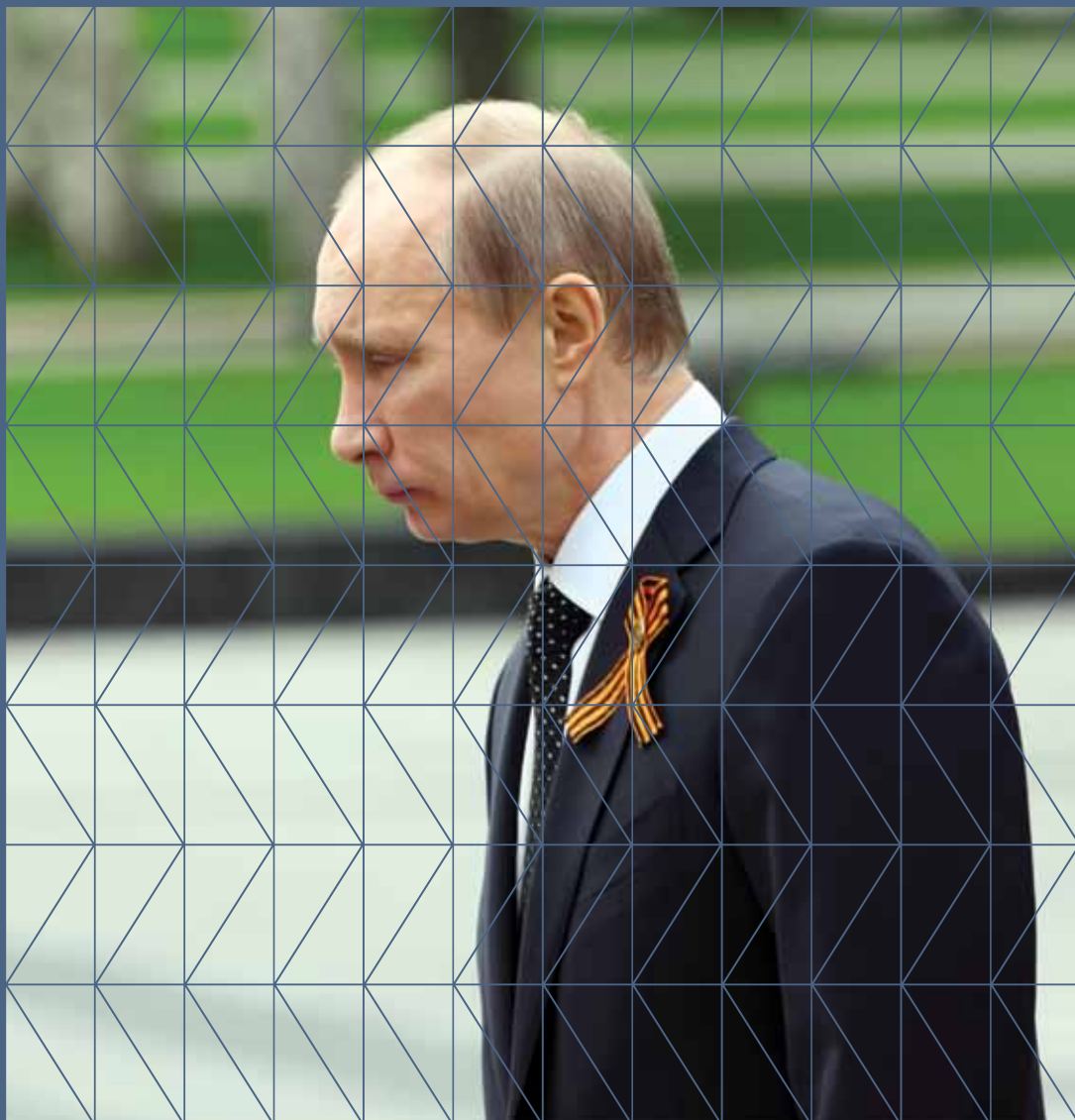


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PUTIN FOR THE FOURTH TIME

THE STATE OF AND PROSPECTS FOR RUSSIA (2018–2024)

OSW Team

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WARSAW
MARCH 2018

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CENTRE FOR EASTERN STUDIES

OŚRODEK STUDIÓW WSCHODNICH im. **Marka Karpia**

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ISBN 978-83-65827-22-7

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THESES

1. The current state of affairs

- Under the rule of Vladimir Putin in Russia, an authoritarian system has been created in which the rule of the President, based on broad formal prerogatives, is further reinforced by informal mechanisms and networks of dependence which have penetrated the formal institutions of the government and the economy. The core of these networks is a narrow ruling group focused around the President, whose members consider themselves to be the owners of Russia, and as such – entitled to exploit it for their own benefit. The system is maintained by means including strengthening the mechanisms of control over the state and society, repressing opponents, and disciplining its own political base. The most important tools of its legitimacy are the conduct of a great-power policy and the use of state propaganda which draws on Soviet models.
- The Russian economy is largely dependent for its income on energy exports, a dependency which has steadily risen under Putin. Another important phenomenon is the state's dominant role in the economy. The effectiveness of the economy's functioning is reduced by the politicisation of economic decisions, as well as the extent to which the ruling elite extracts rents from corruption. Protectionism in Russia's economic relations with foreign countries is rising.
- Until the beginning of Putin's third term (2012), Russia had been conducting a policy of 'soft revisionism', based on contesting and undermining the post-cold war liberal international order, while at the same time exploiting the benefits of that same order. However, during the President's third term (2012–18) Moscow's revisionism became more aggressive. The Kremlin used military force and unleashed a cyber-informational war on the West and its partners. Russia has also stepped up its attempts at forcing through political and economic integration in the post-Soviet area, and reinforced its cooperation with non-Western states, especially China. Moscow has returned as an active player in the Middle East and increased its presence in other regions, rebuilding its image in Russian society as a global power.
- The changes which the Kremlin has introduced to the Russian armed forces since the beginning of Putin's rule have been based above all on halting the degradation of its military capability, and thereafter on implementing pilot

projects in the area of reorganisation (mainly departing from the structures inherited from the USSR) and the rearmament of the army. This has been accompanied by a significant increase in training activity. After the war with Georgia (2008), military spending was raised to a level allowing the armed forces of the Russian Federation to undergo a process of wide-ranging professionalisation and technical modernisation, the most important result of which was the closing of the technology gap with the West (at present only the US is ahead of Russia). The war with Ukraine (from 2014) was accompanied by the expansion of offensive units (especially those in the Western strategic direction), and the war in Syria (2015) has accelerated the army's rearmament with new generations of weapons and military equipment.

2. The main challenges

- In the political sphere, the main challenge remains the gradually intensifying competition within the power elite for dwindling resources, as well as the influence allowing them to use those resources. The state is being managed in a dysfunctional manner, for reasons including the personalisation of power. This makes it difficult to conduct any timely or correct diagnoses of the public mood, which is worsening, mainly against a background of the population's pauperisation, creating a risk of protests breaking out.
- In the economic sphere, the main challenge is the fall in performance of the commodities-based economic model, which no longer ensures stable growth, and is in fact causing repeated economic crises. This is worsened by the trends on global and regional energy markets, which are unfavourable for Russia at present. Another problem may come from the potential tightening of US economic sanctions. Other key challenges are the negative consequences of the progressive aging of Russian society, including an overly expensive pension system, and a lack of foreign investment due to the poor investment climate.
- As a result of Russia's aggressive policies, the level of its confrontation with the West, especially the US, has reached a dangerous level for Moscow, and incurred significant costs. Therefore the biggest challenge for Russia is the escalation of its conflict with the United States. Another problem for Moscow is the reluctance of its non-Western partners to give Russia significant support in its conflict with the West. This applies among others to China, upon which Russia is increasingly dependent. Also, the political

and military success Russia has achieved in places such as Syria is based on fragile foundations. A further challenge for Russia is the low-intensity war with Ukraine in the Donbas, where Moscow has so far suffered a strategic defeat.

- For the Russian Federation's Armed Forces, the main challenge remains the technological barrier; the introduction of new categories of weapons depends on breaking it. In the near term, the implementation of programmes for the technical modernisation of the army will be affected by the international sanctions, which will hinder the acquisition of modern weapons technology from the West, and force Russia to bear the costs of developing and introducing its own counterparts. Despite this, however, Russia has succeeded in developing some new projects, especially in the sphere of strategic weapons.

3. Prospects

- In the perspective of the next six years, the collapse of the current system of power in Russia seems unlikely, although symptoms of its destabilisation may appear in certain places, for reasons including public protests, mainly against the background of social issues, and conflicts within the elites. The government will not carry out any systemic reforms, but will be forced into small formal adjustments in connection with the decision to extend (most likely) the rule of Putin, or when arranging the succession to his rule. There will also be a process of 'technocratisation' of the government in the centre and the regions (friends of Putin and strong leaders in formal executive positions will be replaced by technical managers who do not have their own bases of support).
- No significant economic reforms will take place, and the economy of Russia will remain dependent on external factors, primarily fluctuations in the prices of raw energy materials. Despite the implementation of energy infrastructure projects, exports of raw materials from Russia will not rise significantly; nor will there be any substantial diversification of their target markets. The authorities will be forced to reduce the costs of the current system's operation, by means including further reductions in social spending. The economy will remain in a state of stagnation (low growth levels).
- Of the three possible scenarios for Russian foreign policy during Putin's fourth term, namely the 'defensive-transactional', the 'confrontational-crisis'

and the 'inertial-opportunistic', the choice of one of the latter two is most likely. Which one Russia chooses will be dictated by, on the one hand, its assessment of the situation (including the level of crisis in key states and the Western community as a whole) and on the other, external factors (in particular the US's attitude towards Russia). The confrontational-crisis model will be based on an increase in indirect (proxy) confrontations between Russia and the West (especially the US), such as the resumption of war on a larger scale in Ukraine, the intensification of destabilising activities in the Balkans, or even the conduct of 'hybrid' operations against the Baltic states. Meanwhile, the inertial-opportunistic scenario will be based on Russia defending its existing (geo)political achievements, as well as attempts to make aggressive use of any emerging opportunities (the West's 'fatigue' with conflict and the rise of its own internal crises) to demonstrate its military capabilities, its potential to harm the interests of the West, and to create problems whose resolution would require its participation. In particular Russia will attempt to drive a wedge between the United States and its allies by offering the latter the prospect of normalisation of relations and a return to cooperation, especially in the economic field. Moscow is continuing to intensify its cooperation with China, and will try to take advantage of the latter's growing power. Russia may increase its influence in Belarus and in the Southern Caucasus, while gradually ceding its influence in Central Asia to China. Despite Moscow's failure in Ukraine, it will not cease its attempts to subjugate it.

- In principle the Russian Armed Forces will, in accordance with the adopted plan, continue their technical modernisation and organisational changes, increasing their combat readiness and their preparation for a hypothetical armed conflict with NATO. While they have achieved a multifaceted advantage (in training, manpower and technological advancement) over most of the European members of the Alliance, their principal point of reference and only real opponent will remain the American army. However it should be assumed that despite the actions already taken – especially in the development of strategic weapons – Russia will still not be able to compensate for the imbalance in the field of advanced weapon systems.

INTRODUCTION

On 18 March 2018 Vladimir Putin was elected President of the Russian Federation for the fourth time, and at the beginning of May he will begin his next term, which, in accordance with Russian law, should last until 2024. During his rule, which started at the beginning of 2000, Putin and his associates have profoundly changed Russia, its economic and political system, and its foreign policy.

This report is intended, firstly, to act as a summary of the results of Putin's rule until now, in the areas of domestic policy, the economy and foreign policy, and the security and defence spheres related to these policies. Secondly, it aims to characterise the main challenges which the Russian authorities face on the threshold of Putin's fourth term. Thirdly and finally, it will attempt to outline the prospects for the Kremlin's policy, and offer forecasts of future developments in those areas in Russia.

On this basis, the report is divided into four main sections: the first is dedicated to issues concerning the domestic political and social situation; the second, to the economic situation and the government's economic policy; the third to foreign policy; and the fourth to the armed forces. In view of their specific nature, issues of state and the development of the domestic security sector, which are closely linked to the domestic political situation, are mostly discussed in a separate appendix. The other appendices contain additional information and data which give deeper perspective to selected topics from the main body of the report.

The ambition of this report is not to provide a comprehensive and in-depth presentation of the situation and forecasts concerning Russia, but rather to offer an approximation, in summary form and in a manner accessible to the wider reader, of what the authors believe to be the most important phenomena, processes and trends in this area.

I. THE POLITICAL AND SOCIAL SITUATION

1. The current state of affairs

Vladimir Putin's third presidential term (2012–18) saw a clear sharpening of the course of domestic policy. The progressive dismantling of the Yeltsin system since 2000, and the introduction to a crippled Russian democracy of successive elements of authoritarianism, has led since 2012 to the crystallisation of a mature authoritarian system with a strong imperial-great power cast to it. This system is fully dominated by the executive authority in the form of the President's team (in formal terms, the President and his administration; in informal terms, the President and his most trusted advisors, who have a varied scope of official powers). In part, this system is anchored in the constitution (which assigns broad powers to the President), but in part it was also created as a result of the political struggle for the distribution of real power within the system. The formal, constitutional division of powers between the organs of state is a façade for the real mechanisms for decision-making and ruling the country, which are informal in nature, and based on personal or group ties in politics and business. Elections are ritualistic plebiscites aimed at expressing support for the government, and not the articulation of the needs and interests of social groups.

This system can be described as:

- **'Chekist'**, due to the concentration of the decision-making powers in the hands of politicians with roots in the special services (led by the President, a former KGB officer), with their particular mentality and methods of action which have been transferred to the basis of state policy. As a result, the elite think about internal and foreign policy in terms of special operations, where manipulation, provocation and the use of force are standard tools for achieving their aims. The special services, which have broad (formal and informal) powers of repression and control, also serve as a binding agent for the political system, the basic instrument of presidential power and control over political and social processes; as such, they remain the guarantee of security for the political elites who govern Russia.
- **quasi-patrimonial**, due to the understanding by the ruling elite of the state and its resources as the *de facto* property of a narrow group of decision makers, in which the central role is played by the President. The values enshrined in the constitution (including property rights) are an empty

category, and the terms and conditions of their use (for example, profiting from specific areas of economic activity) depend on the arbitrary decisions of the leader and his entourage, and mostly constitute payment for one's loyalty or service.

- **patronal**, due to the predominance of informal networks within it, the mutual hierarchical dependencies between 'patrons' and 'clients' at the expense of institutional and legal relationships. The relationships of authority and subordination, the true extent of the state organs' competence, as well as social status, wealth, and the scope of the duties and privileges assigned to the representatives of the elites, are determined not so much by laws as by personal or business relationships.
- **kleptocratic**: consumed by the systemic corruption which is present at every level of social relationships, resulting in significant losses (which cannot be estimated) to the state budget, and in the general population's continued low standard of living. It is manifested in its most colourful forms in the direct and large-scale embezzlement of state property by selected members of the elite. The systemic nature of corruption directly derives from the quasi-patrimonial vision of the state, in which the boundaries between private and public have been obliterated, and so the state becomes a means to increase one's personal wealth at the expense of the public. The state's resources, such as its natural resources or the budget, are treated like booty to be divided among the groups of influence within the ruling elite.

The consistent development of mature authoritarianism in 2012–18 was the result not only of the natural logic of the development of the anti-democratic system, but also of the protests which took place around the turn of 2012 as an accompaniment to Putin's return to the presidency. He interpreted these protests as, on the one hand, an effect of the atmosphere of 'liberalisation' prevailing in Russia under President Dmitri Medvedev (from 2008), which Putin saw as threatening the stability of the regime; and on the other hand, as a manifestation of Western interference in Russian politics. Both of these factors determined the logic of the Kremlin's domestic policy in subsequent years.

The main directions of this policy include the following:

- **strengthening control over all manifestations of social activity**, in particular the media (including the internet), non-governmental organisations (mainly thanks to the law on 'foreign agents' of 2012) and opposition

groups, by the following means: discrediting them in the eyes of society; restricting freedom of expression, assembly and association; and finally repression, including the instrumental use of the laws on the fight against extremism or terrorism in order to crack down on critics of the Kremlin (see Appendix 1).

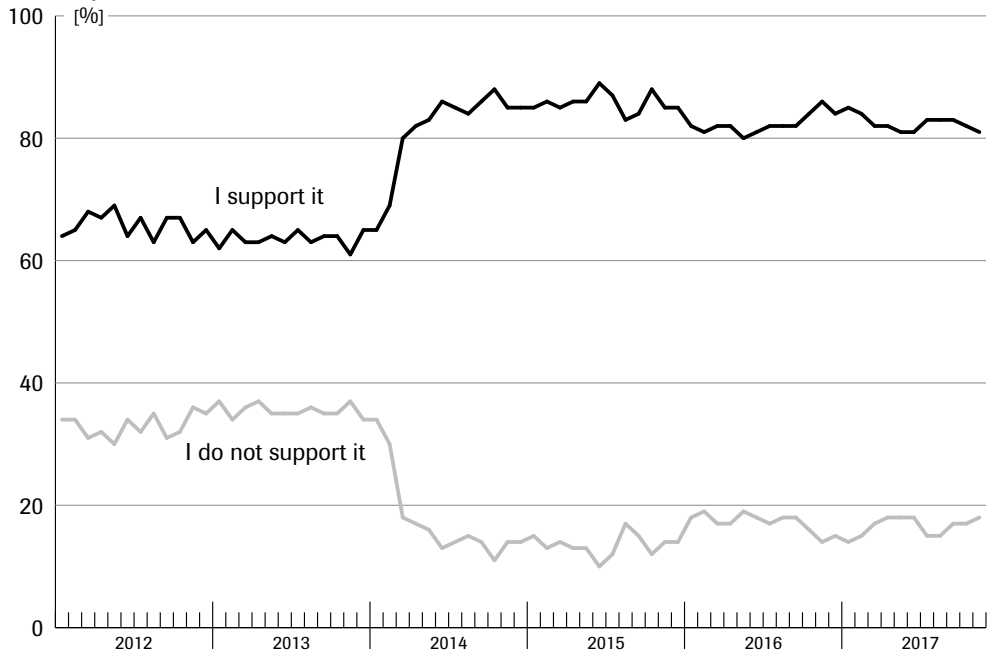
- **strengthening the institutions of force** and expanding the competence of the special services (particularly the Federal Security Service); in addition, the creation (in 2016) of the National Guard, which could potentially be used to suppress protests (see Appendix 2). This is subordinate to the ‘counterintelligence’ logic behind the management of the country’s internal security: the main task of the ‘siloviki’ is to screen society and the state apparatus off from external influences, and to search for external and internal enemies seeking to destabilise the political system. In practice, this approach has led to the acknowledgment of repression and indoctrination as the only effective instruments for controlling society.
- **establishing the functions of the justice and prison system not only as tools for intimidating and controlling society** and fighting against political opponents, but also for disciplining members of the ruling elite. In recent years, political rivalry and the fight for assets has taken on the form of the so-called ‘fight against corruption’, in which law enforcement authorities use legal investigations as a means to settle scores among factions within the ruling elite. For example, as well as the well-publicised case of corruption against the former economy minister Aleksei Ulukayev, the period 2016–17 saw the start of criminal proceedings against 4% (in total) of all the representatives of regional elites (heads of regions and their deputies, prime ministers and deputy prime ministers of regional governments, and mayors of regional capitals).

A key tool of legitimacy for Russian authoritarianism in the eyes of the general public is **state propaganda**, which contains elements of disinformation or even of psychological warfare. Its basis is the fuelling of **isolationist sentiments** and **the militarisation of public discourse** by the authorities and the media. It revolves around three main themes. First, it employs the ‘dignity’ discourse of a great imperial power, and (similarly to the Soviet era) the motif of the external military threat, primarily from the United States. Secondly, Putin is presented as a strong leader, to whom there is no alternative – the only guarantor of the integrity and security of the state. Thirdly, it disseminates a neo-Soviet policy of memory based on emphasising personalities (including

Joseph Stalin) and events from the past that legitimise the idea of authoritarian power through its link with 'great achievements'. This propaganda is accompanied by the development of so-called **patriotic education** in school curricula, focused around the government and army, as well as a messianic vision of history (Russia as the liberator of the Western world from fascism) as the main axes of state and national identity. One of its essential elements is the creation of paramilitary groups, including some which involve school-age children (such as Yunarmia, the Young Army, created in 2016 under the patronage of the Ministry of Defence).

These actions, at least in the declarative sphere, have brought results. During Putin's third term the polls showed an unprecedentedly **high level of a sense of national pride and satisfaction with the activities of the authorities**. The apogee of this support was recorded after the annexation of Crimea (March 2014), which sparked social euphoria. By using mechanisms for strengthening national identity by referring to an external enemy, **the Kremlin has directed Russian society onto a path of warlike mobilisation**, which led to the suspension of the traditional criteria for evaluating the efficiency of the ruling class. In this context, it is worth noting the rise in trust for the army and special services since 2014. Although the President's current ratings have decreased slightly – which on the one hand is linked to the noticeable deterioration of the population's economic situation, and on the other with growing fatigue at the present regime – support for him still remains at above 80%. However, it must be noted that this support is **largely declarative, and is due to any lack of alternatives to Putin; it is therefore not as strong and widespread as opinion polls suggest**. The dominant attitudes in society are, in fact, political apathy and conformism, which will pose a problem for the Kremlin if it needs to mobilise active, and not just passive public support for the government.

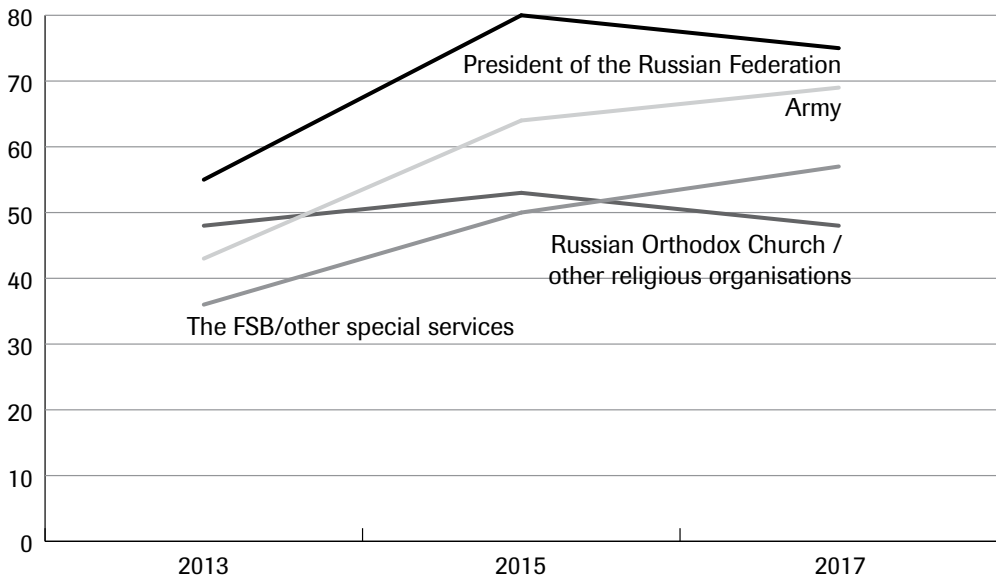
Figure 1. Support for Putin (in answer to the question “Do you support the activity of the President?”)



In 2018 the Levada Center was forced to suspend the publication of opinion polls concerning domestic politics in connection with the presidential elections, because the government had assigned it the status of a ‘foreign agent’, which prohibits it engaging in activities related to the political sphere.

Source: Levada Center <https://www.levada.ru/indikatory/odobrenie-organov-vlasti/>

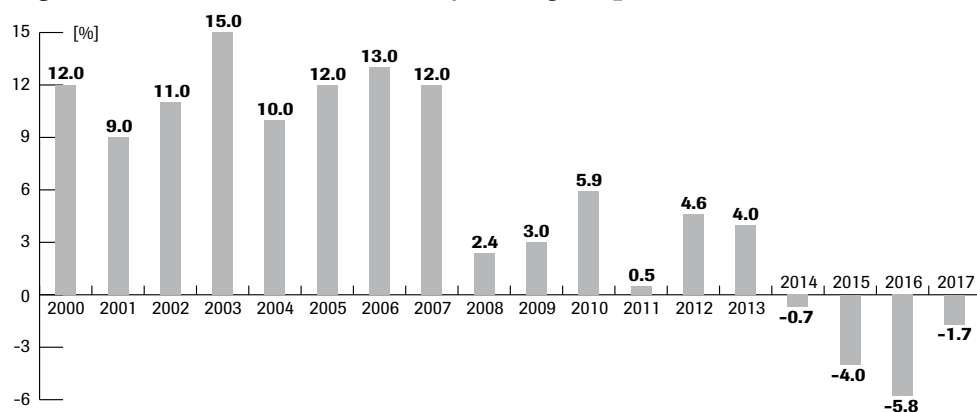
Figure 2. Public trust in institutions (in answer to the question “To what extent do the institutions mentioned below merit your trust?”)



Source: Levada Center, October 2017; <https://www.levada.ru/2017/10/12/institutsionalnoe-doverie-3/>

It is noteworthy that the level of support for the government in the polls remains high regardless of the **constantly deteriorating financial situation of the general public in recent years**. The crisis, and then the stagnation, with which the Russian economy has been struggling since 2014 (these issues are discussed further in part II, Economy) mean that there has been a decline in real income for four years in a row in Russia.

Figure 3. The real income of society (change in percent)



Source: Rosstat, www.gks.ru, 2018

The economic crisis has forced Russians to make savings on even the most basic expenses; it has hit the poorest in society hardest, and led to an increase in the number of people living below the poverty threshold. At present, according to government estimates, about 20 million Russians have an income below the minimum subsistence level (although this data may be incomplete). However, this has not resulted in any significant increase in dissatisfaction with the government, which is largely the consequence of a paternalistic attitude towards the state widespread among Russians; the great adaptability which they have acquired during previous crises; and the weakness of any cooperative skills which could improve their position, as well as being a result of the authorities' aggressive propaganda.

However, **in recent years an increase in the number of protests connected with the economic crisis has been noted**. The actions, or the neglect, of the government – such as delays in paying salaries (often for several months), or layoffs – have undermined the population's fundamental feeling of material security, and have thus generated a high level of determination and even desperation among the protesters. The most spectacular protests in 2017 were caused by the decision to introduce the Platon system of very costly highway tolls (which resulted in a nationwide strike by truck drivers), as well as the Moscow

authorities' plan to resettle a significant number of the capital's inhabitants as part of the renovation of the housing sector (the protests by the inhabitants of the *khrushchovki*, apartment blocks built during the Khrushchev period which were scheduled for demolition).

Social dissatisfaction with a political background (demands for changes to the model of government, anti-Putin slogans) has **appeared on a much smaller scale**, and is geographically limited, mainly to the major cities (especially Moscow and Saint Petersburg), and in social terms is characterised above all by representatives of the middle class. This potential has been expertly cultivated by the opposition figure Aleksei Navalny (currently the Kremlin's main political opponent), both in the virtual realm (mainly on social networks) and at the level of street activity. Online interest in the corruption scandals among Russia's ruling elite which have been revealed by Navalny's Foundation for the Fight against Corruption, as well as the anti-corruption protests he organised in dozens of Russian cities throughout 2017 (which gathered tens of thousands of people and inspired a significant number of young people who had previously been politically passive), demonstrated that the motivation for the protests go beyond the realm of the strictly social.

2. The main challenges

The period from 2018 to 2024 is the final presidential term Putin is permitted under the current constitution. We must assume that after its expiration he intends to retain a fundamental, strategic influence on Russian politics: either as President-for-life, or in a symbolic form as 'father of the nation', taking the most important decisions into his own hands. Both of these options **will require constitutional changes**: either an abolition of the limit on the number of presidential terms, or the preparation of a 'successor operation', which will likely involve a formal weakening of the President's office. Whichever option is selected, two issues will be crucial for the stability of the system: the mobilisation and consolidation of the elites, and keeping the potential for protest in society at a low level.

The most important challenges include:

An intensified fight for influence and assets within the elite. There is growing tension within Russia's ruling elite, triggered both by the shrinking amount of resources to be shared, and the uncertainty of the existing informal rules of the game which define the boundaries of acceptable behaviour

for the government's representatives. This is leading to a sense of insecurity among the elite, both of person and property, because the opacity and unpredictability of the Kremlin's decisions is rising; this is clear, for example, in the unprecedented strengthening of the Rosneft oil company's CEO, Igor Sechin, at the expense of other representatives of the elites who have also been loyal to the Kremlin. The circle of the system's main beneficiaries, those who have enriched themselves from corruption, has also been shrinking; a series of its members who have been the biggest burdens on the Putin model have dropped out of it, such as Vladimir Yakunin, head of the railways, and Andrei Belyaninov, the former head of the customs service. At the same time, the elite's sense of security is being reduced by external factors: Western (especially US) sanctions are gradually limiting their ability to secure their interests beyond Russia's borders. On the one hand, this is making Russian oligarchs ever more dependent on the Kremlin, but on the other it is increasing their discontent. In this situation, the Kremlin has offered compensation (financial support), but only to Putin's innermost circle (including lucrative state contracts for the Rotenberg family), and not to others. The wider elite, including businesses outside the narrow circle, are thus bearing the costs of maintaining the current system to a much greater degree, fighting among themselves over the corrupt income from the state budget, and sometimes falling victim to the machinations of the special services. The stakes in this game are being raised by the context of the presidential election, which will be accompanied by an at least partial rotation of the senior state positions, as well as a rivalry for the best sinecures.

In this context, **Putin's effectiveness as an arbiter comes into question** in the rivalry among interest groups; up until now, this had guaranteed the stability of the system. The disturbance which has been observed in the proportional allocation of the financial benefits, the significant boost to the position of Igor Sechin, the head of Rosneft, at the expense of the more liberally-oriented factions in the establishment, as well as the fairly wide mandate granted to the Federal Security Service (FSB) in its investigations into corruption among the members of the elite, may testify to Putin's gradually decreasing involvement in maintaining the balance between the factions. This poses a potential challenge with regard to the possible effects on the position of the President within the balance of forces after 2018.

The effects of the personalisation of power. Since 2000 Russia has been witnessing a progressive centralisation of power, relying on the construction at the federal level of a hierarchised 'power vertical' (вертикаль), with the

presidential team at its head, together with a gradual reduction of the regions' competences with regard to the centre. This has been accompanied by a depreciation of the formal institutional system in favour of informal arrangements and factional games; the excessive bureaucratisation of the management model; the conscious multiplication of non-transparent and unstable legislation; and the selection of personnel on the basis of corruption and nepotism. The result is a lack of automaticity within the governmental system: the President personally resolves issues arising at different levels of government (his interventions are also often the only deterrent to the corrupt and incompetent elites, as the media take care to report). This strengthens his image as the sole guarantor of order, although it also means that the Kremlin does not exercise complete control over the various segments of the system: out of necessity, such interventions are limited to matters of particular importance, or which have particular resonance in the media, but nevertheless they still do not reduce the risk of uncontrolled growth in social discontent.

No reliable diagnosis of social sentiments in the context of the system's failures in governing the state. The opposition figure Aleksei Navalny's successful mobilisation of the Russian people's potential for political protest on the basis of anti-corruption slogans was met by the Kremlin with surprise and alarm. Although the scale of the protests, and even more so public support for Navalny himself, is objectively small, in favourable conditions his charisma and strong political instinct could break the existing paradigm of relations between the authoritarian government and the passive public. Although the Kremlin has repeatedly proved its effectiveness at neutralising public protests, either through repression or by selectively meeting the material and ideological needs of certain electoral groups (as is demonstrated by the silencing and channelling of the protest potential manifested in 2011-12 by using the rhetoric of mobilisation and defence related to the annexation of Crimea), the real challenge lies in guarding itself in the future from making errors in diagnosing the situation and 'crisis management'. Such errors may result both from an absence of fully credible sociological tools to measure the potential discontent of the population, and the probability of its transformation into active forms of protest, as well as an inadequate reaction by the authorities as a result of either incompetence, or a disproportionate and thus counterproductive application of repression.

This involves **the risk that the potential for protest with an economic background could rise**, in connection with the deepening pauperisation of Putin's traditional electorate (state employees, pensioners, the working class).

Because of the economic problems, the model of the relationship between the state and the public – which relied mainly on assuring the citizens of steadily rising incomes as well as a fairly high level of social security, in exchange for their unconditional political support – has now been exhausted. Protests with a socioeconomic basis by groups regarded as the government’s social backbone are more dangerous for the Kremlin than the mobilisation of the middle class around slogans calling for the democratisation or liberalisation of the system. So far, the authorities have managed to keep such protests to the level of small, scattered outbreaks. However, if a wave of such protests flooded the whole of Russia (for example, as a result of the further deterioration of the population’s financial situation in connection with the failure of the economic model), the Kremlin may run out of operational and material resources to use in repressing or neutralising them. The discontent may be exacerbated by a rise in ethnic tensions caused by an increased influx of immigrants from Central Asia (due to the deficit of labour in Russia).

3. Prospects

The challenges outlined above **do not at present seem to pose a serious risk to the stability of the system**, although they will certainly affect domestic policy in Russia during the period 2018–24. The dynamics of the situation will be shaped on the basis of three main factors:

1. plans for Putin’s future position (after 2024) within the system, and the constitutional changes associated with them;
2. the situation in the federal and regional ruling elites;
3. the dynamics of the public mood.

The introduction of constitutional changes allowing Putin to remain in the highest office in the country after 2024 should be considered the most likely scenario. These will be accompanied by a strengthening of his symbolic status as the leader and sole guarantor of order. Currently it seems that only poor health could encourage Putin to push through any kind of succession scenario. However, such a move would be firmly based on iron-cast guarantees of financial and personal security for Putin himself as well as his inner circle. The Kremlin’s strategy in this area is likely to crystallise no earlier than in the middle of his current presidential term (perhaps during the parliamentary elections in 2021).

With regard to Putin's fourth term, **the collapse of the system does not seem likely** (the benefits of maintaining the system are still greater than the costs, both in the eyes of the elite and the general public, who fear what might happen during an 'interregnum'), **although manifestations of its gradual destabilisation may appear in isolated areas** as a result of the system's inability to cope with the challenges outlined above. Any change in the potential for destabilisation arising from the situation among the elite and the public will largely depend on Russia's economic health. This will determine the Kremlin's ability to meet the financial appetites of the establishment and neutralise the social problems of the general population. The predictions of long-term stagnation, however, mean that we should expect the current economic problems to continue.

The government will not opt for any systemic reforms, despite Putin's use in his election campaign of slogans about modernisation, digital technology and the planned 'leap forward in development'. These would require real political changes, and the Putin elite will try to block any changes that could undermine the current autocratic style of managing the state and the economy, thanks to which it has access to the state's financial resources. **The priority will therefore be to maintain the system**, indicating the need to continue the current repressive domestic policy as the agent binding it together. This will consist, on the one hand, of 'disciplining' the elites to enforce their loyalty and acceptance of the changes to the rules of the game (narrowing the circle of beneficiaries), also with the help of the law enforcement authorities; and on the other, of ramping up the government's course in the spheres of ideology and civil rights (the trend towards continuing to 'seal off' the legal system with the aim of universalising criminal penalties for any criticism of the system in the public sphere).

In the coming years, **we should not expect any serious threats to the stability of the system from the general public**, which will remain the object, and not the subject of politics in the state. Despite the possibility of a gradual expansion within Russia of active social opposition to the status quo (and despite the presence of groups consistently demanding political alternatives to Putinism), this opposition will still remain a minority interest. Its activation on a more significant scale is more likely to occur in response to serious errors by the authorities in the management of the socio-economic sphere, or introducing social reforms painful to the public, determined by budgetary factors (such as raising the retirement age). It is far less likely that there would be a spontaneous manifestation of grassroots mobilisation in opposition to the political and economic substance of the Putin model. **The risks linked with**

an escalation of public dissatisfaction will be deepened by the state's policy of limiting funding for social assistance planned for the next few years, which is to be targeted or *ad hoc* in nature (see part II. Economy).

However, in the Kremlin's perception, **maintaining the Putin model depends not on the prosperity and prospects of the public, but first of all on the sentiments within the key groups of the elite**, which constitute the real base for the Kremlin. The members of the elite, who may expect serious personnel reshuffles after the elections and constitutional changes, will seek new places for themselves within the evolving system, something which **could lead to a significant increase in its turbulence**. The question remains of how Putin's own position will evolve. If he does not assure a long-term balance of influences among the interest groups, his position as an arbiter may be challenged, and he may be considered a greater threat to the security of the elite than any power struggle after his departure might be.

One response to the possible escalation of tensions in the elite may be **a continuation of the process of replacing high-level personnel** which has been initiated in recent years: that is, their rejuvenation and 'technocratisation' (i.e. depoliticisation), as was seen in the gubernatorial nominations during 2017 among other instances. Putin's friends and other strong leaders will continue to be replaced by 'technical managers' who do not have their own political bases. This new generation of 'managers' will be much more likely to accept the new rules of the game (i.e. reduced opportunities for getting rich on the scale practiced by the older generations of the elite). This will not only allow the Kremlin more control over the elite, but also (at least partially) permit a streamlining of the administrative apparatus and the refreshment of its image: the charismatic legitimisation of the leader will thus be supplemented by legitimacy of the system as a whole, based on raising the efficiency of the bureaucracy. The lack of fundamental systemic reforms, however, will maintain the malaise and fossilisation of the system, which the personnel changes will fail to mask in the long run. **Paradoxically, shoring up the political sphere threatens to increase the unpredictability of the functioning of the system of government**, which thus may lose its ability to adapt to emerging challenges.

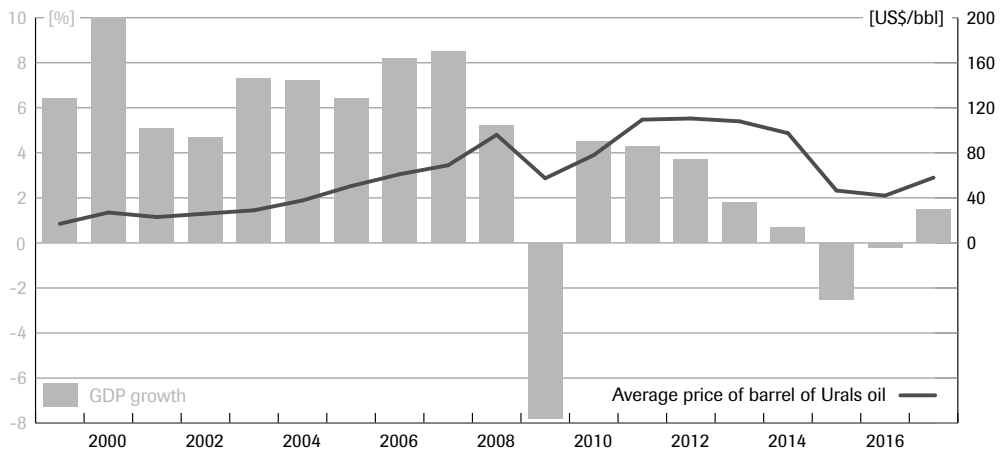
II. THE ECONOMY

1. The present state of affairs

The raw-materials economy model

Russia's economic successes during Putin's rule, especially during his first two terms, were closely connected with a rise in the prices of natural raw materials, mainly crude oil. The flow of petrodollars and the spare production capacity after the collapse of the Soviet Union gave impetus to Russia's dynamic growth at the beginning of Putin's rule.

Figure 4. Russia's rise in GDP against the background of oil prices



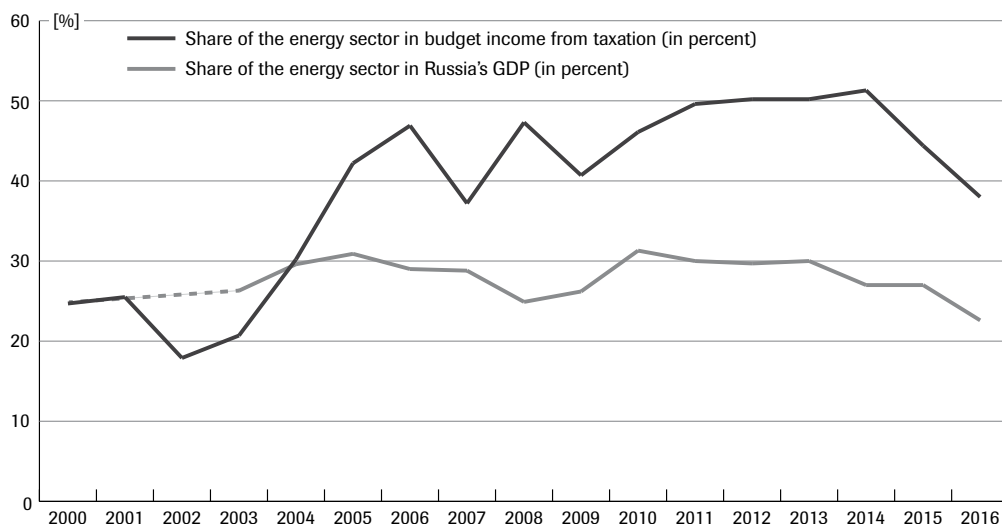
Source: the Russian Ministry of Finance, www.minfin.ru, 2018; Rosstat, www.gks.ru

Russia's dependency on the energy sector has risen over the last 18 years (apart from periods of crises). **The oil and gas industries in particular have gained economic and political strategic importance.** Russia is a key global oil and gas producer (see Appendix 3). In 2017 budget revenue from the energy sector accounted for 40% of all budget revenues, compared to 18% in 1999 (which was connected not only with the high prices of crude oil, but also an increase in the volume of exports). The share of oil and gas in Russian exports exceeded 60% in 2017 (compared to 45% in 1999).

The dynamic flow of petrodollars to Russia in the period 2000–17 contributed to an increase of GDP of over 75%. During this time, budgetary expenditure nominally rose by a factor of 12; this allowed an increase in expenditure, particularly on defence (nominally from \$5 billion to over \$50 billion in current prices), which strengthened Russia's position on the international arena, as

well as on social policy, which guaranteed public support for the Russian government (see Appendix 4). During this time, the real income of the population increased by around 240%.

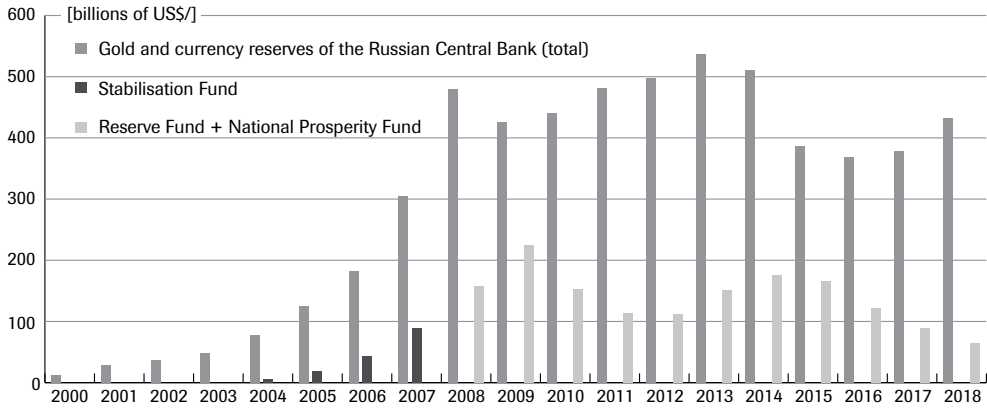
Figure 5. The share of revenue from exports of energy resources in the Russian budget, year on year, and the share of the energy sector in Russia's GDP (in percent, in 2000–16)



Source: authors' calculations based on data published by the Russian Ministry of Energy, www.minenergo.gov.ru; the Russian Ministry of Finance, www.minfin.ru; Rosstat, www.gks.ru

The petrodollars flowing into Russia led to **an increase in the central bank's gold and currency reserves, and after 2004, the government's reserves as well**; the latter were collected in special funds (initially the Stabilisation Fund, and from 2008 the Reserve Fund and the National Prosperity Fund). The accumulated funding made it possible to successfully pay off the state's foreign debt, thereby reducing it to around 5% of GDP by the end of 2017 (although Russia's total foreign debt, both state and private, amount to 35% of GDP), compared to 60% in 2000. During the economic crises in 2009 and 2015, these funds allowed the Russian authorities to stabilise public finances, and spared them the necessity of implementing severe reforms. As a result, by the end of 2017 the Reserve Fund had been exhausted, and the government's total financial reserves were reduced to \$65 billion.

Figure 6. Russian financial reserves



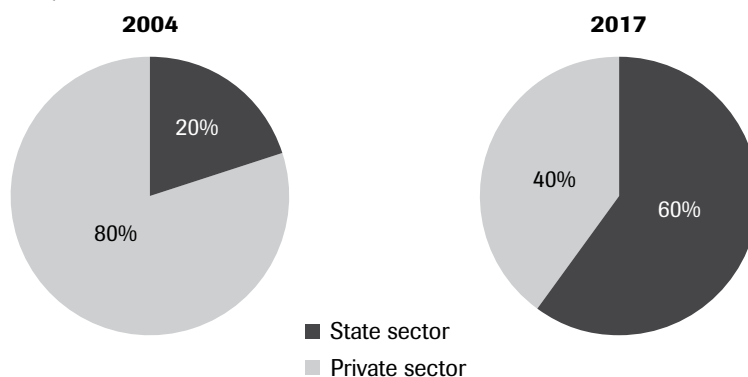
Source: Central Bank of Russia, www.cbr.ru, 2018; the Russian Ministry of Finance, www.minfin.ru, 2018

The state’s dominant role in the economy

At the end of his first presidential term, **Putin initiated processes aimed at strengthening the role of the state in the economy and limiting the functioning of market mechanisms in Russia.**

Above all, **there has been a process of renationalisation and concentration of assets around state entities** (currently the state’s share of the economy is about 70% of GDP). These processes have primarily taken place in the energy sector. The state’s dominance in the gas sector was enabled by the takeover of a controlling percentage of shares in Gazprom, and granting it the exclusive right to export gas via the country’s pipeline system. In turn, the Kremlin’s influence in the petroleum sector was built up thanks to the takeover of private assets by the state-owned company Rosneft. The state also strengthened its position in the economy by creating public corporations such as Rostec (the machinery sector, including the arms industry) and Rosatom (nuclear power), and by consolidating the banking sector (state participation in this sector exceeded 80% at the beginning of 2018). The Kremlin has also consistently strengthened its control over private business, for example, by undermining property rights (see the nationalisation of Yukos and Bashneft).

Figure 7. The share of state companies in the production of Russian oil in 2004 and 2017



Source: authors' calculations based on data published by CDU TEK (www.cdu.ru) from 2000 to 2018

The Russian President plays a key role in the decision-making processes relating to the strategic sectors of the economy, and the heads of the state companies (whom he appoints) have become an important element of the business and political elites of contemporary Russia. As a result, a system has been created in which the activity of the state-owned giants is focused not so much on increasing the efficiency of their business, as much as achieving the goals of the Kremlin, including social (keeping workers employed) and geopolitical tasks (investing in infrastructure projects, see Appendix 5), as well as the particular objectives of the ruling elite as they get rich from the implementation of costly investments (in 2017, 95% of state contracts for goods and services were awarded to suppliers without any tenders being held).

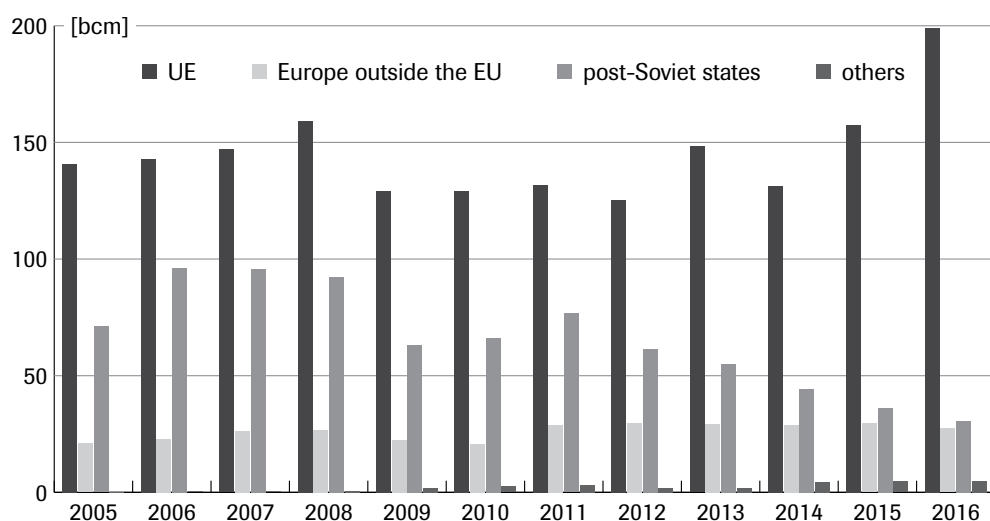
In addition, **the process of Russia's integration with the world economy** which had been observed during Putin's first two terms **has been reversed.** Russia's aggressive foreign policy and the hardening of Russia's negotiating position on the principles of cooperation with the West has led *inter alia* to the suspension of talks with the EU on a new Partnership and Cooperation Agreement, as well as the suspension of Russia's process of accession to the OECD. In addition Russia has strengthened its protectionist policy, despite its accession to the World Trade Organisation in 2012; and since 2014 the country's isolation has also deepened thanks to Western sanctions, as well as Russia's counter-sanctions and its programme of import substitution.

2. The main challenges

The main economic challenge for the Russian government remains **the exhaustion of the present raw material-based model of economic development**. This is mostly predicated on external factors over which the Russian authorities have limited influence: fluctuations of prices, and trends on export markets which do not favour Russia. The degree to which Russia is dependent on the prices on global markets, as well as the fragility of the basis for Russia's economic growth, were revealed by the collapse of oil prices at the end of 2008 (falling below \$40/bbl) and at the turn of 2015 (when they fell below \$30/bbl), leading to serious economic crises. However, the exhaustion of the raw-material economic model was already apparent in 2013, when growth in Russia came to a standstill despite the high oil prices.

Another challenge for Moscow remains the **negative trends on the energy markets**, including the European market which is strategically important for Russia. This particularly concerns the rapidly changing situation in the gas sector. It is true that Russia has managed to maintain a relatively high level of participation on the European gas market (around 30%), although the changes taking place in Europe (especially within the EU) have made the interdependence of Russia and Europe more evenly balanced. Firstly, this shift has been caused by regulatory changes, in particular the so-called energetic liberalisation packages, as well as the enforcement of the EU competition rules (the initiation in 2012 of antitrust proceedings against Gazprom). Secondly, the attempts EU member states have made to diversify their supply sources have been important, in particular, the development of infrastructure allowing imports of LNG. Thirdly, industry forecasts of increased consumption of gas in Europe have been modified to the detriment of Russia. Russia's dependence on the European gas market has been reinforced by the fact that **Moscow has so far not succeeded in significantly diversifying its export markets**. In addition, as a result of Russia's aggression against Ukraine, Gazprom has lost its largest market (Ukraine still imported 59 bcm of gas from Russia in 2006).

Figure 8. Export of Russian gas to target markets, 2005–16 (in bcm)



Source: authors' calculations based on data published by Gazprom, www.gazprom.ru

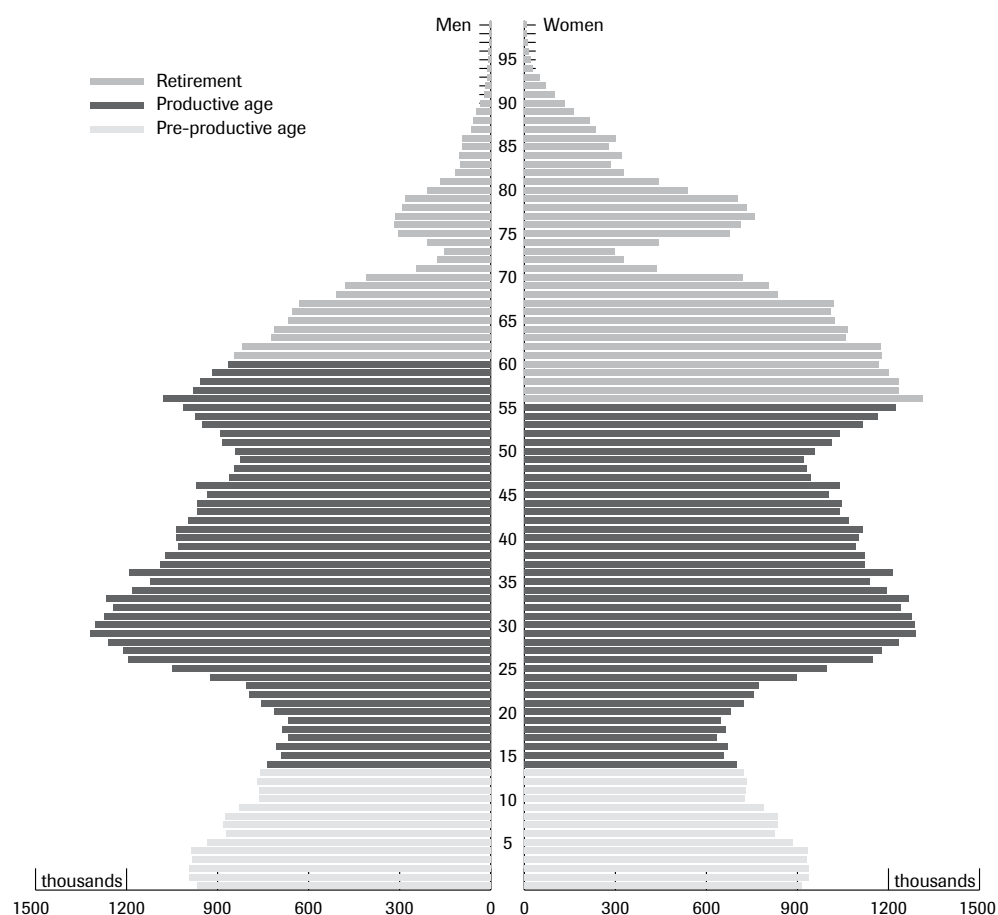
The situation on the Asian markets, which Moscow had seen as promising, is also evolving unfavourably for Russia. Although in 2016 Russia succeeded in obtaining the status of China's main oil supplier, the increasing competition among exporters, changes in energy policy (aimed at strengthening the participation of gas in the energy mix, at the expense of oil and coal), and the economic downturn are all challenging this idea. In turn, the Asian countries are meeting their growing gas demand on the basis of a diversified portfolio of supplies (Japan is primarily using LNG, and China uses both LNG and gas imported via pipelines, particularly from Central Asia), which will hinder Moscow in its competition for new outlets for Russian gas.

Another potential challenge to Russia remains the **sanctions policy of the West, especially the United States**. Russia has managed to overcome the consequences of the existing sanctions and stabilise its financial sector; however, some potential new restrictions from Washington could strike a serious blow at the Russian economy.

The Russian authorities will have to also deal with internal problems, especially with their aging society. According to Rosstat, in December 2017 the size of the labour force in Russia was estimated at 76.5 million, i.e. 52% of the total population of the Russian Federation. According to current estimates, the labour market will be reduced by around 800,000–900,000 people annually. At the current low level of unemployment in Russia (5.2% in 2017), the labour market is already operating on the border of a deficit, and the working

people who could ensure the development of the Russian economy are absent. In addition, an ageing society means increased expenditure on pensions and social & health support. In 2017 there were c. 44 million pensioners in Russia (around 30% of the country's citizens); the retirement age is currently 55 years for women and 60 for men (with an estimated average life expectancy of 77 and 67 years respectively), and the total payments from the Pension Fund amounted to almost \$150 billion (i.e. more than 9% of GDP) in 2017, almost 45% of which were transfers from the federal budget. The financing of the pension system is a serious challenge for the authorities, who have already resorted to special measures, including topping up the pension fund from the National Prosperity Fund (around \$11 billion were transferred for this purpose in 2017).

Figure 9. Russia's population structure by age

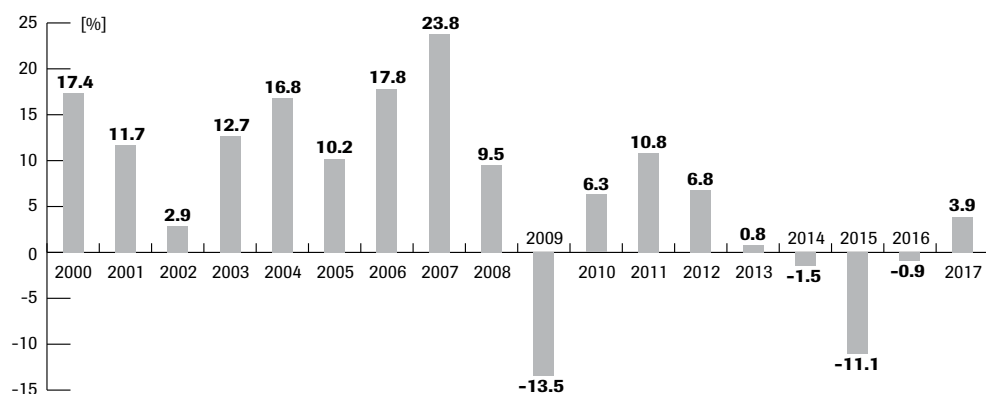


Source: Rosstat, www.gks.ru, 2018

Another major problem facing the Russian authorities is **the shortage of investment**, which is essential for boosting Russian growth. This absence is

inhibiting the increase in labour productivity which would partially solve the labour shortage problem. Investments in Russia have remained at a low level since 2013, and the amount actually fell in 2014–16. The low level of investments in Russia is associated on the one hand with limited access to capital, in connection with the crisis which the Russian economy fell into in 2014, as well as the Western sanctions. On the other hand, business’s unwillingness to invest is the result of the weak investment climate in Russia, and the low assessment of prospects for the Russian economy’s development. The uncertainty of property rights, corruption and the state’s domination of the economy all discourage business from getting involved in projects with long-term returns. In addition, the impaired mechanisms for competition mean that the investment projects which are implemented in Russia are much more expensive and not very efficient. Consequently, over the past 18 years (apart from 2006–07) Russia has seen a net outflow of capital (see Appendix 6). Foreign investments entering Russia in that period, meanwhile, have been focused in the energy sector, confirming the Russian economy’s dependence on it.

Figure 10. Increase in investments in core capital (change in percent)



Source: Rosstat, www.gks.ru, 2018

3. Prospects

We should not expect during Putin’s fourth term that Russia will free itself from its dependence on raw materials and the variance in prices on the global markets. The experiences of the last 18 years show that the ruling elite is averse to deep and comprehensive economic and political reforms, without which it will be impossible to create new, stable sources of growth for Russia. The shape of economic policy will be most influenced, first and foremost, by the interests of the individual members of Putin’s elite. Their actions so far show that they will try to block any changes that would undermine the current

autocratic style of managing the state and the economy, thanks to which they have access to the state's financial resources.

At the same time, another economic collapse is unlikely. This is due to relatively favourable external factors; most forecasts expect oil prices to remain within a range of \$50–70/bbl. In addition, the government is conducting a restrictive fiscal policy. The budget for 2018–20 is based on conservative estimates of the average price of crude oil, at around \$40/bbl, as well as a planned reduction of budgetary expenditure, including social policy and defence (although this will not affect the status of the Russian army's combat readiness). If crude oil prices rise, any surplus income will be allocated to the National Prosperity Fund, which will increase the government's room for manoeuvre, allowing it to increase spending on selected projects (including *ad hoc* interventions in the social sphere, or limiting the negative consequences of possible new US sanctions).

It is unlikely that the unfavourable trends for Russia on the European energy market will change. As a consequence, Moscow's plans for a significant increase in exports to Europe (particularly in the gas sector) seem unrealistic. **However, Russia is likely to succeed in implementing its key infrastructure projects** intended for the export of gas onto the European market, in particular the Nord Stream 2 (if the project does not lose the political support of Germany, or is not covered by US sanctions) and Turkish Stream gas pipelines, which will allow it to further diversify its supply routes.

At the same time, contrary to Russian declarations, **the Chinese market will not become an alternative to Europe in the context of gas supplies.** The probable activation of the 'Power of Siberia' gas pipeline and the inauguration of deliveries to China (expected at the turn of 2020) will only involve minor quantities of gas; the implementation of other Asian projects seems unrealistic at the moment. However, Russia is likely to retain its status as an important supplier of crude oil to China.

The state's burdens linked to the need to finance its pension and social policy will most likely **force the authorities to take certain actions with the aim of improving the efficiency of the current system.** Social policy remains one of the main priorities of the Russian budget, and it will absorb the majority of the funding (around 30% of total expenditure). The changes implemented, however, will probably be tactical and selective in nature. In the next few years, we should expect the continuation of the process of **reforming social assistance** observed over the last three years (including the further elimination of reliefs,

subsidies for selected goods including medicine, and the creation of a system to support the most needy), as well as cuts to the pension system (most likely by raising the retirement age and reforming the distribution of social benefits). Russia's budget for 2020 includes a plan to reduce expenditure on social policy to around 4.4% of GDP (the figure was 5.5% in 2017). These new measures are likely to be introduced gradually, in order to minimise social discontent and not test the patience of the Russian public excessively. However, if oil prices rise higher (well above \$40/bbl), the government will have an opportunity to increase its expenditure on social spending.

We should not expect any real changes to improve the investment climate in Russia, such as limiting the state's participation in the economy and the influence of officials on business, or guarantees of property rights. Nor will there be any dynamic increase in private investment in Russia. The Kremlin will probably try to maintain state support for selected major infrastructure projects in the country, although the amount and scale of financing will have to be adapted to the shrinking pool of financial resources.

In summary, the most likely scenario for the development of the economic situation in Russia during Vladimir Putin's fourth term is economic stagnation: a slight increase, but still below the global average. At the same time, this new variant seems to be fully acceptable to Putin's current elite; it allows them to retain power and maintain the country's relative socio-economic stability.

III. FOREIGN POLICY

1. The current state of affairs

The Kremlin has operated a **policy of ‘soft revisionism’** more or less since 2004, based on challenging and weakening the post-Cold War liberal international order while taking advantage of its benefits in the economic sphere (access to Western markets, capital and technology). Aware of Russia’s economic weakness and the importance of the relationship with the West for the Russian economy, the Kremlin has skilfully manipulated the levels of tension with the West, and especially with the United States, while still managing to avoid an open confrontation.

The strategic objectives of the Kremlin’s foreign policy have remained unchanged. These are as follows:

1. **weakening the position of the United States: ‘dethroning’ the US from its role as the ‘guarantor’ of liberal global governance;**
2. **revising the security order in the Euro-Atlantic area, and**
3. **creating a regional order within the post-Soviet region, dominated by Russia, by means including the build-up of integration structures subordinate to Moscow.**

During Putin’s third presidential term (2012–18), Russia’s foreign policy was characterised by increased assertiveness, in comparison with the past, which sometimes moved into open aggression, as well as increased activity in regions of the world (the Middle East, Southeast Asia, Latin America) which had previously been very low on its list of priorities behind the Euro-Atlantic, post-Soviet and East Asian regions.

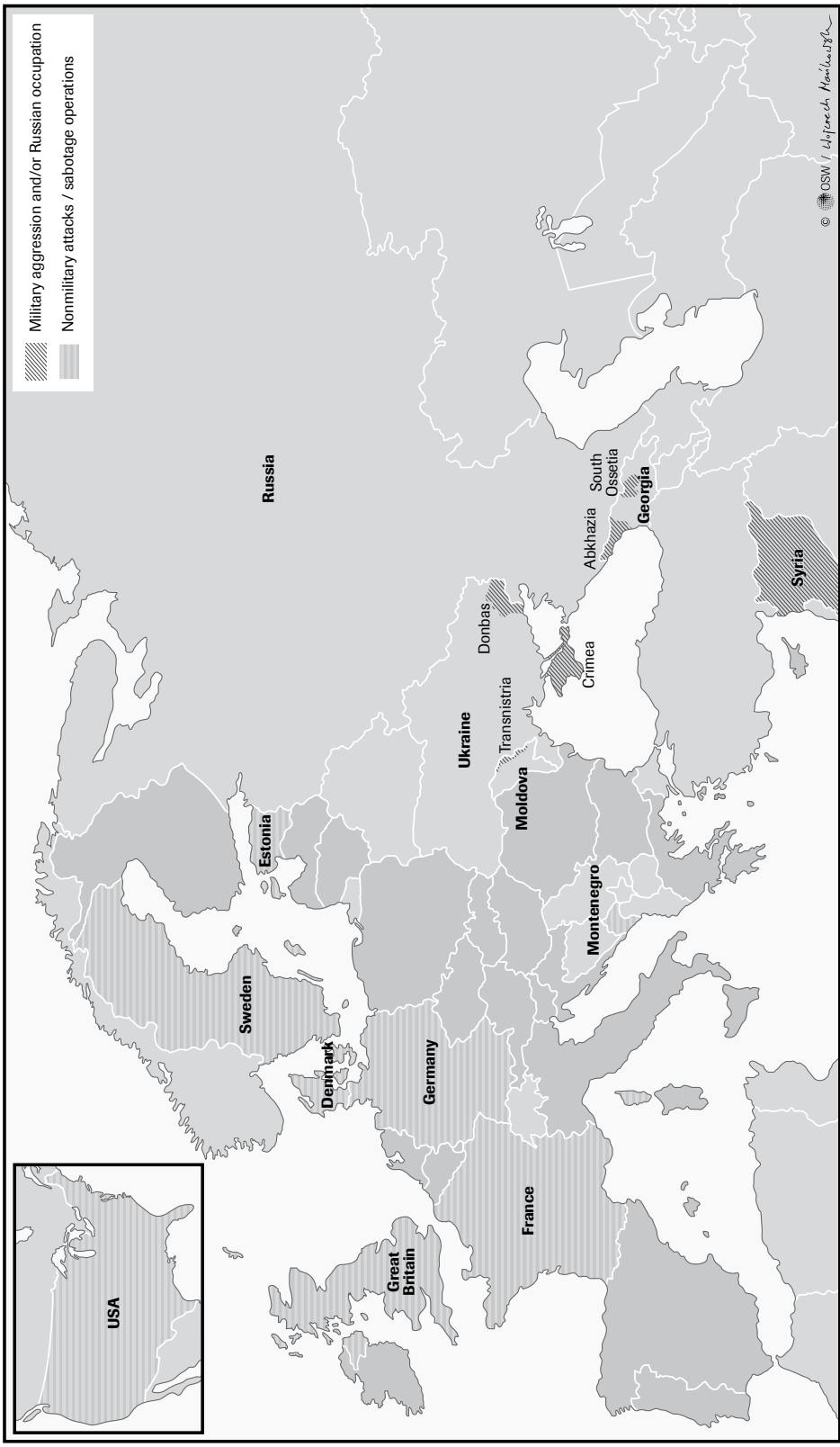
This increased assertiveness stemmed primarily from the sense shared by Putin’s team that its legitimacy was weakening; and as a result, that it became more vulnerable to possible attempts by Washington to apply ‘regime change’ to Russia itself. Moscow’s more assertive policy was first of all intended to satisfy the great-power aspirations of Russia’s public and elites, and also, by increasing tension between itself and the West, to consolidate Russian society around the government. Second, this policy was intended to accelerate the weakening of the West, and especially the United States, and thus stimulate

the transformation of the liberal international order into a global concert of powers, which the Kremlin elite felt would better protect Russia from external interference.

The manifestations of the assertiveness of Russian foreign policy during Putin's third term were primarily the following:

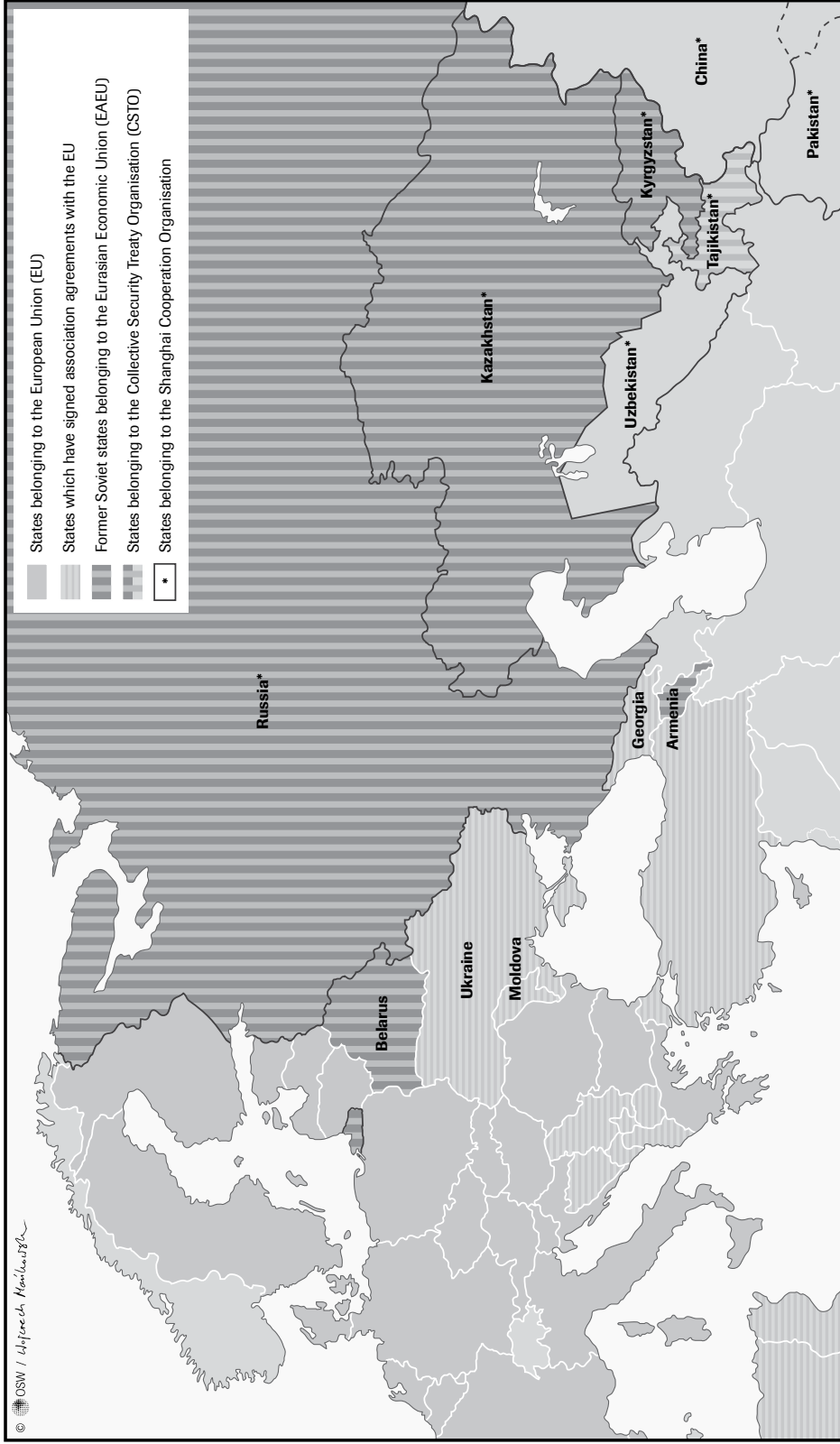
- **the use of military force** (the aggression towards Ukraine and the armed intervention in Syria);
- **territorial conquests** (the annexation of Crimea was Russia's first territorial conquest by the use of force since the 1940s);
- attempts to **influence the internal politics of other states** by using armed formations, sometimes irregular (as in Ukraine) as well as tools of 'information warfare' (campaigns of propaganda and manipulation in Russian-controlled media, trolling on social media, cyber-attacks), and financial or media support for anti-establishment or (perceived as) pro-Russian political forces. **The most spectacular example of Russia's 'information war' was the attempt to intervene in the US presidential campaign in 2016.**

Map 1. Russia's current active measures interventions and 'hybrid' operation



In the post-Soviet area, **the Kremlin has initiated attempts to deepen and extend the process of economic integration, as well as giving it a political dimension** by transforming the Customs Union (established in 2010) into the Eurasian Union. It then undertook an intense campaign of economic and political pressure aimed at inducing Ukraine to join the project. Eventually, the Kremlin succeeded in founding the Eurasian Economic Union (EAEU) on 1 January 2015. However, its success has so far been very limited. On the one hand, the new structure meant a real (and beneficial for Moscow) deepening of economic integration, and drew Armenia and Kyrgyzstan into this process, in addition to the members of the Customs Union (Kazakhstan and Belarus). On the other hand, however, Russia failed to include elements of political integration to the process of Eurasian economic integration, and its attempts to encourage Kiev to join the EAEU led to war with Ukraine and open political conflict with the West. Although the annexation of Crimea brought the Kremlin benefits in the form of increased domestic political legitimacy and an improved military position in the Black Sea basin, it was a strategic failure in foreign policy terms (see below).

Map 2. Russia in the post-Soviet area: integrational structures



As its conflict with the West deepened, Russia activated a global policy in an attempt to strengthen its bargaining position towards the West by developing economic, political and military relationships with non-Western partners. This purpose was also served by its attempts to interfere in regional conflicts, in order to demonstrate to the West that these conflicts could not be ended without the cooperation of Russia, and on its terms. The Kremlin has made a particular effort to **strengthen its relationship with China**. In the context of its worsening conflict with the West, Russia agreed (after more than a decade of negotiations) a long-term contract for the export of its natural gas and the construction of a gas pipeline between the two countries; it also agreed to supply China with technologically advanced weapons systems (S-400 air defence systems, Su-35 multi-role fighters); and intensified military cooperation between the two countries (including joint exercises, including in strategically 'sensitive' areas such as the Baltic Sea, the Mediterranean Sea, the Sea of Japan and the South China Sea). At the same time, Russia began **a tactical game with Japan**, aimed at expanding their economic cooperation as well as the strategic 'uncoupling' of Japan from the United States, exploiting Tokyo's desire to recover the Kuril Islands, as well as Japanese concerns at the power of China. Russia has also undertaken efforts to expand economic and military-technical cooperation with the ASEAN countries.

Most impressive, however, has been the return of Russia as a great power in the Middle East. This comeback is the result of a coordinated use of military and diplomatic instruments, as well as supplies of weapons and nuclear technology. A key role was played by the introduction of Russian troops (primarily air power and special forces) to Syria, and the (for now) militarily successful intervention in the civil war there. This intervention was accompanied by diplomatic action which successfully sought to maintain contacts and develop cooperation with the greatest possible number of countries in the region, regardless of which party they supported in the Syrian civil war. In the context of the Syrian conflict, Russia has (with Iran and Turkey) attempted to create a regional 'concert of powers'. In addition, it has become a major partner for such regionally important countries as Egypt, Israel, Iraq, and (in the context of coordinating policy on oil exports) Saudi Arabia. Russia also obtained an important position for itself as a player in Libya.

This assertive policy has brought the Kremlin significant short-term benefits in internal politics. By annexing Crimea, opening conflict with the West, demonstrating its ability to withstand Western pressure and carrying

out the successful 'rescue' operation of the Assad regime in Syria, **the Kremlin has managed to create a sense among the Russian public that Russia is regaining or has regained the status of a great power, which automatically resulted in a boost in support for Putin.**

2. The main challenges

Putin's third term saw a collapse of the 'soft revisionism' strategy that had hitherto been optimal for Russia. The level of conflict with the United States has come dangerously close - from the Kremlin's point of view - to a level where there is a risk of open and direct confrontation. The Kremlin knows that it cannot win such a confrontation because of its overall power disparity with the West.

A growing problem for the Kremlin is Western, especially US sanctions (particularly economic), which are the price Russia has paid for its aggression towards Ukraine. Although they are bearable in the short term, in the longer term they will call into question the model of Russia's economic relations with the West which has effectively been operating until 2014, and has proved beneficial to Russia's elites. In this model, Russian economic entities essentially had free access to the markets and resources of the Western liberal economy, while Western economic entities' access to the Russian market was restricted by the state and by the informal mechanisms operating in the Russian economy. In addition, the Russian ruling elite realises that in the long run, the continuation of the sanctions regime will foster the growth of the disparities in potential between Russia and its competitors and partners.

The conflict Russia initiated with Ukraine in the Donbas is a major problem for the Kremlin for another reason as well. Considering that the Russian goal was to include Ukraine into the Moscow-controlled integration structures, the conflict has in fact had an effect completely opposite to the one desired. It has led to increased pro-European and anti-Russian moods in Ukrainian society that make it impossible for Ukraine to join such structures in the foreseeable future. This has called into question the implementation of the Eurasian integration project, which is key to Russia's status as a great power.

In addition, it has turned out that Russia's non-Western partners, who have declared their support for the idea of a new multi-polar international order, are ready to adopt a position of, at most, 'benevolent neutrality', but not to participate in the conflict on Russia's side in a situation of acute

conflict between Russia and the West. **This is also true of Moscow's strongest 'strategic partner', namely China.** Moreover, economic cooperation with non-Western partners cannot replace access to Western markets, capital and technology for the Russian economy. At the same time, the growing disparity between the potential of Russia and that of China has condemned Russia to the role of 'junior partner', which as a 'lesser evil' compared to American hegemony is acceptable to the Kremlin, but clearly raises concerns among some of the Russian elites. What is more, the growth potential of China has raised tensions with India, until recently a 'strategic partner' for Russia with whom it had previously had very good relations, devoid of significant problems. Now, in fact, Delhi is cooperating more closely with Washington (including in the military sphere), which rules that country out as a partner for Moscow's anti-American policy.

Nor is Russia's position on the Middle East based on permanent foundations. The armed conflict in Syria is continuing, and what is worse, it threatens to transform into an open clash between the region's actors. Especially high are the risks of an Iranian-Israeli conflict, with the possible participation of the United States on the side of Israel. Such a conflict would automatically marginalise Russia, thereby denying it the position of 'principal player' in the region which it had obtained thanks to its intervention in Syria.

3. Prospects

There are three possible scenarios for Russian foreign policy during Putin's fourth presidential term: defensive-transactional, confrontational-crisis and inertial-opportunist.

The least likely scenario is the defensive-transactional. This would be based on trying to convert Russia's 'geopolitical retreat' into its economic benefit, i.e. by 'exchanging' geopolitical concessions (the key question being the terms for ending the war against Ukraine) for the normalisation of political and economic relations, and for obtaining the full recognition and acceptance of the Russian regime by the West. Such a scenario seems likely only if the Kremlin comes to the conclusion that in the long term the West's potential will be strengthened or consolidated, and will be used more assertively against Russia, whose potential will gradually decline. An additional factor which could turn the Kremlin towards adopting this variant is the conviction that it will not be able to maintain control of its domestic situation, and that the system of 'façade democracy' will no longer function effectively.

There are two other likely scenarios: the confrontational-crisis and the inertial-opportunist models. Which one Russia chooses will be dictated by, on the one hand, its assessment of the situation, including the perceived level of crisis in key Western states and throughout the Western community, and on the other hand, by external factors, in particular the attitude of the US towards Russia.

The confrontational-crisis scenario will become reality when the Kremlin concludes that there are currently no opportunities for a new ‘reset’ in relations with the United States; that the American economic sanctions will be extended and painful; and the policy adopted by the Trump administration of strengthening the armed forces, while the Russian economy remains stagnant, will further increase the US’s advantage in the military sphere.

This scenario is especially likely in two cases:

1. a sudden but short-term ‘window of opportunity’ in the form of a shift in the balance of forces in the European theatre in favour of Russia (for example, if the United States becomes entangled in an armed conflict in the Far East);
2. the emergence of a clear prospect of a sudden change to the balance of power to the detriment of Russia, for example, if Washington introduces drastic economic/financial sanctions.

In this situation, Putin is likely to opt to escalate the conflict with the United States, and perhaps even to bring about a serious crisis, especially one involving an element of indirect (proxy) military confrontation. Together with stronger anti-Western (and especially anti-American) rhetoric, such a scenario could, for example, include the resumption of military activities on a larger scale against Ukraine, the intensification of destabilising activities (disinformation, cyber-warfare, ‘hybrid’) in the Balkans, and in an extreme case, even ‘hybrid’ operations backed up by the threat of open military intervention in the NATO area (the Baltic states).

The aim would be to put political/military/psychological pressure on the opposing party and force it to make a strategic bargain, codifying any Western concessions in the form of a ‘new Yalta’ agreement. In Moscow’s view, such concessions should include the recognition of a Russian sphere of influence in the area of the CIS, the effective demilitarisation of Central Europe, the recognition of ‘absolute sovereignty’ inside Russia, and the maintenance of the model

of 'asymmetric' economic cooperation ('Western' laws for Russian entities in the West, and 'Russian' laws for Western entities in Russia).

The inertial-opportunist model is also possible, especially if the Kremlin decides that the domestic situation in Russia is and will remain sufficiently stable, and that there are chances to normalise relations with the West without the need for Russia to make any concessions.

This scenario would be based on a continuation of the policy which has been adopted since the end of the acute phase of the war with Ukraine (since February 2015). It would be predicated on the fatigue of the West and the growth of symptoms of the Western community's internal crisis, as well as upon the aggressive exploitation of emerging opportunities to demonstrate Russia's military abilities, its potential to harm Western interests, and to create problems for whose resolution Russia would be essential. **The main objective of such a policy would be to limit conflict with the West, and especially the United States, without losing the 'assets' acquired by Russia in 2014–16. The ideal from the Kremlin's point of view would be to force the West to accept Russia's 'acquisitions' and to return the relationship (especially in the economic sphere) to the state it was before 2014.**

To achieve this goal, the Kremlin will paradoxically use the methods of manipulating a 'limited' conflict with the West. It will thus continue to take measures to undermine the political and economic position of the West, and especially the United States, in the Middle East, the Balkans, East Asia and Latin America. As before, this will involve supporting countries and regimes which for a variety of reasons are in conflict with Washington or Brussels. This support may take the form of diplomatic action, the supply of weapons, and in exceptional cases making financial loans or economic agreements. We should also expect to see Russia undertaking information warfare, based on causing or aggravating internal or international conflicts which could backfire on Western interests.

In this scenario, the Kremlin would continue its existing strategy towards Ukraine in order to force it to implement the Minsk agreements in their Russian interpretation, which are intended to bring about the creation of constitutional tools allowing Russia to block Ukraine's integration with the West (through an 'autonomous' Donbas wielding influence on Ukraine's domestic and foreign policy). In particular, the Kremlin would try to exploit the West's growing fatigue with the Ukrainian-Russian conflict and

its disappointment at the lack of reform in Ukraine to convince it to put pressure on Kiev. Due to the importance of Ukraine for the Kremlin, both from the point of view of its reintegration into the post-Soviet space ambitions and its domestic policy (Russia's elites and public believe that most of Ukraine is part of Russia's patrimony), the Ukraine question is the one where the Kremlin will be least willing to make significant concessions (i.e. by agreeing to eliminate the para-states created by the separatists in Donbas and returning these territories to genuine Ukrainian state control).

An important element of the Russian strategy in both these last two scenarios (the confrontational-crisis and the inertial-opportunist) is predicated on a 'breakdown' of the political synchronisation of Western policy towards Russia, and in general on the creation and expansion of tensions between Washington and its European allies. This will be based on a search for 'sectoral' normalisations ('resets') with individual states, particularly by enticing them with prospects for economic cooperation. This applies to EU member states as well as Japan, the latter of which Russia will seek to 'neutralise' by feigning an openness to resolve the two countries' territorial dispute, and playing on Tokyo's concerns at the assertiveness of Beijing's policy.

At the same time, Russia will try to intensify its political, economic and military relations with its non-Western partners. **Above all, Russia will continue to strive**, despite all the perceived disadvantages, **to deepen and strengthen its relationship with China.** Its strategic 'embrace' of Beijing is intended to serve as a form of security in the event of open conflict with the United States, and provide the maximum profit to Russia from the expected further rise in China's power.

Despite the failure of Russia's policy towards Ukraine, the Kremlin will not deviate from the course of reintegrating the post-Soviet area under its aegis and blocking the integration of the countries within that area with Western structures. **Russia will continue to seek both to deepen the economic integration within the framework of the EAEU, and to include new members in this organisation** (e.g. by pressing Azerbaijan and/or Tajikistan to join). By exploiting the economic dependence of the EAEU's members and their elites' fears of internal destabilisation, Moscow will attempt to induce them to coordinate their foreign policies and to deepen military integration within the framework of the Collective Security Treaty Organisation (CSTO). The instruments it will use in the realm of propaganda include the following: compromising the West and its structures (including the EU and NATO), promoting

Russian 'conservative ideas', organising and supporting pro-Russian political movements, and promoting a policy of memory whose visions are compatible with those of Russia (in particular exploiting the memory of the so-called 'Great Patriotic War' of 1941–45). **In response to the West's decreasing activity in the CIS area, the Russian strategy will probably prove effective (for example, the ongoing subordination of Belarus and the countries of Southern Caucasus).** In contrast, **Russia will not be able to counter the growing influence of China** in Central Asia.

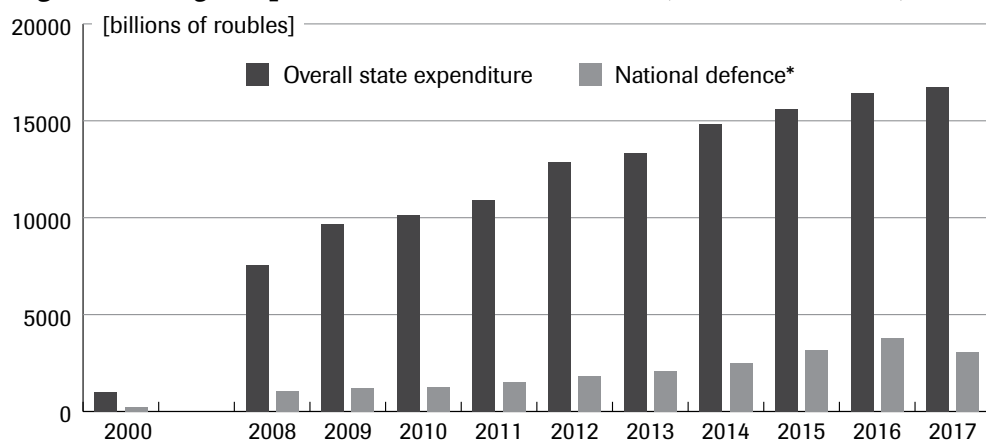
During Putin's next parliamentary term we should expect **Russian control over Belarus to be strengthened.** Russia already effectively controls the Belarusian army, and probably has great influence in the security services. The countries' infrastructure links and economic dependence will be further used to gradually **force Minsk into making further political concessions** (such as the introduction of a common visa regime).

IV. THE ARMED FORCES

1. The current state of affairs

The principles of the Russian Federation's military policy, particularly in the field of the structural-organisational changes and technical modernisation of the Armed Forces, **have been consistently implemented since the beginning of Vladimir Putin's rule** in 2000. Russia's military capability has continuously expanded in favourable financial conditions – regardless of periodic economic fluctuations – since the beginning of the millennium.

Figure 11. Budget expenditure on national defence (billions of roubles)



* These are the expenses listed in the section of the state budget entitled 'Defence', although they do not cover all Russia's expenditure on the armed forces

Source: Russian Ministry of Finance, www.minfin.ru

During Putin's third term, the growth in Russia's military potential has become a policy priority, not only in terms of national security, but also in economic and social terms. The rearmament programmes being implemented (the so-called State Armament Programme, in Russian Государственная Программа Вооружений, *GPV*) – starting from the GPV-2020 programme passed in 2011 (planned to run from 2011 to 2020) and within the framework of the GPV-2027 programme launched at the beginning of 2018 (planned for 2018–27) – are seen as a flywheel for the country's economic development (by developing, or acquiring from outside and implementing, modern technology – also in the civil sector – and creating new, highly skilled engineering and labour personnel). The restrictions on the growth of military expenditure (which have been apparent since 2014) are mainly declarative, and have not slowed the process of modernising the RF's Armed Forces or changed the direction of the Russian army's transformation.

The ‘milestones’ in the process of modernising the armed forces during Putin’s third term were the war in Ukraine (since 2014) and Syria (in which Russia has been directly involved since 2015). This first action served as a justification for the expansion of the army’s offensive formations (especially in the Western strategic direction), and the second for the acceleration of the changeover to new generations of weapons and military equipment.

In assessing the current state of Russia’s military capabilities as built up so far under Putin, the following transformations in the organisational sphere deserve special attention:

- **the concentration of all issues related to the wider defence of the territory of the Russian Federation** (including operations in the areas of countries bordering Russia and inhabited by Russian-speaking populations) **into the hands of the RF’s Armed Forces.** The other military formations have been operationally subordinated to them, in the first instance the National Guard (the former Internal Troops of the Interior Ministry, whose powers have been extended to include the implementation of tasks connected with military occupation), the Border Troops of the FSB and the Troops of the Ministry of Emergency Situations (Министерство по Чрезвычайным Ситуациям, МЧС). Their operational sovereignty is *de facto* limited to ensuring order and internal security on the territory of the Russian Federation. In the event of armed conflict with an external enemy, the formations of the above-mentioned troops will be directly subordinated to the local commands of the RF Armed Forces in strategic directions;
- **the identification of five main strategic directions** (Western, Southern, Central, Eastern and Northern/Arctic), **and the creation of strategic commands linked to them**, based on the current military district commands (with the exception of the Northern direction, which had no prior basis as a military district, and was based on the Northern Fleet), while reducing the number and changing the nature of the latter into administrative and logistical structures;
- entrusting the strategic directions’ commands with full operational authority over the units subordinated to them (at the expense of the competence of the above-mentioned military formations which are subordinate to other departments, and also the commands of armed forces and independent troops of the RF Armed Forces, with the exception of the nuclear

component and strategic elements of air and space defence), and as a consequence, **creating effective groups of forces linking operational and strategic echelons;**

- **the designation as the two principal strategic directions of the Western** (taking into consideration the subordination of the forces and resources subordinated to the Northern and Southern strategic commands to activities in this direction) **and the Eastern.** This gives the Central strategic direction, in terms of the forces and resources in the Central Military District, the character above all of a secondary strategic echelon for the Western and Eastern strategic directions;
- **the emphasis placed** (since 2015) **on building up offensive potential** (the formation of new all-military tactical formations and support & security units) in the European part of Russia, directed in the first instance towards activities in the Western strategic direction;
- **developing the ability to rapidly mobilise and move large forces of troops between strategic directions (theatres of war)** primarily using rail and aircraft, as well as the ability to carry out a massive precision strike with missiles, and also (in the tactical dimension) the ability to conduct uninterrupted operations at night and in difficult weather conditions (with particular regard to winter conditions).

As a consequence of these actions, Russia's military potential should be considered as optimal with regard to its declared operational needs. The real numbers of the RF Armed Forces in peacetime do not exceed 900,000 soldiers. This allows us to assume that the observed increase in the number of all-military tactical formations, particularly the divisions in the Western strategic direction (see Appendix 6), will in the foreseeable future come under the established ceiling of 1 million soldiers. Judging by the training activities which have been organised in recent years, it appears that only a small number of units are kept on a wartime footing or a similar level, while the majority remain as incomplete structures which, if necessary, will be upgraded to a wartime footing on the basis of trained reserves; the personnel core of these units will consist of professional and contract soldiers.

The potential core is made up of the 1 million (formally) soldiers of the RF Armed Forces (the other military formations number 500,000), and the total number of trained reserves in the Russian army should be assessed at 6 million.

Changes in the size of the RF Armed Forces (in thousands)

	January 2011	January 2018
Total full-time personnel (formal posts)	1000	1013.6
of which: professional and contract officers	320	225
of which: professional & contract NCOs and soldiers	230	405 *
of which: conscript NCOs and soldiers	300	240
of which: students in military colleges	40	55

* In the period from December 2017 to February 2018, divergent figures on the total number of contract soldiers in the RF Armed Forces were given, from 500,000 to 384,000; the second figure is identical to that given at the end of 2016. The full-time estimate for 2017 was 405,000.

Source: authors' calculations

At the end of Putin's third term, the Russian army also had a relatively strong **tactical air force**, consisting of 32 fighter squadrons (including 4 new Su-30 and Su-35 multi-role aircraft), 24 bombing and assault squadrons (5 of which are Su-34s), 8 tactical reconnaissance squadrons and 12 helicopter bases and brigades. Most of the equipment is either new or completely upgraded. Over the last decade the Russian tactical air force has received about 540 new or upgraded combat aircraft, as well as 430 new helicopters (including more than 200 combat Mi-28s and Ka-52s).

There have also been changes to the nature and structure of the **airborne troops**; currently they are *de facto* mechanised formations with an increased capacity for rapid deployment, offering a destructive force comparable to the classic mechanised tactical formations (especially after including the tank companies, and ultimately the tank battalions, into the divisions and air assault brigades). Initially (from 2012) reconnaissance brigades were formed exclusively in the Western strategic direction (the first such unit in the Eastern military district was initiated in 2018), combining various reconnaissance elements including electronic warfare units.

It must be recognised that the most important elements of the RF's Armed Forces which determine its capabilities for the deterrence and defence of the state's most important regions and sites, and which in the political dimension establish the relative balance of Russia's military potential with that of the United States, are its **strategic nuclear arms, as well as its system of air and space defence**, which over a decade have been modernised to include

new generations of weaponry. Unlike conventional operational forces, these components were involved in the structural changes to only a small extent, and their potential has been increased by the delivery of new weapons, mainly the Yars land-based MIRV-equipped intercontinental ballistic missile (out of 110 missiles, these currently make up a third of the land-based nuclear arsenal; during the previous decade, in addition, 78 Topol-M missiles were brought into service. In total, by the end of 2017 the RF's Strategic Missile Troops had 322 missiles with 1174 nuclear warheads at its disposal), the Bulava SLBM (currently deployed on 4 nuclear submarines, including 3 of the new Borei type; 4 additional units of the improved Borei-M version are under construction); as well as S-400 air defence missile systems (over the last decade, the Russian army received a total of 368 S-400 launchers, which allowed 23 regiments to be rearmed).

The Russian **defence industry** is still a world leader. Reasons for this include:

- Russia's significant expenditure on the purchase of arms and military equipment (about \$35 billion in 2017);
- revenue from arms exports (close to \$15 billion in 2017);
- state investments in the development and upgrading of military production facilities;
- tax and loan discounts which aid the transformation and consolidation of military enterprises.

It is noteworthy that **Russia has ceased maintaining unprofitable enterprises** (including giants like Izhmash, which was notable in the development of the Soviet military but has now been reduced and taken over by the nominally private Kalashnikov group); this has led to a reduction in the number of production plants, and the extraction of the leading producers of specific categories of weapons or components, the vast majority of which have orders from the Russian armed forces or foreign contractors until at least the year 2020. **This has allowed for investment in a new generation of technological lines** (such as Sukhoi, the main supplier of combat aircraft, and UralMashZavod, the leading provider of tanks) or for new factories to be built from the ground up (such as Almaz-Antei, the main provider of air defence missile systems). **The treatment of the technical modernisation of the RF Armed Forces as a great social programme** for the maintenance and development of the main

branches of industry is of some significance for the state of the arms industry, as it allows a high level of support for the government to be maintained among the elite of the Russian working class (especially after the unpopular decisions to close some of the plants at the turn of the 2010s).

2. The main challenges

The main challenge in view of Putin's next presidential term remains the continued technical modernisation of the RF Armed Forces. Although the implementation of the State Armament Programme for the period 2011–20 should be considered as safe from any threat (with the exception of arms for the Navy and the new generation of weapons, of which more later), and in many cases it may be significantly exceeded (for example, in terms of the plans to rearm the missile brigades with Iskander systems), the implementation of the new programme (GPV-2027) has encountered serious problems right from the outset. We should assume that the two-year delay in its adoption (originally the programme was supposed to come into effect from 2016) **has been caused not by a lack of financial resources, but by problems of a technical nature.** These have been caused, on the one hand, by the breaking of the ties of cooperation with Ukraine, and on the other with the increasingly tough restrictions on acquiring technology from the West. Although during the three years (starting in 2015) of the policy of import substitution the **Russian arms industry has achieved self-sufficiency in terms of the components and subassemblies it used to import from Ukraine** (this principally concerned engines for helicopters and power plants for large cruiser ships), **restoring military-technical cooperation with the highly developed NATO states should be considered very unlikely** in the foreseeable future.

On the other hand, there are challenges associated with **breaking the technological barriers in designing next-generation weapons** (the failed Iskander and Bulava missile tests served as examples of such problems even a decade ago). Breaking the technological barriers is not only a problem for Russia, but also for each state which is trying to develop new generations of weapons (consider the US's problems with the missiles supplied for its global missile defence system). In the case of Russia, this principally applies to the new categories and generations of strategic weapons. It is worth considering in greater detail the Avangard and Kinjal hypersonic shells (with top speeds many times in excess of the speed of sound), which are planned for introduction within the framework of the GPV-2027 programme; the air-launched missile with a nuclear-powered motor; underwater drone-missiles; military lasers; and the Sarmat

heavy intercontinental ballistic missiles. Apart from the last one, these are completely new categories of weapons (even though attempts to develop military application for lasers were made during the Cold War), and as such, they have been subject to various technological errors during their trials, which may delay their deployment in actual service. Concerning conventional weapons, the main examples of problems with overcoming technological barriers in recent years have concerned the construction of a fully efficient hybrid engine for conventional submarines (the prototype Lada ship has been in so-called 'experimental operation' since 2010; the construction of two additional units had been put on hold); and the final version of the engine (the so-called second stage) of the 5th-generation Su-57 combat aircraft (tests with the prototype of this engine started in autumn 2017, nearly eight years after the test flight of the prototype aircraft). On the other hand, one example of an effective, timely implementation of new technologies is the new S-500 air defence missile systems, the production of which started in 2018. A separate concern is how to get the new generation of weapons to the stage of making it economically viable to purchase them, as happened in the case of the T-14 tank on the Armata platform.

The partial asymmetry of Russia's military capability, in comparison with the US, remains its greatest challenge. In the development of military technologies, Russia has made up for most of its lag behind the leading countries of Western Europe and Japan; and in the case of multiple categories of weapons (missiles, air defence systems and electronic warfare, nuclear submarines, the new generation of tanks and combat aircraft) it is quite definitely running ahead of them. However, Russia still lags behind the United States, both in terms of the scope of the work it is conducting and the amount it spends, as well as in introducing its new equipment into the arsenal of its armed forces. The relative balance between the Russian and American defence industries exists solely in the area of strategic arms, especially nuclear weapons and delivery vehicles (land-based and sea-launched intercontinental ballistic missile, nuclear submarines – carriers of nuclear weapons); in terms of the airborne component of the nuclear triad (strategic bombers) and strategic missile defence, the Americans still have the advantage. The relative advantage for Russia lies in the development of radio-electronic systems and air defence & anti-missile systems at the tactical and operational level, as well as in armour (in 2017 Russia started full production of the world's first next-generation tank, the T-14 on the Armata platform).

3. Prospects

Due to the long-term nature of the modernisation processes, which concern more than just the RF Armed Forces (as this is a phenomenon common to all high-technology armies), **any change to the army's current status should be considered very unlikely** in the perspective of Putin's next presidential term. The trends of the transformations in the Russian army as set in the first decade of the 21st century are firmly set, and are solely dependent on Russia's economic and social ability to implement them. The programme of organisation and modernisation as observed and designated for implementation has the sole purpose of maintaining the Russian Armed Forces' offensive capabilities while securing the state it has already achieved. We should assume that **any fundamental change in the observed military policy of the Russian Federation** (and hence the direction and pace of the armed forces' development) **could only be brought about by a long-term economic collapse lasting many years.**

In view of Putin's fourth presidential term, we should expect to see the first tactical formations being completely rearmed with new types of arms and military equipment within the framework of GPV-2027. This programme is expected to include the rearmament of the first aviation squadrons with the next generation of Su-57 combat aircraft, T-14 tanks for troop battalions, and S-500 systems for the air and space defence squadrons.

In the light of Putin's next presidential term, the planned organisational increases in the RF Armed Forces' offensive capabilities should not encounter any serious problems. The process of updating armaments and military equipment with new-generation technology will depend not only on technological issues, but also on the development of the economic situation in Russia. Even though the rearmament spending can most likely be maintained until 2020 (as part of GVP-2020) thanks to the significant fall in the value of the rouble against the major currencies in the middle of this decade (while Russia has largely been forced by the sanctions to give up any acquisition of new technologies and components from the West), Russia's continued negative trends of economic development will force it to increase the militarisation of the budget (since 2015 a tendency to conceal real military spending in the budget statement has been observed, accompanied by changes in the legislation concealing the amounts being spent on armaments), or to limit its military commissions, although this latter is far less likely. It must be assumed that the essence of GVP-2027 will be to continue the rearmament process on the basis of

already existing technologies and designs, with an emphasis on the mass production of the weapons currently being tested and of new-generation military equipment, although it remains an open question as to how much will be spent on brand new types of weapons, as well as the most capital-intensive types of weapons already existing (such as new aircraft carriers).

It must be assumed that during the next decade in Russia work will continue on maximising the capabilities of existing categories of weapons, especially in terms of their unification (basing many types of arms and military equipment on common components) and automation (decoupling from the human factor) in accordance with general global trends. One new development which should be expected is the robotisation of the Russian armed forces. Although Russia had already mastered the technology and begun introducing different categories of unmanned aerial vehicles into service in the middle of this decade (especially in field reconnaissance aircraft and engineering works), during the next decade we should expect the introduction of combat robots, firstly drones for land operations, and then combat unmanned aerial vehicles (UAV) and underwater drone-missiles. The implementation of these technologies will depend on breaking not technological barriers but rather mental barriers, and hence, on assigning financial resources for regular production.

The nature and shape of the RF Armed Forces as achieved during the structural transformations at the turn of the 2010s must be regarded as fundamental and unalterable – not just during Putin’s fourth presidential term, but likely also throughout the next decade. The programme of organisation and modernisation as observed and designated for implementation has the sole purpose of maintaining the Russian Armed Forces’ offensive capabilities while securing the state it has already achieved. **The general objective of the development of the Russian armed forces remains: to prepare for a possible military confrontation with the United States and its NATO allies.**

APPENDIX 1. THE MOST IMPORTANT REPRESSIVE LEGISLATIVE CHANGES IN RUSSIA IN THE YEARS 2012-17

During Vladimir Putin's third presidential term, a number of laws were adopted which were aimed at supplementing and 'sealing' the existing achievements in the field of state control over society. These included strengthening the control of the state organs over the activity of natural and legal persons (principally non-governmental organisations and the media), as well as expanding the arsenal of instruments available to repress any criticism of the authorities. Though these have not been applied on a mass scale, and some of them are very difficult to enforce consistently, at least they are a comfortable deterrent, which can have a preventive 'chilling effect' discouraging citizens from becoming too active in certain areas. Special attention has been paid to tightening control over the internet, in the light of its growing usefulness for the grassroots mobilisation of protest potential (thanks to messenger programs and social networks).

1. Laws targeted at non-governmental organisations independent of the authorities

- **on 'foreign agents'** from July 2012. This obliged Russian non-profit organisations which received funding from abroad and at the same time engaged in 'political activities' to adopt the status of 'foreign agent'. Leaving aside the disparaging epithet of 'agent', the definition of political activity was defined very broadly and inaccurately. In practice, the status of 'agent' has the effect of burdening these organisations with time-consuming and costly accounting, supervisory and reporting procedures, and also reduces their opportunities for cooperation with the authorities and business environments;
- **on 'undesirable organisations'** from May 2015, concerning foreign and international NGOs operating in Russia. It enables the classification of their activity as 'unwanted' if it constitutes a threat to the foundations of the constitutional regime or the defence and security of the state. All activities by such 'undesirable' entities in Russia (including those which are purely informational) are prohibited, and persons involved in their activities can be subject to administrative sanctions or criminal prosecution.

2. Laws restricting access to information, targeted at independent media, including the Internet.

- from October 2014, on **limiting** (as of 2017) the permissible share of **foreign capital in the Russian media** to 20%. This act was aimed at eliminating or taking political control over popular media which are critical of Kremlin policy;
- an amendment to the media law in November 2017, **including foreign media** (very broadly defined) operating on the territory of Russia in the category of entities covered by the **law on 'foreign agents'** from 2012. The same law introduced the ability to block websites of 'undesirable organisations' without a court order;
- from July 2017, **prohibiting** Internet users in Russia from using **anonymisation services**, VPNs, proxy servers and the TOR network, i.e. tools to circumvent content blocks or hide the user's identity, and also allowing the government's media control agency Roskomnadzor to block access to information on and use of anonymity services.

3. Laws restricting freedom of speech

- from July 2012, giving Roskomnadzor **the right, without the sanction of the court, to block web pages** which show harmful content (such as child pornography, or the promotion of drugs or suicide). A 'black list' of banned sites was also created. Cases of provocation (e.g. placing harmful content in the user comments) provide an excuse to close websites which are inconvenient for the authorities. The context in which the content appears is also often not taken into account. In February 2014 a law came into force giving Roskomnadzor the right – at the request of the Prosecutor, without the sanction of the Court – to add to the 'black list' and block any websites that contain 'calls to extremist activity and popular disturbances' (in practice these definitions are very broad, and allow content to be blocked solely because of their criticism of the authorities);
- from June 2013, **the prohibition of the promotion of homosexuality** among minors, and strengthening penalties for insulting religious feelings. This is part of the current stigmatisation by the state propaganda of manifestations of 'Western' decadence and corruption, and its counter-promotion of 'traditional' Russian values;

- from May 2014, **making it more difficult to publish content on the Internet**, by means including imposing restrictions on popular bloggers which are more typical of the press (ordering bloggers who are followed by more than three thousand people per day to register and disclose personal data, and imposing liability on them for the dissemination of misleading and extremist information).

The following laws also restrict the freedom of expression indirectly:

- from December 2014 **on the ‘localisation of personal data’**, imposing a legal obligation to keep the personal data of RF citizens on the territory of Russia alone. This makes it easier for the special services to access personal data, and severely limits opportunities to use foreign servers to conduct any activity independent of the authorities;
- the so-called **Yarovaya Act** (from the name of one of its authors, Duma deputy Irina Yarovaya) of July 2016, which updated the provisions on the fight against terrorism. Of all its provisions, the most controversy was sparked by an order to operators & owners of Internet resources and messenger apps to save all text and audiovisual content sent via the Internet, as well as recordings of conversations, calls and text messages, for a period of six months (this part of the act will come into force in July 2018), and to share this information with the special services without the need for a court order. Another controversial issue is the obligation to share ‘encryption keys’ to messenger apps at the request of the FSB;
- from July 2017, **abolishing the anonymity of Instant Messaging (IM) users**; as of January 2018, use of a messenger app is possible only after the user enters a subscription number.

4. Laws restricting freedom of assembly

- an amendment to the act on public assemblies and the code of administrative offences from June 2012, introducing **high fines for organisers of illegal protests**, as well as legal protests which lead to damage to property or health, as well as a ban on organising protests by people who have twice received administrative punishment. In the case of organising provocations, this law facilitates the repression of the organisers of the protests, or restricts the protests themselves;

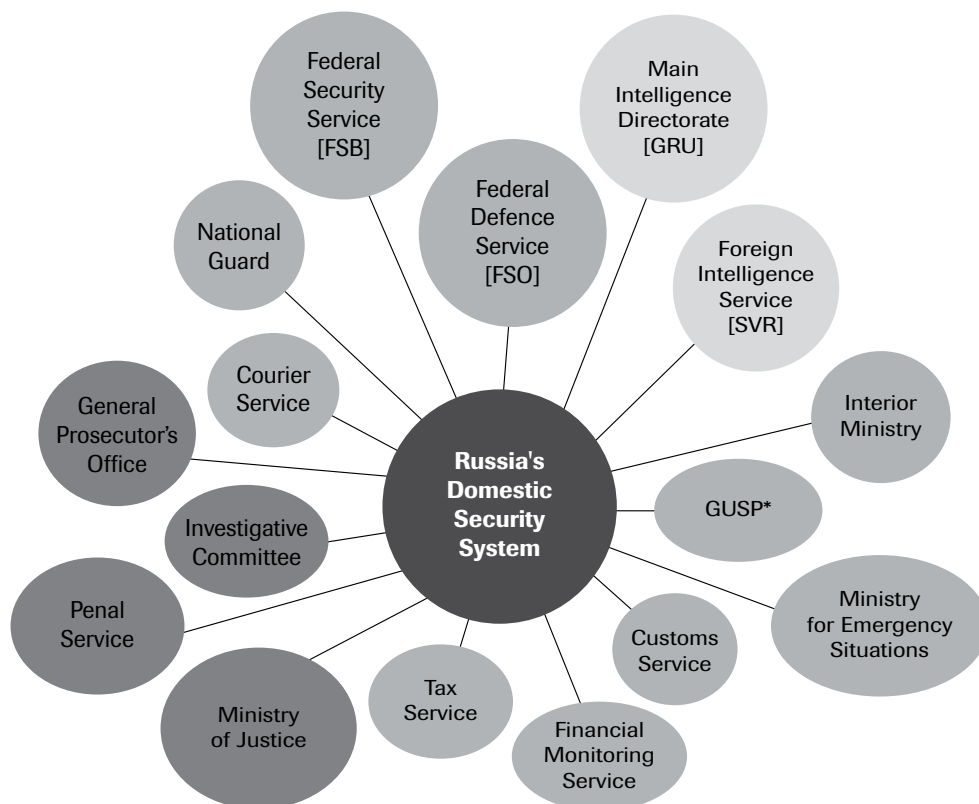
- from July 2017, **abolishing the possibility of organising spontaneous assemblies** (without prior notification to the authorities of the executive branch) in the form of meetings of parliamentary deputies of various levels with the electorate (previously, this form allowed the circumvention of the restrictive law on meetings used by the authorities to hinder the organisation of demonstrations).

APPENDIX 2. RUSSIA'S INTERNAL SECURITY INSTITUTIONS

Russia's legislation contains imprecise concepts such as 'national security forces' or 'federal bodies of executive authorities competent in the field of security, and political scientists and press commentators use the general term 'ministries of force' (силовики). The lack of a precise definition of the concept of 'special service' makes it difficult to develop a clear classification of such institutions.

Although the decision-making powers have since 2000 been consistently concentrated in the hands of politicians from the special services, the ministries themselves are instruments of Kremlin policy, and not independent players in internal and foreign policy.

Russia's Domestic Security System



GUSP - the President of the Russian Federation's Main Directorate of Special Programmes (Russian Главное управление специальных программ Президента Российской Федерации); this institution is responsible for preparing mobilisation and crisis management during wartime and emergency situations

The estimated size of specific internal security bodies

Name of body	Size
Federal Security Service (including the Federal Border Service)	at least 350,000
Interior Ministry	894,871
Federal Service of the National Guard Troops	340,000
Federal Protection Service	between 10,000 and 25,000
Foreign Intelligence Service	over 13,000
GRU (military intelligence)	about 12,000

Source: authors' calculations

Putin's successive terms of office have seen the construction of a model of the security sector based on a system of management which is centralised and hierarchised by the presidential centre of power. These changes have also included an improvement in the special services' informational functions and operating techniques, their methods of intelligence and counterintelligence in the economic and industrial fields, etc., as well as their coordination mechanisms, including in particular:

- improving the methods of acquiring information, improving communications systems and monitoring electronic communications using information technology, active interference in virtual spaces considered as fields of conflict with the enemy;
- strengthening the analytical-informational divisions and disseminating techniques and methodologies for situational analysis, etc.;
- improving the interaction between law enforcement bodies and the special services, and their coordinated participation in strategic directions (the fight against terrorism, organised crime, political extremism, counterintelligence protection), as well as in the Kremlin's priority projects connected with military operations outside the country.

At the organisational and structural level, the reforms have clearly been based on old concepts, drawing upon the model of the KGB. As a result, the sector has conserved many features of the old system, such as:

- the organisation of the service along military lines,
- its politicisation (acting at the Kremlin's inspiration and participating in its political projects),
- its availability to the decision makers as a body acting above the law,
- the lack of external supervision (presidential control guarantees the sector an 'umbrella' of impunity; statistics concerning crimes committed by security officers are a protected state secret),
- the five-year planning period, which results in periodic – for reporting purposes – intensification of repressive actions, designed to justify the thesis that threats to the security of the state are rising, and thus the need to maintain the high budget investments in the ministries of force,
- budget and off-budget ways of raising funds (the 'commercialisation' of the special services, who earn income from economic activity conducted by entities they themselves have created).

2016 saw the first major reorganisation of the institutions of force since 2003. The Federal Service of the National Guard Troops was created on the basis of the Interior Troops, which had hitherto been part of the Interior Ministry; the Federal Narcotics Control Service was dissolved, as was the Federal Migration Service, the latter being downgraded to the level a department in the Interior Ministry. The creation of the National Guard has significantly weakened the potential of the Interior Ministry through its takeover of special police units, and by licensing and supervising security companies across the country. These organisational changes have altered the balance between the institutions of security which the Kremlin had maintained for more than a decade.

The current system of state security institutions has been reduced to a triad of the strongest entities, namely the FSB, the FSO and the National Guard. In this triad, the Federal Security Service still holds the dominant position because of its range of competences (including counterintelligence supervision of the other structures of force, including the RF Armed Forces). This has been accompanied by an increase in the activity of the FSB (with the Kremlin's acceptance), which has recently undertaken a number of operations against officers of the Interior Ministry, the Investigative Committee, the Federal Customs Service, as well as representatives of the central and local administrations as part of

the so-called fight against corruption. These activities demonstrate that the FSB is beginning to play a central supervisory role in the security of the state, and is seeking to bolster its structures. The National Guard, which is a continuation of the tradition of the Interior Ministry's Internal Troops and special police units, is intended to prevent possible public protests and defend key state institutions. The Federal Protection Service remains directly responsible for the security of the ruling elite, and for the delivery – via its network of regional situation centres, through secret communications channels – of current information on the situation in the country.

The main institutions of the Russian Federation's internal security system

The Federal Security Service (FSB). This is the service with the broadest area of responsibilities, covering the overall control of the political, economic and social system of the Russian Federation. It operates on the basis of the law on the Federal Security Service. The organisational structure of the service corresponds to the wide range of its tasks. By order of the law on the Federal Security Service and its structures, approved by Presidential Decree No. 960 of 11 August 2003, the FSB has become a federal body of executive power, which, in accordance with its competences, carries out the state's direction of the security of the Russian Federation, as well as 'the defence and protection of the state border of the Russian Federation, its territorial waters, internal waters, the exclusive maritime zones of the Russian Federation's economic interests, the continental shelf and the natural resources therein'; the protection of information security; it also coordinates the counter-intelligence protection of all authorised federal bodies of executive power. Since 2008 the FSB has been led by Aleksandr Bortnikov.

The Foreign Intelligence Service (SVR). The federal body of executive power. It operates on the basis of the law on foreign intelligence (No. 5-FZ) of 10 January 1996. It was created in December 1991 on the basis of the Central Intelligence Service of the Soviet Union, which a few months earlier had been split off from the Committee of State Security (KGB) of the Soviet Union. It conducts legal and illegal political, economic and technical espionage. In the intelligence doctrine created by Yevgeny Primakov, the emphasis was laid on the economic use of intelligence operations. In organisational terms it is divided into operational and analytical departments and a support division. It mainly operates abroad, but also conducts espionage on the territory of Russia. The protection by force of its operations is conducted by the SVR's 'Zaslon' ('Cover') *spetsnaz* (special forces) unit (the first information on this topic appeared in 1998). Since October 2016 the head of the SVR has been Sergei Naryshkin.

The **Main (Intelligence) Directorate of the General Staff (GRU)**. The foreign military intelligence service. In organisational terms, it is subordinate to the head of the General Staff and takes its orders from the Chief of the General Staff and the defence minister. It conducts legal and illegal political, scientific and technical espionage. Its tasks include obtaining information relevant to the defence capabilities and security of the Russian Federation, obtaining radio-electronic and space-based intelligence, analysing the international trade in explosives, weapons and ammunition, including nuclear weapons and their means of delivery. As a result of the reforms carried out in 2010–11, the former *spetsnaz* (special forces units) of the GRU were subordinated to particular military districts, fleets and airborne forces. Since January 2016 its head has been Colonel-General Igor Korobov.

The **Federal Protection Service (FSO)**. The federal body of executive authority for the protection of the authorities, state buildings and compounds. It operates on the basis of the law on the defence of the state. It implements the functions of creating state policies, including normative regulations, in the area of the protection of state compounds and physical protection of state officials, as well as presidential, governmental and other types of special communications & information distributed to the federal and regional government bodies. The regional special communications centres are subordinate to the autonomous Special Communications Service of the Federal Protection Service. The service also participates in the implementation of the Russian Federation's information security policy.

The President's Security Service (SBP) is also part of the FSO and has its own special status. Since May 2016 the director of the FSO has been Dmitry Kochnev.

The **Federal Service of the National Guard Troops (FSGN) is a federal body of executive power, created on 5 April 2016**. The creation of the FSGN – which, in addition to the internal troops of the Interior Ministry, absorbed all other special units (including the police's rapid reaction troops), and which hitherto had been subordinate to the interior minister – meant the formation of a strong, militarised group of internal forces which is now subordinate only to the head of state, and which can conduct independent actions on the territory of Russia without the need to coordinate with other services. The competences of the FSGN include: the protection of public security, participating in tasks related to national defence; monitoring the trade in weapons; supervising the activity of private protection companies; and providing paid protection services for selected bodies of the national administration (including regional governors).

An important change that has occurred in the security sector is its new commitment to the implementation of the tasks associated with increasing Russia's military capabilities. Since the beginning of 2013 the RF Armed Forces, which has continuously been carrying out training covering all areas of the country by turn, have been in a state of permanent combat readiness. The activity of the armed forces has been accompanied by the involvement of the institutions of force, supporting the operation of various types of troops (the National Guard, the Ministry of Emergency Situations). There has also been an increase in the range of exercises related to the mobilisation of the civil administration and the verification of its ability to operate during wartime or a state of emergency. This is reflected in the new edition of the Military Doctrine of the Russian Federation published on 29 December 2014: it announced the development of "new, non-traditional methods linking military and non-military measures in a four-dimensional combat space". The emphasis on non-military measures demonstrates the government's sanction of the doctrinal position of the so-called special non-military services and other ministries of force as entities which operate within the logic of complex military operations and often play a key role in those operations. The text of the doctrine also introduced policy adjustments to deal with potential domestic threats, the elimination of which is directly related to the implementation of the tasks of the relevant government departments. The list of domestic threats now includes: activities aimed at the overthrow by force of the constitutional regime of the Russian Federation; the destabilisation of the domestic and social situation in the country; disorganising the operation of the organs of state power, important state and military sites and informational infrastructure; the activities of terrorist organisations and individuals aimed at violating the sovereignty and territorial integrity of the Russian Federation.

Since the beginning of the group's formation its head has been General Viktor Zolotov (the former head of the President's Security Service).

APPENDIX 3. THE RISE IN OIL AND GAS PRODUCTION IN RUSSIA, 2000-17

Figure. The rise in gas production in Russia, 2000-17

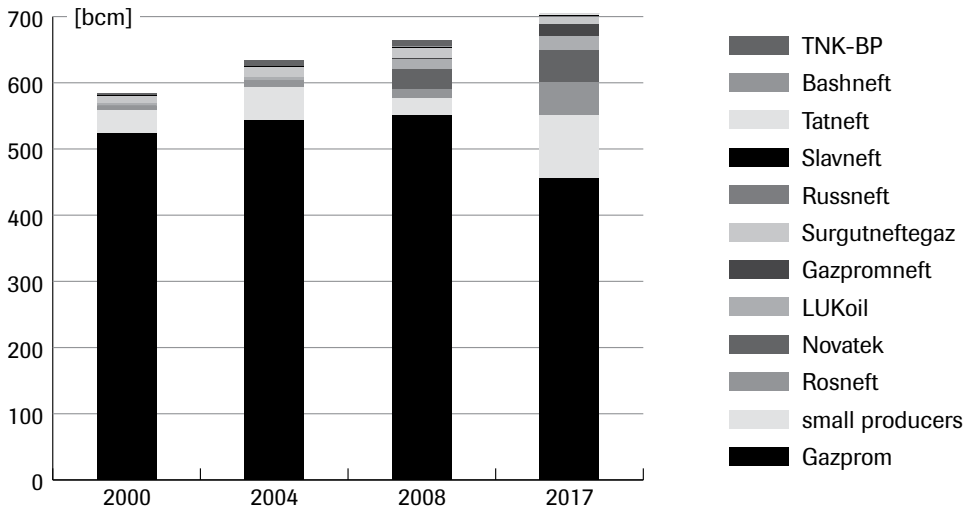
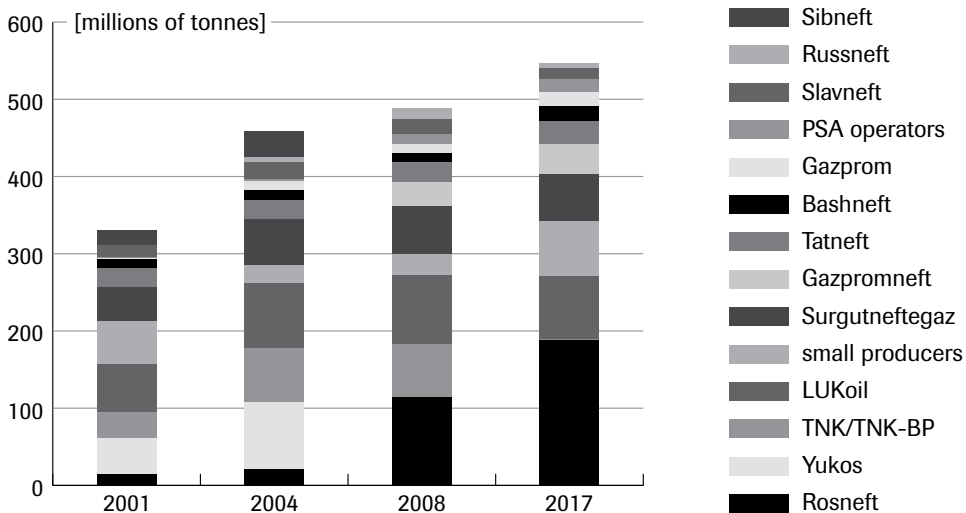
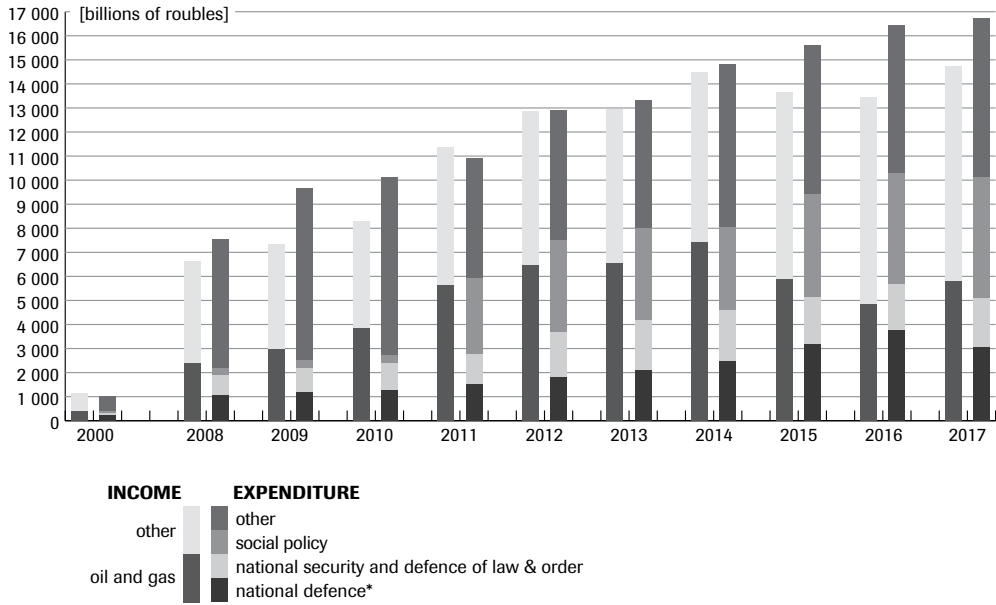


Figure. The rise in oil production in Russia, 2000-17



Source: Interfax, based on CDU TEK; www.cdu.ru

APPENDIX 4. INCOME AND EXPENDITURE OF THE RF'S BUDGET DIVIDED INTO SECTIONS



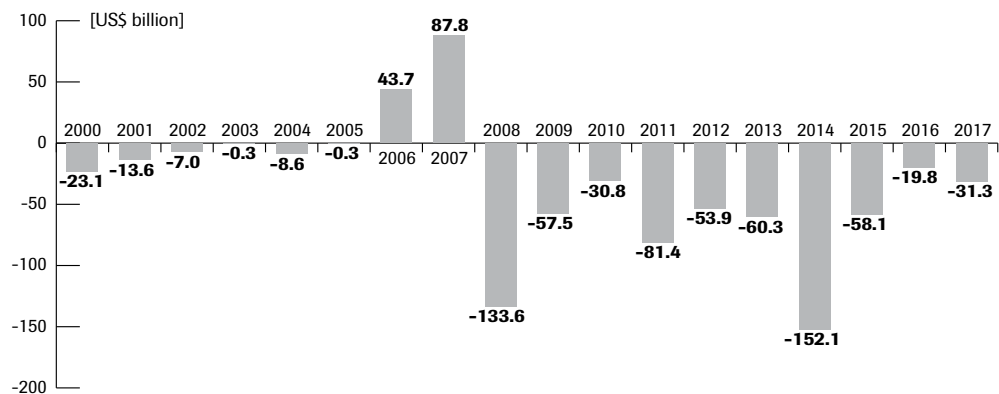
*These are the only expenditures recorded in the section of the budget named 'National defence', however, they do not cover all Russia's expenditure on its armed forces

Source: the Russian Ministry of Finance, www.minfin.ru

APPENDIX 5. THE LARGEST INFRASTRUCTURE INVESTMENTS IN THE OIL AND GAS SECTOR, 2000-17

Projects implemented				
Name of project	Activation date	Capacity/ production capacity	cost of imple- mentation	level of use in 2017
Blue Stream gas pipeline	30 December 2002	16 bcm	\$3.2 billion	14.5 bcm
Sakhalin-Khabarovsk-Vladivostok gas pipeline	September 2011	30 bcm	\$15.6 billion	6 bcm
Nord Stream gas pipeline	1 st branch 8 November 2011; 2 nd branch 8 October 2012	55 bcm (2 branches, 27.5 bcm each)	€7.4 billion	51 bcm
Sakhalin-2 gas liquefaction plant	18 February 2009	9.6 million tons	\$20 billion	9.6 million tonnes
Yamal-LNG gas liquefaction plant	8 December 2017	5.5 million tons (target from 2019 16.5 million tonnes)	\$27 billion	1 million tonnes in the period from 8 December 2017 to 1 March 2018
ESPO (I and II) oil pipeline	ESPO I, Taishet-Skovorodino section in December 2009; Skovorodino-Daqing on 1 January 2010; ESPO II, Skovorodino-Kozmino on 25 December 2012	ESPO I, Taishet-Skovorodino section 30 million tonnes (expanded in 2014 to 58 million tons, and in December 2017 to 70 million tons), Skovorodino-Daqing section 15 million tonnes (expanded in 2017 to 30 million tonnes) ESPO II- 30 million tons	\$23.2 billion	1 st section, 50 million tonnes (including 18 million tonnes in Skovorodino-Daqing) 2 nd section, 30 million tonnes
BTS-2 oil pipeline	23 March 2012	Initially 30 million tons; in April 2017 extended to 36 million (in 2012, it was planned to extend to 50 million tonnes in 2013)	\$5 billion	32.7 million tonnes
Under construction				
“Power of Siberia” gas pipeline	planned for 2019	42 bcm	Estimated at c. €25 billion	75,5% completed as of March 2018
Turkish Stream gas pipeline	planned for 2019	31.5 bcm	€7 billion	c. 50% as of March 2018
gas processing plant in Khabarovsk	planned for 2022-23	42 bcm	c. \$21 billion	Construction in initial stage

APPENDIX 6. OUTFLOW OF CAPITAL (NET)



Source: Central Bank of Russia, www.cbr.ru

APPENDIX 7. RUSSIA'S ARMED FORCES IN THE WESTERN STRATEGIC DIRECTION

In the Western strategic direction, which is of essential importance from the Russian point of view, the RF's Armed Forces have reached a relative equality of potential in comparison to the local NATO forces, as well as the ability to develop an operational advantage on a selected part of the European theatre of war. This has become possible thanks to the intensive expansion since 2015 of the grouping in the Western strategic direction. Growth potential has been achieved in all types of troops and services mainly through extensive large-scale technical modernisation, although in the case of the Land Forces, and to a degree the Airborne Troops, the most important role has been played by the formation of new units and the expansion of existing units. It is noteworthy that the Western Military District has received the majority of the tactical formations which were newly created in recent years, and the troops assembled in the other military districts have also been transferred to the Western strategic direction (in the Rostov oblast in the Southern Military District) or just beyond the Urals as part of the second strategic echelon for the Western direction (in the Central Military District). Meanwhile, no new tactical formation has been formed in the Far East of Russia.

The RF's armed forces in the Western strategic direction (with regard to the units sent from outside the Western Military District, including potential second-line units from the Central Military District) number 6 divisions and 30 all-military brigades, as well as a significant number of support and security units. Of these, 17 artillery and rocket brigades should be considered particularly important from the point of view of the Russian army's offensive capability (most of the latter have already been fitted with Iskander systems, the rearmament of the others should be completed in 2018). We should also note the large saturation of the Russian army with engineering units (which have increased capabilities in the field of constructing and organising road and river crossings), transport and electronic warfare (Kaliningrad and the western oblasts of Belarus are among the areas of the world most saturated with equipment for electronic warfare). Most units have been reequipped, with equipment including the new or completely upgraded T-72B3 tanks (adjusted to the T-90 standard), and the BMP-3 and BTR-82A armoured combat vehicles. In 2015 distribution of the so-called 'Ratnik' 'future soldier' equipment was initiated, and the first batches of the new-generation combat vehicles on the Armata platform (T-14 tanks), Kur-ganets-25 (infantry fighting vehicles) and Bumerang (wheeled armoured personnel carriers) were sent for military testing.

In addition, in the European part of Russia, the Russian Marines had the use of 6 tactical air squadrons; in addition, in European waters the Navy had 21 new frigates, corvettes and submarines equipped with Kalibr missiles designed to attack ground targets (at least ten more ships equipped with this type of armament are under construction). In combination with the potential of NATO's eastern flank (with regard to the support approved by the Alliance at the Warsaw summit in July 2016), these forces should be considered sufficient to take effective offensive action.

Changes in the number of deployed all-military operational formations, tactical formations and units of the Land Forces of the Russian Federation in the Western strategic direction (the Western Military District and the 8th Army of the Southern Military District in the Ukrainian direction) from 2013–17

	2013	2014	2015	2016	2017
armies	2	2	2	3	4
corps	-	-	-	2	3
divisions	2	2	2	3	5
brigades / regiments	6/7	6/7	7/7	9/13	7/21

Source: authors' calculations