The place of economics in Russia national identity debates[1]

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Introduction

"We are a rich country of poor people. And this is an intolerable situation."
(Vladimir Putin, 28 February 2000)

This chapter traces the role of economics in intellectual debates over Russian national identity. On one side are the modernizers who believe that the only way to restore Russia's prosperity and standing in the world is to embrace Western market institutions. On the other side are nationalists who believe that economic integration will erode the political institutions and cultural norms that are central to Russian identity. They argue that erecting barriers to Western economic influence, and creating an alternate trading bloc, are necessary to prevent the exploitation of the Russian economy and even the possible destruction of the Russian state.

The chapter traces these debates from the chaotic reforms of the 1990s through what appeared to be a winning Putin model in the 2000s, and then the uncertain waters after the 2008 financial crash, culminating with the Western sanctions (and Russian counter-sanctions) imposed after the annexation of Crimea in 2014.

It is possible to imagine a middle position, a third way between the modernizers and the nationalists: a distinctively Russian economic model which combines elements of trade openness with measures to ensure Russia's long-term development. However, Russia has by and large failed to come up with its own third way model, and has instead remained trapped between the polarities of integration and autarky.

Putin was trying to build a third-way model of state corporatism plus international integration in the period 2000-08; but the model showed its limitations in the stagnation following the 2008 financial crash. He then shifted to an alternative third-way approach in the form of the Eurasian Economic Union: a regional trading bloc that would be under Russia's control and would be to a degree insulated from the global economic institutions dominated by the US and its allies. However, that approach also proved wanting. The change of government in Ukraine that occurred in February 2014 signaled that Ukraine was pulling away from economic integration with Russia, and the subsequent military confrontation seems to have pushed Russia in the direction of autarchy – or into the arms of China, which poses risks to national identity of a new type. (*Ekonomikcheskie izvestiia*, 2014)

It has been a difficult challenge for Kremlin ideologists to package these complex and somewhat contradictory economic policies as part of a coherent strategy to restore Russian pride and identity. As Ted Hopf (2013) has shown, at the level of Russia's national leaders the rhetoric of Western-oriented modernization has prevailed; while in the broader political society, as represented in the mass media, tropes of hostility towards global integration are still prevalent.

Most of the discussion about Russian nationalism concentrates on intellectual history and geopolitical strategy, and rarely turns to economics. Outsiders tend to see nationalism as something emotional, irrational and distinctively Russian – in contrast to economics, which is portrayed as rational, bloodless, and based on universal principles that are not confined to Russian shores.

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[1] From Pal Kolsto (ed.), *The New Russian Nationalism* (Edinburgh University Press, forthcoming 2015).

At the same time, most of the Western analysis of the economic transition in Russia has overlooked questions of nationalism and national identity.[2] Neoliberals – and even some of their social democratic critics – tend to assume that the world is "flat," that globalization is making the nation-state increasingly redundant as a locus of economic policy and a focus of political identity. (Cerny 2010)

In reality, of course, nationalism and economics closely intersect. As Liah Greenfeld (1993) has shown, nationalism and capitalism evolved in tandem in early modern Europe: not by coincidence did Adam Smith title his famous work defining the essence of capitalism *The Wealth of Nations*. It was published the same year – 1776 – that saw the birth of political nationalism, with the signing of the U.S. Declaration of Independence.

This chapter seeks to close the gap between economic and political analysis by examining the ways in which economic considerations have shaped the national identity discourse in Russia since the break-up of the Soviet Union. The period falls fairly neatly into two phases – the 1990s under Boris Yeltsin, characterized by institutional turmoil and economic decline; and the 2000s under Vladimir Putin, characterized by institutional stability and steady growth. We are now entering a third phase whose contours are still unclear. Since the 2008 crash, Russia's economy has struggled to regain the equilibrium of the 2000-08 period, and the crisis over Ukraine and Western sanctions may be tipping the Putin model into a new autarkic paradigm, with unknown consequences for the stability of Putin's political regime.

At the level of mass politics, economics impacts national identity in a variety of ways – from the embrace or rejection of Western consumer products, to the impact on living standards of the sanctions introduced after the annexation of Crimea. The most important single vector for the impact of economics on public opinion is the presence of immigrants and migrant workers from the former Soviet Union, which has stimulated a xenophobic reaction from sections of the Russian population. However, this chapter will focus on the debates amongst policy elites about the place of economics in Russian national identity. The political impact of migration is covered extensively by other authors in this volume.

The role of the nation-state in the era of globalization

Globalization – understood as the intensification of cross-border flows of goods, people, money, and ideas – took off in the 1990s. Increased international trade and investment brings a country faster growth, greater prosperity, and more international respect. At the same time, it leads to social disruption and increased inequality. The nation is increasingly exposed to the volatility of the global economy, while control over economic decision-making slips out of the grasp of national policy makers and into the hands of international corporations and financial institutions, mostly dominated by the U.S. and European Union.

The desire to boost trade and attract investment pushes national governments to embrace the package of policies known as the "Washington Consensus," or more colloquially "neoliberalism." (Rutland 2013a) These policies may be formally set as conditions for the release of loans from the International Monetary Fund or World Bank, or they may be independently adopted by a nation's leaders with a view to convincing international corporations or banks that their country is a safe place to invest.

Ideological critics of neoliberalism usually assume that under conditions of globalization the state is forced to retreat to a minimal, "nightwatchman" role while the market works its magic. That laissez-faire vision is also propagated by some of the advocates of neoliberalism, who invoke the legacy of Milton

[2] Exceptions include Abdelal 2001, Appel 2004, and Helleiner & Pickel 2005.

Friedman and Friedrich von Hayek. However, the reality is that while the neoliberal state has a different set of functions from its welfare-state predecessor, it is not necessarily more disengaged from the social and economic life of the country. (Rodrik 2013) It becomes, in Philip Cerny's words, a "competition state" (Cerny 1997), whose role is to promote the international competitiveness of the national economy through investments in infrastructure and human capital; regulating banks and firms to promote competition; and restructuring the welfare state to cope with those who fall through the cracks in an increasingly volatile and unequal economy.

Turning to Russia, we find that the economic debate has been polarized between those who embrace the logic of globalization and those who reject it outright. This pattern can also be found elsewhere in the rest of the world, but the division seems more acute in Russia. Russian political thinking is notoriously prone to binary categories, something that Mikhail Epstein traces back to the sacred vs. profane world view of Russian Orthodoxy. (Epstein 2013) Since the 19th century, one of the most prominent dichotomies in Russian thought has been the division in debates over national identity between Westernizers and Slavophiles. (Engelstein 2009) This divide has obstinately resurfaced in successive phases of Russian history – from the Trotskyist opposition to Stalin's "Socialism in One Country" in the 1920s; to the market reformers versus their nationalist and communist critics in the 1990s. It continues to haunt the discussion of national economic strategy into the 21st century.

1) The modernization hypothesis

Modernizers recognize the inevitability of global integration and the prevailing logic of modernity as exemplified by the leading capitalist countries. For any country to survive and prosper it must embrace the rules of the game of contemporary capitalism – while hopefully taking countervailing measures to preserve national identity and culture, in the spirit of Bernard Badie's "conservative modernization". (Badie 1992) One advantage of this approach is that it is relatively straightforward to administer – the country side-steps the problem of inadequate domestic policy capacity by importing policies off the shelf from other countries. A catching-up modernizer can benefit from the experience of more advanced countries, learning what works and what does not work. The state is the leading actor in the drive to catch up with other countries, and gets recognition and support from the international community in this project. This serves to legitimize and strengthen the current rulers of the country.

The disadvantage of the modernization strategy is that the imported institutions and practices may cut against the grain of the already existing ways of doing business, and the policies may fail. If money was borrowed on the assumption that the policies would succeed, a cycle of debt crises and currency collapses may result. There may be a political backlash against the international elites that are forcing the pace of change – and those perceived as their local agents, in the form of the incumbent national leadership.

Pursuit of market reform in order to catch up with the West was the prevalent spirit during the Yeltsin years, when the reformist government led by Finance Minister (and later Prime Minister) Yegor Gaidar strove to introduce polices of liberalization, privatization, and stabilization more or less in accordance with the precepts of the "Washington consensus." (Rutland 2013a) Gaidar was adamant that the Soviet Union's failure to adapt to the changing world economy had doomed that system to collapse, and the Russian Federation would suffer the same fate if it did not embrace the institutions of modern capitalism. (Gaidar 2007) However, during the 1990s Russia experienced a precipitous fall in GDP and living standards, culminating in the August 1998 crisis, which saw Russia default on international debts, the collapse of many banks, and a 75% devaluation of the ruble. These troubles were blamed – fairly or unfairly – on the neoliberal reform policies, which were widely seen as part of a Western conspiracy to undermine Russia.

Russia's leaders have faced a unique challenge in trying to modernize their country's economy. Russia suffers from a triple challenge. First, as the world's largest producer of oil and gas it is burdened by the "oil curse" – a well-documented combination of pathologies that dog the development of countries heavily dependent on oil export revenues: an overvalued currency, volatile exchange rates, corruption, concentration of wealth and power, etc. Second, the country suffers from what one might call the "Russian curse": a centuries-old tradition of a strong, centralized state; deemed necessary to preserve internal stability and external security of what became the largest country in the world. Third, it suffers from the "Soviet curse": 70 years of socialist central planning that reinforced the statist tradition of Tsarist Russia and adding new distortions such as a bloated military industry complex, disdain for entrepreneurship, dependency on state handouts, and networks of trust that inhibit competition.

2) The autarchic impulse

Opponents of globalization and neoliberalism argued that Russia has to protect itself against foreign exploitation. The global economy is rigged to favor the core at the expense of the periphery, so late arrivals such as Russia should use the powers of the sovereign state to limit the impact of global capital. More broadly, international capitalism is seen as a conspiracy against national cultures, a force that puts the profit-seeking of a "rootless" cosmopolitan class ahead of the preservation of national values and communities. Global trends such as the deindustrialization of the West – which was encouraged by the environmental movement – are seen as part of a deliberate neoliberal strategy to insulate capitalism from the democratic challenges that it faced from the 1970s onwards. (Fursov 2013)

In the 1990s these views were prevalent in the parliament (but not in the executive branch), and despite Boris Yeltsin's "super-presidential" regime the Russian legislature was still able to impose a number of limits on the free rein of international capital. For example, during the privatization campaigns of the 1990s foreign buyers were excluded from the most important programs – they were practically barred from the 1992 mass voucher program that processed the majority of firms into private ownership; and they were not allowed to participate in the 1995 "loans for shares" auctions through which the choice oil and mineral companies were sold off. This was in sharp contrast to countries like Hungary and the Czech Republic, where foreign companies acquired many choice assets during the privatization process. The 1995 law on production sharing agreements set such stringent limits on foreign participation that no new PSAs were launched after its passage, while the new land code finally introduced in 2002 barred foreigners from owning agricultural land.

3) The search for a special path

Many countries have sought a third way, and have created special institutional structures that constitute neither a full embrace nor a complete rejection of the Western model. In the 19th century, Wilhelmine Germany came up with a special path (*Sonderweg*) that embraced competitive economic institutions but rejected Western liberal democracy. (Grimmer Solem 2014) After World War Two the Japanese and Koreans successfully created distinctive corporate structures – the zaibatsu and chaebols – that allowed the national government to steer industrial development, creating national champions that were able to compete on international markets while protecting large swathes of the domestic economy from international competition. Closer to home, in the 1990s and 2000s the social market economy in Germany was renewed to remain competitive (by holding down wages), while in the UK Tony Blair's New Labour adopted many of the policies of their Thatcherite nemesis (austerity budgets, public private partnerships, etc.) while increasing state spending on health and education to forge a new social market consensus in Britain.

In the 1990s Russia had neither the leadership nor the capacity to come up with such an innovative solution to the dilemma of modernization. The political system was polarized between the two extremes – Westernizers versus Communist restorationists – and parties that tried to appeal to a social democratic middle ground never took root.

The accession of Vladimir Putin to the presidency in 2000, and his subsequent consolidation of power, created the political conditions in which the Russian state could possibly pursue its own "special path." In his first address to the Federal Assembly in July 2000 Putin was harshly critical of the policies of the 1990s, which led to a situation where "the growing gap between the leading countries and Russia is pushing us towards the Third World." (Putin 2000) He argued "We have had to choose: operate on alien aid, advice and credits or rely on our own resources." Only in the 2000s, with the creation of state corporations in defense technology (Rostec, Rosatom, and Rosnano) and national champions in the energy sector (Gazprom, Rosneft, and Lukoil), have we seen the emergence of something like a distinctive Russian model of state corporatism.

But it was recognized that these faltering steps towards a new model of state capitalism would require some support from outside Russia. Only if Russia was able to change the way the rules were made at international level would it be able to escape from stringencies of the neoliberal paradigm. Moscow pursued two tracks towards a more favorable international environment, neither of which has enjoyed any significant success.

First, it pursued regional integration, in a bid to emulate the success of the European Union and Association of South-East Asian Nations (ASEAN) trading blocs. The Commonwealth of Independent States, created during the break-up of the Soviet Union, proved too unwieldy and disparate a grouping to facilitate economic cooperation. Putin instead concentrated his efforts on creating a narrower association capable of creating a real customs union and free trade zone. Belarus and Kazakhstan were cajoled into joining the Eurasian Customs Union that was launched in 2010, which expanded into the Common Economic Space in 2012, and the Eurasian Economic Union in 2015. In 2014 Kyrgyzstan and Armenia were arm-twisted into agreeing to join the latter body, but Ukraine has stayed aloof, so this project has failed to reach a critical mass capable of representing a serious alternative to trade with the European Union. The Euromaidan revolution in Ukraine, which overthrew the government of President Viktor Yanukovych in February 2014 after he refused to sign an Association Agreement with the EU at the November 2013 Vilnius summit, was arguably a fatal blow to Putin's effort to create a significant regional trading bloc in the post-Soviet space.

Second, Putin embraced the concept of the BRICS, a term casually invented by Goldman Sachs economist Jim O'Neill in 2001 to describe the rising economies of Brazil, Russia, India and China (joined later by South Africa). The idea was that this quartet of countries, with a rapidly rising share of the global economy (20% by 2014), would be able to overturn U.S. hegemony and draw up new rules of the game. A series of diplomatic summits were held, starting with one in Yekaterinburg, Russia in 2009. However, the timing was unfortunate: the 2008 financial crash merely served to underline the central role of the U.S. dollar and financial institutions. In any event, the disparate interests of the BRICS members (energy exporters vs importers, democracies vs autocracies) made it hard for them to come up with a common agenda. In practice, striking bilateral economic development deals with China would turn out to be more important for Russia's economic development than conjuring up any multilateral initiatives through the BRICS framework.

Russian nationalists mostly preferred to adopt a position of unequivocal hostility to efforts to integrate the Russian economy with the outside world. They had at best ambivalent responses to Putin's efforts to develop an international third-way. The nationalist camp was divided between the ethno-nationalists who wanted to build a nation-state around ethnic Russians and Russian culture, and the imperialists who favored a multi-ethnic, expansive polity along the lines of the former Soviet Union. Ethno-nationalists were mostly were skeptical of the Eurasian Union, seeing it as a soviet-style project that carried the risk of Russia's wealth being used to buy political support from Minsk, Astana, Yerevan, and Bishkek. (Makarkin 2012) They accused Putin of being a statist – advancing the interests of the state bureaucracy (and the oligarchic class attached to them) at the expense of the Russian people. A key political problem for advocates of the Eurasian Union is its reliance on open borders and increased dependence on migrant labor – since anti-migrant xenophobia is one of the most powerful currents in contemporary Russian opinion. (Alekseev 2015) So most nationalist thinkers favored pursuing the option of autarky, and used hostility to foreign economic ties (whether with the "far abroad" or the "near abroad") as a central plank in their political program.

The politics of the 1990s transition

Western proponents of market reforms believe that their policies are self-evidently in the long-term interests of the majority of society, so forming a winning coalition should be within the grasp of any competent political leader who can appeal to the enlightened, long-term self-interest of the electorate. To the extent that nationalism factors into their analysis at all, it is seen as a threat to progress from reactionaries who fail to understand the logic of economics and who want to turn back the tide of history.

However, it can be argued that there can be a positive relationship between market economics and nationalist politics, since the latter's political goals "may sometimes be best served by liberal or neoliberal policies." (Kangas 2013, 574) One can argue that the key factor in explaining the success of market reform in East Europe and its failure in Russia was the contrasting trajectory of nationalist politics in the two regions. Political leaders in the new democracies of East Europe had to worry about getting themselves re-elected at the same time as they were embarking on wrenching market reforms that they knew would impose severe short-term costs on their population. In an influential book published in 1991, Adam Przeworski (Przeworski 1991) argued – mainly extrapolating from Latin American experience – that workers would never vote for capitalism, since this would mean the concentration of wealth and power in the hands of the few. Events in Eastern Europe quickly turned Przeworski's logic on its head, however, since it was the country with the most active labor movement – Poland – that became the first and most ardent advocate of shock therapy. (Orenstein 2001)

Workers voted for capitalism partly because their daily experiences with communism had been so negative, but also because national identity trumped class identity. For Czechs, Hungarians, and Poles, their national identity was vested in breaking with Soviet control and tying their national fate to Western Europe – which happened to be democratic and capitalist. In Russia, nationalism initially worked in Yeltsin's favor – when he was standing up for the Russian Federation and the other republics against the Soviet government headed by Mikhail Gorbachev. (Dunlop 1995) It was Russian nationalism which enabled Yeltsin to prevail against the August 1991 putsch, by appealing to the patriotic feelings of the (predominantly Russian) officers and men of the security forces. However, Yeltsin's nationalist legitimacy eroded as the economic turmoil deepened – and the reforms he was enacting came to be seen as Western impositions. Some of Yeltsin's closest lieutenants broke with him over the market reforms and went over to the nationalists – men such as vice president Aleksandr Rutskoi and Congress speaker Ruslan Khabulatov.

Given Russia's history as a great power that defined itself in opposition to the West, it was hard for the Gaidar government to package the market reforms as a re-assertion of Russian identity. Efforts by individual politicians to carve out a "liberal nationalist" position fell on stony ground. For example, the liberal statist Boris Fedorov, who served as finance minister 1993-94, formed a party in 1995 called Forward Russia! but it failed to clear the minimum threshold in the December 1995 State Duma elections

(Sakwa 2008, 223). 1990s privatization tsar Anatolii Chubais, who was kept on by Putin after 2000 as head of the electricity monopoly RAO EES, floated the idea of a "liberal empire" in 2003. He proposed using Russian energy exports to project Russian influence into the former Soviet space (Chubais 2003). While Gazprom and RAO EES made some progress buying up infrastructure in small countries like Armenia, Georgia, and Kyrgyzstan, the big players such as Kazakhstan and Uzbekistan were wary of increasing their economic dependency on Russia and instead opened to door to Western investors – and to China. (Kazakhstan pursued a balanced policy, deepening ties to Russia while also bringing in new partners.) Chubais's project never gained any traction in the Russian political sphere – not least because Chubais himself was widely disliked because of his role as the architect of the 1990s privatization.

Putin's record

As discussed above, Putin did not pursue absolute autarky for Russia, but instead endeavored to follow a "special path" which would enable Russia to protect its autonomy while benefiting from the international division of labor.

The 1990s had left the task of building a market economy half-finished – but it had also left the Russian public deeply skeptical about the goals and results of market reforms. According to an Ebert Foundation survey in 2000, 70 percent of Russians favored more state planning, and 63 percent approved of confiscating the property acquired by the "New Russians."[3] One could easily imagine a "Fortress Russia" scenario in which Putin could have tried to reintroduce central planning, raise tariff barriers, and use energy revenues to re-equip Russian manufacturing industry. However, this did not happen. Rather, the modernization logic was still accepted by the incoming Putin administration in 2000, which recognized the advantages that could be gained from participation in the international division of labor – access to cheap capital, superior management skills, and the latest technology. In his pre-election manifesto, issued in December 1999, Putin warned that "It will take us about 15 years and an annual growth of our gross domestic product by 8 percent a year to reach the per capita GDP level of present-day Portugal or Spain, which are not among the world's industrial leaders." (Putin 1999)[4]

The promise of economic growth enabled Putin to renew the unwritten "social contract" of the Soviet era, in which citizens offered political loyalty – or at least acquiescence – in return for rising living standards and upwards social mobility. (Makarkin 2011) Although Treisman (2011) argues that economics has been the main factor driving Putin's extraordinary popularity, his relationship with the Russian electorate is more complex than merely pocketbook factors – it also involves his pledge to protect them from Chechen/Islamist terrorism, and an appeal to their pride in Russia as a great power.

Whether or not Putin genuinely believed that international economic integration was best for Russia, it was certainly extremely beneficial for Putin's inner circle, and Russia's oligarchic elite, who made vast fortunes from continued engagement with the global economy – while using the state to protect themselves from competition inside Russia. (Dawisha 2014)

Only in certain areas did Putin adopt what could be seen as autarkic-nationalist policies. The arrest of Mikhail Khodorkovsky in 2003 and the subsequent acquisition of his company Yukos – Russia's largest oil producer – by state-owned Rosneft showed that Putin wanted to bring most of the oil sector back under state control. (Among the factors that influenced Putin's decision were reports that Khodorkovsky was preparing to sell Yukos to Exxon.) State-owned Gazprom then acquired the second-largest oil

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[3] "Anatomiia russkoi dushi" (Anatomy of the Russian soul), *Izvestiia*, 16 April 2002.
[4] Russia did manage to reach Portugal's 2000 GDP per capita in 2012, although its GDP still lagged 22% behind the 2012 Portugal level. (Gilman 2012)

company, Roman Abramovich's Sibneft. In 2013 the last remaining oil company where a foreign firm owned a controlling stake, the joint venture TNK-BP, was bought by Rosneft. Second, the limits on foreign ownership of what were deemed as strategic companies were tightened in 2008, applying to the oil, gas, and minerals sectors. Foreign Investment Law no. 57 limits foreigners to 25% ownership of any strategic asset, and law no. 58 sets very low limits for a mineral deposit to be deemed strategic. (Locatelli & Roshiaud 2013)

In his first State of the Federation address on 8 July 2000 Putin reaffirmed his commitment to the market.[5] He admitted that he used to favor protectionist tariffs but now saw such a policy as ineffective and a recipe for corruption. Putin offered some protection to the dwindling band of liberal economic managers in his government, ensuring that they kept in control of the ministries of finance and economic development, and the Central Bank. However, personnel from the security forces (the "siloviki') formed a powerful bloc in the Putin administration, and in the course of the 2000s they managed to tighten their control over the military industry and energy sectors of the economy. The siloviki often wrapped their economic agenda in patriotic clothing, sometimes appealing to Russian orthodoxy. An early example is Vladimir Yakunin, a founding member of Putin's Ozero dacha collective who went on to become head of the powerful Russian Railroads (Russia's largest employer) and a sponsor of religious charities. (Dawisha 2013, 99). A later entrant is the 40-year old investment banker and billionaire Konstantin Malofeev, a monarchist and Orthodox patriot who came to prominence providing support for Ukrainian separatists in 2014. (Weaver 2014)

Putin's first presidential term saw the passage of some important new reform legislation, such as cutting personal income tax to a flat rate of 13%, a new tax code, a land code, a new labor code, and bank deposit insurance. Measures that aroused public anxiety, such as pension reform and the privatization of the electricity monopoly, went ahead, but at a cautious pace. Unlike in China, where the yuan exchange rate was held down as a tool to promote export-led growth, the Russian ruble was freely convertible. Limits on capital flows in and out of the country were progressively lifted, and Russia achieved near-full capital account convertibility by 2007. (Sutela 2012, 154)

In the early years of his presidency Putin acted quickly and decisively to restore the "power vertical," reining in the autonomy that Russia's regions and especially ethnic republics had seized in the 1990s. To preserve national unity, the federal government took steps to redistribute resources from richer to poorer provinces and sought to develop lagging regions such as the North Caucasus and Russian Far East. In 2003 Putin appointed Dmitry Medvedev deputy prime minister in charge of a new program of "national projects," signaling the federal government's concern with nationwide development goals. In 2005 four projects were launched to promote the modernization of farming, health care, education, and housing. This sort of active state leadership role is perfectly compatible with the state interventions envisioned under neoliberalism, intended to create the conditions for a successful market economy. Some $10 billion a year was spent on these programs, leading to a rise in the wages of those working in education and health care, but no breakthroughs in performance. In the face of indifferent results and the accelerating global financial crisis, the cabinet department responsible for administering the projects was disbanded in March 2009. (Medetsky 2009)

The modernization school reached its apogee during the presidency of Dmitry Medvedev from 2008 to 2012, when Russia was ruled by the uneasy "tandem" of President Medvedev and Prime Minister Putin. Medvedev described himself as a "conservative" and not a liberal (Medvedev 2004), but he made "modernization" the watch-word of his presidency, reportedly on the advice of his first deputy chief of staff Vladislav Surkov. (Surkov 2010) 2008 saw the launch of "Strategy 2020," a bold road map of the steps needed to turn Russia into a more competitive, productive economy. Policies introduced by

[5] http://www.kremlin.ru/sdocs/appears.shtml?stype=63372

President Medvedev ranged from introducing more open electronic government to a series of expensive infrastructure projects, such as the East Siberia-Pacific Ocean oil export pipeline and the Skolkovo innovation park. However, in reality Medvedev's modernization rhetoric, while appealing to Western observers, ran ahead of his ability to implement policies on the ground. (Trenin 2010; Pynnöniemi, 2014.)

There were some signs of policy dissonance between Medvedev and Putin. For example, at the G20 summit in Washington in November 2008, Medvedev and the other participants agreed not to erect protectionist trade barriers against each other. Then, just a few days later, Putin announced the introduction of higher customs duties on the import of used cars in order to protect the domestic auto industry.

The Strategy 2020 reform program was derailed by the 2008 economic crisis, which caused Russia's GDP to shrink by 8 percent in 2009. The state was forced to step in, spending down its reserves to delay the depreciation of the ruble, and bailing out banks unable to meet their foreign loan payments. (Robinson 2013) At least the government did not resort to outright protectionism after the crisis. (Bykov 2011) Although growth resumed a year later, it was at a sluggish pace. The core of the problem was that companies were not investing enough, due to a combination of slack demand in Europe and uncertainty over Russia's political future and Putin's willingness to ease the state's overbearing role in the economy (Mau 2014) The Strategy 2020 plan would be re-launched in 2012 under the leadership of two liberal economists, Vladimir Mau, Rector of the Academy of the National Economy, and Yaroslav Kuzminov, Rector of the Higher School of Economics. (*Strategiia* 2012)

Despite the economic turbulence of 2008-09, real wages and pensions continued to rise, and – in sharp contrast to the 1998 crash – the crisis did not significantly weaken the political authority of the Putin-Medvedev tandem leadership. However, in September 2011 Putin revealed that he would be returning to the presidency in 2012, triggering mass discontent and a slump in his popularity. The Kremlin was frightened by the sight of tens of thousands of protestors who took to the streets of Moscow to challenge the results of the December 2011 State Duma elections.

In response to this political challenge, on his return to the presidency in May 2012 Putin encouraged a series of legislative measures to appeal to traditional values (such as a ban on foreign adoptions and LGBT propaganda) and cracked down on civil society groups receiving foreign money. He also targeted the Pussy Riot group after their performance in the Cathedral of Christ the Savior as a symbol of the gulf between Russian and Western values. (Sharafutdinova 2014)

At the same time, Putin laid out a program of state spending to improve Russia's long-term growth prospects while also boosting living standards and the quality of public services. At the same time Putin's decree no. 596 "On the state's long run economic policy" of 17 May 2012 set a dozen ambitious long-term goals, including: 25 million new job places by 2020; investment to reach 25 percent of GDP by 2018; a 30% increase in high tech products; a 50 percent increase in labor productivity; and to boost Russia's World Bank "ease of doing business" rating from 120th place to 50th by 2015 (and 20th by 2018).[6] Over the course of the next year Putin pressured ministry officials to follow through on the new program. (Kolesnikov 2013) These programs were given a high degree of visibility by the Kremlin-controlled mass media, and provided a vehicle for Putin to display his active concern for the nation's socio-economic progress. However, at the conclusion of the program's first year, in May 2013, Deputy Prime Minister Vladislav Surkov, co-chair of the commission for implementing the presidential decrees, was forced to resign because of failures in implementing the decrees. (Koshcheev 2013)

[6] http://graph.document.kremlin.ru/page.aspx?1610833

Throughout the Putin era, there was unresolved tension between the liberal and statist wings of his administration. The intellectual differences between these two groups were overlaid by clashing interests of various oligarchs and state officials. Some of them stood to gain from the preservation of a relatively open economy, while others would benefit from a return to protectionism. Anders Aslund dubbed this a clash between crony capitalists (Putin's inner circle) and state capitalists (Aslund 2014), while Andrei Piontkowsky framed it as a struggle between global kleptocrats and national kleptocrats. (Piontkowsky 2014)

In January 2010 Putin adopted a decree introducing a "Food security doctrine" for Russia, and in 2012 a Eurasian Center for Food Security was opened in Moscow. (World Bank 2012) Since the 1990s the Communist Party and their nationalist allies had been pushing the idea of "food security": the need to protect Russia's agricultural producers from cheaper, subsidized food imports. (Spoor 2013, Azarieva 2014) The campaign also involves the idea of protecting Russian consumers from unhealthy and potentially dangerous foreign foods. "Securitizing" the issue made it easier for the state to adopt guarding the nation's food supply as one of its core functions. Over the years the Russian food safety agency Rospotrebnadzor imposed import bans on a wide variety of foodstuffs, from Georgian wine to U.S. pork. In many case these bans seemed to be punishment for political actions by the targeted state, rather than part of a systematic protectionist strategy. (Cenusa 2014)[7]

At the same time, in 2012, Russia was finally accepted as a member of the World Trade Organization, something that they had been seeking since 1993. Liberals saw WTO membership as vital to promoting competitiveness and breaking up the cozy monopolies that had come to dominate the Russian economy. WTO entry was also of symbolic importance: China had been allowed to join back in 2001, and Russia remained the only major economy outside the preeminent global trade body. Entry was opposed by some producers – such as farmers and the auto industry – that feared foreign competition. Putin persisted through years of difficult negotiations, finally securing entry in 2012. By then, Russia had already removed most non-tariff barriers in preparation for WTO entry, and had lowered its average tariffs to a level (10.7 percent) acceptable to the WTO, so the impact on the competitiveness of the Russian domestic market was likely to be modest. However, Russian exporters of steel and chemicals could expect to benefit from lower tariff barriers and access to WTO procedures for fighting anti-dumping measures. Predictions of a 2-3 percent boost to annual GDP growth are based on heroic assumptions about the possible impact of liberalization on Russia's domestic financial markets. Putin refused to break-up Gazprom or to liberalize Russia's domestic energy market as a condition for WTO entry, as the European Union initially tried to insist. (Rutland 2012)

A top priority for Putin has been turning the Eurasian Economic Union into a fully-integrated economic entity, building on the Common Economic Space introduced between Russia, Belarus, and Kazakhstan in January 2012 (following the Customs Union that the three countries formed in 2009). However, there are only modest efficiency gains for Russia from integrating with those two much smaller economies, and the 2014 crisis in Ukraine put paid to the prospects for that country joining the project anytime soon.

The nationalist alternative

Russian nationalists have an ambiguous relationship to Vladimir Putin. On one hand, the statists admire Putin for having resurrected a strong state, willing to act decisively against Russia's enemies – domestic and foreign, real and imagined. On the other hand, despite the fact that Putin has repeatedly invoked the history, culture, and values of the Russian people (*Russkii narod*), Russian ethno-nationalists see him as

[7] One case study of the ban on Norwegian fish concludes that the motivation was not so much protectionism but a reflex desire to maintain state control. (Elvestad and Nilssen 2010)

putting the interests of the state before those of the Russian people. They suspect Putin of being too "soviet" in his thinking – as exemplified by his plans for a Eurasian Economic Union, which ethno-nationalists fear would be a vehicle for Russia to subsidize its poorer neighbors. Although Putin has stressed the importance of the Russian Orthodox Church for Russian identity, and praised the Tsarist legacy, he has tended to stress Russia as a multi-ethnic project rather than a state only for ethnic Russians. Nationalists rejoiced when Putin acted decisively to annex the Crimea in March 2014, but were disillusioned by his refusal to openly support the separatists in eastern Ukraine, instead limiting himself to (thinly disguised) covert military assistance to prevent them from being overrun by Ukraine government forces.

This ambivalence also extends to Putin's economic policies. The nationalists resent the spread of capitalism to Russia, and the dominant role played by the cohort of 100 billionaire oligarchs – whose number has increased tenfold during Putin's rule. They are angry that pro-market economists continue to set policy at the Finance Ministry and Central Bank – institutions that they see as agents of Western capitalist thinking. They complain that the Central Bank has pursued a tight monetary policy, and as a result the ruble had become over-valued (prior to the 2014 depreciation), and the money supply (M2) is only 50 percent of the size of Russian GDP, below the level of other developed economies. (Glaz'ev 2014b) Mikhail Leont'ev, a veteran attack journalist who was appointed Rosneft's vice-president for communications in January 2014, has made the Central Bank a central target of his invective. He condemned Russia's economic course as "A colonial arrangement, a raw materials appendage, where rents are spent on foreign imports and the destruction of domestic industry." (Leont'ev 2014)

Nationalist economists such as Mikhail Iure'v argue that the economic openness promoted by neoliberals is a recipe for the deindustrialization of Russia and its conversion into a source of raw materials for the West – and of China. (Iur'ev 2013) Such thinking is shared by many mainstream Russian economists such as Vladimir Popov, who argue that protectionism has been successful for many countries in the past, enabling them to develop high-value added industries and not see their economies shrink to low-value sectors in which they have a global comparative advantage, such as resource extraction or agriculture. (Polterovich and Popov 2005). In fact, critics of neoliberalism dominate the pages of the leading academic economics journal in Russia, *Voprosy ekonomiki*, the publication of the Academy of Sciences Institute of Economics.

Russia's anemic party structure consists of a dominant ruling party and a handful of officially tolerated "opposition" parties. As Leonid Polyakov noted "There are no nationalist parties, if one doesn't take the LDPR as a nationalist party." (Loginov 2013) This is not because of a lack of support among voters, but because of divisions within the nationalist camp – and because of Kremlin's determination to prevent such a party emerging.

The Kremlin's own nationalism built on state patriotism and anti-Western rhetoric. This was clear in Surkov's concept of "sovereign democracy," reaffirmed in his 2006 article "Nationalizing the future," in which he looked for a community of sovereign democracies standing up against the "global dictator" and critiqued liberal "intellectuals for whom the sun rises in the West." (Surkov 2006) Surkov argued that Russia faced the challenge "to preserve sovereignty without harming democracy, and to be open without losing one's identity." However, "the main guarantor of sovereignty is not only military but also all-round competitiveness." He called therefore for a "nationally oriented open economy." He had no time for ethnic Russian nationalists – he mockingly asked if they would want "a Russian Republic within the borders of early Muscovy, an ethnic preserve with a 'do not disturb' sign on the fence." Surkov's approach was purely instrumental, seeking to use nationalism to bolster Putin's political authority. Andrei Okara characterized his approach as based on "clever marketing, studying the demands of the target audience and a calculated pursuit of the fashion for 'genuineness.'" (Okara 2007) The Kremlin was able to wrest the nationalism agenda out of the hands of the Communists, in part because although a majority of the Russian public share the left-wing critique of globalization, they have no enthusiasm for a return to Soviet-type central planning as a solution (Mikhailin 2013).

One of the most outspoken and prolific nationalist critics of neoliberalism in Russia is Mikhail Deliagin, a former member of Yeltsin's liberal economic team (1990-98) who then worked for Yevgenii Primakov and became one of the leaders of the nationalist Rodina party (2004-06).[8] From his position as head of the Institute for Problems of Globalization he has penned a stream of articles and books calling for an autarkic development strategy based on infrastructural investment and industrial protectionism. (Deliagin 1999) He has been a consistent critic of the liberalization policies pursued by Putin-Medvedev: in 2007 he was digitally erased from a TV talk show because of comments critical of Putin. (Levy 2008)

The leading standard bearer for nationalist economics is Sergei Glaz'ev. Like Deliagin, Glaz'ev was part of the early 1990s Yeltsin reform team, serving as Minister for External Economic Relations in 1992-93. He was a member of the State Duma since 1997, first on the ticket of the Democratic Party of Russia and then the Communist Party. In 2003 he was one of the founders of the nationalist Rodina party, which made higher taxes on natural resource rents a plank in its program in the December 2003 State Duma elections. Rodina won an impressive 9 percent of the vote: fearful of its success, in 2006 the Kremlin shut it down, forcing it to merge into the new Just Russia party.

Glaz'ev has developed a coherent and consistent analysis of the challenges facing the Russian economy – the intensification of globalization which leads to the deindustrialization of mature economies, and the deepening financialization which exposes countries to speculative bubbles while strengthening the power of the US. (Glaz'ev 2011) He believes that recycling the petro-wealth through a state-led investment campaign in infrastructure and manufacturing, behind protectionist barriers, can preserve Russia's industrial base. However, he overlooks the fact that countries like China and Brazil have shown that the way to catch up is to form partnerships with Western firms, learn their technologies through joint ventures and licensing, and then develop indigenous production facilities.

In July 2012 Glaz'ev was appointed an advisor to Putin for the Customs Union with Belarus and Kazakhstan – a significant step, bringing this outspoken critic into the presidential administration. However, in May of that year Putin had promoted his economic adviser, the liberal Arkady Dvorkovich, to deputy prime minister in charge of economic policy, replacing Dvorkovich with another liberal, Elvira Nabiullina. (Sycheva 2012) In 2013, despite vigorous lobbying Glaz'ev failed to be nominated head of the Central Bank, losing out to the Nabiullina.

In a ceremony in the Cathedral of Christ the Savior on 27 November 2013 Sergei Glaz'ev was awarded a prize as one of the "Men of the Year 2013" for his work in bringing Ukraine into the Unified Economic Space with Russia –with Ukrainian President Yanukovich having refused to sign the Association Agreement with the EU the week before.[9] The celebrations were premature: protests in Kyiv would topple the Ukrainian government in February 2014, and on 27 June the new government signed the agreement with the EU, putting paid to any chance of Ukraine joining the Eurasian Economic Union.

Impact of the Ukraine crisis

Putin's annexation of Crimea in March 2014 triggered a swift Western response to signal their shock at Russia's use of force to change international borders, in violation of the 1994 Budapest memorandum that Russia had signed recognizing Ukraine's sovereignty and territorial integrity. The first round of "smart"

[8] Deliagin's publications can be found on his website http://delyagin.ru/.
[9] http://www.glazev.ru/about/343/

sanctions targeted named individuals and corporations involved in the Crimean annexation. (The WTO allows any country to break their free trade rules if it invokes a national security exemption.) Covert Russian support for separatist rebels in eastern Ukraine led to a second wave of broader sectoral sanctions in July that hit corporations in the banking and energy sectors. Remarkably, Putin responded to the Western sanctions by imposing counter-sanctions: banning the import of foodstuffs from countries that had applied the sanctions.

Even more remarkably, Putin's tough posture proved popular with the Russian public. His personal approval rating hit 88 percent in October 2014 (Volkov 2014), and some observers argue that Russian society has settled into a new "post Crimea" social contract, in which the people accept economic hardship in return for Russia's restoration to the ranks of the great powers. However, it is not clear how much economic pain ordinary people are willing to endure in the long term for the sake of Putin's great power adventurism. Nor is it clear that Putin will be able to maintain political control in this situation, given that Russian nationalists continue to push for yet more aggressive action in eastern Ukraine. (Morozov 2015) Perhaps this is what led Putin to defensively declare, in response to a question at the Valdai Club in October 2014, that "I am the biggest nationalist in Russia." (Putin 2014a)

The sectoral sanctions made it difficult for Russian firms to refinance their debts, and their impact was multiplied by a slump in global oil prices, which fell from $100 at the start of 2014 to $60 by year's end. The ruble lost half its value, inflation surged, and the Russian economy plunged into a recession with a projected 5 percent drop in GDP in 2015. (Rutland 2014; Secreriu 2015). The liberal former finance minister Aleksei Kudrin (2014) warned that "Business is very concerned by what it is hearing on the radio and TV", and he feared cutting ties with West "that will hold back modernization is all directions." He continued "There are forces in the country who have long wanted . . . isolation, maybe a certain self-sufficiency. Today this has all fallen on fertile ground."

The Ukraine crisis saw a prominent political role for Sergei Glaz'ev who emerged as a key Putin advisor on the issue. The sanctions provided Glaz'ev with a perfect opportunity to advance his alternative economic agenda. He argued for the need to create a separate international payments system with the BRICS countries to insulate themselves against Western sanctions; more investment in R&D to prevent bans on technology transfer from disrupting key industries; and the introduction of capital controls to stop capital flight (Glaz'ev 2014b) Nationalist critics outside the government such as Mikhail Deliagin blamed Nabiullina's Central Bank for failing to head off the impact of the sanctions by imposing capital controls, leaving Russia exposed to rapid ruble depreciation and inflation. (Deliagin 2015) Likewise, nationalist intellectual Andrei Fursov called for the "nationalization" of the Central Bank to wrest control of the Russian economy back from the "20 families that control the world economy." (Fursov 2014)

While nationalist economists are on the offensive, liberals are in despair. Billionaire and presidential candidate Mikhail Prokhorov penned an unconvincing article in which he argued that the crisis may force the government to embrace long-overdue reforms and unleash a "market mobilization." (Prokhorov 2014)

Putin aligned himself unequivocally with the nationalist side of the debate. He told a meeting of the Security Council on 22 July 2014 that the sanctions were part of a systematic policy by the Western powers to deny sovereignty to other nations, a policy that includes the fomenting of "color revolutions" of the sort that brought down President Yanukovich in February. (Zasedanie 2014) The main task of economic policy should be to develop regions such as Far East while keeping inter-regional differences in check. "We must think of additional steps to reduce the dependence of our economy and financial system on negative external factors." In his end of the year address Putin stated "We should wipe the critical dependence on foreign technologies and industrial production. The main thing we need to understand is that our development depends on ourselves first and foremost." (Putin 2014b)

For 15 years, Putin's economic policy had been pulled between the conflicting logics of liberalism and statism. The Crimean crisis served as an external shock that seems to have pushed Putin into a full embrace of anti-Western, protectionist policies, in support of his determination to hold onto his political and territorial gains in Ukraine.

Conclusion

There are many puzzles facing the analyst trying to understand the trajectory of Russian politics. Why did democracy fail in the 1990s? How was a small, corrupt elite able to seize control of the commanding heights of the economy, becoming fabulously wealthy in the process? Among the puzzles is the failure of Russian nationalists to capitalize on the public's deep dissatisfaction with the performance of the Russian economy in the 1990s. Then, after the accession to power of Vladimir Putin in 2000, the new, patriotic leader confounded the nationalists by sticking with many of the policies of the liberal market reformers: eschewing protectionism and trying to maintain and deepen Russia's integration into the global economy.

Putin concluded that Russia's viability as a great power required him to accelerate economic modernization and deepen global integration. Other leaders of developing countries, such as the populist President Luiz Inacio Lula da Silva in Brazil and the nationalist Prime Minister Narendra Modi in India, came to a similar conclusion, and tried to adopt select elements of the neoliberal policy package without alienating their domestic constituencies. These international comparisons are an important reminder that Russia's dilemma of embracing the global economy while preserving national identity is not unique.

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