

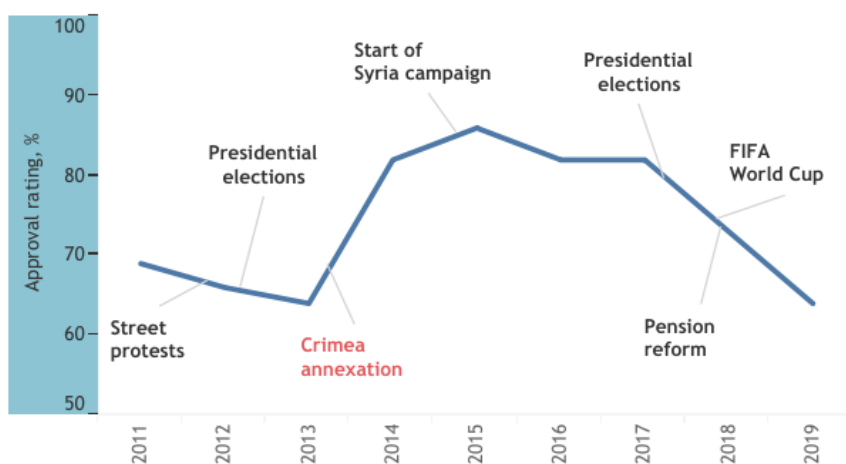
Crimea: lost but not found

Blog post by Practice Lead Alexander Smotrov, 25 March 2019

Last week marked the fifth anniversary of the Russian annexation of Crimea from Ukraine (referred to as “accession” in Russia itself). President Putin descended on to Crimean soil to mark the date by opening new power stations while Moscow staged a three-day street festival to remember the Crimean “homecoming”. However, the public mood both in Crimea and in Moscow is notably different than five years ago. So, what is the ultimate price paid for this geopolitical gamble and who might have benefitted from it?

Putin’s approval ratings skyrocketed after the Crimea campaign. A bloodless takeover of a strategically and historically important peninsula still predominantly populated by ethnic Russians earned him points even from his critics. Doubled by Russia’s success at the Sochi Olympics the previous month, the public exultation was unprecedented for post-Soviet Russia. But soon both triumphs turned sour with a massive state-sponsored doping programme exposed, and the Crimean euphoria gradually evaporated as the reality of subsuming a region with no land border with Russia hit home. The Russian taxpayers feel increasingly uneasy about the injection of significant public resources into Crimea through large-scale and opaquely managed projects, such as the Kerch Strait bridge or new water and energy infrastructure. Exacerbated by snowballing domestic issues - from a highly unpopular increase to the pension age to public scandals that diminished trust in local and federal government - Putin’s personal ratings have dropped back to the pre-Crimea levels.

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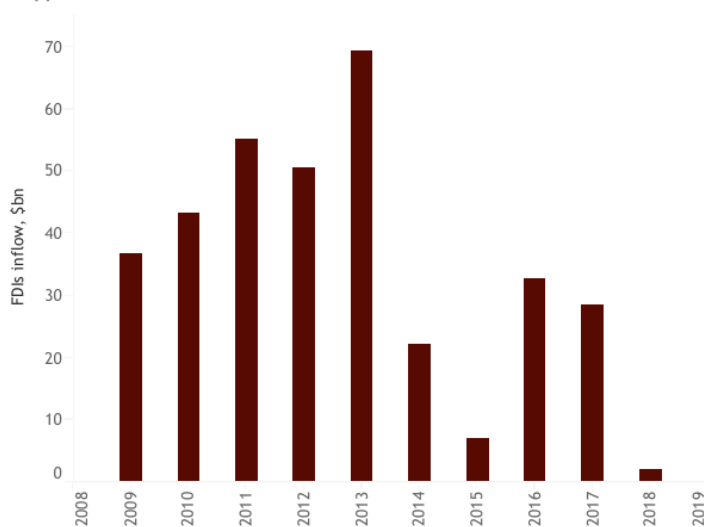


Source: Levada Centre

The aftermath of the Crimean adventure has led to the biggest blow to Russia’s global position in a generation. Moscow’s actions against the sovereignty and territorial integrity of Ukraine caused a nearly universal international condemnation and introduction of the US and European sanctions, which have been extended since then to include new individuals and entities. The consensus on

sanctions has persisted despite Moscow’s attempts to drive a wedge between western allies. Meanwhile, foreign investments in Russia have shrunk almost threefold in the last five years compared to the five years prior to 2014, as geopolitical risks and economic uncertainty overshadowed possible returns from a lucrative market in terms of its size and growth potential. International businesses would struggle to justify new investments as risks of further sanctions remain and Moscow continues to scare investors by high-profile crusades like the recent arrest of Baring Vostok’s founder Michael Calvey on unclear charges.

Foreign direct investments inflow to Russia
dropped from \$255bn in 2009-13 to \$92bn in 2014-18



Source: Bank of Russia

Crimea itself is still effectively cut-off not only from the international trade and investments, but also from Russian domestic investments as large businesses are unwilling to move there out of fear of international sanctions. Last year, the State Duma tried to introduce penalties for compliance with western sanctions on Crimea but had to shelve the bill due to the strong opposition from the business community. Russian companies with large international exposure, primarily banks and telecom providers, realise that operating in Crimea will close international capital markets for them and disrupt their supply chains. At the same time, local Crimean businesses have failed to use the opportunity to fill the gap while living standards in the region remain lower than in mainland Russia.

Ukraine has not given up its hopes to reclaim Crimea from Russia. This has become one of the main features of the ongoing presidential elections campaign. The incumbent president Poroshenko has promised to return Crimea “without trade-offs and agreements” as soon as possible after the presidential elections which he still hopes to win, despite trailing third in the polls with about 16-17% of public support. Whether either of these is realistic, it is still a question. But political and economic damage from the loss of Crimea still has repercussions across the country.

Thus, no-one seems to have won from this crisis. Over the last five years, Crimea has turned into what a Russian popular saying describes as “a suitcase without a handle: heavy to carry but impossible to drop”. And this baggage will hold Russia back for many years to come.