

Ukrainian putsch creates economic and political turmoil in Russia

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18 March 2014

The intensifying conflict between Russia and the West over the US-backed, far-right coup in Ukraine is creating economic and political turmoil within Russia. The economy faces growing pressures as the Kremlin attempts to rally popular support and suppress opposition in its confrontation with the West.

On Monday, Russian Deputy Minister of Economic Growth Sergei Belyakov stated there were “clear signs” that the economy was in crisis. Belyakov made this remark in a speech given to the Russian Union of Industrialists and Entrepreneurs (RSPP), a pro-business lobbying group, in which he called for a strengthening of Russian property laws in an effort to combat capital flight.

According to Goldman Sachs, \$45-50 billion has been moved out of Russia since January 2014, and capital flight could reach \$130 billion, double the 2013 level, by the end of the year. Speaking before the RSPP, Belyakov insisted that the Ministry of Finance’s use of tax measures to stop “offshorization” was inadequate and that the problem had to be resolved by improving the country’s investment climate.

Capital flight is intensifying an overall downward slide in Russia’s economy, with Natalia Orlova of Alfa Bank comparing the situation to that of 2008, just before the world economic crisis hit Russia. After achieving a sclerotic 1.3 percent growth rate in 2013, many experts are now predicting zero growth or even recession for 2014. This compares to an official projected expansion of 1.5 to 2.0 percent. Foreign investment in Russia fell by 7.0 percent in January of this year.

“At the root of the financial squeeze is the economy’s vulnerability to volatile capital flows,” said Vladimir Kolichev, chief economist at VTB Capital. “Both foreign and domestic investors are reacting to the diplomatic crisis by selling rubles in droves to stock up on Western currency.”

The value of the ruble has fallen precipitously in recent weeks, hitting 36 to the dollar over the weekend. The Russian Central Bank has spent at least \$14 billion since early March in an effort to shore up the country’s currency. According to *Wealth Daily*, in 2012 and 2013 Russian companies borrowed \$90 billion in dollar-denominated loans, leaving them highly exposed to the ruble’s declining value.

Inflation, which is already higher in Russia than in any other G-8 country, is rising and is expected to outstrip the predicted 5 percent for 2014.

At the same time, Russia has pledged millions to support Crimea’s economy, which, according to Standard & Poor’s, would require \$1 billion a year to bring the region’s per capita budget to the level of Russia’s poorest regions.

Over the weekend, German Chancellor Angela Merkel warned of

“massive damage, politically and economically” to Russia as a result of the Ukraine crisis. On Monday, the United States issued new sanctions against Moscow in response to the Crimean referendum, in which nearly 97 percent of voters registered their desire for the peninsula to become part of Russia. In addition to targeting senior officials in the Putin regime, Washington made clear that it is taking aim at the assets of top Russian oligarchs backing the Kremlin.

In a statement issued Monday, the White House declared: “The United States also will seek to hold accountable individuals who use their resources or influence to support or act on behalf of senior government officials. We recognize that the Russian leadership derives significant support from, and takes actions through, individuals who do not themselves serve in any official capacity. Our current focus is to identify these individuals and target their personal assets, but not companies that they may manage on behalf of the Russian state.”

The intent is to destabilize the Kremlin regime internally and peel away support for President Vladimir Putin among Russia’s wealthiest, in a manner similar to what was done to deposed Ukrainian President Viktor Yanukovich. In the face of threatened US sanctions targeting their personal fortunes, several big business backers of Yanukovich abandoned their support for his Party of Regions, securing places for themselves in the new government.

Valentina Matvienko, the head of Russia’s upper house of parliament, described the sanctions on Monday as “political blackmail.”

As reflected in the enormous levels of capital flight, Russia’s super-rich store a great deal of their personal wealth overseas, making them highly vulnerable to asset freezes. Despite US claims that it will not target companies, Russia’s oligarchs are exposed through their corporate investments.

Yulia Bushueva of Arbat Capital, which manages \$500 million of assets, explained to the *Sydney Morning Herald*, “If a billionaire pledged their stakes in publicly traded companies as collateral for a line of credit, they could face margin calls and have to renegotiate with banks.”

Alexander Lebedev, one of Russia’s super-rich and an opponent of the Putin regime, described his fellow oligarchs as “pale” and “very scared” in the face of the unfolding crisis. The Ukraine events are already taking a significant toll on the region’s wealthy elite, with the richest individuals in Russia and Ukraine having lost just shy of \$13 billion due to stock market declines in recent weeks.

In a possible indication of European intentions to make overtures to Russia’s oligarchs, the German natural gas utility RWE announced on Monday a \$7 billion deal with Russian oligarchs Mikhail Fridman and

German Khan that will give the two men control over a small oil company based in Hamburg and a number of other international assets.

The Putin regime is attempting to channel broad popular opposition to the neo-fascist elements that have come to power in Ukraine into support for the Kremlin on the basis of Russian nationalism. At the same time, it is clamping down on dissenting views.

On Saturday, several thousand Russian supporters of the new Ukrainian regime held a so-called “March of Peace” in Moscow. The demonstrators called for the defense of Ukraine’s independence, blamed the Kremlin for the looming threat of violence, and opposed Putin’s recent crackdown on critics. Last week, the editor of a major online news outlet was fired for publishing an interview with Dmytro Yarosh, the leader of Ukraine’s fascist Right Sector movement. Oppositionist Alexei Navalny is under house arrest and has been banned from publishing on the Internet.

Closely allied with Washington, the anti-Putin “liberal” opposition has come out in support of the Kiev government and the aims of American imperialism in the region. Grigoriy Yavlinsky, the head of the Yabloko party, described the Russian takeover of Crimea as “mistaken and extremely dangerous act.”

Mikhail Kasyanov of RPR-PARNAS denounced Sunday’s referendum as “illegal.” Oleg Kashin, a journalist for *Ekho Moskvy*, a longstanding liberal media outlet in Russia, penned a commentary on March 8 in which he proclaimed that Stepan Bandera, the Nazi collaborator, leader of Ukraine’s war-time nationalist movement and hero of the right-wing organizations that led the uprising against Yanukovych, was “right” and his struggle “justified.”

The ferociously right-wing and aggressively anti-Russian character of the new government in Kiev has led in the short term to a growth in support for Putin, whose approval ratings have risen in recent weeks. According to a March 13 poll by the independent Levada Center, 37 percent of Russians feel that that power in Ukraine has been seized by “radical nationalists,” while another 36 percent believe there is no united authority in the country. Just 9 percent of respondents indicated that “among those who came to power in Ukraine there are radical nationalists, but as a whole these people represent the interests of all groups of the country’s population.”

On March 18, pro-Kremlin rallies are scheduled to take place across the country, with a major demonstration planned for Moscow’s Red Square under the banner “We’re All Together!” On Saturday, in the lead-up to Sunday’s vote in Crimea, 15,000 people rallied in the nation’s capital as part of the so-called “March of Brotherhood” organized by the Kremlin’s United Russia party and the populist Sut Vremeni movement. The rally proclaimed itself “anti-fascist.”

The “March of Brotherhood” was organized on the basis of Russian nationalism, with the procession overwhelmingly dominated by Russian flags and slogans proclaiming affinity with fellow ethnic Russians. In reality, neither United Russia nor any faction of Russia’s so-called “left,” different sections of which align themselves alternately with the Communist Party or the liberal opposition, are fundamentally opposed to the politics of the far-right forces that have seized power in Kiev.

The Kremlin regime, which is an ardent defender of the interests of Russia’s oligarchs, has carried out a continual assault on the living standards of the working class, gutting funding for health care and education, undermining pension obligations, and “monetizing” social services. It has long utilized and promoted Russian chauvinism and anti-immigrant propaganda in an effort to divert popular anger over

the poverty and social misery created by the Russian ruling elite’s policies. It has worked to rehabilitate the Russian Orthodox Church, elevating its status to nearly that of a state religion. The security services have facilitated racist pogroms carried out in various cities, standing back as mobs of neo-Nazis attacked migrants from Central Asia and the Caucasus.

As the economic crisis facing Russia intensifies, the Kremlin will initiate further attacks on the Russian working class. In a comment published in the leading liberal daily *Vedomosti*, economist Evgeny Gontmakher noted that Putin will deal with the country’s deteriorating situation through tax increases, cuts in spending on health and social services, and reductions in subsidies to aging industries and enterprises. This will result in “the growth of real unemployment due to the absence of resources to support millions of ineffective jobs in those sectors like metallurgy, the agro-industrial complex, and the public sphere,” he observed.

The Communist Party of Russia (KPRF) and the various tendencies working within its orbit (such as Sut Vremeni) also have no basis to oppose the aggressive actions of American imperialism. These forces are steeped in Russian nationalism and tied to the Kremlin by a thousand threads.

The KPRF orchestrated the dissolution of the Soviet Union and the selling-off of the country’s industrial base and natural resources to well-connected party-state insiders. Politically and economically, the working class has paid the price while a narrow layer of bureaucrats, businessmen, and their intellectual acolytes have seen their fortunes grow.

Contrary to the Soviet bureaucracy’s claims that it was ushering in a new period of peace and prosperity by breaking up the USSR and liquidating whatever remained of the economic conquests of the 1917 Revolution, the appetites of American imperialism were only whetted. (See: “The crisis in Ukraine and the dissolution of the Soviet Union”). Now these appetites threaten the working class with armed nuclear conflict, ethnic violence and the final transformation of Russia into a vassal state of Washington.

This can be opposed only through the building of a mass workers’ movement independent of all existing parties of the political establishment and the so-called opposition, and united on an internationalist, socialist and Trotskyist program against American imperialism and Russian capitalism.



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