

# Political Economy

**Journal Issue****Author(s):**

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**Publication date:**

2016-04-20

**Permanent link:**

<https://doi.org/10.3929/ethz-a-010818493>

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**Originally published in:**

Russian Analytical Digest (RAD) 182



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## Russian Labor Protest in Challenging Economic Times

By Stephen Crowley, Oberlin, OH USA & Irina Olimpiewa, St. Petersburg, Russia

### Abstract

As Russia likely faces an extended period of economic challenges, a major question concerns Russia's workers: Will they remain stoic despite economic hardship, or will they rise up in protest? Thanks to the work of some Russian researchers, we point to clear evidence that labor protest is indeed on the rise in reaction to worsening conditions. However, the potential for these protests to spread, and their ability to influence the country's politics, is complex.

As Russia likely faces an extended period of economic challenges, a major question concerns Russia's workers: Will they remain stoic and quiescent despite economic hardship, or will they rise up in protest? Some have speculated that labor protests might contribute to Putin's downfall, while others have argued that most Russian's will revert to their time-honored survival strategies during economic hardship.<sup>1</sup> Thanks to the work of some Russian researchers however, we can move beyond speculation and point to evidence that suggests that labor protest in Russia is indeed on the rise. However, the question of the ability of these protests to influence the country's politics is complex.

When the Russian economy went through a steep decline following the Soviet collapse, there was much talk of a possible "social explosion," alongside discussion of the quiescence and patience of both workers and Russians in general despite their suffering. A major explanation for the relative social stability in industrial Russia has been what some have called the "Russian model" of labor market adjustment, wherein mass layoffs and plant closures were largely avoided, while wages rather than the number of jobs were extremely flexible.<sup>2</sup> This phenomenon took extreme form during the wage arrears crisis: by late 1998 approximately two-thirds of Russian workers reported overdue wages, with those affected reporting close to five months' pay in arrears on aver-

age.<sup>3</sup> As a result, Russia experienced a significant strike wave from 1996 through 1999.<sup>4</sup> Yet the strike wave was peculiar in that, in contrast to international experience, the vast majority of the strikes were prompted not by traditional worker grievances, but by wage arrears, and many were instigated by regional elites seeking greater subsidies from Moscow.<sup>5</sup> Yet a number of protests in that period involved workers taking desperate measures, such as the "rail wars" of 1998, when coal miners blockaded the Trans-Siberian and other major railways.

Putin's rise to power coincided with the cresting of the wage arrears crisis. With the exception of the economic recession of 2008–09, wage arrears for workers largely disappeared and were replaced by substantial wage increases. Yet even with relative prosperity, the fear of unemployment and the regularity of wage payments have consistently remained the top concerns for Russia's workers.<sup>6</sup> This may help explain why, even during the oil boom years, little restructuring was carried out in Russia's industrial enterprises, including in the many struggling monotowns, leading some to suggest that the goal of labor market efficiency was being checked by the desire to maintain social stability.<sup>7</sup>

1 Contrast Motyl with Kolesnikov and Zubarevich. Alexander J. Motyl, "Lights Out for the Putin Regime: The Coming Russian Collapse," *Foreign Affairs*, March 16, 2016, <<https://www.foreignaffairs.com/articles/russian-federation/2016-01-27/lights-out-putin-regime>>; Andrei Kolesnikov, "By Bread Alone: Why Poor Russians Aren't Protesting," *Carnegie Moscow Center*, accessed April 3, 2016, <<http://carnegie.ru/commentary/2016/01/18/by-bread-alone-why-poor-russians-aren-t-protesting/ist2>>; Natalia Zubarevich, "Strana gotova szhimat'sya i vyzhivat'," *Rosbalt*, January 8, 2016, <<http://www.rosbalt.ru/business/2016/01/08/1476897.html>>.

2 Simon Clarke, ed., *Structural Adjustment without Mass Unemployment?: Lessons from Russia* (Cheltenham, UK; Northampton, MA, USA: E. Elgar, 1998); Vladimir Gimpelson and Rostislav Kapeliushnikov, "Labor Market Adjustment: Is Russia Different?," in *The Oxford Handbook of the Russian Economy*, ed. Michael Alexeev and Shlomo Weber (Oxford: Oxford University Press, 2013).

3 John S. Earle and Klara Sabirianova Peter, "Equilibrium Wage Arrears: A Theoretical and Empirical Analysis of Institutional Lock-In," *SSRN eLibrary*, September 2000, <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=251999](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=251999)>.

4 Some have argued that the scale of the protests was not as big as would have been expected given the extent of the economic hardships. Sarah Ashwin, *Russian Workers: The Anatomy of Patience* (Manchester: Manchester University Press, 1999); Paul Kubicek, *Organized Labor in Postcommunist States: From Solidarity to Infirmary* (Pittsburgh: University of Pittsburgh Press, 2004).

5 Graeme B. Robertson, *The Politics of Protest in Hybrid Regimes: Managing Dissent in Post-Communist Russia* (New York: Cambridge University Press, 2011).

6 Vladimir Gimpelson and Aleksey Oshchepkov, "Does More Unemployment Cause More Fear of Unemployment?," *IZA Journal of Labor & Development* 1, no. 1 (December 31, 2012): 6, doi:10.1186/2193-9020-1-6.

7 Elena Vinogradova, Irina Kozina, and Linda J. Cook, "Labor Relations in Russia: Moving to a 'Market Social Contract?'," *Problems of Post-Communism* 62, no. 4 (July 4, 2015): 193–203, doi:10.1080/10758216.2015.1036677.

Strikes also declined dramatically after 1999 for a number of years from their peak during the wage arrears crisis. However, consistent growth appeared to embolden Russia's workers, with some sources reporting a sharp increase in labor protests beginning around 2006.<sup>8</sup> Moreover, Greene and Robertson argued that in contrast to past strikes in Russia, which were “counter-cyclical”—that is defensive responses to economic decline, with workers often simply demanding that their wages be paid—the more recent protests were “pro-cyclical,” more typical of those found in both OECD and developing countries, with workers pressing for wage increases when labor markets are tight and they have less fear of losing their jobs.<sup>9</sup>

### Labor and the 2008 Crisis

If such a “counter-cyclical” shift in Russian labor protests did indeed take place, we would expect to see a positive correlation between labor protests and economic growth, and labor protest to decline when economic conditions worsen. Let us look then at what occurred during Russia's last economic crisis in 2008–09.

The extent of Russia's economic decline then was deep, if relatively brief. Given the substantial drop in economic output, there was renewed talk of the potential for a “social explosion.” Considerable attention was placed on Russia's monotowns—one-industry towns left from the Soviet era, many with very poor economic prospects.<sup>10</sup> This was especially true after the protest in Pikalyovo, which garnered national attention when disgruntled workers blockaded a major highway.

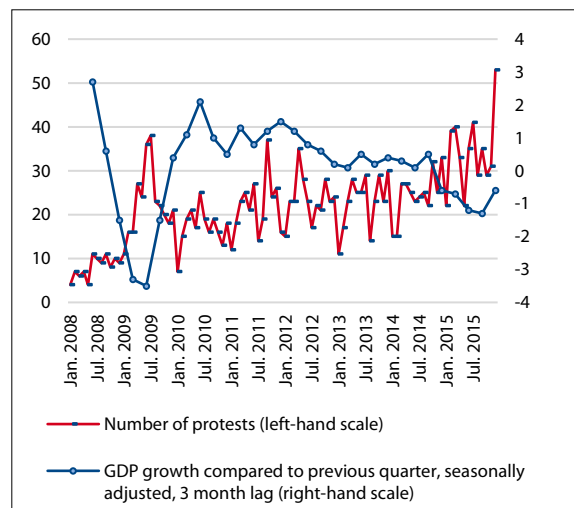
Given the drop in output, there was also considerable expectation of mass layoffs. Yet true to the practice of the Russian labor market, while overall unemployment grew, mass dismissals did not take place: in fact, they were as low in 2009 as in 2007, a year of considerable economic growth.<sup>11</sup> Still, the lack of mass dismissals was not simply

a product of business as usual. The Russian authorities, showing “clear signs of nervousness,” made considerable efforts to stave off mass layoffs, in order to preserve social stability.<sup>12</sup> In the end, outside of Pikalyovo, there were few dramatic instances of labor protest, which appeared, on an impressionistic level at least, to lend weight to arguments about the “patience” and quiescence of Russia's workers.

### Russian Labor Protests: Empirical Evidence

However, thanks to the work of Petr Bizyukov at the Center for Social and Labor Rights, we have some systematic data on labor protests from 2008 on.<sup>13</sup> The data are based on a compilation of news accounts and internet reports. While that data cannot confirm an increase in labor protests from 2006, it can demonstrate what happens to labor protests in an economic downturn, such as occurred in 2008–09 and 2014 to the present. Again, if Russian workers were becoming more “pro-cyclical” and less defensive, we would expect to find—contrary to popular expectations in Russia and elsewhere—that labor protests decline along with the economy.

Figure 1: Number of Labor Protests Per Month in Relation to GDP Growth



Sources: Labor protest: Center for Social and Labor Rights; GDP: OECD. The change in GDP is presented with a three-month time lag.

8 Samuel A. Greene and Graeme B. Robertson, “Politics, Justice and the New Russian Strike,” *Communist and Post-Communist Studies* 43, no. 1 (March 2010): 76; Elizabeth Teague, “How Did the Russian Population Respond to the Global Financial Crisis?,” *Journal of Communist Studies and Transition Politics* 27, no. 3–4 (December 1, 2011): 423, doi:10.1080/13523279.2011.596118.

9 Greene and Robertson, “Politics, Justice and the New Russian Strike.” See also Irina Kozina, “Zabastovki v sovremennoi Rossii,” *Sotsiologicheskiye Issledovaniya*, no. 9 (September 2009): 13–25; Teague, “How Did the Russian Population Respond to the Global Financial Crisis?”; Anton Zainiev, “20 let zabastovok,” *Trud*, September 30, 2009, no. 182 edition.

10 Stephen Crowley, “Monotowns and the Political Economy of Industrial Restructuring in Russia,” *Post-Soviet Affairs*, June 22, 2015, 1–26, doi:10.1080/1060586X.2015.105410.

11 Vladimir Gimpelson and Rostislav Kapeliushnikov, “Anticipation and Management of Restructuring in the Russia” (Euro-

pean Commission: DG Employment, Social Affairs and Inclusion, October 2011), 18–19; Natalia Zubarevich, “Sotsial'naya differentsiatsiya regionov i gorodov,” *Pro et Contra*, October 2012, 145.

12 Teague, “How Did the Russian Population Respond to the Global Financial Crisis?,” 423; Vinogradova, Kozina, and Cook, “Labor Relations in Russia,” 195; Natalia Zubarevich, *Regiony Rossii: neravenstvo, krizis, modernizatsiya* (Moscow: Nezavisimyi institut sotsial'noi politiki, 2010), 92.

13 “Trudovye protesty,” accessed April 5, 2016, <<http://trudprava.ru/news/protestnews>>.

Figure 1 shows considerable variability in labor protest, and at first glance, it would appear that labor protest did indeed decline with the 2008 downturn. However, when we map the protest data with change in GDP (with a three month time lag) we find that far from being “pro-cyclical,” Russian labor protests are inversely correlated with economic growth, at least during periods of economic decline such as 2008–09.

The relationship between labor protests and economic growth is somewhat more ambiguous with economic recovery from 2010–13, though the data suggests a slight increase in “pro-cyclical” protests with renewed economic growth. However, from about August 2014, labor protests increased significantly, right about the time that the economy began to worsen. Moreover, the economic crisis of 2008–09 was deep but relatively short, and only two months (June and July, 2009) saw a dramatic increase in recorded protests. In contrast, the economic decline in the current crisis is not nearly as deep, but already the protest levels appear much higher.

In 2015 the database recorded 409 labor protests, the highest since record keeping began in 2008. That is a 40% increase from 2014, and 76% higher than the average from 2008–2013.

There are severe legal restrictions on strikes in Russia, such that the number of officially recognized labor strikes is often absurdly low—in 2009, the height of the last economic crisis, precisely one strike was registered by the Russian authorities.<sup>14</sup> Not surprisingly, workers often express their grievances in other forms of protest. The CSLR database includes all labor protests, including the “advancing of demands.” Yet in 2015, the number of “stop-actions”—a category that includes full or partial work stoppages and work-to-rule actions—rose to 168, which was 73% higher than in 2014, and 87% higher than the 2008–13 average.<sup>15</sup> While in the past roughly one-third of all protests have involved “stop-actions,” in 2015 the proportion rose to 41%, suggesting that not only the number of protests has increased, but their intensity has as well.

Such data, while interesting, needs to be treated with caution, since they are generally drawn from press and internet reports. However, a similar project of labor protest monitoring, carried out by an organization affiliated with Russia’s leading union federation FNPR, finds a similar pattern, if not as dramatic an increase. Using

its own definitions and methodology, and largely drawn from trade union reporting, the “Center for the Monitoring and Analysis of Social-Labor Conflicts” at the St. Petersburg University of the Humanities and Social Sciences (SPU) recorded 156 “social-labor conflicts” in 2015, a 11% increase from 2014 (when there were 134 conflicts) and a 23% increase from 2013.<sup>16</sup> Twenty-nine percent of these conflicts took the form of strikes or “refusals to work.”

Despite the different methodologies and number of conflicts recorded, both databases find clear signs of workers reacting to worsening economic conditions. For both, the greatest source of labor protest in 2015 was wage arrears—48% of the cases for the CSLR database, and 60% for the SPU database. The SPU also found that 31% of protests concerned the layoffs [*sokrashchenie i uvolnenie*] of workers, with that number having increased significantly from past years. Makarov of the SPU finds that “from 2013–15, the overwhelming majority of social-labor conflicts take place outside the sphere of existing legal frameworks,” a point that Bizyukov of the CSLR has emphasized repeatedly as well.<sup>17</sup> The SPU data also finds that workers are increasingly aiming their demands at various state organs: in 2015, 95% of protests appealed to government institutions (up from 88% in 2014), while only 3% appealed to the administration and owners of enterprises (down from 10% in 2014). While the SPU data finds that the vast majority of protests succeed in fully or partially satisfying worker demands, over the last year the proportion of protests where workers were not successful increased to 18% from 9.7% in 2014.

### Prospects for Protest Growth

What are the political implications of this increase in labor protest? What potential exists for such protests to spread, and for workers from different regions to join together as Russia’s long-haul truckers did at the end of 2015? In a classic work of social movement theory, Charles Tilly argued that two ingredients—which he termed “netness” and “catness”—were central to successful mobilization.<sup>18</sup> *Netness* refers to networks connecting groups to one another, in this case primarily labor unions. *Catness* refers to the perception of belonging to a common category with others. For example, pub-

14 Petr Bizyukov, “Za ves’ 2009 god v Rossii utverzhdet Rostat proizoshla vsego odna zabastovka,” *Gazeta.ru*, accessed April 5, 2016, <[http://www.gazeta.ru/comments/2010/02/15\\_a\\_3324039.shtml](http://www.gazeta.ru/comments/2010/02/15_a_3324039.shtml)>.

15 Petr Bizyukov, “Pervye priznaki bol’shogo tsunami,” *Gazeta.ru*, accessed April 5, 2016, <[http://www.gazeta.ru/comments/2016/01/15\\_a\\_8023709.shtml](http://www.gazeta.ru/comments/2016/01/15_a_8023709.shtml)>.

16 E. Makarov, “Kratkiy obzor sotsial’no trudovykh konfliktov za 2015 god,” *Konfliktologiya*, accessed April 5, 2016, <[http://industrialconflicts.ru/lib/20/kratkiy\\_obzor\\_sotsialno-trudovykh\\_konfliktov\\_za\\_2015\\_god.html](http://industrialconflicts.ru/lib/20/kratkiy_obzor_sotsialno-trudovykh_konfliktov_za_2015_god.html)>.

17 Ibid.; Petr Bizyukov, “Labor Protests in Russia, 2008–2011,” *Russian Analytical Digest*, no. No. 104 (October 27, 2011): 6–10.

18 Charles Tilly, *From Mobilization to Revolution* (McGraw-Hill, 1978).

lic sector workers might share such a perception since the same authorities are typically responsible for setting their wages and working conditions, but not so private sector workers.

Regarding *netness*, a sizeable portion of labor protests take place without any union participation at all. The CSLR database finds that over 40% of protests in recent years have involved “only workers,” and that the number of spontaneous protests has grown over the last two years. The SPU database also notes the growth of protests in enterprises lacking any union representation. Reflecting on this earlier, Makarov noted that this “indicat[es] the growth of spontaneous worker actions and their unregulated character.”<sup>19</sup> This is a significant admission given that the author of the words, and director of the Center, is a deputy chairman of the FNPR. Even when unions do participate, protests often begin spontaneously, with unions becoming involved after the fact, helping to conduct negotiations and normalize the situation.

The protest databases have significant limitations—both one-time “meetings” and longer-term actions are counted as a single protest event, and we do not have sufficient data on the length, scale and form of various protests. Our hypothesis is that more significant protests are led by the smaller, “alternative” unions, rather than the much more numerous and more traditional unions affiliated with the FNPR.<sup>20</sup>

Yet because of the overall weakness of unions, and the isolation of many industrial enterprises such as monotowns, most labor protests tend to be localized events. However, Bizyukov of the CSLR notes an increase in the number and scale of inter-regional labor protests beginning in 2012.<sup>21</sup>

The inter-regional labor protest that garnered the most attention in recent years was that of the truckers. Long-haul drivers in 43 of Russia’s regions and over 70 cities took to the streets in various forms of protest—in some cases driving in convoys under 10 miles per hour, in other cases blockading highways altogether—when the government moved to implement a new road tax on load-bearing tractor-trailers. The fee charged might seem small—4 Rubles per kilometer for trucks weigh-

ing over 12 tons—but many truckers argued that they were barely breaking even before the new tax. Moreover, the truckers’ passions were accelerated by the fact that the fees would be collected by a private company owned by the son of Arkady Rotenberg, one of Putin’s long-time friends.

The authorities prevented most truckers from reaching central Moscow, and made only limited concessions. Yet protest actions have continued, if in a more limited manner. Moreover, truckers have begun to form an “Association of Professional Drivers and Freight Haulers,” in essence attempting to increase their “network” power.<sup>22</sup> Further still, despite the protests being mostly ignored by state-run media, opinion polls showed that almost two-thirds of the population supported the truckers.<sup>23</sup>

### Categories and Revenue

The most compelling explanation for why the truckers’ protest spread so widely and so quickly has to do with “catness”: the new tax system impacted all long-haul truckers as a category. Indeed, one question is whether the truckers’ protest represented a labor protest or something else. As owner-operators, most Russian truckers are less workers than small businessmen, albeit ones surviving on very small margins. As Russian analyst Dmitrii Oreshkin has argued, the truckers protest can best be seen as a taxpayers’ revolt.<sup>24</sup>

This is crucial because the sharp drop in oil prices not only puts a crimp in Russia’s economy; it arguably changes the very relations between state and society. When oil prices were high, with oil and gas revenues accounting for a substantial part of the federal budget, the Russian government could afford to use oil industry “rents” to help maintain regime legitimacy in what some have termed a “non-intrusion pact”—one where society is provided for and otherwise left alone, as long as it stays out of politics.<sup>25</sup> Now, however, the state needs

19 E. Makarov, “Analiz sotsial’no trudovoy obstanovki v Rossiyskoy Federatsii v 2014 godu,” *Publikatsii tsentra monitoringa i analiza sotsial’notrudovykh konfliktov, SanktPeterburgskogo Gumanitarnogo Universiteta Profsoyuzov*, February 4, 2015, <<http://www.gup.ru/uni/science/industrialconflicts/detail.php?ID=180822>>.

20 Irina Olimpieva, “‘Free’ and ‘Official’ Labor Unions in Russia: Different Modes of Labor Interest Representation,” *Russian Analytical Digest*, no. No. 104 (October 27, 2011): 2–6; Irina Olimpieva, *Rossiiskie profsoyuzy v sisteme regulirovaniya sotsial’notrudovykh otnoshenii: osobennosti, problemy i perspektivy issledovaniya* (Moscow: Moscow Social Science Fund, 2010).

21 Bizyukov, “Pervye priznaki bol’shogo tsunami.”

22 “Dal’noboyschiki ob’edinilis’ i poydut do kontsa,” *Stolitsa na onego—obshchestvenno-politicheskaya internet-gazeta Karelii*, accessed April 10, 2016, <<http://www.stolica.onego.ru/articles/306721.html>>.

23 “Levada.ru—Russian Opinion Poll Reveals Support for Protesting Truckers,” *2016-#1-Johnson’s Russia List*, December 30, 2015, <<http://archive.constantcontact.com/fs156/1102820649387/archive/1123355488613.html#LETTER.BLOCK21>>.

24 Dmitry Oreshkin, “Dal’noboyschiki kak novyy klass protestuyushchikh,” *Svop.ru*, November 24, 2015, <<http://svop.ru/main/17820/>>.

25 Nikolay Petrov, Maria Lipman, and Henry E. Hale, “Three Dilemmas of Hybrid Regime Governance: Russia from Putin to Putin,” *Post-Soviet Affairs* 30, no. 1 (January 2, 2014): 1–26, doi:10.1080/1060586X.2013.825140.



society, both to give up more of its dwindling income as revenue, and to quietly accept a lower level of benefits.

As the Kremlin is certainly aware, previous government attempts to cut benefits and raise revenue have also sparked protests. In 2005 an attempt to rationalize social benefits by monetizing them led to spontaneous protests among the elderly in several Russian regions, and the government quickly backed down, in the end spending more than the reforms would have saved.<sup>26</sup> In 2008, a tax on imported cars brought protesters out in the streets in dozens of cities.

Thus, the likely need to raise revenue and cut expenditures has the potential to spur more protests since, as with the truckers, such government actions impact disparate workers as a single category. Coordinated, cross-regional labor protests are on the rise, led less often by industrial workers and more by “budget sector” employees such as teachers and medical workers.<sup>27</sup> Given the strains on federal and regional budgets, it is not surprising that protests in the budget sector increased in the second half of 2015. Moreover, according to the SPU, employers in the public sector, “even more so than those in the private sector, resort to arbitrary rule [*proizvol*], break collective agreements, ... and crudely violate labor norms.”<sup>28</sup>

As with the truckers, the Putin regime has survived these protests with some combination of concessions and repression. But the protests themselves signal to

the state the limits of what it can demand of the population, and these signals ring louder with the steep drop in oil revenues and resulting fiscal pressures.

Moreover, lurking behind the concerns about revolts over taxes and benefits are the more traditional labor protests, centered in Russia’s post-Soviet industrial towns and regions. These are now on the rise, and they are becoming less isolated, as protesters from one firm clump together with strikers from another.<sup>29</sup> According to the SPU database, 31 labor conflicts in 2015 (20% of the yearly total) were recorded in 20 monotowns, an increase of 40% from 2014.<sup>30</sup>

There are no signs that rising labor protests pose a direct challenge to the Putin regime. Indeed, President Yeltsin, with dismal approval ratings, survived the wage arrears crisis and the “rail wars” of the late 1990’s. Further, the most prominent political demand raised by the recent truckers’ protest—Russia’s largest labor protest in some years—did not denounce Putin, but rather appealed to him: “President, help us!”

Still, the very presence of protests by workers challenges Putin’s claim to be the guarantor of stability. Russia’s working class is often said to be Putin’s electoral base, and elections are looming. Moreover, should oil prices remain low for an extended period, the Putin regime may feel compelled not simply to raise taxes and cut benefits, but to renegotiate its relationship with Russian society.

*The authors would like to thank Petr Bizyukov and the CSLR for sharing their data.*

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26 Ibid.; Samuel A. Greene, *Moscow in Movement: Power and Opposition in Putin’s Russia* (Stanford, California: Stanford University Press, 2014).

27 Brittany Holom, “Russian Health-Care Protests Continue despite Putin’s Popularity,” *The Washington Post*, January 1, 2015, <<http://www.washingtonpost.com/blogs/monkey-cage/wp/2015/01/01/russian-health-care-protests-continue-despite-putins-popularity/>>.

28 “Kratkiy obzor sotsial’no trudovykh konfliktov za 2015 god.”

29 Bizyukov, “Pervye priznaki bol’shogo tsunami.”

30 Makarov, “Kratkiy obzor sotsial’no trudovykh konfliktov za 2015 god.” Russia’s FSO reported that its surveys found that in December 2015 60% of monotown inhabitants found their conditions to be either unbearable or “bearable with difficulty.” Yana Milyukova, “60% poterpe vshikh,” *RBK*, February 24, 2016, <<http://www.rbc.ru/newspaper/2016/02/25/56cdb2b69a7947557237c6c3>>.

## Coping with Economic Crisis in Russia's Regions: the Case of Tatarstan

By Gulnaz Sharafutdinova, London

### Abstract

Russia's regional governments play a crucial role in maintaining social and economic stability in the country. This article looks at the main strategies developed by the government of the Republic of Tatarstan to mitigate the effects of economic and financial crisis on various sectors and industries in the republic.

**O**lga Golodets, Russia's deputy prime minister on social affairs, admitted last month that the Russian population is rapidly sliding into poverty.<sup>1</sup> The number of people below the poverty line according to 2015 statistics has grown at a record rate, by 3.1 mln. reaching 19.2 mln. people or over 13% of the entire population. Ordinary Russians are quickly cutting on spending and shifting to the survival mode, familiar to many from the 1990s. Local grievances are growing and popular protests, mostly economic in motive, are bubbling up across the country. Sociologists have also noted the rising levels of depressive attitudes, fatigue, and loneliness among ordinary Russians, paralleled by rising aggression, fears, and resentment.<sup>2</sup> The political outcomes of these recent developments are not easy to predict. In 2015, ordinary Russians did not express any rising interest in popular protest. Protests do happen in Russian localities quite often, but they are local and economic in nature. They are usually dealt with at the regional level and do not get connected to national political opposition groups, although such a move was attempted in the context of 2015 truck-drivers' protests against a new road-tax system *Platon*.

2016 is a year of parliamentary elections in Russia and hence a preparation for 2018 presidential elections as well. Russian state authorities at all levels are, no doubt, acutely aware of the challenges associated with these elections and no effort will be spared to achieve the expected results. A key dimension to electoral results in the Russian political system lies with regional governments. They are responsible for economic, social and political indicators in the region, including the voting results. How regional governments are responding to economic difficulties and how they are preparing for the upcoming elections are two related empirical questions that can potentially provide us with some understanding of what to expect from the upcoming electoral season in Russia.

Below I focus on the Republic of Tatarstan, one of the more economically and politically successful of Russia's regions with a strong leadership and a robust econ-

omy, to trace the strategies developed by the republican government and regional enterprises in response to growing economic and financial crisis. This single case is not generalizable to other regions; at best, it can provide us with the 'best scenario' options available to regional governments in Russia. In terms of its economic structure, Tatarstan can also be seen as Russia 'in miniature' with its reliance on oil and gas production, petrochemical industry, machine-building, and agriculture—sectors considered crucial for Russia's national economy as well.

Tatarstan is a highly industrialized region. In 2015, 41% of its Gross Regional Production (GRP) was derived from the industrial sector, 7% from agricultural production, and 15% from trade.<sup>3</sup> Besides the aforementioned sectors, construction, IT services and tourism have also been on the rise in Tatarstan throughout the 2000s.<sup>4</sup> In 2014–2015 Tatarstani authorities worked hard to maintain at least the inertia of economically more dynamic growth years in Russia and many of the republican level macroeconomic indicators have been kept steady. Economic statistics for 2015, for example, appear almost unrealistic, especially when compared to Russia's average: industrial production level is up by 4% (while Russia-wide it had dropped by 3.3%), agricultural production is up by almost 5% (in this instance supporting the national trend), construction levels are kept at the level of 2014.<sup>5</sup>

The main directive transmitted by the republican government to regional elites and, particularly, to those in charge of the 'commanding heights' of the economy was clearly to resist the downward economic trends and maintain the levels of production at least at the level of the previous year. Indeed, the above figures demonstrate that such results have been 'delivered'. At the same time, the indicators associated with real incomes, salary levels and retail are suggestive of the fact that Tatarstan is clearly an integral part of Russia's economically and socially troubled space. Retail, by the end of 2015, stood at 87% indicating a 13% drop in con-

1 See: <<http://www.vedomosti.ru/newslines/top/economics/news/2016/03/23/634774-golodets-priznala-obednenie>>

2 See: <<http://www.rbc.ru/politics/04/02/2016/56b241cb9a79470482dfe5bd>>

3 See: <<http://www.tatar-inform.ru/news/2016/02/24/492939/>>

4 For more information see here: <[http://www.pwc.ru/en/doing-business-in-russia/assets/pwc\\_invest\\_tatarstan-eng.pdf](http://www.pwc.ru/en/doing-business-in-russia/assets/pwc_invest_tatarstan-eng.pdf)>

5 Sotsial'no-ekonomicheskoe polozhenie respublikii Tatarstan (ianvar'-dekabr' 2015)



sumption levels from the previous year, real incomes at 93% (7% less than at the end of 2014), real salary levels at about 94% (also 6% less) and the inflation rate at around 13%.<sup>6</sup> The population of Tatarstan is evidently tightening their belts and an exploration of particular economic sectors' and specific companies' patterns of adjusting to new economic environment provides an ample demonstration as to why such belt-tightening might be a sensible strategy. Below I focus on the coping strategies of the main manufacturers in Tatarstan, the oil and petrochemical sector, agriculture, IT sector, construction and tourism.

### Manufacturing Sector

The developments in particular industries and companies in Tatarstan are very much aligned with national trends. Russia's truck market had collapsed in 2015 by 43%.<sup>7</sup> Along with other Russian automakers facing a 'perfect storm' of macroeconomic factors and significant sale drops, KamAZ, the republican truck manufacturer, faced an eight-fold increase in its losses relative to the previous year. The downward trends in KamAZ started already in 2013 and even multi-billion subsidies from Moscow and Kazan did not help the plant to withstand the rapidly contracting sales. In market economies such economic tendencies would lead to massive layoffs. The political implications of the rising unemployment, however, threaten the Russian political system. Hence, measures are taken not to send people to the streets and, instead, keep them employed, even if by shortening work hours and the work week to three or four days only. This policy is adhered to by KamAZ managers as well.

Recent economic indicators of the Kazan helicopter plant (KVZ) also suggest that Tatarstan's economic conditions are closely wedded to those of Russia. Russian experts have recently provided a more optimistic prognosis for regions that have large defense sectors in their economy. Government defense procurement has benefitted Bryansk, Tula, Mari-El, Vladimir, and Ulyanovsk oblasts.<sup>8</sup> KVZ is also well-positioned to take advantage from Russia's Ministry of Defense purchase orders (unlike KamAZ that had to give up its defense-oriented production to allow for continuing cooperation with foreign carmakers). Its success in 2014, however, was explained by international contracts with India and the US.<sup>9</sup>

6 Ibid.

7 See: <[http://www.business-gazeta.ru/article/304843/?utm\\_source=search](http://www.business-gazeta.ru/article/304843/?utm_source=search)>

8 See: <<http://www.novayagazeta.ru/comments/71369.html>>

9 See: <[http://www.business-gazeta.ru/article/302761/?utm\\_source=search](http://www.business-gazeta.ru/article/302761/?utm_source=search)>

### Agricultural Sector

Regions with a large agricultural sector have also benefited in the last few years, both from the diminished competition from sanctioned agricultural products, as well as Russia's new import-substitution policy supported by federal finances. Tatarstan had long adhered to policies supporting the agricultural sector, as well as participating in federal support programs. The republican based producers took advantage of the more recent, agricultural federal subsidies and secured almost a seventh part of a 9bln. ruble agricultural subsidy approved by Russia's prime minister Dmitry Medvedev for 2016.<sup>10</sup> The biggest chunk of these subsidies is to support the construction of new dairy farms and dairy plants in the republics. Thus, even in an environment of reduced resources distributed by Moscow to the regions, this source of financing is still very important to the republic and thus the government along with republican economic actors invest a lot of effort into participating in all federal programs. Tatarstan's strategy of lobbying for federal subsidies and other means of financial support from Moscow that has been perfected over the last two decades continues to work at present as well.

### Oil and Petrochemical Industry

Depressed oil prices have undoubtedly had a negative impact on the republican economy that has long dependent on oil and petrochemical production. At the same time, these new circumstances have underscored the virtues of the long existing republican strategy to develop oil refineries and the petrochemical industry, rather than rely on exporting raw oil. In accordance with this strategy and to defend Tatneft, the republican oil producer, by incorporating oil-refining and petrochemical plants into its portfolio, the republican authorities undertook a strategy of privatizing government-held shares in Nizhnekamskneftekhim (24.99%) and Taneco (9%). On March 17<sup>th</sup> 2016, Tatneft announced that it had bought Taneco and Nizhnekamskneftekhim shares from the government, becoming an exclusive owner of the Taneco oil refinery and a stake-holder with almost a quarter share of the Nizhnekamsk-based petrochemical complex. Besides this corporate rearrangement, Tatneft had also sought out solutions to make its production more energy efficient and, additionally, tried to replace some of its foreign suppliers with domestic solutions trying to save more money.<sup>11</sup> Additionally, to compensate for lower prices, the company has worked to increase its production levels.<sup>12</sup>

10 See: <<http://www.business-gazeta.ru/article/306467/>>

## Construction, Tourism and IT Sectors

The construction sector was hit very hard by the economic crisis in Russia, contracting by almost 8% in 2015. In Tatarstan, many construction companies were challenged by diminishing demand on the real estate market and by the growing financial difficulties that, in turn, resulted in unfinished construction projects and many frustrated individual investors that did not get the results they expected (*obmanutye dol'shchiki*). The republican authorities had to get involved on a case-by-case basis in an attempt to resolve such problems through administrative means.<sup>13</sup> Overall, Tatarstan's construction sector was able to maintain levels of production similar to the previous year, demonstrating, arguably, the effects of centralized and very goal-oriented administration by a government committed to maintaining previously achieved levels of outputs. The republican lobby in Moscow proved essential in the construction sector as well. Tatarstan's close economic ties with Turkey and, particularly, Turkish involvement in the construction sector were hit hard by Russia's sanctions on Turkish businesses introduced at the end of 2015. The republican authorities lobbied hard to get these companies into a 'white' list of companies exempted from sanctions.<sup>14</sup>

The strategy of positioning Kazan, the capital city, as a place for international events and athletic competitions is of ongoing significance for the republic. The year 2015 was not an exception from that point of view, continuing the tradition set by the 2013 Universiade (Youth Olympics held in Kazan). In summer 2015 Kazan hosted the 16<sup>th</sup> FINA World Aquatics championship, attracting 120 thousand tourists to the region. Building on its successes, Kazan won a contest to hold the Worldskills championship that, in 2018, will be held in Russia. The republican authorities maintain very high ambitions for developing their tourism industry and promoting Tatarstan not only as a modern, economically developed and investor-friendly region, but also as a culturally and historically unique region that has such world treasures as Sviyazhsk, Bolgthe, the Kazan Kremlin and other places worth visiting as a tourist.

Finally, the republican authorities have invested much effort into developing a high-tech sector, specifically, by investing in the construction of a new IT capital Innopolis (Tatarstan's version of the Skolkovo project) featuring a new university, medical center, school, and other infrastructural buildings and, so far, fifteen companies residing in the special economic zone offered at Innopolis.<sup>15</sup> Admittedly, the future development of this project in the current economic environment in Russia is highly uncertain. Some examples of IT companies in the republic, however, provide some ground for optimism. A Tatarstan-based group of companies, ICL, specializing in IT products and services reported overall growth in 2015, though this growth was uneven. The production division of the company reduced its operations by 30%, mostly due to the lack of state procurement related to laptop and iPad purchases for the public sector. Consequently, one of their industrial centers that used to work in three shifts, contracted to a one-shift working day. The export sector of their activities, on the other hand, has grown by 50%, reflecting their global competitiveness and the demand for their services abroad.<sup>16</sup>

## Conclusion

The bigger picture that emerges from this overview of recent economic and policy developments in Tatarstan is instructive. The falling social indicators in the republic reveal that despite all the efforts to cushion the impact of economic crisis caused by the combination of falling oil prices and foreign sanctions, Tatarstan has been seriously affected by the economic downturn. Still, the republic has fared better than many other regions in Russia, highlighting the importance of strong leadership, a diversified economy and good relations with the federal center reflected in successful lobbying of republican interests in Moscow. Importantly, the stability of the political regime in Tatarstan has not been affected by the crisis, in part thanks to the measures taken by the regional government to safeguard the economic achievements of previous years and this, by itself, is a valuable lesson for federal elites.

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11 See: <<http://rg.ru/2016/03/30/reg-pfo/tatneft-uluchshaet-tehnologiiu-ekonomii-resursovm.html>>

12 See: <<http://realnoevremya.ru/analytics/26900>>

13 See: <[http://www.business-gazeta.ru/article/303211/?utm\\_source=search](http://www.business-gazeta.ru/article/303211/?utm_source=search)>

14 See: <<http://www.tatar-inform.ru/news/2015/12/24/485225/>>

15 See: <<http://tatarstan.ru/eng/index.htm/news/558846.htm>>

16 See: <<http://www.business-gazeta.ru/article/297778/>>

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Editors: Stephen Aris, Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

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Editors: Stephen Aris, Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

Layout: Cengiz Kibaroglu, Matthias Neumann, Michael Clemens

ISSN 1863-0421 © 2016 by Forschungsstelle Osteuropa, Bremen and Center for Security Studies, Zürich

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