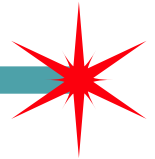




THE WAR AS AN ACCELERATOR



How Russia's War Against Ukraine Showcased
and Exacerbated Domestic Governance Challenges

András Tóth-Czifra



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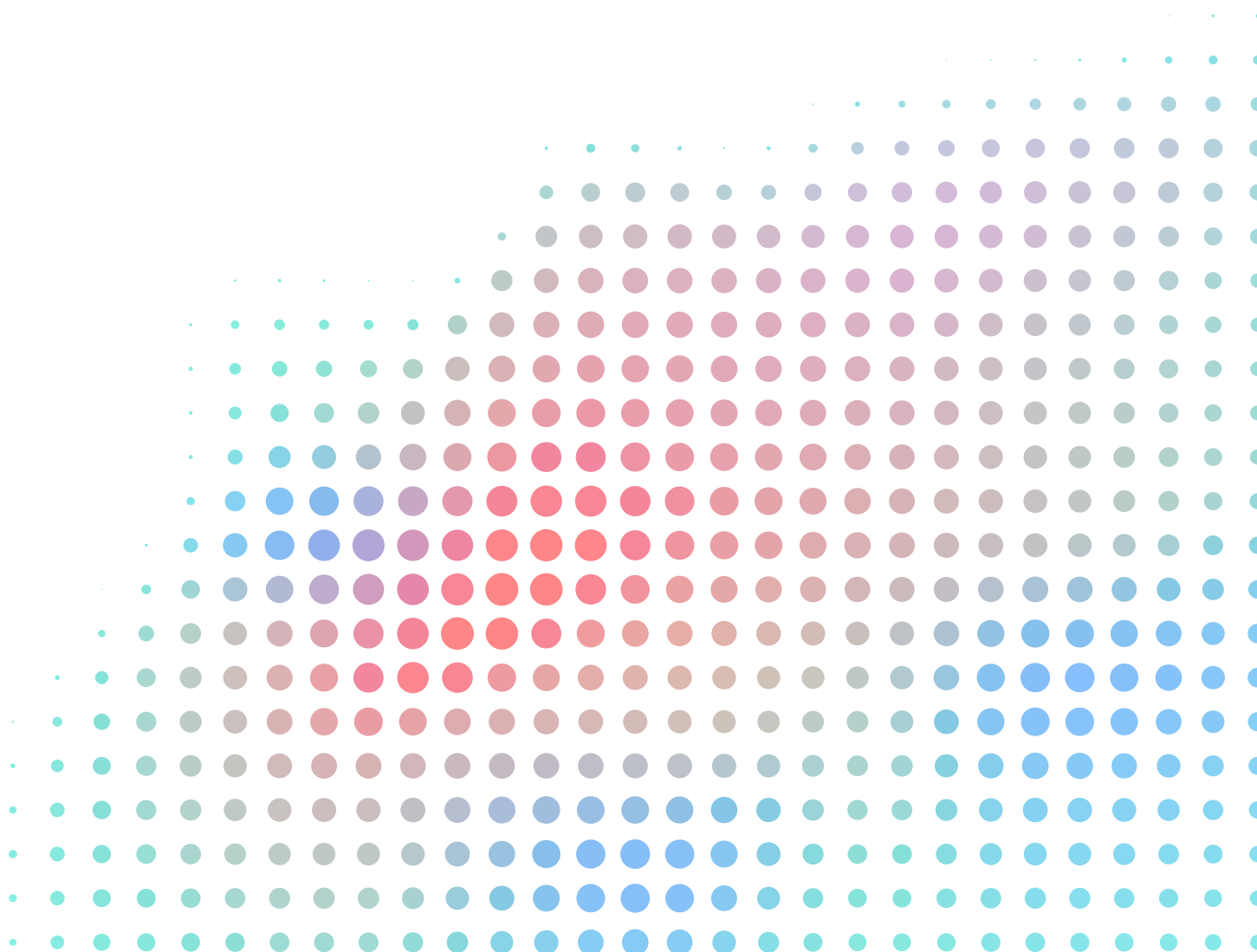
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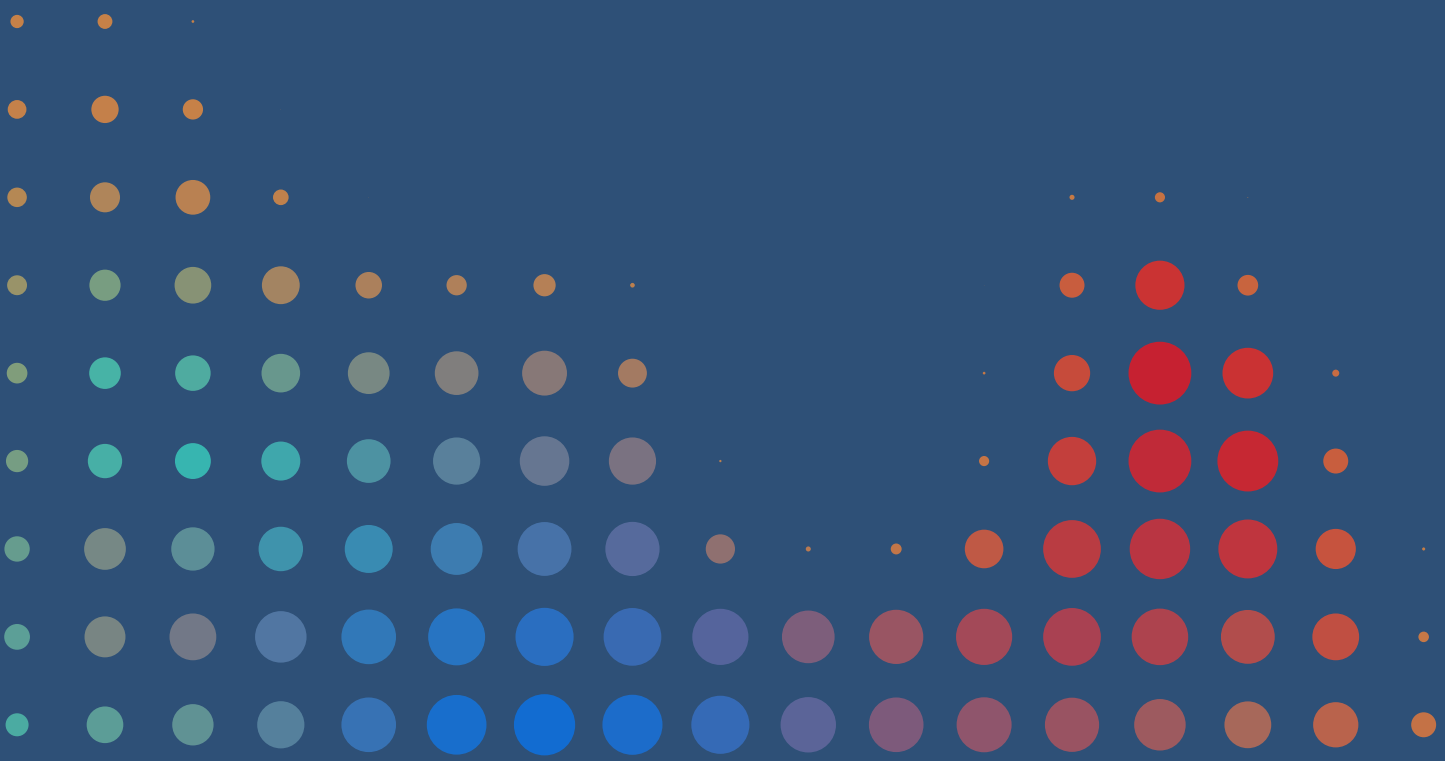
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KEY TAKEAWAYS



- Russia's 2022 invasion of Ukraine laid bare the problems with Russia's domestic governance. The war caught the federal and regional governments unprepared and exacerbated existing bottlenecks in fields such as infrastructure and state capacity.
- Even before 2022, Russia's domestic policymaking had prioritized the short-term political interests of a shrinking ruling class and made long-term thinking and deep structural reforms impossible. The invasion completely eliminated long-term policy planning and subordinated policymaking to war aims.
- One year after the invasion, these problems are causing frictions and elevating domestic political risks for the Kremlin. The botched invasion and subsequent economic sanctions have caused irreversible losses and put significant upfront costs on the Russian state. This stretches Russia's peculiar, highly centralized system of fiscal and political governance to its limits.
- In particular, the interlocking challenges of reorienting trade towards Asia without the necessary infrastructure in place, improving an inflexible multi-level public administration system, and turning Russia into a digital securocracy, show how, by starting the invasion, Russia's rulers contributed to the destabilization of their own country. They also demonstrate how international sanctions impact Russia by increasing domestic risk factors from the Kremlin's point of view.



INTRODUCTION

More than one year after Russia's 2022 invasion of Ukraine it has become clear that Russia's security elite and President Vladimir Putin seriously underestimated both the resilience and combat capabilities of Ukraine and the willingness of an international coalition led by the United States, European Union, and NATO member states to support Ukraine and to impose unprecedented costs on Russia. Perhaps a little more surprisingly, **Putin seems to have received poor intelligence not only about the international situation and Ukrainian domestic politics, but also about the state of his own country.**

While as of May 2023 the war in Ukraine is far from being settled and Russia arguably possesses enough material reserves and (mostly tacit) international support to continue its aggression for the foreseeable future, the past year has also put the internal inefficiencies, shortcomings, and contradictions of Russian domestic policymaking and governance on display. Together with international sanctions, **Russia's weaknesses have made waging war significantly costlier** for its rulers in financial and political terms. These inefficiencies, shortcomings, and contradictions predated the 2022 invasion and were going to be defining features of Russian politics in the 2020s, but the situation created by Russia's war has acted as an accelerator, putting further strain on a system that had already faced trouble coping with these challenges prior to 2022.

This report will describe the war's effect on three interconnected policy challenges: the conflicts stemming from the Russian economy's forced pivot to Asian markets; the strain on Russia's public administration system and multi-level governance; and the internal contradictions of the country's emerging digital authoritarianism.



A supporter of Russian President Vladimir Putin distributes newspapers on the first anniversary of the beginning of Russia's military campaign in Ukraine, near the State Historical Museum in central Moscow, Russia, February 24, 2023. A slogan on the board reads: "He and I are for sovereignty of Russia! And you?" REUTERS/Shamil Zhumatov

A FORCED PIVOT TO THE EAST

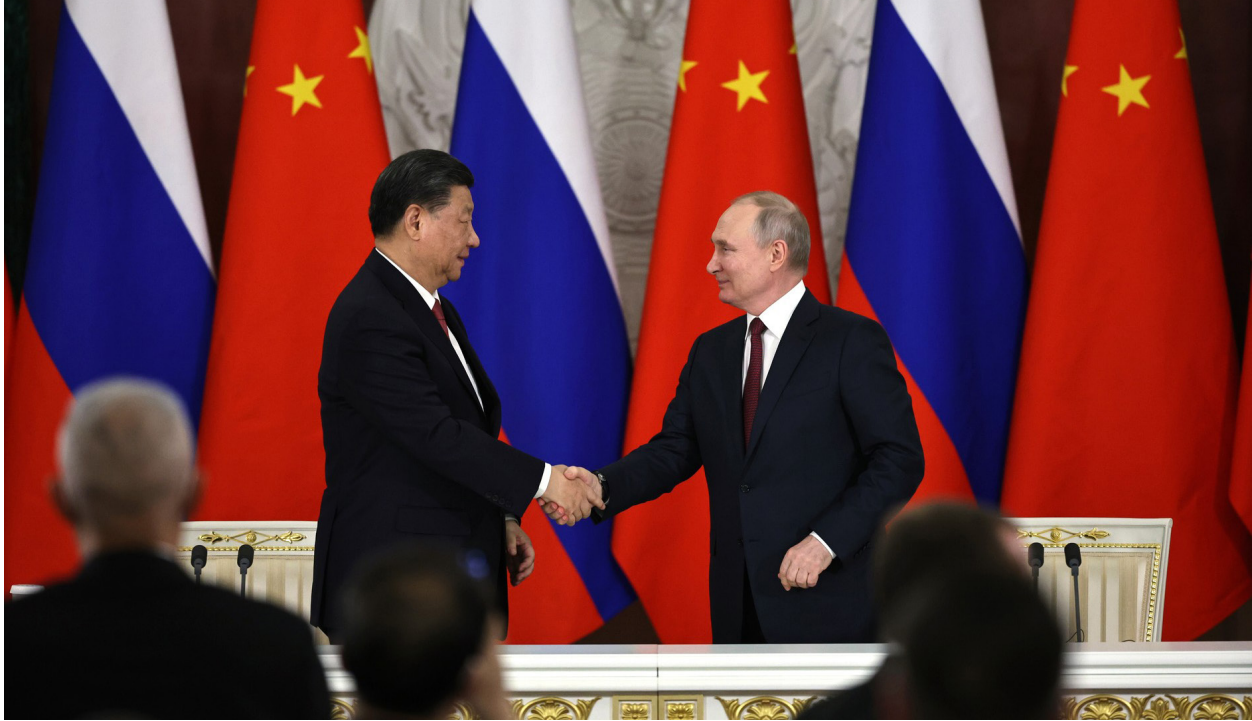
The loss of European export markets for certain Russian products is a process that had started before 2022. Developments such as the European Union's climate agenda, US sanctions against the Nord Stream 2 pipeline, and to a certain extent, the broader implications of sanctions introduced following the 2014 annexation of Crimea suggested a gradual, but steady loss.¹ However, prior to the 2022 invasion of Ukraine, Russia's strategy to deal with this challenge had been a combination of diplomacy, influence campaigns, and a slow reorientation of Russian exports, including energy, to Asian markets.² Since Russia's export infrastructure is heavily oriented towards Western markets, a slow, gradual pivot was key to this strategy.

The 2022 invasion did not immediately upset this strategy. Notwithstanding the shock, for months Russia's exporters had reason to believe that if, as expected, Russia ultimately wins the war or achieves a ceasefire, they would be able to return to business as usual (or almost as usual) with their European partners. The introduction, over the summer of 2022, of embargoes on Russian energy in the European Union, the failed strategy of putting pressure on European governments by withholding gas deliveries, and the September 2022 military mobilization in Russia marked a turning point.³ European export markets would stay closed for the foreseeable future for Russia's energy, metallurgy and timber industries, which meant that significant upfront costs that had seemed to be avoidable until then,

suddenly became unavoidable. The "pivot to the East" had to accelerate. One key example of the difficulties of this pivot is the struggle to eliminate bottlenecks on Russia's eastern railways.

Russia's export infrastructure is heavily oriented towards Western markets, a slow, gradual pivot was key to this strategy.

Cargo transit through Far Eastern railway lines (the so-called "Eastern Polygon," as the Transsiberian line and the Baikal-Amur Mainline (BAM) are collectively referred to) had already been suffering from delays and conflicts between users due to a lack of capacity and poor organization before 2022. The first stage of the modernization of the BAM was supposed to be completed in 2017 but had to be postponed several years.⁴ Coal exporters had been complaining for years that the Russian Railways (RZhD) would not prioritize coal shipments going east even as coal demand in Europe had been falling for years.⁵ Until August 2022, however, when European coal markets snapped shut, there was no real sense of urgency. Afterwards, however, coal exporters suddenly found themselves in a heightened battle for still-limited capacities with



Vladimir Putin welcomes Chinese leader Xi Jinping to Moscow, 21 March 2023. (Kremlin.ru)

exporters of other goods and commodities that had to pivot to Asian markets, including oil exporters who also faced restrictions in seaborne transportation.⁶

According to the investment plans of the RZhD, the throughput capacity of the Eastern Polygon will be extended to 170 million tons in 2023 and 180 million tons in 2024.⁷ In 2022, 148.8 million tons of cargo was shipped on the line. But these plans are limited by gaps in financing. Oleg Belozеров, the head of Russian Railways, in turn claimed that that the company's available funds fall short of the 1.074 trillion rubles (\$13.8 billion) outlined in its 2023 investment plans by 300-400 billion rubles (\$3.8–5.1 billion).⁸ This will no doubt impact the Eastern Polygon, the largest of these investment projects, the planned cost of which is 250 billion rubles (\$3.1 billion) in 2023 and 600 billion (\$7.3 billion) in the third phase of the construction, to be launched next year.⁹ In March 2022 the

power network operator Rosseti said that it was 200 billion rubles (\$2.6 billion) short of its plans to electrify Far Eastern lines.¹⁰

These financing gaps have the potential to create frustrations downstream. Belozеров implied that RZhD will either have to raise tariffs further or cut the projects if the government does not provide additional financing.¹¹ The electrification of the line has prompted the government to recommend a tariff hike for industrial users in the Kemerovo and Irkutsk regions.¹² RZhD urged clients and partners to “take more responsibility” for investments on the lines.¹³ Exporters, who sell commodities and products on Asian markets at heavy discounts—albeit the exact amount is often unclear—are not happy about these calls.

However, the question is not only whether there is going to be enough money to raise the capacity of these railway lines but



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also whom the capacity will benefit. Since March 2022 RZhD has prioritized cargo with more added value, and this led to the deprioritization of coal.¹⁴ Container transfers generate eight times as much income, and metallurgical goods are also more profitable.¹⁵ In 2022, coal exports fell by more than 7 percent overall, in spite of a rally in the first half of the year.¹⁶ At the same time, due to coal mining's concentration in certain regions such as Kemerovo, Khakassia, and Buryatia, and the sector's strong lobbying power, completely deprioritizing coal exports is politically unfeasible.

Rotating to other export routes is also problematic. Eastern seaports have also suffered from grave capacity issues and delays in development since summer 2022.¹⁷ The authorities have encouraged the redirection of exports through to West and

South Russian ports as well as the Northern Sea Route along Russia's arctic coast, but this makes cargo transportation considerably slower and more expensive, eroding profit margins.¹⁸ Development of the Northern Sea Route is expected to need two trillion rubles (\$25 billion) until 2035.¹⁹

Exporters requested both discounts and guaranteed cargo capacity from RZhD to ensure their survival.²⁰ Kemerovo, Russia's main coal producing region, obtained guarantees from the company to export 53.1 million tons of coal in 2023, while two other regions, Khakassia and Buryatia, got promises from Putin that they would be able to export 18 million tons.²¹ Metallurgical producers also asked the government for priority and guaranteed export capacity.²² Some coal producers are apparently trying to trick the system by shipping coal to

other coal producing regions as a domestic shipment (which RZHD prioritizes) so that producers in the receiving region can use free capacities.²³

On the other side of Russia's pivot to Asia, the situation provided China another opportunity to increase its importance for the Russian economy.

On the other side of Russia's pivot to Asia, the situation provided China another opportunity to increase its importance for the Russian economy. It appears that this time the changes were more substantial and faster. In 2022 the volume of China's exports to Russia increased by 12.8 percent (and in the first two months of 2023, by 20 percent in annual terms), while Russia's exports increased by 43.3 percent, mostly due to expensive energy exports.²⁴ The renminbi's share in Russia's imports increased from 4 to 23 percent in the same period.²⁵ In one of the main changes over 2022, Chinese companies appear to have priority to take over assets that Western companies left in Russia. This is especially noticeable in the automotive sector, where the market share of Chinese brands grew from 9 to 36 percent within a year (albeit the market of new cars shrank by almost sixty percent).²⁶

During Chinese President Xi Jinping's visit to Moscow in March 2023, Putin invited China to replace Western firms in other

industries as well.²⁷ A novelty is that Chinese companies may use the opportunity to penetrate certain strategically important sectors deeper than before: in the same speech, Putin also asked China to assume a larger role in the economic development of Russia's Far East and the Northern Sea Route. In the Far East, where Russia is struggling to raise funds and technology to expand railway networks, Chinese companies are reportedly looking into the possibility of building a railway line linking China with the resource-rich Republic of Sakha, which the Russian government cannot currently prioritize.²⁸

A week after Xi's visit, in his report to the State Duma, Prime Minister Mikhail Mishustin suggested that the development of existing and new transit corridors (e.g. a North-South corridor targeting export via Dagestan and Astrakhan, as well as Far Eastern railways) will take into account agreements with Chinese partners.²⁹ In the same month representatives of the China National Chemical Engineering Corporation met with Yury Bezdudny, the head of the Nenets Autonomous District, one of Russia's main oil and gas producing regions that used to focus on Westbound exports, to discuss the company's participation in energy projects.³⁰ Chinese companies look set to participate in the construction of an liquified natural gas terminal in the Ust-Luga port near St. Petersburg.³¹

What makes it easier for China to participate in these projects if it wants to is the combination of their increased importance and newfound urgency for Russian exports—not only as a source of income for the Russian budget but as a basis of social stability—and the lack of investments or

technology (or both). One common feature of Chinese involvement is that the Chinese side seemingly fully recognizes its ability to pick and choose between priorities, and to bend the projects to its will. Priority is clearly given to facilitating Chinese export to Russia and select Russian export to China. While the export of Chinese technology to Russia grew, for example, Huawei scaled back its Russian operations.³² While energy exports to China grew, the Chinese oil company Sinopec “revised” its participation in a petrochemical megaproject shared with Russia’s Sibur in the Amur Region.³³ Belt and Road investments dropped to zero in the months following the 2022 invasion.³⁴ During Xi’s visit the two sides failed to sign an agreement about the planned Power of Siberia 2 gas pipeline, as this is not an urgent matter for China, but it is for Russia, given Gazprom’s self-imposed loss of European export markets and the unpalatable alternative of paying for domestic gasification, which did not advance even during the company’s more profitable years.³⁵ Similarly to the 2014 agreement on the first Power of Siberia pipeline, China seems to be intent on using its leverage fully once again in order to dictate price and conditions. All the more so since that pipeline, four years after its opening, still runs under its capacity of 38 billion cubic meters.³⁶

Russia’s pivot to Asia forces the government to fast-track projects at a time when private investments are drying up and the federal budget is prioritizing the war and the domestic security services above investments.³⁷ The urgency on Russia’s side risks resulting in the Russian government losing leverage, potentially even domestically. It increases the strain on

regional budgets, which had struggled to cope with previous obligations such as the 2012 “May Decrees” and the 2018 “National Projects.”³⁸

The contradictions of the Asian pivot expose another, more general policy challenge: the inefficiency of Russia’s governance model from a political and fiscal point of view.

In this way, the contradictions of the Asian pivot expose another, more general policy challenge: the inefficiency of Russia’s governance model from a political and fiscal point of view. Before 2022 this structure was already inefficient and created perverse incentives that lowered state capacity.³⁹ Reforms aiming to increase efficiency were limited by the political establishment’s prioritization of reducing short-term political risks, but technocratic actors in the government did manage to improve its performance. With the situation created by the 2022 invasion, however, these contradictions were showcased once again and created new problems.

CURING THE ILLS OF CENTRALIZATION WITH DECENTRALIZED CRISIS MANAGEMENT



As the timeline of the war remains unclear, the authorities are focusing on maintaining political stability and ensuring state functionality before 2024, the date of Russia's next presidential election. The invasion expedited the centralizing tendencies of the past years in Russia's public administration system, as the Kremlin is eager to strengthen its political and fiscal power on all levels. At the same time, it is trying to balance this centralization with a type of crisis management that puts increasing political and fiscal burden on regional governments that they are ill equipped to handle.

In 2020 the COVID-19 pandemic allowed the federal government to test a new crisis management system that aimed to inject a degree of flexibility into Russia's otherwise rigid power hierarchy. Regional governments were entrusted with implementing a version of centrally set directives, taking into account local specifics, and assuming responsibility for them, but without providing those regional governments with the political and fiscal power to act fully independently.⁴⁰ When ordering lockdowns, for example, governors had to juggle the needs of the local economy, the frustrations that the policies created, and health care outcomes, based on indicators that were centrally defined, and often following the example of wealthier and more influential regions, primarily Moscow. During a 2021 vaccination campaign, regions were free to choose the means to convince or put pressure on the population to get vaccinated (e.g., by

incentivizing doctors) if they had the means, or by putting pressure on local businesses.⁴¹ Governors could generate feedback in at least three overlapping structures: in a special COVID council headed by Mishustin, in a working group in the State Council—an advisory body headed by the president and comprising regional officials—headed by Moscow Mayor Sergey Sobyenin, and directly to the presidential administration, which also oversees regions.⁴²

The invasion expedited the centralizing tendencies of the past years in Russia's public administration system, as the Kremlin is eager to strengthen its political and fiscal power on all levels.

In spite of Russia's abysmal health care outcomes, the crisis management system was, by all appearances, deemed a success by the federal government, as it preserved political stability and the previous level of centralization. People did not rise up in anger against the federal government for policy failures. The government did not have to cede fiscal ground to regions either. Russia's tax system remained centralized. While federal transfers to the regions grew,

most of the growth was due to subsidies, which regions need to use for specific policies.⁴³ Apart from this, the Finance Ministry increased the fiscal space of the regions by replacing relatively expensive borrowing from the market with cheap budgetary loans. This policy was initially a response to ballooning regional debt in the mid-2010s (see Figure 2 and 3).

In 2022 the federal budget assumed most of the costs associated with the war, enjoying a significant windfall of revenues from energy exports, which also benefited a handful of regional budgets in the form of higher corporate income taxes.

In 2021, this policy continued with the establishment of an infrastructure loan program, providing regions fifteen-year credits with an interest rate of 3 percent per annum, originally in the amount of 500 billion rubles over three years that regions essentially had to compete for.⁴⁴ In 2022, the federal government allowed regions to postpone the return of budgetary loans due that year, and in 2023 it made further funds available to them under specialized treasury loans with an interest rate of 3 and 0.1 percent, for fifteen years and one year, respectively.⁴⁵

In essence, in this system the federal government takes over the risks of borrowing from the regions, while regions take over the political risks of implementing policies—all while the underlying, heavily centralized political and fiscal system is not questioned. In this system, most governors are entrusted with administering their regions in a competent manner, but not to effectively govern them. A 2021 public administration reform increased the president's control over key appointments in regional administrations and over governors themselves.⁴⁶ Its follow-up, a reform of municipal administrations, though as of April 2023 still stuck in parliamentary procedures—would provide governors with more breathing space by clearly subordinating municipal institutions, including mayors and assemblies, to their authority.⁴⁷

This same system—with Mishustin heading a “coordination center” and Sobyenin, in his function as the State Council's working group on municipal government, coordinating measures between the federal and regional governments separately—was replicated in 2022 to oversee the implementation of extraordinary measures related to Putin's decree introducing martial law in the occupied territories and varying degrees of “readiness” in Russian regions.⁴⁸ Apart from these institutions, governors also had to form “operational headquarters” led by them, but staffed by regional security officials.⁴⁹ Similarly to the COVID crisis, the order of seniority between the two federal coordinating bodies (and in this particular case, between civil and security officials in the regions) was unclear, perhaps in an attempt to make sure that officials with varying interests would keep an eye on each



Mikhail Mishustin holds a meeting with members of the Government Commission on the Socioeconomic Development of the North Caucasus Federal District (government.ru)

other. What was clear is that war needs had to be prioritized above all else.

This was not a recalibration, but an added burden on state capacity, as Putin also made clear numerous times—including in his 2023 address to the Federal Assembly—that the government expected regions also to observe previously set priorities such as keeping local economies running under the pressure of the sanctions, ensuring social stability, and forming reserves.⁵⁰ Regions would also have to spend more on the major infrastructure projects associated with Russia’s pivot to Asia, as well as focusing on improving housing and communal services and civil infrastructure, such as public transportation, before the 2024 presidential election.

Financial constraints have not caused problems yet. In 2022 the federal budget

assumed most of the costs associated with the war, enjoying a significant windfall of revenues from energy exports, which also benefited a handful of regional budgets in the form of higher corporate income taxes.⁵¹ Regions paid a non-negligible sum on “expenses related to the special military operation,” from reconstruction aid to the occupied regions to aid to the families of mobilized men, but these expenses remained relatively small. The data is patchy, but the Novosibirsk Region reported 4.2 billion rubles or 1.5 percent of its budget⁵²; the Maritime Territory reported 4 billion rubles or 2 percent of its budget⁵³; while the Yaroslavl Region reported only 538 million rubles, or 0.5 percent of its budget.⁵⁴

It is difficult to estimate to what extent a lack of funds will become a problem in 2023, given the volatility of the economic situation as well as the prospects of the

war's domestic impact (e.g., a second round of mobilization). Regional budgets will almost certainly face lower receipts in the current year than they did in 2022. There is nothing to indicate, however, that the federal budget will run out of reserves to give financial injections to regional budgets when needed.

The risk lies in finite governance capacity, which has to handle a growing array of competing priorities. As the myriad of additional institutions created to handle priority tasks from the pandemic to military mobilization suggests, the Kremlin itself distrusts the ability of the public administration system to effectively respond to changing priorities. As of early 2023 there is anecdotal evidence from several regions suggesting that officials are using the war as an excuse to postpone projects or to avoid observing previously set targets, as long as these do not pose immediate political risks.⁵⁵

As the myriad of additional institutions created to handle priority tasks from the pandemic to military mobilization suggests, the Kremlin itself distrusts the ability of the public administration system to effectively respond to changing priorities.

But this is not always easy to determine—mundane issues such as waste collection or decaying utility networks have provided excuse for regional elites to turn against

each other in the past—nor do regional officials always have the necessary authority to act.⁵⁶ Several regions cut administrative expenses already in late 2022, ostensibly in order to afford expenses related to military mobilization.⁵⁷ As salary hikes are out of the question, the Kremlin has reportedly started worrying enough about the loyalty of lower-level officials to task deputy governors to solve this problem by providing them with various small privileges.⁵⁸ While the Ministry of Finance loosened rules that obliged regional governments to seek approval before implementing support measures, overall, the fiscal autonomy of the regions has not grown considerably. Similar to the pandemic years, regional leaders are often looking to the federal center for cues before implementing policies. The risk that distracted officials who has little control over income flows, may make costly mistakes or omissions, is growing.

This situation accelerated another pre-2022 trend: the Kremlin's prioritization of seeking competent administrators—typically mid-level career civil servants without any political authority—to head regional governments, and the parallel degradation of its willingness to seek political deals with federal and regional elites.

The appointment of career civil servants (variably referred to as “young technocrats” or “Varangians”—a byword for outsider—depending on what quality commentators want to highlight) has been an increasingly important feature of the federal government's personnel policy in the regions over the past decade. Political analyst Alexander Kynev highlighted that the appointment of Varangian governors became significantly more frequent after



Russian President Vladimir Putin is seen on a screen during the broadcast of a ceremony to declare the annexation of the Russian-controlled territories of four Ukraine's Donetsk, Luhansk, Kherson and Zaporizhzhia regions, after holding what Russian authorities called referendums in the occupied areas of Ukraine that were condemned by Kyiv and governments worldwide, at a cafe in Omsk, Russia September 30, 2022. REUTERS/Alexey Malgavko

2016.⁵⁹ The 2016–2018 period did not only see the fastest rotation of regional leaders during Putin's tenure, but 57 percent of the appointees were "full Varangians," meaning that they did not have any personal connection to their regions. In April 2023, forty-three of Russia's eighty-three regions had Varangian governors.⁶⁰ The appointment of these governors reflected the changing approach of the federal government to regional governance. Rotating outsiders between regions was meant to ensure that governors did not have and would not develop loyalties to local elites or voters. It also encouraged governors to focus on using their connections in the capital to lobby for resources and implementing goals set in Moscow.

For most of 2022, the Kremlin prioritized political stability as opposed to personnel changes. This affected regional appointments as well. Five governors were dismissed in the spring, but there were no changes in the autumn, which is traditionally the other season when regional leaders are dismissed and appointed.⁶¹ Appointments took place in the occupied Ukrainian territories instead, which Russia "annexed" in September. In 2023, however, until the end of March, three governors were dismissed: Chukotka governor Roman Kopin, Smolensk governor Alexey Ostrovsky, and Omsk governor Alexander Burkov.⁶² All three were replaced by career civil servants, two of whom had earlier served in the occupied territories of Ukraine.⁶³ All three fit the profile of governors appointed in recent years: civil servants who rose in the ranks

in various regions and a stint in the federal government; are alumni of the Presidential Academy of National Economy and Public Administration and/or participants of the “Leaders of Russia” contest (two institutions created to enhance the quality of public administration); and may be connected to economic interest groups through former activity in a major company.

Ostrovsky and Burkov were considered prominent personalities in two “systemic” opposition parties who had come of age politically in the late 1990s. Under the tacit understandings that had governed the relationship between the government and the systemic opposition for much of the 2010s, the Kremlin would have either appointed their successor from the same political party, or rewarded the parties with a governorship in another region. As of April 2023 this did not happen, which suggests that the authorities are deliberately restricting these power sharing deals in the regions.

Where these power sharing deals do happen, they usually benefit the ruling party to the detriment of others. In the Ulyanovsk Region, for example, Aleksey Russkikh, the communist governor—whose position is itself likely a consequence of his close relationship with Moscow Region governor Andrey Vorobyov rather than his party’s position—appointed Vadim Andreev, a prominent United Russia politician, to the regional government to replace one of his own allies.⁶⁴

This, again, is the acceleration of a process that started earlier, in 2018, when the Kremlin started reevaluating its relationship with the “systemic” opposition. Between 2005

(when Russia scrapped direct gubernatorial elections) and 2011, only United Russia members and (nominally) independent officials were appointed to head regions. Following 2011 the pattern changed, as the Kremlin sought to dampen protest voting by appointing some prominent politicians from opposition parties to lead regions (the recently dismissed Burkov was one of them).⁶⁵

Where these power sharing deals do happen, they usually benefit the ruling party to the detriment of others.

This strategy seems to have been deemed a failure in 2018 as protest voting led to four surprising electoral upsets for the ruling party in gubernatorial elections. In three of the four regions the Kremlin reversed the results of the election: in the Maritime Territory the election was simply annulled and the local Communist Party chapter was effectively destroyed⁶⁶; in 2023 the region’s parliament prohibited independent candidates from even running for office⁶⁷; in the Khabarovsk Territory governor Sergey Furgal was arrested and sentenced to twenty-two years in prison for his alleged role in three murders⁶⁸; in the Vladimir Region Vladimir Sipyagin chose the easy way out, became a parliamentary deputy in 2021, and was replaced by a United Russia politician.⁶⁹ Khakassia governor Valentin Konovalov, the last 2018 winner still in office as of April 2023, will likely be ousted in

2023, either in or before the September gubernatorial election, as the Kremlin's candidate is Sergey Sokol, a Duma deputy who participated in the war in Ukraine.⁷⁰

While the Communist Party increased its vote share in the 2021 Duma election, several popular communist candidates who were expected to win their districts were instead handed defeats, which led to protests.⁷¹ Shortly after the vote Valery Rashkin, a prominent Moscow communist and a proponent of a more aggressive opposition activities, was accused and convicted of illegal hunting.⁷² These were widely seen as punishments for the fact that communist candidates were the biggest beneficiaries of Alexey Navalny's "Smart Voting" system, and a signal that the party had to rein in its insurgent activist base, which produced well-known politicians in several regions (e.g., in Saratov, Komi, and Moscow).

The extraordinary situation created by the war provides the authorities and the governing party with an opportunity to simply do away with power sharing deals.

Parallel to cracking down on the regional chapters of systemic parties, the authorities also increased the repression of conservationist organizations, which had been, to some extent, tolerated and led successful protest movements against

environmentally damaging projects in several regions (e.g., in the Arkhangelsk Region and in Bashkortostan). At the end of 2022, thirty-five such organizations and experts were named "foreign agents" by the Russian authorities (although many of them had received the label in 2015–2016, following the initial stages of the war in Ukraine) and protesting as a whole became a riskier endeavor over the past year.⁷³ Using the fact that in the current circumstances any activity questioning the authority of the federal government can now be regarded as dangerous separatism, the authorities forced the Republic of Tatarstan to change its constitution to stop calling its leader "president," even though the authorities tolerated this technically illegal designation for almost a decade prior.⁷⁴

The Kremlin also seems to have pushed back against power sharing deals on lower levels of the public administration. In Novosibirsk, the country's third most populous city, the regional legislative assembly scrapped direct mayoral elections in February 2023.⁷⁵ In the years prior, Novosibirsk has had an increasingly pluralistic politics: a campaign by Navalny in 2020 resulted in the election of five of his local allies, deprived United Russia of a council majority, and put corruption in the city's real estate sector on the local agenda.⁷⁶ Tomsk, another city where Navalny's allies enjoyed electoral successes in 2020, saw its direct mayoral vote scrapped two months earlier.⁷⁷

In general, the authorities have tried to get a firmer grip over cities (especially regional capitals) over the past decade by abolishing direct mayoral votes and changing local electoral systems to benefit United Russia.

But the Novosibirsk regional assembly's decision was remarkable mainly because it upset a *de facto* power sharing deal that had existed between governor Andrey Travnikov and the communist mayor of the city, Anatoly Lokot, who had stayed away from each other's political turfs in the past years.⁷⁸

Governors constantly need to signal loyalty to the orthodoxy of the day in order to attract attention and funding.

The extraordinary situation created by the war provides the authorities and the governing party with an opportunity to simply do away with power sharing deals. The direction, however, had been set years before 2022, as the Kremlin has changed the terms of engagement with regional elites and its expectations of regional leaders. But the war has also made the shortcomings and the contradictions of Russia's system of governance more glaring: short-term risk minimization and centralized control are prioritized over long-term policy design; technocrats are asked to put out fires and implement policies, but not to actually design them; while constructed to decentralize responsibilities and swiftly respond to emerging risks, the system cannot run itself—it is still mostly manually operated from the center. Governors constantly need to signal loyalty to the orthodoxy of the day in order to attract attention and funding.

This leads us to the third policy challenge: from the point of view of the authorities, the war accelerated the need for Russia to become an efficiently run digital autocracy. This is a shared priority of the security services and technocrats, because they both benefit from it—on the surface. The goal, as before, is to build a system that can predict and prevent crises. In practice, this would mean administering elections without fault-prone officials whose loyalty or professionalism can be questioned; one that can keep citizens demobilized while creating a semblance of mobilization (e.g. via online voting). This system would also expand the reach and impact of the security apparatus by ways of surveillance and intimidation. Due to this shared interest, data collection and surveillance have been expanding and has become increasingly professional over the past years.⁷⁹ But this had created problems already prior to 2022, such as data leaks and breaches, or resistance to policies requiring the population to surrender more data due to suspicions that it might be misused. The conditions created by the war have exacerbated these challenges.

DATA RESTRICTIONS AND LEAKS



The Russian authorities had manipulated and restricted publicly available data for political purposes before. For instance, in the early 2010s Rosstat broadened the definition of roads to improve road construction figures. In 2019, Rosgidromet, the Federal Service for Hydrometeorology and Environmental Monitoring changed the accounting system for carbon monoxide emissions.^{80 81} This led to a decrease of recorded emissions from automobiles from 12-15 million tons in the preceding years to just 5.4 million tons. Rosstat has revised the way it is calculating incomes and gross domestic product several times in recent years, always resulting in figures more flattering for the authorities than otherwise.⁸²

A methodical restriction to previously publicly available data also predated 2022. In July 2021, the Federal Security Service drew up a list of topics that journalists (or anyone else) could not publicly investigate or report on. This included any information on Russia's military and Roscosmos, the Russian space agency, which has long been riddled with corruption cases.⁸³ A year earlier, in 2020, Rosstat stopped publishing monthly mortality figures once it emerged that these figures helped journalists determine the actual death toll of the COVID-19 pandemic in Russia.⁸⁴

Following the 2022 invasion of Ukraine, this practice continued. Rosstat's earlier practice of obfuscating mortality data continued as the agency stopped publishing monthly mortality figures broken down by age

groups in a bid to conceal the death rate among Russian troops invading Ukraine. But the government went even further than this as the concealment of data became a policy. Under the pretext of protecting Russian companies and public entities from Western sanctions, the Russian government concealed data on foreign reserve holdings, exports and imports, and advised companies to keep data concerning balance sheets, electricity consumption, and financial declarations secret.⁸⁵

Under the pretext of protecting Russian companies and public entities from Western sanctions, the Russian government concealed data on foreign reserve holdings, exports and imports.

But even as the authorities have manipulated and restricted public access to an increasingly large amount of data, since 2020 Mishustin's government has been increasing and enhancing data collection for the government's own use.

This was, to a large extent, an attempt to resolve an earlier contradiction. Russia's heavily (and increasingly) centralized system of political and fiscal governance



Mikhail Mishustin takes part in the Digital Almaty 2023 International Forum, February 2023 (government.ru)

with strong top-down accountability creates incentives for officials to only solve problems when they are tasked by a superior, as well as to misreport results in order to obtain resources. The obvious solution—decentralization—was out of the question due to increasing anxieties about broadly understood “separatism”.⁸⁶ Mishustin’s solution had two components. The first was the setup of a system of complaints called Centers of Regional Management (or “TsUR”) for citizens to report problems, some of which were later solved.⁸⁷ In 2021, according to Deputy Prime Minister Dmitry Chernyshenko, these centers led to five hundred “decisions,” albeit many of them concerned minor issues.⁸⁸ This was, in essence, the automated version of the process preceding Putin’s yearly “direct line” interviews, which itself has been an important source for the government. The second was an increasingly extensive monitoring of social media to keep a tab

on emerging issues in the regions. As we now know from investigative reporting, the federal communications agency (*Roskomnadzor*) participated in this. Plans were laid out to integrate the government’s digital services portal, *Gosuslugi*, with the social media platform VK, which came under the control of a subsidiary of the state-owned Gazprom in 2021.⁸⁹

At the same time, the government embarked upon an ambitious effort to standardize data across government databases. This data would be used by the Coordination Center, a new institution under the government that would be able to quickly focus government resources to handle, but preferably prevent crises before they become problematic.⁹⁰

Crucially, pairing enhanced data collection with an increased restriction of publicly available data would allow the government to become the only institution in the country

to conduct serious analyses of socio-economic processes, and choose which problems to solve and which ones to bury, without having to fear public backlash. In a 2021 interview Alexey Kudrin, then the head of Russia's Audit Chamber, stressed that "for experts and for deputies [data] is accessible," even as its public use was restricted.⁹¹ In essence, this was what political scientist Vladimir Gelman called the "bastardization of representative government," essentially replacing it with the less risky and unpredictable practice of data collection.⁹²

Whether or not this approach improved policymaking and implementation is difficult to tell as its introduction has coincided with extraordinary challenges such as the COVID pandemic and the consequences of the 2022 invasion. It also took place alongside a vast reform of public administration that reallocated power in favor of the presidential administration and the federal government. However, even before 2022 the limits of the system were increasingly visible. In 2021, for instance, widespread opposition to COVID passports was likely at least in part prompted by the recognition that data collected by the government on citizens can be misused as the government can easily modify the scope and the purpose of previously adopted laws.⁹³ Then, in 2022, social media monitoring reportedly failed to predict the uproar caused by military mobilization. Meanwhile, the Central Bank warned that classifying company and trade data risked further hurting already weak private investments.^{94 95}

The 2022 invasion put a curb on the Russian government's techno-authoritarian ambitions in at least two further ways: by depriving the

Russian economy of key technology and workforce to support its digital development plans; and by significantly exacerbating the pre-existing problem of data leaks.

Russia's information technology sector was heavily dependent on foreign technology before the 2022 invasion. In 2021, according to a study by the Higher School of Economics, Russia's dependence on imported information technology equipment and software was 70 percent (along with significant dependence on imported technology in other sectors).⁹⁶

Russia's information technology sector was heavily dependent on foreign technology before the 2022 invasion.

By using the Foreign Direct Product rule and coordinating an embargo on technology transfer with allies, the United States cut Russia's access to equipment such as cutting-edge semiconductors, various types of computers, as well as telecommunications and information security equipment. Software providers such as Microsoft and Adobe exited the Russian market and stopped servicing Russian customers, creating a security gap.⁹⁷ All this has happened along with an exodus of an estimated 10 percent of the country's information technology workforce due to the domestic consequences of the war.⁹⁸

In spite of the existence of earlier import substitution plans—such as the 2017–2030 Strategy for the Development of Information Society—pilot projects to create a radio electronics industry from scratch, and defiant but empty slogans such as “technological sovereignty,” Russian companies have not been able to replace imported technology.⁹⁹ Imports from or through third countries, such as China, Turkey, and the United Arab Emirates, has so far been the most efficient way of replacing lost imports, but this strategy is both expensive and vulnerable to Western attempts to tighten sanctions enforcement.¹⁰⁰ Furthermore, as long as military production is prioritized above anything else, it is likely that civil sectors will continue to suffer these consequences. Sber, one of the country’s leading digital services companies, had to rethink its investments into data storage solutions.¹⁰¹ Yandex, another digital giant, was forced to completely reorganize itself in a bid to maintain at least some access to international partners.¹⁰² The government even suggested loosening data collection obligations under the so-called Yarovaya Law of 2016, due to a shortage of data storage equipment.¹⁰³

The departure of digital service companies and sanctions on technology transfer likely also contributed to the escalation of the pre-existing problem of poor data security, which in turn risks seriously undermining the authorities’ objective of limiting public access to key data. 2022 saw an explosion in the amount of data breaches affecting Russian organizations and citizens.¹⁰⁴ In the first quarter of 2022, 42.92 million instances of data breaches were registered in Russia, more than in the preceding six quarters combined. The number of incidents dropped

to 24.6 million and 22.29 million in the second and third quarters of the year, but this was still considerably higher than the average of the previous years. According to research by InfoWatch, the amount of data breached in 2022 grew by 167 percent over 2021.¹⁰⁵ This was largely the result of the war in Ukraine as hacktivist groups and likely state-backed groups targeted Russian private and public institutions, as well as, in some cases, of disgruntled employees seeking to share confidential data with journalists, data brokers or the public.¹⁰⁶

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Regular data leaks had started well before 2022 and were, partially, the consequence of Russia’s own extensive data surveillance system, above all the Yarovaya Law—a set of laws adopted in 2016 that created the legal grounds for an extensive digital surveillance system and significantly increased data collection requirements for telecommunications operators, but also of ordinary officials selling datasets

for money.¹⁰⁷ Pre-2022 data leaks typically concerned police or border police data, or telecommunications metadata.

It was these earlier data leaks that created an underground market for leaked data in the form of probiv (“lookup”) services on Telegram, where users can do searches against leaked datasets, and of data brokers on underground forums and marketplaces. The authorities tried to crack down on this ecosystem, but in a very selective manner.¹⁰⁸

In 2021, following an investigation by Navalny’s team into his poisoning, a court found that “Eye of God,” a Telegram probiv service violates privacy rights; a policeman accused of leaking the database used by Navalny’s team to find his would-be assassin was arrested. Legislation was tightened to discourage further leaks.¹⁰⁹ At the same time, the government and the ruling elite were not interested in putting an end to the phenomenon completely. The authorities likely used the plausible deniability of data breaches to intimidate and demoralize opposition supporters in 2019 and 2021 when databases containing their personal information were leaked online.¹¹⁰ In 2021 it emerged that people connected to Wagner Group chief Yevgeny Prigozhin used probiv services in an operation targeting the son-in-law of Foreign Minister Sergey Lavrov.¹¹¹

It appears that the government was either unwilling or unable to mount a serious fight against data breaches, and that the problem was rather with the possibility of people outside of the broadly understood elite accessing these services. This understanding aligns with the government’s policy, outlined above, to restrict access to an increasing amount of previously public

data, while increasing data collection for its own use.

Following the 2022 invasion, this pre-existing infrastructure was able to seamlessly absorb the much higher number of data breaches and leaks. Data brokers and hackers themselves shared leaked databases Telegram channels and illicit forums where they were guaranteed to find a receptive audience. Journalists, open-source intelligence researchers, intelligence officers, and illicit actors who had, by that time, racked up years of experience sifting through similar Russian databases for their investigations or schemes, simply had to use their toolbox to make sense of the data.

The implications of these breaches, as of April 2023, cannot be fully understood, because much of the now-public data is not indexed.

The implications of these breaches, as of April 2023, cannot be fully understood, because much of the now-public data is not indexed. In some cases, breached databases allowed researchers to find out more about the exercise of domestic power (e.g., files breached from Roskomnadzor, the government’s communications agency were used to gain an understanding of domestic information operations and the surveillance of social media); in others, the data may be used in sanctions enforcement (e.g., a breach affecting Gazprom), or as



Russia's President Vladimir Putin shakes hands with United Arab Emirates' President Sheikh Mohammed bin Zayed al-Nahyan during a meeting in Saint Petersburg, Russia, October 11, 2022. Sputnik/Pavel Bednyakov/Pool via REUTERS

kompromat (e.g., a database containing the correspondence of the governor of the Kursk Region). One database leaked, reportedly, by a disgruntled employee of NTC Vulkan, a contractor of Russia's military intelligence agency, allows researchers to map what capabilities Russia's security services are seeking internationally and domestically to conduct offensive cyber and information operations.

The development of Russian techno-authoritarianism was meant to resolve the contradiction between the obsessive centralization of power driven by federal

securocrats and the risks created by low quality governance outcomes. Instead, it showcased the limits of digital governance in a violent personalistic autocracy, and may even have seriously undermined the government's authority. In perhaps the most damning indictment of the limits of the government's emerging data-driven authoritarianism, it turned out to be completely unprepared for the possibility that the president and the security elite would keep plans of Ukraine's invasion secret from leading government officials.

CONCLUSION



Putin's return to the presidency in 2012 triggered a serious crisis of legitimacy without a clear way out for the authorities. The Russian president chose to take a risky step. In order to divert the conversation and present a kind of feel-good distraction to keep the population demobilized and the elite coherent, he attacked Ukraine and occupied Crimea. This risked jeopardizing Russia's long-term development goals for short-term political gain. But it worked.

In order to divert the conversation and present a kind of feel-good distraction to keep the population demobilized and the elite coherent, Putin attacked Ukraine and occupied Crimea.

Prior to the 2022 invasion of Ukraine, the main question of Russian politics was whether a push towards grand development goals and a more efficient state will prove promising enough to support, in itself, keeping Putin in power post 2024.¹¹² Clearly, the Russian president did not believe that it would and opted, again, to go on the offence instead. This time, his badly prepared and disastrously executed invasion triggered an even bigger crisis. By laying bare and exacerbating the contradictions of

his model of governance, Russia's war on Ukraine highlighted the country's long-term development prospects and supercharged short-termist decision making. Instead of solving the "2024 problem," the system now also faces a "2/24 problem."

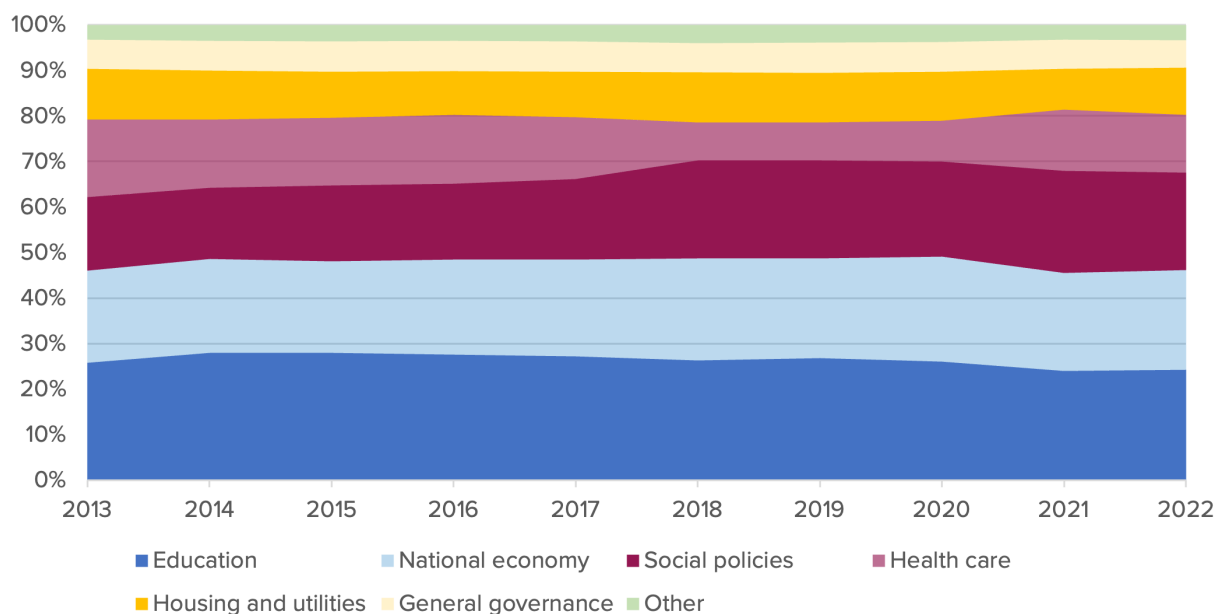
But this is ultimately a gamble on the beliefs of Putin that the war is inevitable and victory is around the corner. As long as enough people accept these assumptions to be true, the Russian government is in a difficult, but manageable place. If the predicted turn does not come soon enough, however, the challenges laid bare and the problems accelerated by the war could add up.¹¹³

For a government focusing on short-term stability until it can lie its way to the truth, this is good enough—for now. While Russia's technocrats do not make policy any more, the so-called pockets of efficiency, such as the Central Bank and certain divisions of the federal government, can still put out fires efficiently. They cannot save the system from its own contradictions, but they can drag out how long it can resist collapse. It is possible, however, that as money runs drier that we will see, if not an outright collapse, but more situations that generate friction: clashes between industry representatives competing for the same resources, increasing risks of a costly miscalculation in a distracted officialdom, and blame games escalating into open squabbles.

The Kremlin is clearly worried about elite cohesion and low state capacity, as reflected in efforts to integrate and crack down on nationalists and veterans, and to performatively deal with everyday problems from prices to utilities.¹¹⁴ The authorities have also been communicating to business elites that they have more to win than to lose under the current conditions. So far this seems to be enough. The combination of gradually increased repression and letting Russians leave the country—a policy that also preceded 2022—has worked wonders, even if it did not make most Russians enthusiastic supporters of the war. While business representatives are grumbling over the latest attempts to extract money from them, for now they are acquiescing, even as they signal their reservations.¹¹⁵

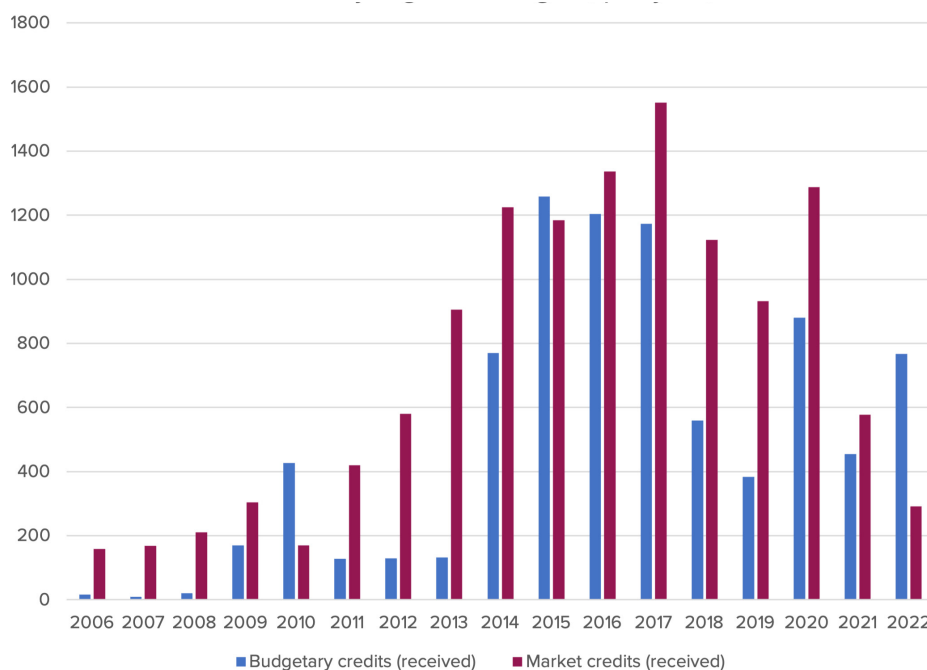
Forcing these choices on a system that has been struggling with internal contradictions is the main role of sanctions policy. From tightening sanctions enforcement and further degrading Russia's sources of income to driving a wedge between elites, the most rational thing that the coalition of Ukraine's supporters can do is to catalyze these changes. 🦅

Figure 1: Regional budget spending by heading, 2013-2022



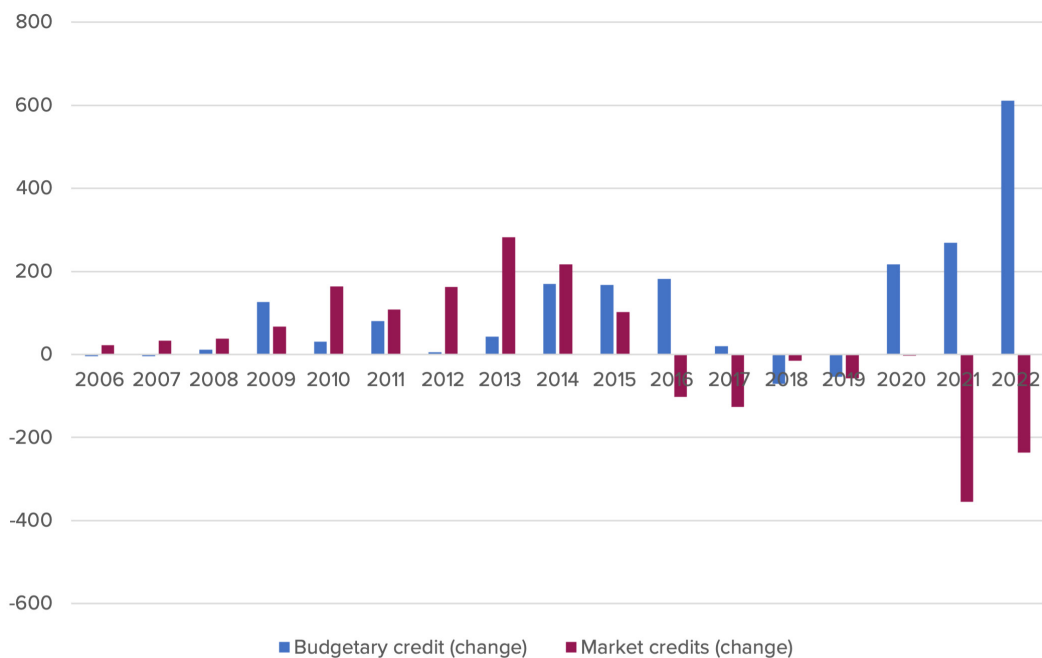
Source: Ministry of Finance

Figure 2: Credit taken out by regional budgets, per year, billion rubles



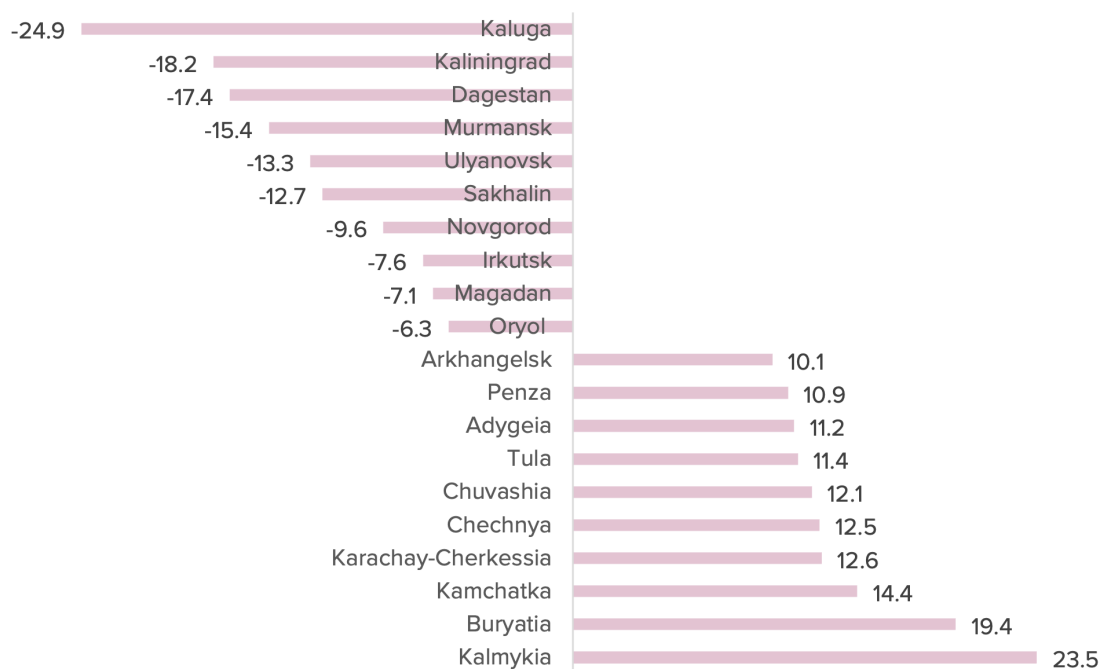
Source: Ministry of Finance

Figure 3: Change in regional credit per year, billion rubles



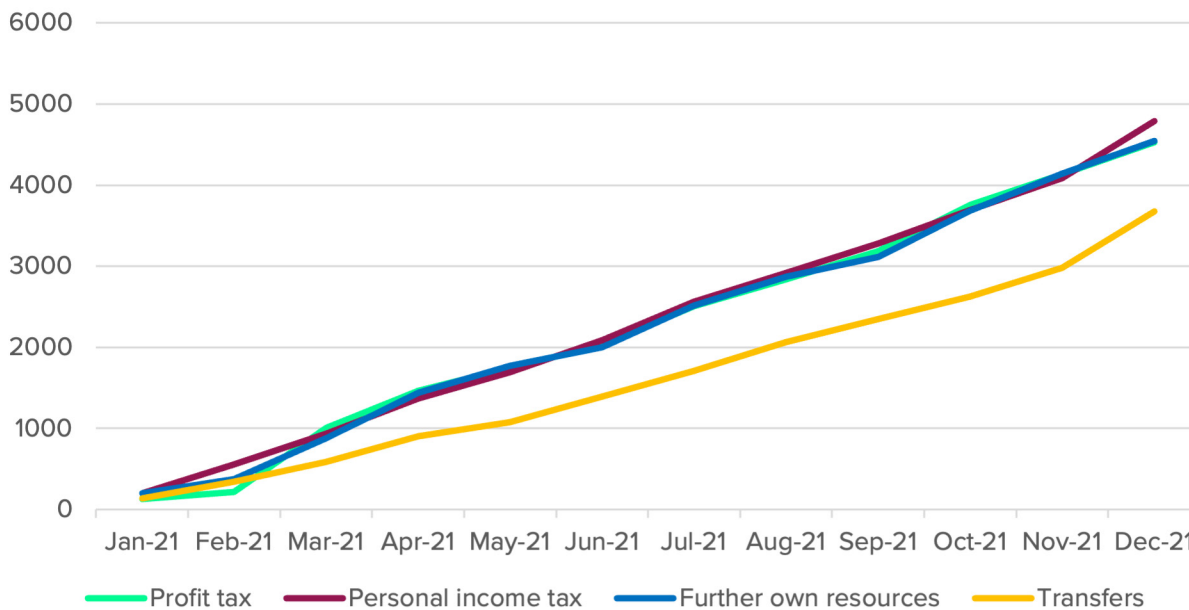
Source: Ministry of Finance

Figure 4: Industrial production, January-February 2023 over the same period in 2022, top and bottom ten regions



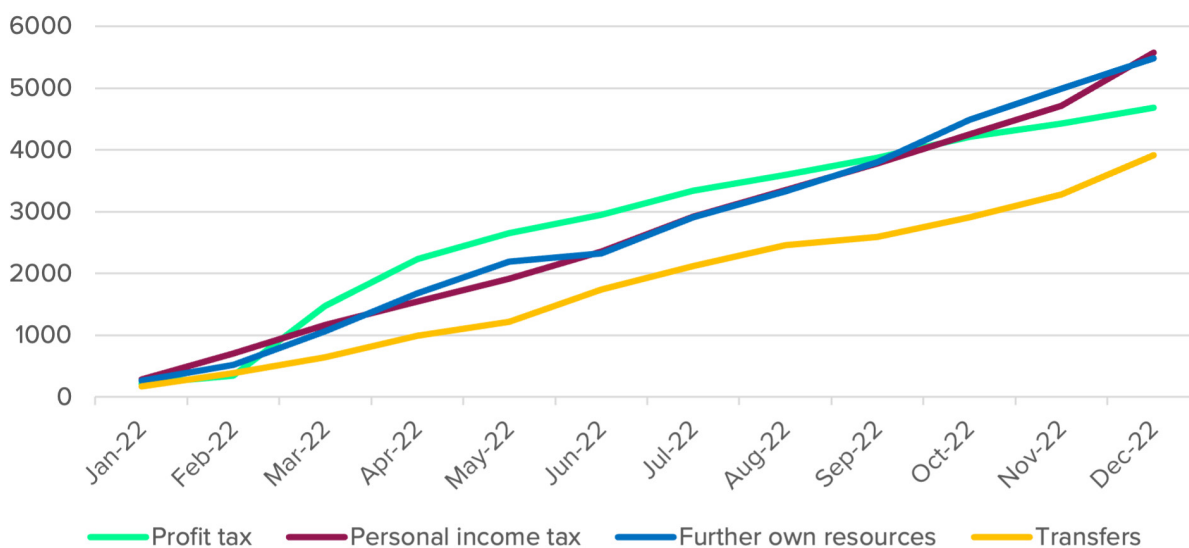
Source: Rosstat

Figure 5: Consolidated regional incomes, 2021, million rubles



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Figure 6: Consolidated regional incomes, 2022, million rubles



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