



## Russia's Decline: Predictions and Recommendations

Vladislav Inozemtsev

Whatever Russian leaders may insist when depicting their country's regained greatness, Russia, seen in the longer run, is of course a declining power. Even a sketchy overview suggests this, for a variety of reasons. If one starts with geopolitical might, she or he will see the country's territory contracted by 23.8 percent since 1990, recovering only by a measly 0.16 percent with Crimea's annexation in 2014. Russia's military influence also declined sharply since most of its allies had gone, almost all of its military bases throughout the world were abandoned, and the supply of new weapons to the military decreased by 4–10 times since late Soviet times. These days, Russia—as recent events have proved—is unable to threaten NATO countries in a conventional engagement.

If one takes the economy, she or he will witness a dramatic slump in any of the secondary industries, except those currently owned by foreign companies (e.g. those producing passenger cars or domestic supplies of refrigerators, washing machines and television sets). With up to 67 percent of exports consisting of oil, oil products and natural gas in 2014, Russia was unable even to increase the output of these commodities compared with 1990. The country does not produce anything like high-tech medical or telecommunications equipment, computers, photo cameras, or even major kinds of office appliances.

If one looks at science and education, she or he will see the number of students has increased threefold compared with 1990; and yet, today, Russia, which formerly had the most-educated workforce in the world, cannot produce any substantial scientific breakthroughs, and talented researchers have emigrated, building another Russian economy abroad (the fortune of Sergey Brin, one of the founders of *Google*, exceeds all allocations for scientific research made by the Russian federal government in the last eight [!] years).

If one assesses political developments, she or he will see that inside the country, the same kind authoritarianism that was present in the Soviet Union, is taking shape, benefiting a kleptocratic elite; while in foreign policy, the former universal Communist doctrine has been supplanted by a particular concept of the "Russian world," which cannot be welcomed even (and primarily) in

neighboring countries. If one turns to ideology, she or he will see the resurgence of religious fundamentalism, the substitution of knowledge (especially in political science) with myths and conspiracy theories. Overall praise for “conservatism” and “stability” actually simply means rejection of any change, and nothing more.

The first crucial question that comes to mind here is whether this decline may be stopped, never mind reversed, in some foreseeable future. I would argue that it cannot, for at least four reasons. First, for a society to modernize, both its elite and its people should acknowledge its backwardness and understand that they must turn their backs on the past and embrace the future. In today’s Russia, quite the opposite might be seen: Both the government and the governed praise the Soviet experience and the glory of the past, insisting that the country “rise up from its knees,” thereby taking failure for success and rejecting any need for change (i.e. putting an end to decline). Second, the Russian elite actually owns the country, but formally cannot turn it into its property; therefore, its major aim is to plunder the national wealth rather than to increase it. In such a kleptocratic society any attempt to build something new seems counterproductive; for example, the modern highway between Moscow and Saint Petersburg is still under construction after twenty years of efforts, with no new railways built since the Soviet collapse. Third, the political class understands quite well that industrial modernization can create a new middle class not dependent on oil revenues and state-managed wealth redistribution, which would therefore be more sensitive to democracy and the rule of law. The instinct for self-preservation would not allow this, but rather tells Kremlin insiders that they should prefer the old commodity economy to a new industrial one to maintain their grip on society forever. Fourth, and the final point I would like to make, is that any modernizing country used to have a counterpart, or ally, which supplied it with technology and capital and absorbed much of the industrial goods it produced (the United States and Japan played such a role for many Southeast Asian nations). Russia today has voluntarily cut its ties with Europe and the US and allied itself with China, by itself an industrial powerhouse, which is by no means interested in a modern, industrialized Russia—preferring to treat it only as a kind of commodity supplier. I can go on, but I believe this is enough to argue that Russia will not turn toward modernization any time soon (and the unsuccessful attempt at modernization undertaken during Mr. Medvedev’s presidency proves this quite forcefully.)

If one presupposes that Russia’s decline will continue, the next question is what will be the most significant factors that contribute to it. I will point out three, which, I believe, greatly outweigh all the others.

First, it is the economy that suffers from declining oil prices. Although the current economic downturn is definitely not as sharp as those in 1998 and 2008–2009, it has already lasted longer. With the fall in oil prices more than halving Russia’s exports (projected at \$230–240 billion in 2016 compared with \$526 billion in 2013) and taking the state finances deep into the red (the deficit for 2016 is estimated to top 3 percent of GDP), personal income fell in 2015 by around 10 percent and will decline by a comparable amount this year. Since oil prices are not expected to recover to \$100 per barrel (bbl) in the coming years, Russia’s reserves may be depleted by 2018, forcing the government to devalue the ruble to over 100 rubles per dollar and to cut the real value of wages and pensions. Contracting consumer demand will take the economy down further, with the most modern industries (e.g. automakers, homebuilders, mobile communications and banking) suffering the most. Looking both at Russia’s own experience of the 1990s and at Ukraine’s and

Belarus's adventures of the 2000s, I would argue that a prolonged economic depression will not cause popular unrest, and may not even support opposition to the current regime, but it will definitely increase outward migration, stop any technological advancement, shift a significant part of economic activity into the gray zone, and aggravate all tensions between the state and business, thus paralyzing economic activity and discouraging both domestic and foreign investors from putting money into Russia. Even though Russia's economy will not collapse, as some now suggest, it will turn, as I wrote in a recent article in *The Washington Post*, from an economy of hope into an economy of disillusionment, so the economic downturn will last for years. In this case, I would compare Russia's future with, if not Venezuela, than with that of the Argentinian recession of the 2000s, when that country's GDP was falling or stayed flat for a decade or so. I would argue that neither the lifting of Western sanctions, nor a moderate (up to \$60/bbl) rise in oil prices will change this perspective. For Russia's return to 4–5 percent annual growth, either \$140/bbl oil or a complete change of the economic policy is needed, but none of this seems probable.

Second, one should not underestimate the effect of a corrupt and incompetent bureaucracy. The logic of power in Russia requires that the lower levels of administration be composed of less competent (so the holders of higher positions can be secured) but of equally corrupt (so the “vertical of corruption” remains functional) officials. The result is a growing share of misused or stolen money that makes the cost of everything in Russia even higher than in developed countries and increases the taxes needed for the state apparatus to run. Today, the overall tax burden in Russia equals that in Austria, while the state-supplied services are much poorer, not to mention the absence of the rule of law. The negative effects of poorly made decisions are huge: One large state monopoly, *Gazprom*, invested more than 2.4 trillion rubles in 2011–2015 (\$62 billion, or 3.3 percent of Russia's annual GDP) into projects that never appeared operational. Another conglomerate, *Rosneft*, paid \$56 billion to establish control over a smaller company, TNK-BP, in 2013; at present, the newly acquired assets account for 22 percent of the united company production, while its current market value fell under \$40 billion (so around \$50 billion of the invested money was wasted). The new space launching facility now under construction in the Far East costs around 70 times more than the annual lease Russia was to pay to Kazakhstan for an old launching facility—can anyone say that 1.1 percent annual return is a good investment? No one in Russia was able to predict the outcome of the annexation of Crimea, which resulted in Western sanctions depriving the Russian economy of around \$300 billion in foreign disinvestment in 2014–2016. More and more decisions—such as Russia's “countersanctions”—are taken due to purely political reasons, and even then because they benefit one elite group against the other, or since they seem to fit more into the ideological framework of the day. I will without any doubt deem this bureaucratic madness the second most important factor contributing to Russia's current decline—both in economic and socio-political terms.

Third, I would stress the peculiarities of contemporary Russia's ideological and sociological milieu that make the nation pursue mostly illusionary objectives. The most important trend in Russian political thought in recent years has been increasing mythologization accompanied by evolving propaganda and the imminent affinity for “sacred” meanings. Alongside the resurgence of religion and search for identity, Russians have begun to depict their country as a unique, or even “chosen,” nation that should be a beacon for true conservatism, therefore opposing a “decadent” Europe and imposing “moral considerations” on any laws and norms. This makes Russia unsuitable for domestic modernization, since contemporary rational society is mostly based on the notion of what

is legal or illegal, rather than what one states is good or bad; at the same time, this kind of worldview suggests that Russia is encircled by enemies and withstands a lot of challenges (the majority of which are actually illusory). All of the above makes contemporary Russia completely unpredictable and irrational—in this sense, German Chancellor Angela Merkel was absolutely right saying Vladimir Putin “is living in another world.” I would even argue that the irrationality of this kind praised in today’s Russia is a core virtue and that it is the major factor contributing to Russia’s autarkic position in the global political and economic arena. In trying to reemerge as a superpower, admitting it has a right to condemn what it believes is bad and to support, even with military means, what it considers good, Russia excludes itself from the community of decent nations and therefore limits its chances to cease its current decline.

One may perhaps cite some additional reasons for arguing Russia’s current decline will go further, but I would also point out some trends I think observers should *not* be concerned with.

The most striking is the issue of demography: The majority of Russia analysts insist that the aging of the Russian population, its poor health and its overall decline represent the biggest danger for the country. I think this assumption is greatly mistaken because Russia has an abundant population compared with its economy. *Russian Railways*, for example, operating only twice as much rail as Canada’s, employs 1.1 million workers, compared with Canada’s 69,000; *Gazprom* is seven times less effective per employee sales than *Exxon* or *Shell*; and the Russian Far East, being in constant economic trouble, has twice the population of the US state of Alaska. At the same time, close to 20 percent of the male workforce serves in the military, law enforcement bodies, or as private guards, producing nothing, not to say preventing others from developing the Russian economy. Therefore, I would argue that it is not the lack of people, but the inherent ineffectiveness of the Russian economy and governance that endangers the nation.

The same may be said about the ethnic composition of the Russian people. The country now looks nearly mono-ethnic, with Russians comprising 82 percent of the population, and the non-Russian majority existing only in the Republics of Tyva and Yakutia in Siberia, and throughout the North Caucasus regions (Russian-majority Adygea, Krasnodar and Stavropol, notwithstanding). There are no visible ethnic conflicts in the country, even if the government is doing nothing to establish and promote the sense of ethnic tolerance. The number of Muslims in Russia is on the rise, but these days they constitute not more than 10 percent of the population, and religious issues do not divide Russian society. So, from my point of view, Russia is not at risk in dealing with ethnic minorities—even if there are some tensions present in relations between locals and migrant workers from the poorer post-Soviet republics of Central Asia.

I would also strongly disagree with anyone who predicts Russia may split into different states as the Soviet Union sometimes did. First, I would remind that no mono-ethnic state has ever broken down or become divided except as a result of a lost war; that all the “national” republics are doing badly in economic terms, are very dependent on the federal center and do not want to repeat the history of those new nations that broke away from Russia in early 1990s and are now desperately poor; and, last but not least, Russians in Siberia and the Far East who were quite predisposed to talk about seceding from Moscow during the initial post-Soviet years now understand that if they do so those provinces will soon become new provinces of China, and not new wealthy independent states. So I do not share the views of those who predict Russia may fall apart any time soon—there

is a much greater probability that it will continue its decline as a single entity.

Also, I would dismiss the hypothesis that Russia's decline may be accelerated by the ideological conflicts arising inside the Russian society. My view is that Russia these days is a highly de-ideologized nation, consisting of people preoccupied by their personal issues, trying to pursue higher standards of living, and turning into a more and more individualized community. Except for rare (and relatively small, taking into account the number of urban dwellers) street actions organized by the opposition, there is no ideological mobilization to be seen in the country: All the rallies by pro-Kremlin movements are simply well-paid mass actions orchestrated by the presidential administration. The number of people really devoted to some political or ideological doctrines is, I would say, close to zero, so this kind of tension is not likely to disrupt the country.

With regard to the perspectives of Russia's decline, I would not describe them as a kind of dramatic, or catastrophic, development. Today's Russia possesses a huge degree of inertia that may save the country from any of the doomsday scenarios. The central point in the debate of the consequences might be the question of whether Russia's current ruler, President Putin, may change the direction in which the nation is heading. I think he is not able to do so, being bound by both his understanding of what Russia is destined for and his (and his clique's) personal financial interests. Putin's reaction to then-president Dmitry Medvedev's abrupt modernization perfectly shows that he is not ready for any change, and the current situation in the country is well described by the deputy chief of the presidential administration, Vyacheslav Volodin, who famously observed in 2014 that "if there is no Putin, there is no Russia these days." The current "stability" (or, I would say, a stable decline) will persist in Russia as long as Mr. Putin holds power, and he will maintain power as long as he is alive (in one or another position, or by one or another means). The people will not oppose Mr. Putin's rule for several reasons, but primarily because the crisis seems to be caused by external factors, like the falling price of oil and because it will take at least four to five years for personal incomes to reach levels in common with the early Putin years. I would also add that the Russian political landscape is today free of any figures who may be considered real alternatives to Mr. Putin, while the existing opposition leaders are—and will continue to be—preoccupied with quarrels between each other rather than with any attempts to take on the current regime.

In forecasting what Russia may look like in 2025, roughly ten years from now, I would say that it will remain a commodity economy producing less of the oil, gas and other raw materials that it produces now, and staying far below its current position in global ranks. In 2013, Russia was a country with a \$2 trillion economy with GDP calculated at market exchange rates; in 2016, it will be a \$1.1 trillion economy, and will slide below \$1 trillion in 2017. By 2025, Russia may become the twelfth or thirteenth ranked economy in the world, which means it will no longer be counted as an economic superpower in any sense. It will remain dependent on imports of all high-tech and much of the durable goods, while still supplying the rest of the world with young educated professionals and bright minds who will leave the country in growing numbers. Russia's military will become less ambitious as the majority of Soviet-manufactured nuclear arsenals become obsolete, with no substitution in sight. Being ruled by Mr. Putin for all these years, the country will become an even greater international pariah after launching new conflicts around its borders and supporting the least respected regimes around the world. It will also remain one of the world's most corrupt countries, and this fact will more and more disturb both European nations and the

US. The Russian leadership will prove unable to realize any of its “grand projects” of today—neither the creation of a full-scale economic union between several post-Soviet states (EvrAzES), nor the launch of a large Asia-Europe transit corridor through its Siberian territory. The actively debated “pivot to the East” will also go bust as Russia’s enticement by China will disappear and Sino-Russian economic cooperation will reveal its limited scope.

With respect to the above, I would argue that Russia’s decline is definitely a man-made phenomenon, and it will stay with us as long as this man is alive. If that were not the case, Russia possesses huge growth potential if it sides with the European Union, embraces basic Western norms and rules (I would not say “values” because I believe norms and rules are of more crucial importance today for Europe and America than values), and becomes an open and democratic society. Even if this seems extremely unlikely from today’s perspective, I would not exclude such change for several reasons. First, historically Russia is a European nation, and the Russians are actually jealous of the Europeans despite their insistence that their country should follow a unique path. Second, the Russians have a great capacity to adapt to new rules and norms, as well as to integrate with different societies; in the same way that they transformed from communist collectivists into market individualists, they might embrace Western practices quite rapidly (I will note here that the only former Soviet republics that did not experience a significant outflow of the Russian population after 1991 were the Baltic states, which are now a part of the EU). Third, the West itself, I believe, will need Russia in the future as a still significant ally in dealing with the non-Western world, especially China, and therefore if the “Putin factor” disappears, a rapid reconciliation between Russia and the West might well be expected. I will not even mention such obvious obstacles as the might of today’s social constructivism and the influence of developed countries’ “soft power,” arguing that the change in Russia’s path may be quite impressive if all the necessary preconditions are in place.

In closing, I will remind that for a country to be genuinely modernized, it should go through a remarkable defeat and disarray to eliminate all the illusions that a return to the past may yield. In the Russian case, the humiliation of the 1990s was definitely not enough to turn Russia into a “normal” country (as, I would say, Germany’s defeat in World War I was also not enough to transform it into the most peaceful nation in Europe). Russia today is experiencing a decline that the Russians take for a revival, but in some distant future, it will become clear that the country is sidelined in every possible sense. After Russia once again experiences a long economic crises, consolidates its position as the exporter of nothing but oil and gas, witnesses all former Soviet republics either merging into the EU or being absorbed into the Chinese sphere of co-prosperity, and loses the rest of its geopolitical influence, it will once again become a different country. No one could imagine in 1984 that Russia would be an independent democracy in 1992 and that the USSR would cease to exist—so one should be prepared for a similarly sudden change after the current political clique is deposed from power. And in such a case, the economy will not play a crucial role: Anyone who has studied the East Asian experience knows that even with \$300 per capita GDP and without any modern technology at all, back in 1993, Vietnam successfully launched a modernization effort that made the country a bigger exporter of manufactured products than Russia is these days.

Taking all of the above into consideration, I would suggest that Western leaders not overestimate Russia’s current capabilities nor try to launch a new containment strategy against her—but rather

look at her as a prospective part of the Western world and try to develop a strategy for dealing with a weak and underdeveloped but potentially pro-Western Russia, using the outcomes of its decline as a perfect “buying” opportunity, as professional stock-market traders may say in such a case.

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*Vladislav Inozemtsev is a Russian economist and professor at the Higher School of Economics in Moscow. He is founder (in 1996) and director of the Center for Post-Industrial Studies, a Russian think tank. Currently, he is the Austrian Marshall Plan Foundation Fellow at Johns Hopkins University's School of Advanced International Studies. Dr. Inozemtsev is the author of over 600 printed works published in Russia, France, the United Kingdom and the United States; including 15 monographs, four of which have been translated into English.*