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EXECUTIVE INTELLIGENCE BRIEF

EXECUTIVE HIGHLIGHTS

The April edition of the *Executive Intelligence Brief* presents the following in-depth, strategic analyses:

CHINA MONTHLY REPORT

Beijing's recent efforts to shore up economic growth appear to be bearing fruit, as various indicators point to an improved outlook in manufacturing and services and an easing of deflationary pressures in March. If signs of stabilization are sustained, the authorities could see less need for additional monetary relaxation over the coming months.

RUSSIA/PUTIN PLAYBOOK

President Putin aims to ensure that the West treats Russia as a great power. His interventions in Syria and Ukraine have aroused Russian patriotism, providing an analgesic for the blow to living standards inflicted by economic sanctions and low oil prices. Putin, seen as the redeemer of Crimea, is still riding high in opinion polls, but popular disaffection with and protests against his government have gained strength.

CHINA/STATE ENTERPRISES

China's top leaders acknowledge that the country's longer-term economic prospects hinge upon restructuring and revitalizing inefficient state-owned enterprises (SOEs). Plans to reform SOEs have, however, been stymied by vested interests and Beijing's fear that greater joblessness will reinforce risks to social stability.

NIGERIA/ECONOMIC SQUEEZE

With oil revenues sharply down, President Buhari's government is struggling to stimulate economic growth, contain the fiscal deficit, and advance reforms. While the military, now more proficient and better motivated, has compelled Boko Haram fanatics to relinquish territory in the northeast, the security environment in the energy-rich Delta region in the south is deteriorating.

BOLIVIA/POLITICAL CHANGE

Bolivia has taken an unexpected and risk-laden turn as voters in a recent referendum determined that President Evo Morales' current term will be his last. There is no obvious successor to Morales, who was first elected to power in 2005, and the ruling party may fragment, raising questions about the Andean nation's stability and policy direction.

RUSSIA PUTIN PLAYBOOK

One of Putin's principal foreign policy aims is to ensure that the West treats Russia as a great power.

KEY FINDINGS

- President Putin's military intervention in Syria has secured a place for Russia in peace talks, but Moscow is not ready to compromise with the West over Ukraine.
- Foreign policy activism has aroused Russian patriotism, providing an analgesic for the blow to living standards inflicted by economic sanctions and low oil prices.
- Putin, seen as the redeemer of Crimea, is still riding high in opinion polls, but popular disaffection with and protests against his government have gained strength.

ANALYSIS

President Vladimir Putin's decision in March to withdraw most of Russia's warplanes from Syria, roughly six months after they were deployed, was intended to lock in gains and minimize risks:

- Russia has saved the Damascus regime from a potential collapse, helped it to recover considerable swaths of territory, and strengthened its bargaining position vis-a-vis rebel groups. Yet the failure to retake Aleppo pointed to the limitations of the Syrian army and its allies.
- Russian bombing has thinned the ranks of the Syrian mainstream opposition. As a result, western and Arab states, and also Turkey, cannot realistically hope to exclude President Bashar al-Assad from a transitional government.
- Western efforts to isolate Russia, post-Ukraine, have failed. Moscow is a key party to the current ceasefire in Syria and is signaling commitment to a political solution. However, Russia has also underlined its capability and intent to act as a power in the Middle East. It now has an air base in Syria to complement its naval facility.
- Putin has seized an opportunity to limit his exposure in Syria. With the ceasefire covering all but the most extreme Islamist combatants, there are fewer targets to hit and the change of season makes bombing more difficult. By retrenching, he has also sharply cut the risk of further military clashes with NATO member Turkey.

WHAT IS PUTIN'S GAME PLAN?

Putin has switched from the military track to the political. He has pressed Assad to engage in peace talks, in the hope these might yield a national unity government that all external powers will recognize and work with. The US no longer insists that Assad step down at the start of a transition process, but Turkey and Saudi Arabia still do. If they can be brought around, it would represent a victory for Russia on several fronts:

- Assad's survival, at least for now, would

uphold Moscow's preferred approach to the management of international security, which rejects the threat or use of coercive measures (force or sanctions) against sovereign states, unless authorized by the UN Security Council.

- A political settlement would underline that Russia is an indispensable power in the Middle East. It would also set the stage for the formation of a grand military coalition to defeat the Islamic State group in Iraq and Syria, which is a key objective for Moscow.



Putin demands that the US should recognize Russia as a co-equal

- Peace in Syria, thereby ending refugee flows to Europe, would provide a platform to reset Russia's ties with the West on terms acceptable to Moscow, including the easing or lifting of trade and financial sanctions.

HOW IMPORTANT IS THE DOMESTIC CONTEXT TO PUTIN'S ASSERTIVENESS ABROAD?

Putin believes that Russia is by right a great power, and that it should be recognized as such. Yet his main preoccupation is to remain in power. To do so, he must ensure that neither the country's oligarchs nor the masses are a threat to him. For now, the former are under control: they are co-opted, cowed or abroad. However, the masses, though normally apathetic and apolitical, are potentially a problem amid economic stagnation:

- after contracting by 3.8% in 2015, GDP is forecast by the World Bank to shrink by 1.9% this year;

- the number of Russians below the poverty line increased from 16.1 million at end-2014 to 19.2 million (13.4% of the population) at end-2015;
- inflation, at 6.5% in 2013, surged to 15.5% in 2015 because of currency devaluation and sanctions;
- unemployment has begun to tick up; and
- living standards this year will fall to 2007 levels, according to the World Bank.

The slowing economy and the collapse in oil prices have hit the budget hard, even allowing for the cushioning effect provided by ruble devaluation. The 2016 budget, at current exchange rates, needs an oil price of \$82 per barrel to achieve balance. As that seems improbable, Putin has directed the government to cut spending by 10% across the board, with the exception of pensions and the pay of soldiers and state employees. Already, reduced spending on health, education, housing and subsidies to regional governments is hurting the population, especially families.

Labor protests. 2014 was a record year for labor protests in Russia, but 2015 saw a 40% rise year-over-year due to the shortening of working hours, growing wage arrears and enforced pay cuts across the country. Few if any of these protests are reported on the federal television channels from which most of the population

get their news and, in contrast to the street demonstrations of 2011–12, most of them are located far from Moscow and St Petersburg.

Damascus, a diversion. Putin's intervention in Syria has served to distract the population from Russia's economic troubles, building on the surge in patriotic sentiment engendered by the annexation of Crimea. Many Russians had not reconciled themselves to the loss of the territory to Ukraine in 1992. Putin's approval rating rose from 65% in January 2014 to 86% just five months later and has barely changed since.

The ratings of the prime minister, the government and regional governors also experienced a Crimea-related surge in the spring of 2014. Yet in contrast with the president's, these have all fallen sharply in the last six months, signaling growing



As social stresses mount, truck drivers in Moscow protest a new road tax on April 3

discontent. Putin's rating will be the last to fall. He is the principal beneficiary of the Crimea factor and there is a widely held perception in society that there is no alternative leader. The economic crisis actually supports his rating as, for the present, he is regarded as a stabilizing force.

HOW PRESSED IS RUSSIA TO GET SANCTIONS LIFTED?

With no economic recovery in sight, Putin has an interest in securing the lifting or easing of sanctions. However, there is no sign that he is willing to offer concessions on Ukraine in order to achieve this. Even if a Syrian peace pact is concluded, it may not lead to a rollback of western sanctions imposed over Ukraine since western states compartmentalize their relations with Russia.

In any case, sanctions relief might not make a marked difference to near-term economic performance. It would not ameliorate Russia's main economic problems, which are low oil prices, soft external demand for its commodity exports, the exhaustion of the post-1998 growth model, and weak budgetary receipts.

OUTLOOK

Despite Russia's economic difficulties, Putin shows no signs of panicking. Nor is he about to embrace economic reform. Millions of his countrymen accept his proposition that a few lean years are a price worth paying for a foreign policy that does not in their view pander to a hostile West. The Russian president would like to see sanctions rolled back, but is not ready to offer significant concessions in return.

Popular discontent is rising, but there is no organizing force to knit together disparate protests. Moreover, across society there is sufficient apathy, fear of the police, and dread of chaos to suggest that protests will not reach a critical mass that would threaten the political system. Still, with the runup to federal legislative elections in September potentially sparking an upsurge in demonstrations, Putin is taking no risks. A several-hundred-thousand-strong National Guard, creation of which was announced April 5, appears designed to quell domestic unrest.



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