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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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6.7. The North Caucasus: the main trends of 2016¹

This section analyzes the main new trends that became visible in the North Caucasus during the past year. Bearing in mind the specific features of this region of the Russian Federation, it is important that our analyst should not be confined to examining only the changes that occurred in the economic realm, but also pay attention to those that took place in the sphere of regional politics and regional security.

6.7.1. Major investment projects in 2016

One of the major components of the Strategy of Socioeconomic Development of the North Caucasus Federal District until 2025, adopted by the RF Government in 2010, is the creation, in the North Caucasus republics, of a ‘tourism cluster’ composed of several year-round recreational tourism complexes based on alpine ski resorts. The implementation of this project was continued in 2016. However, over the course of that year, several new trends capable of strongly affecting the final outcome of the whole project clearly manifested themselves.

First of all, the results of 2016 suggest that the tourism cluster has become totally fragmented. When the project was initially announced, it was presented as a unitary inter-regional tourism ‘hub’ designed to integrate all the regions of the North Caucasus, give them opportunities for economic growth, and make it possible for these territories to increase their budget revenues from tourism. Moreover, the initial plans for developing a new system of resorts clearly revealed the government’s aim to reduce the differences in economic development between the various North Caucasian territories, and primarily the mountainous ones, including those situated within the boundaries of one and the same region. Thus, it was planned that alpine ski complexes would be built in those regions of Kabardino-Balkaria and Karachaevo-Cherkessia which, unlike the neighboring regions, could offer no such facilities. The past year’s experiences showed that the idea of territorial ‘distribution’ of the tourism cluster facilities had largely become a thing of the past. To begin with, the plans of creating the tourism cluster entities in North Ossetia, one of the North Caucasus regions, have officially been frozen indefinitely. In 2016, OJSC *Health Resorts of the North Caucasus (HRNC)*, the principal operator of the special economic zones (SEZ) set up within the tourism cluster (98% of shares in this company are held by the State), did not even include the alpine ski resort *Mamison*, formerly planned to be built in North Ossetia, in the list of its future projects. The SEZ established to accommodate the construction of that ski resort was abolished last September. In the first few weeks of 2017, it became known that the lands earmarked for the future ski resort would be transferred to municipal formations². Also in 2016, the territory of the SEZ in Kabardino-Balkaria was drastically reduced by excluding from it the districts of Chegem and Cherek, where tourism objects had been planned to be built from scratch, thus confining the entire territory of the SEZ to Elbrus district alone, where alpine ski infrastructure had already existed for decades and was in need of mere upgrading. The CEOs engaged in the

¹ Author of chapter: K. Kazenin – Gaidar Institute, RANEPa.

² *In North Ossetia, the lands of the stillborn tourist resort Mamison will be distributed among farmers* (in Russian). IA REGNUM, January 27, 2017. See <https://regnum.ru/news/economy/2232052.html>

implementation of the alpine ski cluster have given no official explanations either of the reasons for the reduction of its territorial scope, or of the principles used as a basis for determining which territories were to be excluded from the said cluster.

It should be noted that the projects still being implemented are placed on a rather unequal footing with regard to one another. Over the course of 2016, OJSC *HRNC* continued to provide funding to the three construction projects of tourist resorts designated to be part of the first phase of the tourism cluster construction. The resorts in question are as follows: *Arkhyz* (Karachaevo-Cherkessia; the alpine ski tracks and infrastructure are being created from scratch; the resort began functioning in 2014); *Elbrus* (Kabardino-Balkaria; the existing tourist resort is being renovated); and *Veduchi* (Chechnya; the construction process is underway, the first tourists are expected to be welcomed by 2020). A total of approximately RUB 2.9bn was allocated in 2016 to OJSC *HRNC* for the construction of infrastructure entities for the three resorts included in the project's first phase. The prospects for the resorts to be built during the second phase of the tourism cluster project are far less clear. These are *Armkhi* and *Tsori* in Ingushetia, and *Matlas* in Dagestan. In 2016, the administrative coordination and the preparation of blueprints for all these resort complexes was continued. Thus, in March, the powers to manage the land plots allotted for the construction of the *Matlas* resort were transferred to OJSC *HRNC*. Late last year, the government of Ingushetia completed the preparation of the construction budget documentation and blueprints for the *Armkhi* resort. However, the prospects for each of the second-phase resorts are different, in our opinion. In Ingushetia, there is already an anchor investor for the project, thanks to which some infrastructure entities has already been created there prior to the start of investment flow from OJSC *HRNC*, and so the resort is now effectively functioning, although its current capacity is much lower than planned. As for the situation in Dagestan, no anchor investor has been designated there as yet, and no construction works have been started.

So, it must be admitted that the North Caucasus tourism cluster project has all but disintegrated into regional subprojects, each of them having different potential and, more importantly, different prospects for actual implementation. In such a situation, one may speak of the future strategic role of tourism for each republic, but not for the North Caucasus as a whole.

The prospects for increasing the tourist inflow into the resorts situated within the cluster are less than clear, either. Against the backdrop of the somewhat rising numbers of tourists in some of the resorts (according to data released by OJSC *HRNC*, over the ski season 2015/2016 in Arkhyz and Elbrus it jumped about 30% on the previous season), the North Caucasus regions are among the least attractive resort areas in the RF. In the 2016 Top 100 rating of RF tourist sites published in December by Russia-Rating.ru together with the Vacation in Russia magazine, all the republics of the North Caucasus were ranked in the group of the least attractive tourist sites. It can be assumed that the main factors that bring down the scale of tourist inflow have to do with the overall situation in the region, and not with the specific flaws in the operation of the existing resorts. However, given the region's bottom-ranking, the prospects of commercial success for the currently implemented resort projects appear to be dubious.

As for the other big investment projects, the main developments in 2016 centered around the transport infrastructure entities. Among these, it was the Makhachkala Commercial Seaport that topped the news headlines. It enjoys the status of a federal state unitary enterprise (FSUE). Its cargo turnover (the port specializes in the main in crude oil and grain shipment) continuously

plummeted from 2013 through 2016,¹ and so the government of Dagestan many times spoke of the necessity of finding a strategic investor to take over the port. Meanwhile, according to mass media reports, the enterprise was effectively run by a group of entrepreneurs operating on a federal level, who originally came from Dagestan. Thus, according to RBC's reports, over the period from May 2010 through May 2016, the office of the port's director general was occupied by somebody from the team headed by well-known businessman Suleyman Kerimov.² Then he was replaced by another manager who had previously worked in the structures attached to *Summa Group*, which is controlled by Ziyavudin Magomedov, another businessman of Dagestani origin. The new director general, however, was prevented from actually performing his functions by his predecessor's supporters, who blocked his entry into the port by physical means.³ Soon after the new director general's appointment, the port was sued by the Cypriot company that had bought out its debt obligations from one Russian bank. It was the same company that had previously initiated a proceeding in bankruptcy against state enterprise *Dagestan Airlines*. As a result, the Makhachkala airport was privatized by certain companies attached to Suleyman Kerimov. As security for the debt owed by the port, some of its infrastructure entities were pledged. According to Dagestani mass media,⁴ this is the continuation of the struggle for the port between Dagestani oligarchs, which is still far from being over. It should be added that Dagestan's head Rustam Abdulatipov, in his interview with RBC on July 11, admitted the fact of an ongoing struggle between the 'groups of influence' for the ownership of the Makhachkala Commercial Seaport, and urged them to resolve the dispute in a constructive manner. However, this has had no effect on the actual state of affairs.

The situation around the Makhachkala Commercial Seaport port was the most high-profile 'privatization scandal' of 2016 in the North Caucasus. It reflects the following typical features of the current investment climate in that region:

- the use of force in the struggle for assets;
- the possibility, as an alternative to privatization, of 'indirect' control of business groups over public property entities through the appointment of loyal CEOs;
- the application, by those willing to seize big assets, of 'indirect' privatization schemes, including bankruptcy procedures.

All these investment climate peculiarities are by no means conducive to a better transparency of privatization deals and competitiveness in the public property privatization process in the North Caucasus.

6.7.2. Federal elections in the republics of the North Caucasus: 'political Islam' and the increasing role of businesses based in other regions

As is well known, one of the main specific features of the sociological pattern of the republics of the North Caucasus, especially of its eastern part, over the course of the past two decades has been the growing importance of Islam in various social fields not related directly

¹ *Makhachkala seaport: the logic of defeat*. PortNews.Ru, January 6, 2017. See <http://portnews.ru/comments/2263/>

² *Dagestani fighters: how Kerimov and Magomedov are struggling for the port at Makhachkala*. RBC, September 1, 2016. See <http://www.rbc.ru/business/01/09/2016/57a0c5819a794780a991fc45>

³ *The struggle for the Makhachkala Seaport: why does Abdulatipov need a third party?* IA REGNUM, August 2, 2016. See <https://regnum.ru/news/economy/2162355.html>

⁴ *The curtain has dropped; the play is to be continued*. Novoe delo (in Russian), January 13, 2017. See <http://ndelo.ru/news/ekonomika/4086/>

to the confessional field, including, to a certain extent, the field of economic conflict resolution. It should be emphasized that this phenomenon has been taking place against the background of a growing internal split within the Islamic milieu fractured by serious contradictions between various Islamic branches and sub-branches, some of which enjoy support from the authorities who consider the rest of them to be 'non-systemic'. It is noteworthy in this connection that last year, some influential figures representing precisely those Islamic sub-branches that are considered to be loyal to the authorities made a number of attempts to increase their political influence not only without properly coordinating this issue with the regional authorities, but also in order to defy them to a certain extent.

This trend became clearly manifest in the course of elections to regional executive bodies, which took place in a number of North Caucasus regions in September 2016. It was likewise clearly visible in Dagestan and Ingushetia. One of the most important characteristic features of the religious situation in both these republics consists in the fact that the official Islamic structures there, the so-called Regional Spiritual Administrations of Muslims, are predominated by representatives of Sufism, one of the major branches of Islam, while the adepts of its other branches are routinely called 'non-traditional Muslims'.

In Dagestan, the incident in the course of the 2016 electoral campaign that became headline news in the federal and regional mass media was the attempt of the federal party *People against Corruption* to nominate, in a multi-mandate election district, a list of its candidates. Among the candidates to the People's Assembly of the Republic of Dagestan backed by that little-known party were at least three eminent regional Islamic activists close to the *Dagestani Spiritual Muslim Administration*. The party announced its intention to take part in the election to the People's Assembly in March 2016, and immediately made known its critical attitude towards the regional authorities. This was expressed, firstly, in the form of some very tough rhetoric addressed to the republic's officialdom, and secondly, in the support by the party of some eminent public figures who were part of the opposition to the region's head (the latter represented not only by religious activists)¹. The regional observers estimated the nomination of candidates by the party *People against Corruption* as an entirely new political situation, where the republic's authorities could no longer totally control the activities of high-profile Muslims attached to the *Dagestani Spiritual Muslim Administration*. However, the *People against Corruption's* entry in the political arena was short-lived: in early August, it declared its withdrawal from the election campaign. This was viewed by a majority of observers as being the result of administrative pressure applied to the candidates, and the victory of the region's head Rustam Abdulatipov, which had practically insured him against any undesirable outcome of the election.

The reliance on 'traditional' Islam by the legislative authority in Ingushetia in connection with the ongoing election campaign there followed a similar scenario, which envisaged the launch of an 'electoral project' that closely involved several local Islamic leaders.² In July, it became known that the election to the People's Assembly of the Republic of Ingushetia will be participated by the Russian All-Peoples Union, its Ingush regional branch being then headed by an Islamic preacher that was very popular across the region, while the number one candidate on the party list was the republic's deputy mufti. In the current political context in Ingushetia

¹ K. Kazenin. *Four questions concerning the 'political Islam' in Dagestan*. IA REGNUM, June 1, 2016. See <https://regnum.ru/news/polit/2139786.html>

² M. Muradov. *The Ingush clergy were not allowed to participate in the election*. Kommersant (in Russian), July 28, 2016. See <http://www.kommersant.ru/doc/3049013>

such an initiative could only be viewed as an attack on the region's head Yunus-bek Yevkurov, because since 2015 he had been in a state of conflict with the republic's muftiyat, demanding that its head be replaced, and that the principles of its operation be altogether altered.¹ In contrast to Dagestan, the political project of the 'opposition imams' in Ingushetia proved to be extremely transitory: in less than a week, the first information of its emergence was followed by the news that the republic's electoral commission did not register the list of candidates put forth by the Russian All-Peoples Union.

So, we may speak of the intensification of political activism in the two republics, of the Islamic communities centering around the regional *spiritual Muslim* administrations, and of the practically synchronous halt of that process in the phase of submitting the lists of election candidates to the regional legislative bodies. These events underline the situation as it emerged in 2016, marked by the increasingly 'secular' role of Islam in the republics of the North Caucasus - or, more precisely, in its eastern part. The attempts to further strengthen that role by ensuring the presence of Islamic leaders in the bodies of legislative authority represent an entirely new phenomenon. However, these attempts failed, which in this case means that the heads of the two republics are going to retain their control over the current political processes. Nevertheless, the recurrence of such 'scenarios' involving the participation of circles close to the Regional Spiritual Administrations of Muslims points to a trend towards strengthening the political activities of Islamic circles, clearly not controlled by the regional authorities. It should be noted in this regard that the intensification of the political activism of Islamic leaders in both of these republics was taking place against the background of some deep-seated conflicts within local Islam, and that the persons who had tried to interfere in the elections through the course of election campaigns represented one of the parties in those conflicts. Thus, there are good grounds to believe that if such an intensification of political activism should recur, the inter-Islamic conflicts can notably deepen.

Yet another phenomenon which manifested itself in the course of the 2016 election campaigns in the North Caucasus regions was the surfacing of the political ambitions of those businessmen who, although having hailed from the North Caucasus republics, possessed no significant assets there. This trend was especially pronounced in Karachaevo-Cherkessia, where Aliy Totorkulov, a wealthy Moscow entrepreneur who hailed from that republic and was renowned for his multiple humanitarian projects implemented both in that region and in the North Caucasus diaspora in Moscow, made an attempt to be registered as a candidate for election to the RF State Duma from a single-member district. The nomination of big entrepreneurs whose businesses are concentrated in the North Caucasus region, as candidates for election to various legislative and executive bodies, is a long-standing practice in the North Caucasus, its primary aim being to strengthen one's own business within one or other region. In this case, however, Mr. Totorkulov's participation in elections can hardly be explained by his direct commercial interests, because there is no evidence that this candidate has any such interests in the region. The 'political' explanation that the candidate was eager to obtain a seat in the State Duma in order to gain influence in the federal bodies of state authority is equally unsatisfactory: the nomination of Totorkulov was carried out against the backdrop of a direct confrontation between the regional authorities and the regional branch of *United Russia* - a situation that could hardly give him a chance, even if he had won, to increase his political clout at the federal level (it is notable that observers attributed Totorkulov's removal from the

¹ K. Kazenin. *A general of compromise: how Ingushetia is searching for the correct Islamic policy*. Carnegie.Ru, July 6, 2016. See <http://carnegie.ru/commentary/2016/07/06/ru-63927/j2sg>

electoral race in August to the very fact that the regional authorities had not supported his nomination.¹⁾

We believe that by far more justified is the assumption that it has become crucially important for the entrepreneurs of North Caucasian origin who have achieved success outside of their home turf to create support networks in their home regions, and especially, judging from the character of Totorkulov's election campaign, to gain support among young people there. Even before the election campaign, he had been known for his support of youth education- and cultural projects in Karachaevo-Cherkessia, and activists engaged in those projects figured prominently in his campaign team. It should be noted in this regard that, on the whole, the readiness of entrepreneurs hailing from the North Caucasus to provide funding for the launch of youth education- and cultural projects in their home regions has become apparent in a number of other regions of the North Caucasus (although, unlike in Karachaevo-Cherkessia, this phenomenon has had no relation whatsoever to electioneering activities). Thus in late 2016, it became known that a businessman of Dagestan origin, Ziyavudin Magomedov, the co-owner of *Summa Group* (according to Forbes, he is worth USD 900m), intended to invest about RUB 1bn in constructing a large education center in Dagestan's capital, which would combine a number of educational projects being implemented in Dagestan and already supported by various Magomedov's funds. The main purpose of this education center will be to provide young people with education in modern specialties in the field of IT, programming, etc. According to our observations, the common 'vector' of such businessmen's humanitarian activities in their home regions is to increase the stratum of youth whose social links and relationships make them independent of the clan system that is dominant among the regional elite, and whose set of competences can make them better adapted to today's challenges than the majority of local officials. No conclusions as to the aims of these attempts at creating such a new elite can be made on the basis of the results of the year 2016. It is evident that their relation to some specific political projects, including elections, is not universal but rather reflects situational factors. However, there is no doubt that the results of 2016 make it possible to interpret such attempts as a pronounced inter-regional trend.

6.7.3. Terrorist activities

The year 2016 saw no radical changes in the armed confrontation between the authorities and clandestine Islamist groups in the North Caucasus. On the whole, the scale of terrorist activities remained far below that typical of the late 2000s and early 2010s, especially with regard to the number of major terrorist attacks and large-scale guerilla actions carried out by various illegal armed formations (IAF). However, in this respect the year 2016 compared poorly with the previous year. According to the *Caucasian Knot* online information portal, which uses its own information as well as that provided by the Human Right Center 'Memorial', in 2016, the number of victims of the armed conflicts in the North Caucasus increased by more than 11% on 2015 – from 258 to 287 persons. The number of violent incidents remained the same, but the percentage of bomb blasts increased 2.4 times, from 11 to 26. The number of terrorist attacks went up 1.5 times, from 6 to 9. In 2016, the total number of civilian casualties in the North Caucasus Federal District was 24, including 8 dead and 16 wounded, which represented a 31% drop on 2015, when the total number of civilian casualties had been 35. In 2016, the total

¹ K. Kazenin. *The voice of the Caucasus: how politics are returning to the regions*. (In Russian). RBC, September 29, 2016 <http://www.rbc.ru/opinions/politics/21/09/2016/57e24bf49a79475d19b83965>

number of government casualties was 97, including 32 dead and 65 wounded, which represented an almost 2-fold rise on 2015, when the number of government casualties had been 49.

The worst 2016 results were seen in Chechnya, where the number of violent incidents increased 2.3 times on the previous year, while the number of casualties rose 2.4 times. Over the course of that year, Chechnya registered 7 exchanges of fire, resulting in at least 39 casualties, including 25 dead and 14 wounded. In 2016, the clandestine armed groups lost 20 dead and 2 wounded. Casualties among government forces, including police, were 5 dead and 11 wounded. As far as violent incidents and casualties were concerned, Dagestan fared second among the North Caucasus regions. In 2016, Dagestan experienced a 14% rise in the number of violent incidents relative to 2015, while the number of casualties increased by 30%. Dagestan registered 65 violent incidents that resulted in 174 casualties, including 127 dead and 47 wounded. Among the dead were 105 persons believed to be members of IAFs, 20 members of government forces, including police, and 2 civilians.

As regards the struggle against clandestine rebel groups, Dagestan and Chechnya differ rather profoundly from all the other republics of the North Caucasus Federal Okrug. Thus, in 2016, the number of violent incidents in Kabardino-Balkaria dropped by 59% on the previous year, while the number of casualties resulting from such incidents decreased by 71%. In 2016, the number of violent incidents in Ingushetia remained the same relative to the year 2015, while the number of casualties dropped by 21%. Karachaevo-Cherkessia and North Ossetia registered zero activity on the part of clandestine rebel groups.

As this negative reversal of the long-term trend in the war on terror in the North Caucasus is still a very recent phenomenon, it is far too early to try to analyze its underlying causes, because the data at our disposal are confined to a single year. It should be noted, however, that observers express their unanimous opinion that in recent years, the authorities of Chechnya and Dagestan have enforced a very rigid religious policy, where regional officials and the republican power structures have openly demonstrated their support for one or other branch of local Islam, while refusing dialogue with adherents of any other branch of this religion, including those having legal status¹. It should be said that this intolerance came to the fore in the political life of Dagestan only three or four years ago, while in the late 2000s and early 2010s the republican authorities had been eager to promote dialogue between various branches and sub-branches of Islam and to include representatives of conflicting Muslim groups in various public councils and community boards created by the regional bodies of state authority, etc. It can now be said with assurance that the abolition of this policy has not led to a sustainable improvement of the situation in the region.

¹ I.V. Starodubrovskaya, K.I. Kazenin. *The North Caucasus and the modern model of democratic development* (presentation). Polit.Ru. April 1, 2016 <http://polit.ru/article/2016/04/01/caucasus/>