

Putin's Renationalization Campaign

FIGHTING CORRUPTION OR FORCING OFFICIALS' LOYALTY?

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Large street protests returned to Russia on March 26, 2017, following the posting by Alexei Navalny, the well-known Russian blogger, of a YouTube video accusing Prime Minister Dmitry Medvedev of corruption, profligate spending, and widespread property holding. Tens of thousands of Russians across ninety cities came to the streets. By the end of April, the YouTube video had over 20 million views. Although the Kremlin did not respond to the accusations in the video, the police arrested and briefly detained Navalny for his role in organizing the street demonstrations. The Kremlin arrested Navalny again for his participation in organizing more protests on June 12, 2017, a Russian national holiday when many people are already out on the streets. The Kremlin has good reason to fear Navalny, given his record of mobilizing citizens around the issue of corruption and his important role in the very large demonstrations in Bolotnaya Square in 2011. While the 2011 protests were [spurred](#) initially by accusations of fraud in the 2011 Duma elections, Navalny's rallying cry against the victorious United Russia as the party of "swindlers and thieves" intensified the momentum of the street protests.

A key response to the 2011-2012 demonstrations was the Russian government's running of an anti-corruption campaign that had a nationalist, patriotic bent. In the aftermath of the protests, a series of legislative proposals appeared in the Duma seeking to curtail the foreign economic activities of deputies and senators. Owning real estate abroad, holding foreign bank accounts and securities, and even sending children abroad to study were all identified as unpatriotic behavior and potential signs of corruption by Russian political elites.

Typically, calls for Russian elites to repatriate both their wealth and their family members were couched in terms of a fight against corruption and a commitment to the

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national interest, but the particular form of the 2011-2012 anti-corruption campaign reflected the Kremlin's need to consolidate power and ensure elite loyalty. Given the recent wave of protests against corruption in 2017 and the patriotic rhetoric that has permeated Vladimir Putin's third term as president, the government may renew its calls for repatriation and limitations on civil servants. Such an approach serves multiple ends: it defuses public anger toward the political establishment, diminishes capital outflows, and sounds the alarm that disloyalty won't be tolerated, all while leaving the biggest (and most loyal) corrupt elite offenders largely untouched.

Early Calls for Repatriation and the Fight against Corruption

When opposition leader Navalny lambasted the United Russia party as the party of "swindlers and thieves," his rallying cry resonated broadly with ordinary Russians. Although the Bolotnaya Square demonstrators espoused many causes—fair elections, the release of political prisoners, the registration of opposition parties, and a more democratic government—anger with the corrupt ruling elite [permeated](#) the mass movement.

Vladimir Putin and his inner circle quickly launched a series of campaigns to eliminate or undermine dissenters and assuage an angry public. In 2012, members of the State Duma proposed a new bill that prohibited all federal and municipal officials, their spouses, and underage children from having any foreign bank accounts, securities, and real estate. Any violation of the law would lead to fines of between five and ten million rubles or up to five years in jail. The State Duma deputy Vyacheslav Lysakov (United Russia) who co-drafted the bill [emphasized](#) that the elite should "stand with both their feet in Russia." Although the initial draft was widely supported in the lower house, the proposal faced strong resistance in the upper house. Elites saw the bill as imposing too much control on their personal wealth and refused to embrace the strict measures. President Putin soon thereafter submitted his own bill to the State Duma, which only outlawed overseas bank accounts and foreign-issued shares and bonds. The official [explanation](#) for the relaxed restriction was that many Russian officials had owned dachas, apartments, and land in neighboring countries since Soviet times and it would be unfair to ask them to relinquish this real-estate. Under Putin's [proposal](#), officials could still hold foreign real-estate, but they had to identify the financial source of their purchases and had to include the overseas properties in their income declarations.

The new law covered all state officials, including the president, the cabinet ministers, top regional officials, members of the Central Bank's board, and key executives of state-owned corporations. The only exception would have been civil servants who worked abroad as Russia's representatives in foreign countries. All civil servants would have three months to sell their foreign investments and transfer the money from foreign bank accounts back to Russia when the law came into effect. Russian officials commented at the time that the revised bill would be passed swiftly by the parliament and would not

face any challenges because it was the will of the president. The [bill](#) in fact passed immediately and became known as the law “On Civil Servants’ Foreign Assets.”

The law appears to be both serious and harsh at first glance, but it contains some loopholes that officials can manipulate to circumvent the ban on foreign assets. Even though officials and their family members could no longer keep their wealth in bank accounts abroad, they could still find strategic ways of concealing their wealth. For example, officials could put their money in foreign trusts since it is hard for investigators to learn who the beneficiaries are, short of exposés and leaks, like that of the Panama Papers scandal, where sixteen Russian billionaires had names [matching](#) those on the offshore lists. Moreover, the elites could transfer their money to their adult children or close relatives since the new law covered only spouses and minors. There was even a [reported](#) increase in the divorce rate of Russian officials, allegedly because the divorced partner could legally keep the foreign securities and bank accounts abroad, while the politician maintained his or her position. Some Duma deputies wanted to amend the bill and close the loopholes, but progress was elusive.

The repatriation campaign led some politicians to leave the political arena rather than respect the ban. It seems quite plausible that they were not willing to relinquish the option of a soft landing in the West should they need to flee Russia. In his December 2012 State of the Nation address, President Putin expressed his concern about increasing financial outflows. He [spoke](#) of the need to repatriate Russian capital channeled to offshore jurisdictions. After the ban was announced, nine senators resigned from the legislature to keep their foreign wealth abroad, valuing their economic interests over their political positions (a handful of them were in the 2013 *Forbes* list of richest Russians). In Russia, wealthy business leaders sometimes seek out political positions not only for lobbying power and access to the inner circles of power, but also for protection from prosecution. Since Russian deputies enjoy greater immunity from prosecution, these wealthy politicians give up some measure of security within Russia for the security afforded by holding wealth abroad.

Another aspect of the repatriation campaign concerned the children of politicians living abroad. Originally, a ban on foreign study for the children of Russian political elites was part of Putin’s third-term repatriation bill. The same blogger and activist, Navalny, had embarrassed the administration by highlighting officials who had sent their children to study abroad, like Deputy Speaker Sergei Zheleznyak, whose daughters lived in the UK and Switzerland. The State Duma on April 19, 2013, ultimately rejected the proposal, which would have banned the children of high-level government officials from attending foreign schools. The issue faded briefly but did not disappear, as critics periodically revived the campaign. In 2015, United Russia deputy Shamsail Saraliyev supported another proposed ban on the children of top government officials studying abroad, [arguing](#) that children had to be protected from Western ideas and potential coercion. In November 2016, Communist Party Deputy Valery Rashkin submitted a bill

to the State Duma that would ban state and municipal officials from sending their children who are minors to foreign schools. The proposals to forbid civil servants' children from living abroad have yet to be passed into law, nonetheless Russian elites remain [vulnerable](#) to being publicly shamed for sending their children to study abroad.

Anti-Corruption, Patriotism, and Protection from the West

Not only was the repatriation law framed as an anti-corruption measure, it also was portrayed as a way to shield Russian politicians from foreign influence and Western pressure. As Putin [noted](#) in his 2012 State of the Nation address, "How can you trust an official or politician who makes bold statements about the wellbeing of Russia, but then tries to move his funds, his cash abroad?" The president expressed the concern that the elites might succumb to Western pressure if their assets and wealth abroad were vulnerable to asset freezes. Yevgeny Fyodorov of the United Russia parliamentary caucus explained that if Russian civil servants acted in ways that displeased the United States, they might be deprived of their property held in the US. He [described](#) the Magnitsky Act as a type of political blackmail to compel Russian officials to be more obedient. The Kremlin implied that the plausible threat of foreign asset seizures undermines national security and decided to simply prohibit elites from holding any foreign accounts. The Western sanctions imposed on Russia in 2014 suggest that Putin's concern was not far off the mark. The sanctions deliberately targeted Putin's close associates and were meant to weaken support for the president's rule by freezing the property of his allies. For example, Yury Kovalchuk, the largest shareholder of Rossiya Bank and Putin's personal banker, was targeted, a travel ban was placed on him, and Western governments froze his foreign bank accounts and shares.

Repatriation, Loyalty, and the Consolidation of Power

While the campaign to "renationalize Russia's elite" has been largely sold as a patriotic, anti-corruption measure, it was also a means of consolidating power. During the 2011-2012 Bolotnaya protests, some elites were suspected of funding opposing groups that aimed to destabilize the government, including supporting Navalny, who even then was the most influential protest leader and visible critic of the Putin regime. Wealthy Russian businessmen were gradually [bolstering](#) Putin's adversaries and, by extension, were challenging the president himself. All these signs implied that Putin's administrative power was slipping, along with elite loyalty.

The key point is that the restrictions on foreign assets served to undermine the independence of many prominent political figures and potential defectors, and they enabled the Russian president to pull out from under them a safety net in the West. As a result of this law, officials became more susceptible to the regime and faced more constraints in protecting themselves and their families, should they choose to withdraw their support for the regime and leave the country. Indeed, restrictions on holding

wealth abroad increased political elites' stake in Russia, and in turn have contributed to the endurance of the Putin administration. Because the Kremlin employs the new ban selectively and subjectively, the law serves as a weapon for President Putin to discourage elite dissent. Even if a civil servant decides to ignore the repatriation requirement and hide foreign holdings, the fear of reprisal for ignoring the ban remains a powerful tool to muffle dissent.

Russia is not alone in using restrictions on civil servants to limit the chance of defection or a soft landing abroad, should the unanticipated need to flee arise. China, for example, does not allow civil servants above the division-head level to retain custody of their own passports. Access to passports for foreign travel (for work and personal reasons) requires advanced approval and passports must be returned in the week immediately following travel. Even retired civil servants above the bureau level must [obtain](#) approval from party committees for international travel. There are also restrictions on moving money out of China beyond \$50,000 per year, although this is a general restriction not limited to civil servants. That said, there is no restriction on sending children abroad to study (even President Xi Jinping's daughter attended college in the United States).

The striking features of Russia's anti-corruption repatriation campaign were the president's direct support for it, the patriotic angle of the campaign, as well as its limited impact. It seems that the approach taken was not designed to result in a significant government purge, which could have weakened the president. A full-scale, anti-corruption campaign might have left the president with too few allies, and if the Navalny video is to be believed, it might have left him without Premier Medvedev, his trusted loyal ally. A less destabilizing approach was the pursuit of low level officials while making an example of a few higher level elites to capture the attention of other elites and the citizenry.

Conclusion

When Navalny's blog shines a light on corruption, it tends to attract the attention of the nation. The recent Medvedev exposé was widely shared and reached the highest levels of government. Navalny's other exposés have also hit a nerve. For instance, when his blog published detailed evidence that Vladimir Pekhtin, co-founder of United Russia, held undeclared property in Florida, Pekhtin had to [vacate](#) his parliamentary seat. Similarly, several other senators resigned from the parliament due to reporting about their malfeasance. The Kremlin abandoned these politicians to satisfy the angry public and to silence its critics. In the case of Pekhtin, his resignation was considered a great victory for the opposition. However, many analysts pointed out that his departure was, in essence, decided by the Kremlin. While Medvedev managed to survive the public accusations against him, perceptions about extensive corruption by a leader so close to the president himself may be [more](#) than the Kremlin can tolerate over time. It is unclear whether the recent round of corruption accusations will spur another government anti-

corruption campaign, but if so, it is likely that it will again be a patriotic repatriation campaign.

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