

The Bellow of the Eurasian Brown Bear: Russia in the 21st Century

By Michael Lee, Founder of the Institute of Futurology

"With its natural gas and oil pipelines that tie Europe to Russia like an umbilical cord, Russia has unchecked power and influence that in a real sense exceed the military power and influence it had in the Cold War... Russia is in a stronger position relative to Western Europe than it has ever been in its history."

Marshall I. Goldman, author of *Petrostate: Putin, Power and the New Russia*

Although Russia's population has peaked and is now decreasing, this resource-rich Eurasian giant will not go gently into the good night of decline. Nor will the rich tapestry of Russian history, populated with larger-than-life autocrats such as Ivan the Terrible, Peter the Great, Lenin, Stalin and Putin, and defined by world-shaking events like the Russian Revolution, the Cold War and the collapse of the Soviet Union, become uneventful in the 21st century.

While Russian society will age and shrink throughout this century, it will at the same time rise to become an energy superpower. Situated at the crossroads of the world between the shifting geo-political landscapes of Eurasia, I expect a restless, cat-and-mouse Russian foreign policy for the future while the nation manages its growing geopolitical influence as a restored global power spanning an enormous landmass across Europe and Asia.

I anticipate a new golden age for Russia between 2015-2050. However, this period of prosperity could well be followed by one or two generations of comfortable decline in the twilight of the age of fossil fuels, a decline which would have the potential to become increasingly dysfunctional towards the end of the century due to the dire cumulative effects of depopulation. The manner of the nation's eventual decline will be determined largely by the social policies adopted during the coming decades of prosperity.

After almost twenty years of trauma, humiliation and economic chaos, Russia is on its way to becoming an industrial energy giant. Governed effectively, with an exceptionally firm hand on corruption, this new role should fuel progress, prosperity and power never before enjoyed by this amazing, mysterious and, at times, maddening country.

But if Russia mismanages its new wealth, in the disorganised way in which it conducted its transition to a market economy in the 1990s, then it will have lost its last opportunity to be great again. It could degenerate into a dangerous breeding-ground of instability and corruption.

Unless it is overcome by ambition and hubris, or is pushed and provoked by its main strategic rivals, the USA and China, into regional wars, I expect Russia to seize this rare historical opportunity to undergo sustainable and positive progress. The Eurasian Bear will bellow loudly in coming decades.

In addition, a great and intelligent civilisation could rise from the wreckage of the old Soviet Union. The 21st century may belong as much to Russia as to China in terms of being beneficiaries of shifts in global strategic power. The maturing of Russia into a leading advanced economy could even see its Ruble turn from a laughing-stock into a major international currency.

Energy resources lie at the heart of Russia's future. In addition, as a former global military power, this country is armed to the teeth: "It possesses a large and potent nuclear arsenal – second only to that possessed by the United States – and hundreds of intercontinental ballistic missiles."¹ Far more influential than this considerable nuclear deterrent are Russia's oil and natural gas stocks. Oil and gas provide much of the world's industrial power and the Federation is already a top global player in energy production. For example, in 2006 it once again became world's biggest producer of petroleum ahead of Saudi Arabia. In that year, the US imported Russian oil valued at \$10bn. In 2000, LUKoil, one of Russia's largest private oil companies, bought about 3,000 filling stations in America, signalling its expansionary international intentions. Russia's proven reserves of 10.9 billion barrels mean it owns 6 percent of the world's reserves but 42 percent of non-Opec country reserves.²

In addition to being an important oil producer and exporter, the Federation is a gas giant: "While Saudi Arabia has the world's largest reserves of crude oil, Russia....has the world's largest reserves of natural gas...Most experts agree that Russia holds 27-28 percent of the world's natural gas reserves....Iran with 15 percent of the world's reserves ranks second in size of natural gas reserves...Even though Canada is a major supplier of natural gas to the US, it has only 1 percent of the world's reserves."³

¹ Klare, M. 2004. *Blood and Oil*. London: Penguin Books, p. 153.

² Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia..* New York: Oxford University Press.

³ Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia..* New York: Oxford University Press.

Gazprom, Russia's largest company (and a state-dominated joint stock corporation),⁴ is the top producer of gas in the world. Europe is entirely dependent upon the network of gas pipelines spread out across the continent, with over a quarter of the gas it consumes being piped from Russia: "Germany purchases more natural gas from Russia than any other country in Europe...all of Western Europe is now also hooked up directly or indirectly to the Gazprom pipeline...the Baltic states and Finland import 100 percent of their natural gas from Russia... even Italy and France each depend on Russia for more than 30 percent of their imports."⁵ There is also considerable scope for increased demand for Russian energy in Asia, particularly in China and India, so there is not going to be any shortage of export markets.

Since Russia is the largest supplier of natural gas to most of Europe, if Gazprom were ever to cut off deliveries to Europe deep in winter, it could freeze whole countries with one flick of a switch at its control centre.⁶ This is a formidable position of strength to be in.

It is true that Russia's economy has most of its eggs in the energy basket, making up 30% of its GDP and 65% of its exports,⁷ and that dependency carries the usual risks associated with weakly diversified economies.⁸ Yet if Russia has hitched its destiny to the star of energy, it is a very bright star. The modern industrial world is totally dependent upon oil and gas at a time when supplies are declining. Prices are likely to continue to rise over the long-term. As mentioned already, the demands for energy in both China and India is only going to escalate: "As their demand for energy continues to grow, this will provide enormous economic and political opportunity for Russia."⁹

⁴ Putin once referred to Gazprom as his "holy of holies".

⁵ Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia*. New York: Oxford University Press. Table 6.2, for example, entitled "Europe's Reliance on Russian Gas, 2004" (IEA figures) shows the following levels of dependency on Russian gas – 38% in Germany; 64% in Turkey, 25% in France, 42.5% in Poland, 65.7% in Austria, 26% in Italy.

⁶ "Today, if the Russians or Gazprom threaten to halt the flow of their natural gas, there is little anyone can do about it. After twenty years or so, Russia's natural gas has become an integral part of the economies in the countries it serves." Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia*. New York: Oxford University Press.

⁷ Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia*. New York: Oxford University Press.

⁸ The price of petroleum peaked at \$147 barrel 2008 but the recession and falling demand pushed the price down to \$33. This led to huge losses of oil export revenues in Russia. Goldman (2010) reports that by March in 2009, Russia's foreign currency reserves had dropped from nearly \$600 billion in September 2008 to \$384 billion. The country's GDP shrank and its unemployment went up. Goldman argues that there is an almost perfect correlation between oil production increase and decrease and changes in GDP. Klare (2004) pointed out that production fell from 12.5 million barrels per day in 1988 to 6 million barrels after the collapse of the Soviet Union. Klare, M. 2004. *Blood and Oil*. London: Penguin Books. P.122.

⁹ Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia*. New York: Oxford University Press.

The combination of its oil and gas stocks puts Russia into a dominant, monopolistic position. This is especially true given that rival gas reserves in the North Sea and Algeria are rapidly depleting: “It is this demand and supply dynamic that enhances the financial and political clout of energy-rich Russia...while its petroleum exports provide Russia with its new financial wherewithal, it is natural gas that brings Russia unprecedented political clout. Combined, the need for these two commodities makes Europe very dependent on Russia.”¹⁰

Russia is getting rich on the back of its oil and gas wealth, with its export revenue providing state coffers with a financial windfall: “...as of mid-2007, with more than \$420 billion in the state treasury, Russia had the world’s third largest holdings of foreign currency reserves and gold, behind only China, with more than \$1.4 trillion, and Japan, with \$900 billion.”¹¹

Goldman (2010) has likened Russia’s current revival to “awakening from a decade-long nightmare”.

With finances flowing into the state treasury and the private sector, Russia has the money to invest in social development. Its military will also no doubt continue to build its capacity as the country’s global role increases. For example, in 2005 military expenditures rose 27 percent over 2004 and then by a further 22 percent the year after. The prognosis is for Russia to become a major military power again.

If energy is the strongest driver of Russia’s future, at least while the world still depends heavily on fossil fuels during the next three decades, then the major roadblock to progress is its declining and ageing population.

The UN Population Division’s figures for *births minus deaths* show Russia began suffering net losses of population by the turn of this century. This trend is expected to continue throughout the 21st century.¹² Its Total Fertility Rate (TFR) fell sharply from a very healthy 2.85 in 1950 to a very nervous 1.30 in 2000. It is projected to stay below population replacement levels for several decades. Currently its TFR is ranked a lowly 67 in world.

The UN Population Division’s country profile for Russia shows the likely depletion rates for its population.

¹⁰ Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia..* New York: Oxford University Press.

¹¹ Goldman, M.I. 2010. *Petrostate: Putin, Power and the New Russia..* New York: Oxford University Press.

¹² Source: Russian Federation profile, United Nations Department of Economic and Social Affairs/Population Division- World Population Prospects: The 2010, Volume II: Demographic Profiles, p.3. Putin has proposed a bonus programme for Russian women to reward them for giving birth to more than one child. One would expect more of this kind of policy initiative to attempt to alleviate population loss.

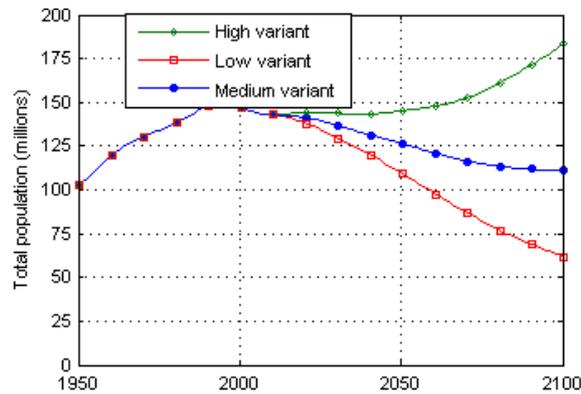


Figure 1: Total Population Trends in Russia 1950-2100 (low-medium-high variants)

Source: Country Profile of Russian Federation by United Nations Population Division

http://esa.un.org/unpd/wpp/country-profiles/country-profiles_1.htm

In the worst-case scenario above (low variant – red line), the population drops from a peak of around 145 million at the turn of the century to about 60 million by 2100, a catastrophic loss of 85 million people at an average rate of 850 000 per year. Unless the government brings in hundreds of millions of foreign migrant workers to compensate, Russia’s productivity and GDP would shrink along with its population.

Strategically, Goldman (2010) points out that a potential problem for Russia is that the depopulation rate in its far east, near the border with China, is higher than the national average. By contrast, the Chinese population on that increasingly sparsely populated border is growing rapidly. Will trouble brew on this border as a result?

Along with low birth rates and shrinking population, the nation’s median age is expected to rise from 37.9 to 44.9 by 2040, whereas back in 1950 it was a sprightly 25 years young.¹³ Russia is now an ageing giant: “From 1959 to 1990, the elderly group demonstrated the most rapid growth. The numbers of persons aged 60-74 and 75 and over both doubled over this period. The changes in broad age groups and age-structure ratios described above indicate that the Russian population became older over the last three decades and that this process will continue into the next century... Thus, all measures of aging affirm that the Russian population has been growing older since 1959.... The dominant features characterizing Russian population dynamics since 1991 have been negative natural population growth, an aging population structure, and demographic waves induced by irregularities in age distribution. ...The aging process is occurring in all regions of the country, and it is projected that the pace of change in the age structure will be especially rapid in the years 2010-2015.”¹⁴

The behaviour of ageing giant bears which are still powerful can be grumpy.

¹³ Source: Russian Federation profile, United Nations Department of Economic and Social Affairs/Population Division- World Population Prospects: The 2010, Volume II: Demographic Profiles, p.3.

¹⁴ Vassin, S.A. “The Determinants and Implications of an Aging Population In Russia” Rand Corporation http://www.rand.org/pubs/conf_proceedings/CF124/CF124.chap6.html

Russia's unfavourable demographics will result in a shrinking workforce.

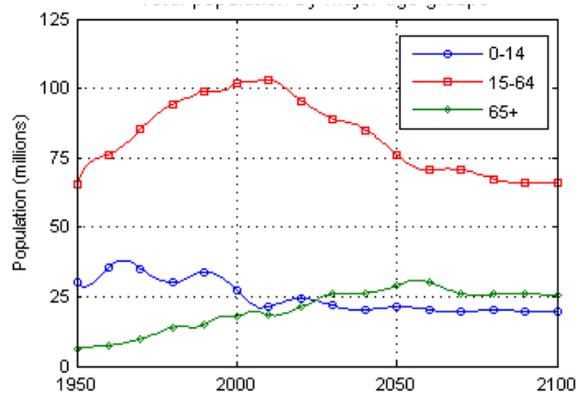


Figure 2: Population Trends for Major Age Groups in Russia 1950-2100

Source: Country Profile of Russian Federation by United Nations Population Division

http://esa.un.org/unpd/wpp/country-profiles/country-profiles_1.htm

Figure 2 shows a sharp decline in the size of the working population of Russia (ages 15-64) between 2010 and 2100 by which time it is likely to have fallen right back to the levels of the 1950s.

The changing demographic profile of Russia must rank as its greatest long-term challenge. If one compares population profiles by age groups and gender for Russia between 2010, 2050 and 2100, the nature of the challenge ahead becomes clear.

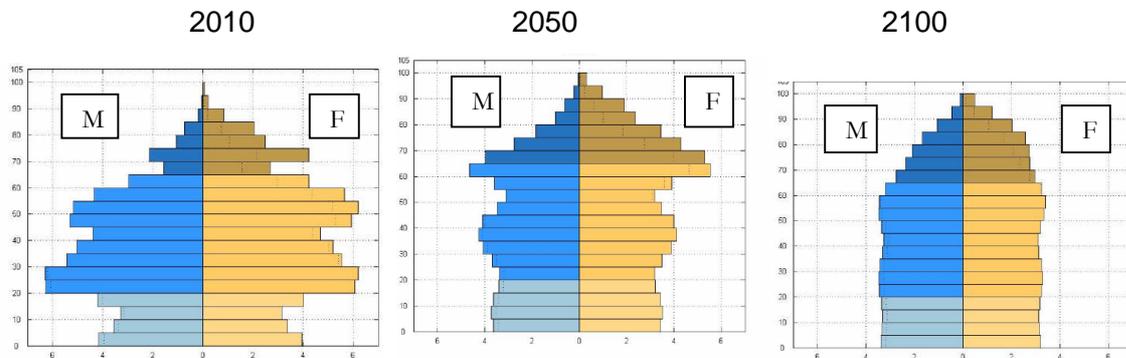


Figure 3: Changing Demographic Profile of Russian Nation: 2010-2100

Source: United Nations Department of Economic and Social Affairs/Population Division

World Population Prospects: The 2010, Volume II: Demographic Profiles

(Data in millions)

(The y axis shows the age groups from 0-10 up to over 100 years old at the top, while the x axis shows size of that age group in millions)

Visually, one can readily see in Figure 3 that the year 2050 will be a turning point for Russia as the population ages and rapidly shrinks. The younger age groups can be seen declining throughout the century as Russia's demographic profile "flattens" from its healthy 2010 bulges for its working and young ages groups.

This unhealthy future demographic profile, when combined with the growing power of Russia, is the principal reason why I predict the Federation will become a restless ageing giant on the world stage for the foreseeable future.

Conclusion

How Russia manages the twin conflicting challenges of increased global power and declining population, and the social policies and investments it makes during its time of prosperity ("fat years"), will determine its destiny for this century and beyond.

I see two major trajectories ahead, expressed as the Prowling Bear Future and the Russian Chess Master Future.

The **Prowling Bear Future** will see Russia establish itself as an authoritarian and corrupt petro-state at the heart of Eurasia, increasingly destabilising vulnerable European economies with its belligerent monopoly of the oil and gas market on the continent. The Bear, caged for so long by the West, has been freed and is intent on finding ways to inflict revenge on its former captors. In this scenario, the tables are turned and the captive becomes the captor. The inferiority complex has become an inverted superiority complex. The rule of law has become the law of rulers.

In addition, power and growing wealth are not distributed to the wider population or invested in developing social institutions and infrastructure. Instead it remains in the hands of the key-holders of the Russian energy kingdom, the state, the energy corporations and the oligarchs who pander to those in power. Organised crime becomes interwoven into the power structures in a malicious synergy of monopolised wealth. The black market and the informal sectors mushroom. Governance of society becomes increasingly harsh and intimidating, with crackdowns on legions of tax-evaders and political dissidents.

Eventually, social unrest and conflict become widespread and endemic. The Chechnya conflict ignites all Muslim populations in the former USSR in a campaign to undermine the Russian state, employing energy terrorism as their main weapon. Rioting occurs periodically on the streets of Russia's main cities. The Federation fights wars on multiple fronts as the struggle for control of 10 bn tons of oil and gas deposits in the arctic intensify. The country heads for a repeat of the 1917 Russian Revolution.

The **Russian Chess Master Future** sees a great Eurasian civilisation rising from the defeat of the old Soviet Union. Like its chess masters of old, the Federation will play the game of global geopolitics with patience and great skill. It becomes an energy giant and uses its newfound wealth to build its social fabric instead of squandering a generation of wealth on corrupt power oligarchs. The leaders of the nation sense it is the country's last chance for greatness and know that they need to invest their wealth back into their society.

In addition to formulating strong social policies and funding a knowledge and scientific revolution, the Russian leaders bring in millions of foreign workers over the next two decades to compensate for their rapid depopulation, creating dynamic new Russian border towns in the far east alongside China. The growing freedom and cosmopolitanism of the new Russia is nurtured by a society intent on modernising and growing. Russia matures into a leading global citizen.

As their core society and civilisation develops and wealth spreads across the nation, the chess master rulers, filled with a new self-confidence, keep playing the USA and China off each other. Russia does not aligning itself exclusively with either of the two rival super-powers, thus avoiding an all-out competition between the three powers. Skilfully and pragmatically, the country continuously shifts its alliances to suit its own agenda but gives enough to both the USA and China to keep them from becoming antagonists.

It's a strategic game of mutually assured power (MAP). Russia soon becomes a master at the new global chess game. Mutually Assured Power becomes the political key to the peace that surrounds and fosters the Federation's economic and social golden age.

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