

# **Testimony of Ambassador Michael McFaul<sup>1</sup>**

## **Hearing of the House Permanent Select Committee of Intelligence**

### **Putin's Playbook: The Kremlin's Use of Oligarchs, Money and Intelligence in 2016 and Beyond**

**March 28, 2019**

When the Soviet Union collapsed in 1991, the worldwide ideological struggle between communism and liberalism – in other words, freedom, democracy, capitalism – also ended. Thankfully, the ideological contest between Moscow and Washington that shaped much of world politics for several decades in the twentieth century has not reemerged. However, for at least a decade now, Russian president Vladimir Putin has been waging a new ideological struggle, first at home, and then against the West more generally, and the United States in particular. He defines this contest as a battle between the decadent, liberal multilateralism that dominates in the West and his brand of moral, conservative, sovereign values. I define this contest as one between autocracy, corruption, state domination of the economy, and indifference to international norms versus democracy, rule of law, free markets, and respect for international law. This new ideological struggle is primarily being waged not between states, but within states.

At home, Putin has eroded checks and balances on executive power, undermined the autonomy of political actors, regional governments, the media, and non-governmental organizations (NGOs), and strengthened state ownership throughout the Russian economy. To propagate his ideas and pursue his objectives abroad, Putin has invested in several powerful instruments of influence, many of which parallel those used for governing within Russia, including traditional media, social media, the weaponization of intelligence (doxing), financial support for allies, business deals for political aims, and even the deployment of coercive actors abroad, including soldiers, mercenaries, and assassins. In waging this fight, Putin seeks to court ideological allies and weaken ideological foes. With regards to the United States, he has pursued both strategies in parallel, as demonstrated most dramatically during the 2016 presidential election.

To contain and thwart the malicious effects of “Putinism”, the United States government and the American people must first understand the nature of the threat. This testimony focuses on the nexus of political and economic power within Russia under Putin's leadership, and how these domestic practices can be used abroad to advance Putin's foreign policy agenda. Moreover, it is important to underscore that crony capitalism,

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property rights provided by the state, bribery, and corruption constitute only a few of many different mechanisms used by Putin in his domestic authority and foreign policy abroad.

This testimony proceeds in three parts. Section I describes the evolution of Putin's system of government at home, focusing in particular on the relationship between the state and big business. Section II illustrates how Putin seeks to export his ideas and practices abroad. Section III focuses on Putin's specific foreign policy objective of lifting sanctions on Russian individuals and companies.

## I. "Putinism" at Home

### Autocracy

One dimension of "Putinism" became clear right after he was elected President of Russia in the spring of 2000 – his fear and disdain for democracy. Almost immediately following his inauguration, Putin began to roll back democratic institutions and consolidate autocratic practices. He first seized control of Russian national television networks, wresting ownership of two national networks, ORT and NTV, from two "oligarchs" – Boris Berezovsky and Vladimir Gusinsky – and placing control of these enterprises in the hands of Putin loyalists. In addition, he enacted policies to reduce the power of regional leaders. With time, most pockets of autonomous political activity had been eliminated or severely constrained.<sup>2</sup> Since 2000, elections to offices with power have not been competitive, and oftentimes involved falsification. After winning re-election for his third term in March 2012, Putin further constrained autonomous political activity by making demonstrations harder to organize, arresting opposition leaders, and pushing independent media off the airwaves or into political exile.<sup>3</sup> His government continued to constrain non-governmental activities, especially by criminalizing the receipt of foreign funds. Consequently, the Russian government ultimately forced USAID to terminate its operations and eventually outlawed several other Western NGOs and foundations.<sup>4</sup> After protests in 2011-2012, the Russian government started blocking certain websites and passed laws strictly regulating the internet. Earlier this month, a new Putin law made the dissemination of "fake news" or any criticism of the government illegal.<sup>5</sup> To sustain this level of repression, Putin has invested heavily in the coercive elements of the state while simultaneously expanding the role of fellow intelligence officers in almost every significant institution of the Russian government and economy.<sup>6</sup> The Security Council, which some now compare to the Politburo during Soviet days, is comprised primarily of Putin's KGB colleagues. Analysts and academics quibble over the degree of Putin's dictatorship compared to other regimes in the world, but most agree that the Russian political system today is an autocracy.

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Putin has justified his anti-democratic restrictions by arguing that Russia needed a strong and sovereign state to recover from the 1990s. At times, Putin has even suggested that a strong centralized state is the natural condition for Russia and Russians. Throughout his first two terms, Putin and his surrogates advanced the importance of reasserting Russian sovereignty regarding domestic politics, contending that foreigners – and Americans, in particular – had exerted too much influence in Russia’s domestic affairs. Putin’s political aide, Vladislav Surkov, coined the term “sovereign democracy” as a euphemism to justify growing autocratic practices to suppress Russian domestic challengers, as well as assert greater control over foreign activity within Russia.

## **Economic Statism**

On Putin’s watch as Prime Minister in 1999, the Russian economy grew for the first time since the country’s independence. Painful economic policy reforms from earlier in the decade provided the predicate for this growth, in addition to some important Kremlin economic reforms during Putin’s first years in office. After his election in 2000, Putin cut individual tax rates to a flat rate of 13%, cut corporate taxes to the maximum tax rate of 24%, and introduced regulatory, banking, and land reforms.<sup>7</sup> These market-friendly reforms contributed to economic growth in the early 2000s; rising oil and gas prices later in the decade fueled additional growth until the global financial crash in 2008.

Investors and international financial institutions initially celebrated Putin’s austere fiscal and monetary policies. Over time, however, Putin grew more suspicious of private economic actors, both foreign and domestic. In 2003, Putin arrested Mikhail Khodorkovsky – Russia’s richest businessman at the time – and redistributed the assets of his private oil company, Yukos, to a state company, Rosneft, which is now run by a Putin loyalist, Igor Sechin. Khodorkovsky’s arrest sent a clear signal to other so-called “oligarchs” that the property rights they had obtained in the 1990s would only be maintained through continued obedience to the Kremlin. The illegitimate means by which major Russian businesspeople obtained their property rights in the 1990s – including most notoriously the loans-for-shares program – made Putin’s assault on these oligarchs easy.<sup>8</sup>

Three negative trends gained momentum regarding the relationship between the state and the economy under Putin. First, Putin continued to redistribute property rights, away from the 1990s-era “oligarchs” considered too independent and towards Putin’s loyalists from the KGB and his St. Petersburg friends. Only a small handful of major businesspeople from the 1990s remain active in Russia today. Regarding state-owned enterprises, Putin put his people in charge. Putin loyalists now run Russia’s largest oil and gas companies, Rosneft and Gazprom; Russia’s largest military industrial conglomerate, Rostec; Russia’s major energy transportation company, Transneft; Russia’s immense rail transport monopoly, Russian Railways; and Russia’s largest banks.<sup>9</sup> As Anders Aslund has observed, “Each big state enterprise is managed by a close associate of Putin, and the top state managers are subordinate to the president rather than the state.”<sup>10</sup> Putin also gave his

friends easy ways to make money, including the right to sell Russian energy abroad, exclusive access to government construction contracts, or permission to create the only independent gas production company, Novatek, as a competitor to Gazprom. And as a reminder to prevent anyone from veering from Kremlin's system of rule and wealth distribution, the Putin regime has occasionally jailed additional oligarchs in schemes that parallel the Khodorkovsky arrest.<sup>11</sup> Putin and his aides also have provided government contracts, licenses, and investment opportunities to those considered loyal to the Kremlin. In addition, major private sector transactions must obtain state approval to move forward. Anders Aslund explains, "At the highest levels, Kremlin interference is overwhelming. All business deals over \$1 billion have to be confirmed with the Kremlin ..."<sup>12</sup>

Second, Putin and his proxies have considerably reduced the size of Russia's private sector and increased the role of the state in the economy. In 2003, the private sector produced 70 percent of Russian GDP. Today, although estimates vary, that percentage has fallen dramatically.<sup>13</sup> By one assessment, "[b]y mid-2015, about 55 percent of the Russian economy was in state hands, with 20 million workers directly employed by the government, equal to 28 percent of the workforce."<sup>14</sup> The following year, the World Bank estimated that the percentage had grown to 60 percent,<sup>15</sup> while others estimate the percentage to be closer to 46 percent.<sup>16</sup> All agree, however, that the pernicious role of the state in the economy has grown substantially under Putin. High profile nationalizations (or de-privatizations), such as the seizure of the oil company Bashneft in 2014, or the arrest of billionaire Ziyavudin Magomedov, underscore the fragility of private property rights a quarter of a century after the end of communism.<sup>17</sup> Earlier this year, one of America's most successful investors in Russia, Michael Calvey, was arrested under very mysterious circumstances allegedly involving a property rights dispute.

Third, the rule of law protecting property – never strong in post-communist Russia – has weakened even further under Putin's leadership. Overall, the Russian courts system has a reputation for being corrupt and easily manipulated for political ends. The selective application of the law – for example, why did Khodorkovsky go to jail, but oligarchs did not? – creates incentives to develop personal ties with Putin as the only rational strategy for preserving control over one's wealth. Russia's arbitration or economic courts used to be considered more independent than other courts, but their merger into the general system of courts in 2014 has decreased private access to the rule of law even further.

Not surprisingly, increased state ownership in the economy, a major redistribution of property rights guided by political motivation rather than profit maximization, and a growing system of patronage and corruption more generally has not fostered economic growth. The state's growing and corrupt role in the economy has stifled innovation, foreign investment, entrepreneurship and productivity, as well as substantially reduced the value of Russian companies still owned by the state or renationalized during the Putin era. For instance, in May 2008, Gazprom had a market valuation of \$ 369 billion, making it one of

the most valuable publicly traded companies in the world.<sup>18</sup> But just ten years later, Gazprom was valued by Forbes at \$57.8 billion.<sup>19</sup> As former Finance Minister Alexei Kudrin lamented, “In our country the state dominates everything, so you have to start with reforming the state.”<sup>20</sup> Since Putin’s reelection in 2018, however, there are few signs of a Kremlin commitment to reforming the state.

Putin has grown the role of the state over the economy not only to enrich his friends, KGB comrades, and cronies, but also to entrench his leadership in Russia. Handing out these economic rents arbitrarily helps Putin govern Russia. Putin chooses who gets to be rich. Those chosen, in turn, remain completely dependent on Putin and his inner circle for their fortunes. By handing out lucrative contracts, valuable companies, and opportunities for corruption, Putin has strengthened everyone’s dependence on him.

However, it is important to underscore that Putin and his government do not control all private sector activity in Russia. Some of Russia’s major private enterprises, such as the Severstal steel company or the search engine company Yandex, maintain friendly relations with the Kremlin and do not appear to be controlled by, nor acting as agents of, the state. Pockets of private sector activity and real entrepreneurship still exist in Russia today. Likewise, Putin does not get involved directly in the control of medium and small businesses. Local governments and regional intelligence agents (the FSB) constitute the main obstacles to independent, private enterprise, sometimes acting in accordance with Kremlin preferences and sometimes not.

### **Wagging the Dog: The Importance of Foreign Enemies for Domestic Control**

To explain Russia’s economic woes, Putin deploys familiar populist slogans in blaming oligarchs and siding with the neglected working class. Like many other populists in Europe, Putin also invokes the goodness of people in the countryside and the corruptness of urban elites. Putin even claims to champion the fight against corruption. Although difficult to measure accurately given the naturally constraining conditions of an autocratic regime, national surveys and social science experiments do suggest that Putin is popular.<sup>21</sup> Raging against the ruling elites, however, has its limits as a mobilizing strategy for a leader who has been in power for twenty years and has enriched the very oligarchs he claims to despise.<sup>22</sup> Putin is most vulnerable on the issue of corruption. Russian opposition figure Boris Nemtsov and his allies published several reports exposing the Kremlin’s and Putin’s corruption, which some argue prompted Nemtsov’s assassination in February 2015. Today, Putin’s most successful political opponent – Alexey Navalny – has focused his investigative efforts on exposing corruption within Russia’s ruling elite.

To distract from the issues of domestic corruption, lagging growth, and economic inequality, Putin has constructed a narrative that draws attention to foreign adversaries, blaming the United States first and foremost for Russia’s lackluster economic performance. According to Putin, the American deep state has enacted draconian sanctions against Russia and pressured others in Europe to follow suit. These powerful shadowy forces

within the American government and ruling elite more broadly have thwarted Trump's efforts to lift sanctions. Moreover, as Putin explains it, these Western sanctions against Russia are not punishment for belligerent Russian behavior in Ukraine, Syria, or the United States, but were designed consciously to weaken Russia and ultimately foment regime change. Survey data suggest that this demonization of the American deep state as the cause for Russian economic woes worked initially when economic sanctions were first imposed in 2014, but is now fading. Dramatic drops in Putin's favorability ratings in the first months of 2019, his lowest in a decade, have the Kremlin worried that the "blame America" narrative might have a finite shelf life.<sup>23</sup>

## II. Exporting "Putinism"

While developing his set of autocratic, illiberal, and conservative ideas for ruling Russia and disrupting the international liberal order, Putin also created a suite of instruments both to propagate his ideology and system of government abroad, and to weaken his ideological adversaries around the world, particularly those in the West who support liberal, democratic norms. Putin pursues these dual ideological objectives – promoting his conservative, nativist, autocratic ideas and attacking liberal democracy – at the same time. Today, Putin and his entourage proudly claim that "Putinism" has appeal beyond Russia's borders. As Putin aide Vladislav Surkov wrote earlier this year, it is "an ideology of the future" ... a "political system created in Russia [which] is suitable not only for the national future, but it has a significant export potential; there is already demand on it and on some of its components; its experience is already being examined and adopted; both people in power and opposition groups in many countries imitate it."<sup>24</sup> To export these ideas, Putin has deployed several strategies.

First, Putin and his government invested heavily in international media. Putin quickly understood the importance of controlling the media to maintain his rule at home and has subsequently expanded this instrument of influence abroad. In the Russian-speaking world, particularly in countries that gained independence following the Soviet Union's collapse, the Kremlin devoted massive resources to maintain and extend the reach of Kremlin-controlled television networks, radio, and other media. To propagate "Putinism" throughout the rest of the world, the Kremlin in 2005 created the media company Russia Today, later renamed RT. With an annual budget of over \$300 million,<sup>25</sup> RT now broadcasts in six languages and claims to be the most-watched media company on YouTube with nearly 3 billion views (of which 1.5 billion are from its flagship English-language channel).<sup>26</sup> In the United States, RT claims to reach 85 million households through cable bundles.<sup>27</sup> In 2014, the Kremlin also merged Voice of Russia Moscow and Ria Novosti to create Sputnik International, a multimedia platform operating worldwide to provide "alternative news" to Western sources.<sup>28</sup> These state-controlled Russian

organizations are also active on all social media platforms. RT has claimed special success in using YouTube to propagate their content.<sup>29</sup> Both RT and Sputnik actively seek to shape American public opinion, including during the 2016 presidential election. When Sputnik tweeted #CrookedHillary, the Kremlin's electoral preferences were rather obvious.

Second, Putin and his proxies set up organizations, fake identities, and bots to influence public opinion on non-Russian social media platforms around the world, but especially in the West.<sup>30</sup> The aim of these actors includes advancing the ideas of "Putinism" and exacerbating disputes, disruptions, and polarization within countries considered hostile to Putin. The most notorious of these parastatal entities is the Internet Research Agency (IRA). Created in 2013 by Putin's close associate Yevgeny Prigozhin, the IRA engages in political and electoral interference operations by creating thousands of fake accounts on various social networks to promote its agenda and objectives. As documented in Robert Mueller's indictment of 13 Russians and 3 companies involved in interfering in the 2016 presidential election:

Defendants, posing as U.S. persons and creating false U.S. personas, operated social media pages and groups designed to attract U.S. audiences. These groups and pages, which addressed divisive U.S. political and social issues, falsely claimed to be controlled by U.S. activists when, in fact, they were controlled by Defendants. Defendants also used the stolen identities of real U.S. persons to post on ORGANIZATION-controlled social media accounts. Over time, these social media accounts became Defendants' means to reach significant numbers of Americans for purposes of interfering with the U.S. political system, including the presidential election of 2016.<sup>31</sup>

According to this same indictment, "The ORGANIZATION employed hundreds of individuals for its online operations, ranging from creators of fictitious personas to technical and administrative support. The ORGANIZATION's annual budget totaled the equivalent of millions of U.S. dollars."<sup>32</sup> The goal of the IRA "troll factory" was to sow discord in the U.S. political system, including during the 2016 U.S. presidential election.<sup>33</sup> But the mandate of IRA, as well as similar entities that are less well-known, extends well beyond the United States.

Third, Putin has deployed his intelligence agencies to steal information from foes and then publish this information in ways to weaken his enemies, be they individuals or nation-states. These techniques have been deployed actively in Ukraine. But the most audacious and impactful use of this technique – doxing – occurred in the 2016 U.S. presidential elections, when Russian military intelligence agents stole data from the Democratic National Committee and John Podesta and then used third-party digital organizations, including WikiLeaks, Guccifer 2.0, and DCLeaks, to publish this

information.<sup>34</sup> The overall aim of this operation was to undermine Hillary Clinton, and thereby strengthen Donald Trump.

Fourth, the Kremlin actively cultivates direct contacts and ongoing relationships with NGOs, political parties, religious groups, and individual politicians sympathetic to “Putinism”. Sometimes, these operations of influence focus on engagement, including invitations and scholarships to Russia, the creation of Russia Houses in other countries, and the organization of conferences. More aggressive forms of influence peddling include direct financial contributions to like-minded politicians, be it President Viktor Yanukovich in Ukraine (before his ouster in 2014), Marine Le Pen in France during her presidential campaign in 2017, or allegedly an attempt to support Deputy Prime Minister Matteo Salvini in Italy to underwrite the participation of like-minded politicians in the upcoming European elections.<sup>35</sup> Putin himself has invested in nurturing personal relationships with many European sympathizers, including Prime Minister Viktor Orbán in Hungary, Le Pen in France, Brexit champion Nigel Farage in the United Kingdom, Geert Wilders in the Netherlands, Prime Minister Andrej Babiš in the Czech Republic, and Salvini in Italy.<sup>36</sup> The rise of these populist leaders throughout Europe has fostered a perception of a growing, coordinated, populist, nativist, global movement – an illiberal international – with Putin as its spiritual anchor. This perception in turn has helped Putin win new allies and sympathizers in other countries, including the United States.

Fifth, in parallel with Putin’s use of money, corruption, and property rights as instruments for governing inside Russia, the Russian government instructs its economic actors to make deals with foreign entities to establish increased leverage and influence within these countries.<sup>37</sup> The use of these economic incentives and operations can be highly cooperative and coercive, as laundering money, for example, can be lucrative for partnering entities in the West, but also blackmailing. Gazprom, for instance, does not seek to maximize profits for its shareholders; its mission is to instead advance the Kremlin’s foreign policy interests throughout the world, but especially in Europe. The construction of Nord Stream II pipeline serves primarily to weaken Ukraine and less to achieve profit maximization. Rosneft’s investments in Venezuela also serve Putin foreign policy objectives. Most, if not all, of Russian state-owned enterprises function to varying degrees as instruments of Putin’s foreign policy objectives. However, not all Russian private companies investing and trading abroad should be considered Kremlin agents. Untangling the difference is an important subject that demands further investigation from both the U.S. intelligence community and academia.

Sixth and most rarely, Putin has mobilized soldiers – regular conscripts as well as “volunteers” – to export “Putinism” by force. Russia’s annexation of Crimea in 2014 and military support for separatists in the Donbass are the most dramatic use of this instrument of ideological transnationalism. Public opinion polling is highly constrained in these occupied territories, but most residents in Crimea do appear to have embraced “Putinism”; results in the Donbass seem to be more mixed.



### **III. Lifting Sanctions:**

#### **A Putin Priority after the 2016 Presidential Election**

Years before the 2016 presidential election, Putin already had devoted significant resources to courting ideological allies in the United States, be it through engagement with evangelical religious organizations, the National Rifle Association, or alt-right polemicists. Furthermore, RT and Sputnik began establishing large operations in the United States and devoting major resources towards increasing their presence on American social media platforms, including Twitter, Facebook, Instagram, and YouTube. In the run-up to the 2016 presidential election, however, Putin greenlighted a much more aggressive campaign to influence voter preferences in favor of Donald Trump and against Hillary Clinton, but also more generally to exacerbate polarization in American society.<sup>38</sup> As has now been well documented, this multi-pronged Russian intervention included (1) the theft and publication of damaging materials from the Democratic National Committee and Clinton campaign chair, John Podesta; (2) active media campaigns run by RT and Sputnik in favor of Trump; (3) social media operations, including fake accounts, and purchases of advertisements; (4) the offer of compromising materials on Clinton to the Trump campaign; and (5) penetration into the electoral infrastructure in twenty-one states.<sup>39</sup>

Revenge, in part, motivated Putin. He and his allies believed that the United States had been interfering in Russian elections for decades. In February 2018, the Federation Council – the upper house of Russia’s parliament – published a report on “the protection of state sovereignty and prevention of the interference in the internal affairs of the Russian Federation.” The report asserted that the United States had provided funding to Russian civil society organizations, think tanks, NGOs, journalists, and individual activists as a means to divide Russian society and undermine Russian sovereignty from within.<sup>40</sup> Putin was most upset with alleged American intervention in Russia’s 2011 parliamentary and 2012 presidential election. Putin blamed Hillary Clinton personally for sending a signal to demonstrators to come to the streets and protest the falsification uncovered in the December 2012 parliamentary elections.<sup>41</sup> Putin also seemed to harbor personal animosity towards the former American Secretary of State. As Clinton wrote in her latest memoir, “Our relationship has been sour for a long time.”<sup>42</sup> Most certainly, Clinton was Putin’s ideological foe: she espoused the exact brand of liberal internationalism that Putin despised. When Clinton emerged as a candidate in the 2012 presidential election, Putin seized the opportunity to try to weaken her.

In addition, Putin wanted Trump to win in order to achieve some very concrete Russian foreign policy objectives. In 2016, candidate Trump expressed some policy positions that Putin also endorsed. For instance, candidate Trump pledged to look into

lifting sanctions and recognizing Crimea as part of the Russian Federation.<sup>43</sup> Trump campaign representatives tried to change the Republican Party platform to eliminate support for lethal weapons for Ukraine. Furthermore, candidate Trump frequently criticized the NATO alliance, while never uttering a word about democracy and human rights. Trump also praised Putin personally.<sup>44</sup> More generally, Trump attacked many tenets of the liberal international order that are regularly criticized by Putin as well. Two years after the election, when asked directly if he wanted Trump to win in 2016, Putin answered very logically, “Yes. I wanted him to win”.<sup>45</sup>

Of all these foreign policy issues, lifting sanctions on Russian individuals and companies seemed most salient and obtainable for the Kremlin. Breaking up NATO or recognizing Crimea as part of Russia were heavy lifts, but the U.S. president had considerable leeway and authority to eliminate sanctions on Russian individuals and companies.<sup>46</sup> Even before Trump was sworn in as president, Russian officials engaged in multiple conversations with Trump campaign and transition officials on the issue of sanctions. On June 9, 2016, Russian lawyer Nataliya Veselnitskaya headed a Russian delegation to meet with Trump campaign officials to discuss sanctions relief in return for *kompromat* on candidate Clinton.<sup>47</sup> During the campaign, senior officials in the Trump Organization also were pursuing the possibility of building a Trump Tower in Moscow.<sup>48</sup> The Russian state-owned bank, VTB, was proposed as the main financier of the project, but VTB at the time was on the U.S. sanctions list; sanctions would have to be lifted for this deal to proceed. After the election but before the presidential inauguration, Trump’s senior campaign advisor and subsequent first National Security Advisor, Michael Flynn, also had conversations with Sergey Kislyak, Russia’s ambassador to the United States, about sanctions.<sup>49</sup> Moreover, during the transition, the president’s son-in-law, Jared Kushner, met with the sanctioned VEB bank chairman, Sergey Gorkov.<sup>50</sup> Although the content of that meeting remains unknown, it would be hard to believe that the subject of sanctions relief for VEB and other Russian companies was not part of the conversation. Because the Trump administration has provided few substantive details about President’s Trump meetings with Putin and Foreign Minister Sergey Lavrov over the last two years, we know little about current negotiations regarding lifting of sanctions. Curiously, President Trump never criticizes President Putin. And Putin, while constantly criticizing the American deep state and foreign policy elite for the current negative state of U.S.-Russia relations, never criticizes President Trump personally.

Putin has been seeking sanctions relief for good reason. Many of his closest associates are now on the U.S. sanctions list, a circumstance that Putin has lamented as a violation of the human rights of his friends. Sanctions implemented by the United States, Europe, and other countries following Russia’s 2014 intervention in Ukraine continue to negatively impact the Russian economy. Starting in the third quarter of 2014, the Russian economy

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contracted for nine quarters; sanctions contributed to this decline.<sup>51</sup> By some estimates, sanctions were responsible for 1.5% of GDP contraction in 2014.<sup>52</sup> Others assess that the impact of sanctions, independent of falling oil prices, was as much as 2-2.5% for the first few years after Russia's intervention in Ukraine.<sup>53</sup> Most recently, analysts from Bloomberg Economics have estimated that Western sanctions have reduced the Russian economy by as much as 6% since 2014.<sup>54</sup> Hardest hit were Russian companies and banks seeking to raise capital on international markets. In turn, according to the EBRD's chief economist, Sergey Guriev, "Russia's inability to borrow has led to a dramatic depreciation of the ruble and a fall in real incomes and wages."<sup>55</sup> Capital outflows had been steady for years and then accelerated after sanctions, jumping from \$61 billion in 2013 to \$151.5 billion in 2014.<sup>56</sup> In the wake of sanctions, foreign direct investment also slowed, though numbers are now moving slowly in positive direction again. Several plans for future investment have been cancelled, including most dramatically Exxon-Mobile's decision to suspend its joint investment projects with Rosneft, at one time estimated to total \$500 billion. Other potential foreign investments that did not occur because of sanctions are harder to track – as it is difficult to measure a non-event – but anecdotally, Western investors and companies doing business in Russia have stated publicly and privately that uncertainty about future sanctions has squelched interest in attracting new investors to the Russian market.

In response to these losses, Putin has not changed his foreign policy behavior, but is instead waiting for a change in power (and sometimes helping that change in power) in those countries that have implemented sanctions. Putin has remained hopeful that his growing number of allies in Europe and the United States will undermine consensus around the sanctions, and in the name of rapprochement in Russia, reverse course. Statements by President Trump have continued to fuel that hope.

## Endnotes

<sup>1</sup> Michael McFaul is the Ken Olivier and Angela Nomellini Professor of International Studies in Political Science, Director and Senior Fellow at the Freeman Spogli Institute for International Studies, and the Peter and Helen Bing Senior Fellow at the Hoover Institution, all at Stanford University. McFaul served for five years in the Obama administration, first as Special Assistant to the President and Senior Director for Russian and Eurasian Affairs at the National Security Council at the White House (2009-2012), and then as U.S. Ambassador to the Russian Federation (2012-2014). His most recent book, a *New York Times* bestseller, is *From Cold War to Hot Peace: An American Ambassador in Putin's Russia*.

<sup>2</sup> M. Steven Fish, *Democracy Derailed in Russia: The Failure of Open Politics* (Cambridge: Cambridge University, 2005). M. Steven Fish, "What Has Russia Become?" *Comparative Politics* 50, no. 3 (April 2018): 327-346. Fish defines this regime as a "conservative populist autocracy."

<sup>3</sup> Gleb Bryanski, "Russia's Putin signs anti-protest law before rally," *Reuters*, June 8, 2012, <http://www.reuters.com/article/us-russia-protests-idUSBRE8570ZH20120608>. Dozhd tv was pushed off the air.

<sup>4</sup> Владимир Федоренко, "В 'стоп-лист' НКО вошли Фонд Сороса и Всемирный конгресс украинцев," *Риа Новосту*, July 7, 2015, <https://ria.ru/society/20150707/1118850670.html>.

<sup>5</sup> "Putin Makes Critical News Criminal," *Committee to Investigate Russia*, March 19, 2019, <https://investigaterussia.org/media/2019-03-18/putin-makes-critical-news-criminal>.

<sup>6</sup> Andrei Soldatov and Irina Borogan, *The New Nobility: The Restoration of Russia's Security State and the Enduring Legacy of the KGB* (New York: Public Affairs, 2010).

<sup>7</sup> Chris Miller, *Putinomics: Power and Money in Resurgent Russia* (Durham: The University of North Carolina Press, 2018).

<sup>8</sup> Michael McFaul, "Choosing Autocracy: Revolution, Institutional Inertia, and Actors in the Erosion of Russian Democracy," *Comparative Politics* 50, no. 3 (Spring 2018): 305-325.

<sup>9</sup> Sergey Aleksashenko, *Putin's Counterrevolution* (Washington: Brookings Institution Press, 2018).

<sup>10</sup> Anders Aslund, *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy* (New Haven: Yale University Press, forthcoming May 2019), 100.

<sup>11</sup> "Russia Yevtushenkov arrest prompts Sistema share dive," *BBC News*, September 17, 2014, <https://www.bbc.com/news/world-europe-29234553>. Polina Nikolskaya and Gabrielle Tetrault-Farber, "Russian tycoon Magomedov arrested on embezzlement charges," *Reuters*, March 31, 2018, <https://www.reuters.com/article/us-russia-summa-corruption/russian-tycoon-magomedov-arrested-on-embezzlement-charges-idUSKBN1H70A2>.

<sup>12</sup> Anders Aslund, *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy* (New Haven: Yale University Press, forthcoming May 2019), 34.

<sup>13</sup> For a comprehensive discussion of the issue, see Marco Arena, Alexander Culiuc, Gabriel Di Bella, Oksana Dynnikova, Slavi Slavov, and Marzie Taheri Sanjani, "IMF Country Report No. 18/276: Russian Federation: Selected Issues," *International Monetary Fund*, September 2018. This IMF report estimates that the state accounts for a third of Russia's GDP and 40% of the formal sector.

- <sup>14</sup> Simeon Djankov, "Policy Brief PB15-18: Russia's Economy under Putin: From Crony Capitalism to State Capitalism," *Peterson Institute for International Economics*, September 2015, <https://piie.com/publications/policy-briefs/russias-economy-under-putin-crony-capitalism-state-capitalism>.
- <sup>15</sup> Apurva Sanghi, "Russia Monthly Economic Developments," *The World Bank*, accessed March 2019, <http://www.worldbank.org/en/country/russia/brief/monthly-economic-developments>.
- <sup>16</sup> This number comes from a team of researchers headed by Alexander Radygin and Alexei Kudrin, quoted from Anders Aslund, *Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy* (New Haven: Yale University Press, forthcoming May 2019), 98.
- <sup>17</sup> "Russia Yevtushenkov arrest prompts Sistema share dive," *BBC News*, September 17, 2014, <https://www.bbc.com/news/world-europe-29234553>. Polina Nikolskaya and Gabrielle Tetrault-Farber, "Russian tycoon Magomedov arrested on embezzlement charges," *Reuters*, March 31, 2018, <https://www.reuters.com/article/us-russia-summa-corruption/russian-tycoon-magomedov-arrested-on-embezzlement-charges-idUSKBN1H70A2>.
- <sup>18</sup> Justin Burke, "How Russian energy giant Gazprom lost \$300bn," *The Guardian*, August 7, 2015, <https://www.theguardian.com/world/2015/aug/07/gazprom-oil-company-share-price-collapse>.
- <sup>19</sup> "#43 Gazprom," *Forbes*, accessed March 2019, <https://www.forbes.com/companies/gazprom/#75f6d7017ec8>.
- <sup>20</sup> "Alexei Kudrin Wants to liberalise Russia's economy to save it," *The Economist*, accessed April 18, 2017, <http://www.economist.com/news/europe/21715022-donald-trumps-election-many-russians-think-putins-model-winning-alexei-kudrin-wants>.
- <sup>21</sup> Timothy Frye, Scott Gehlbach, Kyle L. Marquardt, and Ora John Reuter, "Is Putin's Popularity Real?" *Post-Soviet Affairs* 33, no. 1 (2017): 1-15. Samuel A. Greene and Graeme B. Robertson, *Putin v. People: The Perilous Politics of a Divided Russia* (New Haven: Yale University Press, 2019).
- <sup>22</sup> Karen Dawisha, *Putin's Kleptocracy: Who Owns Russia?* (New York: Simon and Schuster, 2015).
- <sup>23</sup> A VTsIOM poll released in January 2019 measured the level of trust in Putin at 33%, see <https://www.rferl.org/a/latest-poll-results-say-trust-in-putin-down-to-historic-low/29810775.html>. The independent Levada Center also captured a major decline in his approval ratings over the last several months, see <https://www.levada.ru/indikatory/>.
- <sup>24</sup> Vladislav Surkov, "Vladislav Surkov: Putin's Long State," *независимая*, February 2, 2019, [http://www.ng.ru/ideas/2019-02-11/5\\_7503\\_surkov.html?print=Y](http://www.ng.ru/ideas/2019-02-11/5_7503_surkov.html?print=Y).
- <sup>25</sup> "RT's 2016 budget announced, down from 2015, MSM too stumped to spin?" *RT*, last modified May 4, 2016, <https://www.rt.com/op-edge/318181-rt-budget-down-msm>.
- <sup>26</sup> "RT's 2016 budget announced, down from 2015, MSM too stumped to spin?" *RT*, last modified May 4, 2016, <https://www.rt.com/op-edge/318181-rt-budget-down-msm>.
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- <sup>28</sup> Eric Westervelt, "How Russia Weaponized Social Media With 'Social Bots'", *NPR*, November 5, 2017, <https://www.npr.org/2017/11/05/562058208/how-russia-weaponized-social-media-with-social-bots>.
- <sup>29</sup> For an evaluation, see Robert W. Orttung and Elizabeth Nelson, "Russia Today's strategy and effectiveness on YouTube," *Post-Soviet Affairs* 35, no. 2 (2019): 77-92.

<sup>30</sup> For details, see the work of the Alliance for Securing Democracy, <https://securingdemocracy.gmfus.org>.

<sup>31</sup> “Indictment, Case 1:18-cr-00032-DLF, Document 1, Filed 02/16/18,” *The United States Department of Justice*, <https://www.justice.gov/file/1035477/download>.

<sup>32</sup> “Indictment, Case 1:18-cr-00032-DLF, Document 1, Filed 02/16/18,” *The United States Department of Justice*, <https://www.justice.gov/file/1035477/download>.

<sup>33</sup> Joshua A. Tucker, “Heads will Troll: An analysis of links shared by IRA Twitter accounts,” March 2019, [https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/memo\\_tucker\\_global\\_populisms\\_final.pdf](https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/memo_tucker_global_populisms_final.pdf). Sergey Sanovich, “Russia: The Origins of Digital Misinformation,” in *Computational Propaganda: Political Parties, Politicians, and Political Manipulation on Social Media*, eds. Samuel C. Woolley and Philip N. Howard (Oxford: Oxford University Press, 2019), 21-40. Joshua A. Tucker, Yannis Theocharis, Margaret E. Roberts, and Pablo Barberá, “From Liberation to Turmoil: Social Media and Democracy,” *Journal of Democracy* 28, no. 4 (October 2017): 46-59.

<sup>34</sup> “Background to ‘Assessing Russian Activities and Intentions in Recent US Elections’: The Analytic Process and Cyber Incident Attribution,” *Office of the Director of National Intelligence*, January 6, 2017, [https://www.dni.gov/files/documents/ICA\\_2017\\_01.pdf](https://www.dni.gov/files/documents/ICA_2017_01.pdf).

<sup>35</sup> Barbie Latza Nadeau, “An Italian Expose Documents Moscow Money Allegedly Funding Italy’s Far-Right Salvini,” *The Daily Beast*, February 22, 2019, <https://www.thedailybeast.com/an-italian-expose-documents-moscow-money-allegedly-funding-italys-far-right-salvini>. Once exposed, Salvini subsequently rejected Putin’s financial assistance. Leonid Bershidsky, “Putin Can’t Get Europe’s Nationalists to Bite,” *Bloomberg*, February 25, 2019, <https://www.bloomberg.com/opinion/articles/2019-02-25/vladimir-putin-can-t-get-matteo-salvini-to-take-his-money>.

<sup>36</sup> Franklin Foer, “It’s Putin’s World,” *The Atlantic*, March 2017, [https://www.theatlantic.com/magazine/archive/2017/03/its-putins-world/513848/?utm\\_source=atlw](https://www.theatlantic.com/magazine/archive/2017/03/its-putins-world/513848/?utm_source=atlw).

<sup>37</sup> Heather A. Conley, James Mina, Ruslan Stefanov, and Martin Vladimirov, *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe* (Center for Strategic & International Studies, 2016).

<sup>38</sup> Evidence revealing Putin’s direct involvement in green lighting this campaign has not been discovered. It is my assessment of Russian decision-making today that a decision to violate American sovereignty so blatantly could not have been made without Putin’s approval.

<sup>39</sup> “Written testimony of I&A Cyber Division Acting Director Dr. Samuel Liles, and NPPD Acting Deputy Under Secretary for Cybersecurity and Communications Jeanette Manfra for a Senate Select Committee on Intelligence hearing titled ‘Russian Interference in the 2016 U.S. Elections,’” *The Department of Homeland Security*, last modified March 27, 2018, <https://www.dhs.gov/news/2017/06/21/written-testimony-ia-cyber-division-acting-director-dr-samuel-liles-and-nppd-acting>. For details of the entire Russian campaign, see Greg Miller, *The Apprentice: Trump, Russia and the Subversion of American Democracy* (Custom House, 2018). Kathleen Hall Jamieson, *Cyberwar: How Russian Hackers and Trolls Helped Elect a President* (Oxford: Oxford University Press, 2018). Malcolm Nance, *The Plot to Destroy Democracy: How Putin and His Spies Are Undermining America and Dismantling the West* (New York: Hachette Books, 2018) and Michael Isikoff and David Corn, *Russian Roulette: The Inside Story of Putin's War on America and the Election of Donald Trump* (New York: Twelve, 2018).

<sup>40</sup> “Временная комиссия Совета Федерации по защите государственного суверенитета и предотвращению вмешательства во внутренние дела Российской Федерации,” Совет Федерации Федерального Собрания Российской Федерации, accessed March 2019, [http://council.gov.ru/structure/commissions/iccf\\_def/#plans](http://council.gov.ru/structure/commissions/iccf_def/#plans).

<sup>41</sup> Michael McFaul, “The Arab Spring, Libya, and the Beginning of the End of the Reset,” in *From Cold War to Hot Peace: An American Ambassador in Putin’s Russia* (New York: Houghton Mifflin Harcourt, 2018), 205-227.

<sup>42</sup> Hillary Rodham Clinton, *What Happened* (New York: Simon & Schuster, 2017), 327.

<sup>43</sup> Tyler Pager, “Trump to look at recognizing Crimea as Russian territory, lifting sanctions,” *Politico*, July 27, 2016, <https://www.politico.com/story/2016/07/trump-crimea-sanctions-russia-226292>.

<sup>44</sup> Jeremy Diamond, “Timeline: Donald Trump's praise for Vladimir Putin,” *CNN*, July 29, 2016, <http://www.cnn.com/2016/07/28/politics/donald-trump-vladimir-putin-quotes/index.html>. Andrew Kaczynski, Chris Massie, and Nathan McDermott, “80 Times Trump Talked about Putin,” *CNN*, accessed March 2017, <http://www.cnn.com/interactive/2017/03/politics/trump-putin-russia-timeline/>.

<sup>45</sup> “Пресс-конференция по итогам переговоров президентов России и США,” президент россии, July 16, 2018, <http://kremlin.ru/events/president/news/58017>.

<sup>46</sup> Subsequently, the passage of the 2017 Countering America's Adversaries Through Sanctions Act (CAATSA) has made the lifting of sanctions harder, but not impossible, as the successful campaign by Oleg Deripaska to lift sanctions on his companies earlier this year has demonstrated.

<sup>47</sup> Jo Becker, Adam Goldman, and Matt Apuzzo, “Russian Dirt on Clinton? ‘I Love It,’ Donald Trump Jr. Said,” *New York Times*, July 11, 2017, <https://www.nytimes.com/2017/07/11/us/politics/trump-russia-email-clinton.html>. Any compromising material that Veselnitskaya might have had to offer would have been provided to her by the Russian intelligence services.

<sup>48</sup> Jason Leopold and Anthony Cormier, “Trump Moscow: The Definitive Story Of How Trump’s Team Worked The Russian Deal During The Campaign,” *Buzzfeed News*, May 17, 2018, <https://www.buzzfeednews.com/article/anthonymormier/trump-moscow-micheal-cohen-felix-sater-campaign>. Anthony Cormier and Jason Leopold, “The Trump Organization Planned To Give Vladimir Putin The \$50 Million Penthouse In Trump Tower Moscow,” *Buzzfeed News*, November 29, 2018, <https://www.buzzfeednews.com/article/anthonymormier/the-trump-organization-planned-to-give-vladimir-putin-the>.

<sup>49</sup> Greg Miller, “The Russian Ambassador,” in *The Apprentice: Trump, Russia and the Subversion of American Democracy* (Custom House, 2018).

<sup>50</sup> Matthew Rosenberg, Mark Mazzetti, and Maggie Haberman, “Investigation Turns to Kushner’s Motives in Meeting with a Putin Ally,” *New York Times*, May 29, 2017, <https://www.nytimes.com/2017/05/29/us/politics/jared-kushner-russia-investigation.html>. Rosalind S. Helderman, Carol D. Leonnig, and Tom Hamburger, “Top Trump Organization executive asked Putin Aide for help on business deal,” *The Washington Post*, August 28, 2017, [https://www.washingtonpost.com/politics/top-trump-organization-executive-reached-out-to-putin-aide-for-help-on-business-deal/2017/08/28/095aebac-8c16-11e7-84c0-02cc069f2c37\\_story.html?utm\\_term=.cf491edf7346](https://www.washingtonpost.com/politics/top-trump-organization-executive-reached-out-to-putin-aide-for-help-on-business-deal/2017/08/28/095aebac-8c16-11e7-84c0-02cc069f2c37_story.html?utm_term=.cf491edf7346).

<sup>51</sup> “Modest Growth Ahead: Russia Economic Report, Edition No. 39,” *World Bank Group*, May 2018, <http://pubdocs.worldbank.org/en/162681527086868170/RER-39-Eng.pdf>.

<sup>52</sup> Isolating the independent causal impact of sanctions is difficult to measure, especially when energy prices were simultaneously declining. One and a half percent is a conservative estimate suggested by Russia's own Prime Minister, Dmitry Medvedev. "Russian economy shrinks 2% as sanctions bite – Medvedev," *BBC News*, April 21, 2015, <https://www.bbc.com/news/world-europe-32396792>. "IMF Country Report No. 15/211: Russian Federation: 2015 Article IV Consultation—Press Release; and Staff Report," *International Monetary Fund*, August 2015, <https://www.imf.org/external/pubs/ft/scr/2015/cr15211.pdf>. According to this report, the IMF estimates "sanctions and counter-sanctions could initially reduce real GDP by 1 to 1½ percent. Prolonged sanctions, could lead to a cumulative output loss over the medium term of up to 9 percent of GDP."

<sup>53</sup> Евсей Гурвич, "Как правильно и как неправильно отвечать на санкции," *Vedomosti*, May 16, 2018, <https://www.vedomosti.ru/opinion/articles/2018/05/16/769605-otvechat-sanktsii>. For a comprehensive assessment of the economic and political consequences of sanctions against Russia, see Nigel Gould-Davies, "BOFIT Policy Brief No.8: Economic effects and political impacts: Assessing Western sanctions on Russia," *Bank of Finland*, August 2018, <https://helda.helsinki.fi/bof/bitstream/handle/123456789/15832/bpb0818.pdf?sequence=1&isAllowed=y>.

<sup>54</sup> Natasha Doff, "Russia Still Paying Price for Crimea Five Years After Annexation," *Bloomberg*, last modified March 17, 2019, <https://www.bloomberg.com/news/articles/2019-03-17/russia-still-paying-price-for-crimea-five-years-after-annexation>.

<sup>55</sup> Sergei Guriev, "Russia's Constrained Economy: How the Kremlin Can Spur Growth," *Foreign Affairs*, May/June 2016, <https://www.foreignaffairs.com/articles/russia-fsu/2016-04-18/russias-constrained-economy>.

<sup>56</sup> Jason Bush and Alexander Winning, "UPDATE 1-Russia's capital outflows reach record \$151.5 bln in 2014 as sanctions, oil slump hit," *Reuters*, January 16, 2015, <https://www.reuters.com/article/russia-capital-outflows-idUSL6N0UV3S320150116>.