Russia today: What can we expect from Russia tomorrow?

Structure of presentation

Political foundations

Economic development

Military expenditure

Oil and gas economy

External economic relations

Russia and the rest of the Baltic Sea region

Future
At end of February 2014, masked troops appeared in Crimea.

A referendum on Crimea’s separation from Ukraine held in the mid-March 2014. Although the referendum cannot be regarded as free and fair, a clear majority of voters supported the separation.

A few days later, a treaty between Crimea and Russia on the annexation of Crimea to Russia was signed. With the signature of Putin, Crimea became formally annexed into Russia in March 2014. 88% of Russians supported the annexation in May 2016.

The West and Ukraine consider the annexation illegal.

Source: Levada
Popularity of the Russian governments

Source: Levada

Do you approve the activities of the Russian Government?

<table>
<thead>
<tr>
<th>Year</th>
<th>Approve</th>
<th>Disapprove</th>
<th>No answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.2016</td>
<td>8</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>04.2016</td>
<td>49</td>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>05.2016</td>
<td>49</td>
<td>49</td>
<td>2</td>
</tr>
<tr>
<td>06.2016</td>
<td>48</td>
<td>51</td>
<td>1</td>
</tr>
<tr>
<td>07.2016</td>
<td>51</td>
<td>48</td>
<td>1</td>
</tr>
<tr>
<td>08.2016</td>
<td>46</td>
<td>53</td>
<td>1</td>
</tr>
</tbody>
</table>
Current composition of lower house of Russian parliament (Duma 2016-2021)

Elections held on 18.9.2016. Turnout rate: 48%.

Result (number of earlier seats) – chairperson (year of birth):
- **United Russia** 343 (238) – chair: D. Medvedev (1965)
- **Communist Party** 42 (92) – chair: G. Zyuganov (1944)
- **Liberal Democratic Party** 39 (56) – chair: V. Zhirinovsky (1946)
- **A Just Russia** 23 (64) – chair: S. Mironov (1953)
- **Rodina** 1 (0) – chair: A. Zhuravlyov (1962)
- **Civic Platform** 1 (0) – chair: R. Shaykhutdinov (1963)
- **Independent** 1 (0)

Surprise in unsurprising result: opinion polls predicted for United Russia 41-43% of votes on 11.9.2016 (WCIOM & FOM). However, United Russia managed to get 54% of votes a week later. Unbelievable final spurt.

Now, United Russia alone may start changing the Constitution.

Next Duma elections ought to be held in September 2021.

Presidential elections scheduled to be organised in 11.3.2018.
Economic development

Source: Bank of Finland
Russia’s external debt and financial reserves

External debt
($ million – end of period)

Oil funds and Forex reserves
($ million - end of period)

Oil funds=Reserve Fund ($ 30 bn) and Welfare Fund ($ 70 bn).

Sources: Bank of Russia; Bank of Finland
Military expenditure

Russia’s military spending $66 billion in 2015.
Finland’s military budget $3 billion. Sweden over $5 billion.

Source: SIPRI
## Russia’s share in the global economy in 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Russia</th>
<th>USA</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas reserves</td>
<td>17%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Natural gas production</td>
<td>16%</td>
<td>22%</td>
<td>4%</td>
</tr>
<tr>
<td>Oil production</td>
<td>12%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td>Renewable water resources</td>
<td>10%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Oil reserves</td>
<td>6%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>4%</td>
<td>36%</td>
<td>13%</td>
</tr>
<tr>
<td>GDP (official exchange rate/PPP)</td>
<td>2%/3%</td>
<td>24%/16%</td>
<td>15%/17%</td>
</tr>
<tr>
<td>Foreign direct investment outflow</td>
<td>2%</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>Population</td>
<td>2%</td>
<td>4%</td>
<td>19%</td>
</tr>
<tr>
<td>Merchandise trade (imports/exports)</td>
<td>1%/2%</td>
<td>10%/10%</td>
<td>10%/14%</td>
</tr>
<tr>
<td>Foreign direct investment inflow</td>
<td>1%</td>
<td>22%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Sources: BP; CIA; SIPRI; UNCTAD; World Bank
Russian and US hydrocarbon production

Russian and US oil and gas production volumes

mt = million tonnes
bcm = billion cubic meters

Sources: BP; UNCTAD
Russia’s share in the global oil business

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Production</td>
<td>9%</td>
<td>9%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Consumption</td>
<td>5%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

In 2013, oil provided 45% of Russia’s total budget revenues. In 2013, average Urals oil price $108, whereas $44 in 2016.

Sources: BP; Bank of Finland; World Bank; James Henderson (2015) Key determinants for the future of Russian oil production and exports.
Development of Russia’s foreign trade

Despite the value decline, the EU covered nearly 50% of Russia’s exports and almost 40% of its imports in 2015.

Sources: Customs Russia; European Commission
Decline in Russia’s external economic relations between 2013 and 2015 (= after the escalation of the Ukrainian crisis)

Exports declined in USD terms by 35%
Imports declined in USD terms by 43%
FDI outflow (capital exports) declined in USD terms by 75%
FDI inflow (capital imports) declined in USD terms by 93%
Outbound travels (total number) declined by 46%
Inbound travels (total number) declined by 16%
Rouble-USD exchange rate declined by 48%
Average monthly wage declined in EUR terms by 29%

FDI = foreign direct investment

Sources: Customs Russia; Bank of Russia; Federal Agency for Tourism of the Russian Federation; Bank of Finland
Russia’s oil exports
- In 2015 oil export volume up but oil revenues down

Russia exports 3/4 of its oil production.

Source: Bank of Russia
Russia’s natural gas exports, excl. LNG

Russia exports 1/3 of its gas production. LNG exports 14.5 bcm in 2015 (7% of gas export volume).

LNG exports generated $4500 million in 2015 (10% of gas export revenues).

Russia ships practically all its LNG to Japan and S-Korea.

Sources: Bank of Russia; BP; Eurogas
The Baltic Sea is one of Russia’s major oil export routes (around 40%).
A dramatic drop occurred in the annual FDI inflow to Russia after the escalation of the Ukrainian crisis.

Decline of $50 billion in FDI inflow to Russia in 2014.

Decline of $40 billion in FDI inflow to Russia in 2009 in the aftermath of the global financial crisis.

FDI inflow to Russia was slightly negative (−$0.3 bn) in 1Q/2016.

Sources: UNCTAD; UNCTADstat; Bank of Russia; British Petroleum
The EU is the main FDI contributor to Russia = EU companies committed to the Russian market

China’s share was 0.5% of the Russian IFDI stock at the end of 2015 (0.8% in 2013).

Due to notable indirect investment, China’s real share is several times larger.

On the other hand, one cannot find Chinese citizens in the boards of directors (BoD) of Russia’s 25 largest corporations yet.

If the ownership transformation really happens, it should be reflected in the board composition of Russia’s largest corporations as well.

Now, there are some 270 BoD places in Russia’s 25 largest firms. 60 of these places belong to the Westerners.

Source: Bank of Russia
Decline in Russia’s annual FDI flow to the EU and vice versa (2013 versus 2015)

Decline of $66 billion ($51 billion without Cyprus)

Decline of $8 billion ($5 billion without Cyprus)

Source: Bank of Russia
The Baltic Sea region has maintained its position in Russia’s external economic relations despite the fact that Russia’s external economic relations have declined considerably since 2013. The table below provides a comparison of key economic indicators for the Baltic Sea region in 2015 with their 2013 counterparts:

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>2015 Share</th>
<th>2013 Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia’s exports</td>
<td>17.3%</td>
<td>18.6%</td>
</tr>
<tr>
<td>Russia’s imports</td>
<td>17.4%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Russia’s outward FDI stock (capital exports)</td>
<td>4.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Russia’s inward FDI stock (capital imports)</td>
<td>7.3%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Russians’ outbound travels (January-September)</td>
<td>23.5%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Foreigners’ travels to Russia (January-September)</td>
<td>14.3%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

Sources: Customs Russia; Bank of Russia; Federal Agency for Tourism of the Russian Federation
### Share of Russia in foreign trade of other Baltic Sea states

**Exports in 2015**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>14%</td>
</tr>
<tr>
<td>Estonia, Finland and Latvia</td>
<td>6-8%</td>
</tr>
<tr>
<td>Germany and Poland</td>
<td>2-3%</td>
</tr>
<tr>
<td>Denmark, Norway and Sweden</td>
<td>1-2%</td>
</tr>
</tbody>
</table>

**Imports in 2015**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland and Lithuania</td>
<td>11-16%</td>
</tr>
<tr>
<td>Estonia, Latvia and Poland</td>
<td>6-9%</td>
</tr>
<tr>
<td>Denmark, Germany, Norway, Poland</td>
<td>2-3%</td>
</tr>
</tbody>
</table>
Share of Russia in FDI stocks of other Baltic Sea states

Outward FDI stock at the end of 2015

- Latvia: 7%
- Estonia, Lithuania and Poland: 3-4%
- Denmark, Finland, Germany, Norway and Sweden: 0-2%

Inward FDI stock at the end of 2015

- Estonia and Latvia: 5-7%
- Finland and Lithuania: 1-2%
- Denmark, Germany, Norway, Poland and Sweden: 0-1%

FDI stock = accumulated total amount of FDI (foreign direct investment)

Sources: National statistical offices
Russia’s future without comprehensive politico-economic reform?

Enlightened engineers needed to open the contemporary Gordian knot in a different way Alexander the Great did.

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