia who visited the peninsula last season did so under the influence of the euphoria from joining Crimea, but were discouraged by the difficulty of getting to Crimea (including the need to wait in line for days to take the ferry across the Kerch Strait). The inhabitants' loss of their significant revenue from tourism could exacerbate their discontent, and encourage them to seek income by extra-legal means, or even to emigrate from the peninsula. One way to mitigate the employment problem could be the expansion of the Russian military bases (primarily in Sevastopol), which could create additional jobs for the locals.

The reduction in the influx of individual tourists may particularly affect the Crimean Tatars, who were traditionally involved in services in the tourism sector. The Tatars have in fact become one of the groups most disadvantaged by the annexation. From the beginning they opposed Crimea's incorporation by Russia (most of them boycotted the referendum), and so Tatar organisations and media have become the objects of persecution by the new government. Tatar community leaders, led by Mustafa Jemilev, have been expelled from Crimea; activists and members of the Mejlis, as well as journalists from the Tatar media, have also been regularly harassed (the Tartar TV station ATR may be closed as of April). Tatars account for around half of the 20,000 people who fled the peninsula in the past year. Problems have also been reported by Crimean journalists, who must adapt to Russian media legislation, which is much more restrictive than that of Ukraine (some of them have had problems re-registering their media companies).

Investments withdrawn

Crimea's inclusion into the Russian legal space has been accompanied by chaos and delays. Only after Russia occupied the peninsula did the government begin to prepare a development program for the Republic of Crimea and the federal city of Sevastopol by 2020, which provided for the construction and modernisation of transport, energy and water infrastructure, as well as investments in the development of other sectors of the Crimean economy, to a total of US$22.5 billion. The government's flagship project is a strategic investment for Crimea – the construction of a bridge across the Kerch Strait, the cost of which is estimated to be at least US$3 billion. The contract was awarded, without a tender being held, to the Stroigazmontazh company run by the oligarch Arkady Rotenberg, a friend of Putin.

However Russia's economic problems, which have been increasing for several months, and the lower budget revenues, have made it necessary to reduce the investment plans and postpone them to an unspecified later date. There are delays to the projects to expand the port terminals in Feodosia and Sevastopol, among others. Moreover, in the light of the current geopolitical situation and the Western sanctions, the Russian authorities cannot rely on foreign investors to finance these expensive projects; Russian investors themselves also have problems, as the sanctions have reduced their access to foreign loans.

During the year, there has been no ultimate solution to the problem of supplying water to Crimea, which has exposed local agriculture to enormous losses, especially in fruit production and viticulture. The lack of an agreement with Ukraine, which supplied 85% of the water the peninsula needs from the Dnieper via the North Crimean canal, may lead to the

abandonment of the existing traditional crops, which require significant hydration. The construction of an underwater power cable and pipeline across the Kerch Strait, which will improve the supply of electricity and guarantee the supply of Russian natural gas to the peninsula, is still at the planning stage. In the light of the current geopolitical situation and Western sanctions, it is unlikely that the peninsula's economic problems, especially the severe infrastructural shortages, can be resolved through investment in the Special Economic Zone, which gives the entire peninsula preferential tax conditions (a lower tax threshold, 3 years' exemption from land tax, 10 years' exemption from property tax, et al.).

Crimea willing stay with Russia (no matter what)

The past year of Crimea as part of the Russian Federation has shown that any resolution of the peninsula's socio-economic problems seems unlikely in the near future, and many of them will grow even more serious. Many of these problems are causing real dissatisfaction among the inhabitants; however, this has not affected their attitude towards the Russian political leadership or the very fact of Crimea's annexation. Crimea's incorporation into Russia is endorsed by the overwhelming majority of the peninsula's population, as has been confirmed by Western surveys (93% are in favour, according to a recent survey by the German pollsters GfK). This is due both to the traditionally strong pro-Russian and imperial sentiments among the population of Crimea, as well as the impact of Russian media propaganda, which over the last year has fuelled pride in the annexation as a fact of 'historical justice', and has built up an extremely negative image of Ukraine as a failed state. Confronted with such an image, the inhabitants of Crimea seem to treat their problems as 'temporary difficulties' that they are willing to endure for some time; and their dissatisfaction is mostly directed at the local authorities or the government of the Russian Federation, which is not transferring sufficient resources to the needs of Crimea. The joining of Crimea to Russia, deemed 'reunion with the Motherland', is unquestioned by the overwhelming majority of Russian society, and indeed is not subject to any discussion at all.