



Moscow's Red Square, St. Basil's and the Kremlin—seat of power in Russia from the czars, to the Soviets to the current strongman, Vladimir Putin. Wikimedia, Alex Zelenko photo

Solving the Riddle of Russia: Who Blinks First?

Anthony Wilson-Smith

Not only have the West's post-Soviet dreams of a liberal, democratic Russia dissolved in a morass of corruption and autocracy; Vladimir Putin's expansionism and tanking oil prices have made Russia a prime candidate for next basket case of Europe. Former Maclean's Moscow Bureau Chief Anthony Wilson-Smith looks at the geopolitical state of play, and sees hope in an upcoming Arctic Council meeting in Iqaluit.

A quarter century ago, as the Soviet Union lurched toward dissolution, one of the people chronicling its fall was Russian journalist Artyom Borovik. His television show *Vzglyad*—which mocked Mikhail Gorbachev's government—was watched by as many as 100 million people a week. Fluent in English, the result of a childhood in New York with his Soviet diplomat father, he also had a large following in the West. Artyom was energetic, engaging, crusading in his beliefs—and despairing about his country's future even as he applauded ongoing changes. “Russians,” he once said, “talk about

how we like democracy, but we *really* like a strongman who tells everyone what to do—and makes the rest of the world pay attention.”

Within a decade, Vladimir Putin had become leader of a reconstituted Russia, and was on his way to providing evidence of that observation. Artyom had little chance for I-told-you-so: he died in March, 2000, shortly after Putin came to power, in a plane crash that many believe was caused by sabotage. (Artyom made powerful enemies almost as easily as he made friends). And 15 years later, Russia continues to evoke bafflement, anger and concern abroad—all the more so as its internal troubles deepen.

It's tempting at times for Western countries to wish Russia ill. Some efforts in that direction are fully deserved, such as Canada's suspension of almost all diplomatic discussions, along with economic sanctions that European Union countries placed on Russia because of its annexation of Crimea and actions in Ukraine. But no one should wish on Russia an economic collapse of the scale that some analysts now forecast because of falling prices for the country's prime export, oil. For one, Morgan Stanley recently revised its economic forecast for Russia, calling for a downgrade in the already-suffering economy from 1.7 per cent shrinkage to negative 5.6 per cent. It also forecast that, instead of a mild recovery in 2016, the Russian economy will shrink even further.

History shows that Russia—as both a stand-alone nation and centrepiece of the old Soviet Union—tends to become more bellicose in the face of challenges at home. Successive Communist rulers spent heavily on the military at the expense of a steadily worsening economy. When Gorbachev took power, and introduced widespread reforms in an attempt to reverse course, he was lionized in the West, but detested at home because he was seen as having diminished his country's place in the world.

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leaders had given up trying to hide the reality of chronic food and housing shortages, factories producing nothing of use, rural villages still without electricity, and a currency of nonsensical value. Because the ruble did not trade freely on currency exchanges, its value was pegged absurdly high. By the late 1980s, a ruble formally worth \$2 Canadian could be bought for about 10 cents by foreigners living in Moscow who were willing to chance going *na lyeva* (trading on the black market.)

Today, the problems are clear to all. The global fall in oil prices of more than 50 per cent in the last year has driven a deep hole into the middle of Russia's economy. The measures the government has undertaken amount mostly to efforts to buy time in the hope that oil prices rise again. Steps recently introduced by Finance Minister Anton Siluanov include spending \$22 billion (US) to prop up banks and major state companies, \$2.7 billion to keep pensions in line with the spiralling inflation rate, and \$700 million for agricultural aid. As it taps into \$385 billion in government reserves, the government is gambling that oil prices will rise before it exhausts that money. Since December, the reserve has dwindled by \$36 billion. Last month, the governor of Russia's Central Bank said that the country has lost about \$160 billion in annual revenue because of the decline.

Despite stop-gap measures, the effects of falling oil and mounting inflation are clear. *The New York Times* recently reported that last year food prices rose more than 15 per cent. Some staples, like sugar, rose up to 40 per cent. The overall inflation rate was 11.4 per cent and expected to be at least as high this year. Those challenges have led Putin and the coun-

try's bankers to play a high-stakes game of yo-yo with interest rates in attempts to prop up both the ruble and the banks. Six weeks after interest rates were increased from 10.5 per cent to 17 per cent to prop up the ruble, the central bank chopped the rate back to 15 per cent because of pressures on the overall financial system. In the same period, the government said it would commit \$23 billion to bail out troubled banks.

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But one area where Russia continues to spend—and build—is its military. After neglect in the 1990s, Russia has been overhauling its armed forces. Its military budget two years ago was \$90 billion—which puts it behind only China (\$188 billion) and the US (\$640 billion), according to the Stockholm International Peace Research Institute. That represents more than double the amount it spent a decade previously. Russia is now at roughly the halfway point of a modernization program focusing on fighter aircraft, air defense, submarines, ships, strategic nuclear weapons and intelligence.

For all that, Russian military might is only a shadow of what it was in the peak days of the Soviet Union. But it is enough to concern neighbours, as well as a reminder of Russia's legitimate worries about rising ethnic ten-

sions within its own borders and just beyond. Westerners often make the mistake of thinking of Russians as homogenous. In fact, based on the 2010 census, the country includes more than 190 ethnic groups and almost one in every four people—22.3 per cent—is of a background other than ethnic Russian. Moscow continues to fret over tensions in former Soviet republics to its south, especially in the North Caucasus region as well as in Afghanistan.

At the same time on the economic front, the Morgan Stanley forecast identifies three serious short-term risks:

- A further weakening of the ruble and increase in inflation if Moscow makes “special deals to help particular banks and companies.”
- The introduction of capital controls.
- The imposing of further sanctions on Russia that could “trigger rating downgrades and index exclusion.” That would cause the ruble to fall even more and inflation to rise further.

Looking ahead, the question is who blinks first? Logic says that Western countries, including Canada, the United States and members of the European Union, need to see some sort of concession from Putin before they lift existing sanctions that are part of Russia’s problem. Some would argue that came in February, with the announcement of an agreement between the leaders of France, Germany, Ukraine and Russia aimed at ending ongoing fighting in eastern Ukraine between forces of that country and Russian-backed separatists. But even as that raised hopes, it is a fragile accord—and one that carries over it the shadow of Washington’s willingness to send weapons to Ukraine to provide support against the separatist forces. (Canada also expressed willingness to consider some form of enhanced support.)

Overall, Putin’s track record—and that of his country—suggests that Russia will continue a foreign policy built on truculence—and, potentially—as it has in Ukraine—the use of



President Reagan and Vice President and President-elect George Bush meeting with General Secretary Gorbachev on Governor’s Island in the shadow of the Statue of Liberty on December 7, 1988. National Archives and Records Administration

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One indicator of the direction in which things are heading will come in April, when Russia attends a meeting of the eight-member Arctic Council in Iqaluit hosted by Canada and including Nordic countries and the United States. Canada, Denmark and Russia all lay claim to overlapping sectors of the Far North—including ownership of the North Pole. Russia’s newly-minted ambassador to Canada, Alexander Darchiev, has taken a conciliatory approach to the meeting, saying it will provide an opportunity to “compromise” in discussing approaches to the region. But Russia has also been rebuilding some old Soviet air bases in the region and deploying more aircraft and navy.

All of which shows that even as more attention is focused on the Middle East and the growth of radical Islamist terrorist groups, Cold War tensions persist. For Russia, ironically, the way out of its present economic fix could lie in the Middle East. Saudi Arabia, which holds a fifth of the world’s oil reserves, has given some indications it might be ready to reduce the flow of oil and thus see prices increase if Putin were prepared to abandon support for Syria’s President Bashar-al-Assad. Under Putin, Russia has positioned itself as a key player in the Middle East—and sees Syria’s Assad as a key figure in the fight against Islamic State (ISIS) and Al Qaeda-backed groups.

The irony is that on this key issue, Western countries, including Canada and the United States, share the goal of keeping ISIS and Al Qaeda in check. By that measure, the Arab aphorism that ‘the enemy of my enemy is my friend’ should bring Russia and the West closer. But there is little indication that will happen. As Putin once said, “Sometimes it is necessary to be lonely in order to prove that you are right.” He may not be in the right, but Putin and his country are increasingly lonely. **P**

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