The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Three Possible Scenarios for Life After Coronavirus in Russia

These are good starting points for thinking about what is probably going to be a perfect storm.

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April 24, 2020



Yury Kochetkov / EPA / TASS

One of the reasons the coronavirus crisis has hit the economy so hard is its unexpected nature.

All too often, companies do not consider critical uncertainties in their business plans. Annual goals extrapolate existing conditions, then something unexpected happens and businesses are caught unprepared, with the results we all see in current revenue forecasts.

A good tool against unpleasant surprises is scenario planning. Pioneered by the RAND Corporation in the 1950s and championed by Shell in the 1970s, when it allowed the company

to predict the oil crisis of that decade, it centers around developing several internally consistent alternative futures for a company, organization or country.

Proper scenario planning requires meticulous work in identifying the relevant factors — the predeterminеds, the uncertainties and the actors. But the output, if done correctly, allows the outlining of the main scenarios within the range of all possibilities.

There are usually three scenarios — most likely, credible alternative and outlier — that allow an organization to prepare for most eventualities, including those that do not feature in the basic "things will continue as they are" option that much of our intuitive planning is limited to.

In practical terms, this does not necessarily mean that scenario planning would have made companies stockpile masks and open ventilator production lines ahead of the coronavirus crisis. But it would have allowed them to be organizationally — and, more importantly, mentally — prepared for a surprising and negative development with major economic consequences. And not being caught by surprise is key for survival and success, in business as elsewhere.

With that in mind, we at Control Risks have developed three scenarios for Russia in 2020-2021. Being necessarily broad, they might not apply directly to every company and industry. Still, they're good starting points for thinking about what is going to be, by all accounts, a perfect storm.

Most Likely: the forecast that we believe is most likely to materialize

"People are the new oil," or inertia scenario

True to its longstanding policy, the government helps big Kremlin-connected businesses and state companies. The public and the private sector get reluctant token support and are left to fend for themselves. New taxes for both are likely as the government struggles to make up for vanished oil revenue.

Politically, approval ratings plummet, but President Vladimir Putin remains in power due to the absence of unified opposition and the continued support of people on the state payroll. The pending constitutional vote and the 2021 Duma elections are rammed through by state pressure and vote manipulations, exacerbating the tensions, which will stretch beyond 2021.

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Economically, the business environment in the country is devastated, with unemployment reaching 10-15 million, and the IMF's forecast for a 5.5% drop in GDP in 2020 materializing. Patches of growth exist around state-backed projects, but as before, they have only a small impact on the overall economy.

As for foreign businesses, some manage to get on the state's ever-shifting "too big to fail" list. However, the overall decrease of the purchasing power of the populace and the disruption of whole industries due to the sharp decline of small and medium businesses saps revenue. At the same time, a wave of bankruptcies opens opportunities for asset acquisition — for those

who have the cash.

Credible Alternative: a scenario in which a major variable plays out differently

"Things must change to remain the same," or bailout scenario

The government implements an economic support package comparable to those in developed countries — 6-10% of GDP. Business activity gradually resumes, supporting approval ratings. As oil remains low, more interest is finally given to other industries, prompting sprouts of diversification in an attempt to offset the spending of reserves.

Politically, the Kremlin capitalizes on its image as an economic savior, successfully pushing through constitutional reform and winning the Duma vote.

Economically, Russia returns to the stagnation and slow growth track it was following before 2020. Focus on non-oil sectors is hopeful for a range of industries. However, crisis support depletes the government's monetary reserves, tempting it to hike taxes again after the election cycle. This will, in turn, have ramifications for approval ratings, but that factor will come into play after 2021.

For foreign businesses, this broadly means business as usual after half a year of fear and lost revenue. However, structural issues persist — the consumer base is gradually decreasing due to stagnating wages, and growth opportunities are stalled by inefficient economic governance. Extra taxes will also likely affect non-Russian companies: protectionist calls to "tax foreigners" more can be expected. Still, the focus on non-oil industries opens investment opportunities in new sectors, though their stability and the investment climate remain in question.

Outlier: a high-impact but low-probability extreme situation scenario

"*Back to the U.S.S.R.,*" or crackdown scenario

Exasperated by a futile struggle to salvage the economy, Putin defaults to policies familiar from the Soviet era, relying on the *siloviki* for their implementation. Contemporary China is also used as a role model.

Politically, the scenario involves the imposition of a long-term emergency situation regime. This allows the authorities to censor the internet and silence the opposition, jailing major critics of the Kremlin in show trials reminiscent of Yukos. The crackdown and the economic turmoil prompt elite infighting. Putin's own position may be in danger, though likely after 2021.

Economically, rationing and food stamps are implemented to support the public. No outright dismantling of the capitalist economy takes place, but law enforcement increases its already-powerful hold on the business environment, abusing its power for personal gain by taking over assets. Policymakers champion the simplest solutions — for ideological or self-serving reasons — such as price controls. The economy spirals downward, though the main impact will be felt after 2021.

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Foreign businesses are tolerated, but attitudes vary depending on their country of origin. While Chinese and possibly Japanese businesses are left largely in peace, European and U.S. companies face increased threats of Baring Vostok-like attacks. Protectionist measures against all foreign businesses are also possible, modelled on the 2014 ban on foreign investment in the Russian media, which limited shareholding to 20%.

Other possible scenarios

Other scenarios are also possible, like a public uprising swelling into regime change — a perennial favourite with critical analysts that has been expected any moment for the past two decades. And of course, the actual impact on any company or individual is hard to predict from such broad strokes.

However, the main point of scenario planning is to prepare against complacency. The coronavirus is like the Spanish inquisition in the classic "Monty Python" joke — no one expected it. But we can at least try to rectify this in the coming years, which will be just as full of uncertainties.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:
https://www.themoscowtimes.com/2020/04/24/three-possible-scenarios-for-life-after-coronavirus-in-russia-a70098