



SEVEN REVOLUTIONS FYI

"An initiative to promote strategic thinking today on the key public policy issues of tomorrow."

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In this issue ...

SHAPING RUSSIA'S TOMORROW

Celeste Wallander, CSIS director of the Russia and Eurasia Program, recently shared her insight on Russia at a SEVEN REVOLUTIONS FORUM. Dr. Wallander, along with a noteworthy panel of invited guests and experts, discussed the alternative futures for Russia out to the year 2025. The forum highlighted many key issues relevant to Russia's future, including several of the ones presented below:

TWO CRUCIAL QUESTIONS

Russia's future is dependant on several key factors. Among other things, the Eurasian giant is facing a rapidly declining population, significant health challenges (including the rapid growth of HIV/AIDS), lagging industry, and a military that, from equipment to philosophy, is obsolete.

Current national leadership must tackle two questions that will generate crucial consequences in the years to come:

- First, *what* will Russia be? Will it become a democratic post-imperial power, or a fading force of times past?
- Second, *where* will Russia be? Will it become a free-market-driven society, or a state retreating into nationalism and regional hegemony?



CELESTE WALLANDER: The future of Russia depends on its governance capacity.

To answer these questions, says Celeste, we need to take a close look at Russia's governance. If its leaders choose to act strategically in addressing these looming challenges, Russia can spare itself from significant hardship over the next two decades. Moscow's fate depends largely on itself.

UNEVEN ECONOMICS

The first governance challenge is in the area of economic reform. Economic growth in Russia—though more recent trends have been encouraging—is still uneven. Growth is largely

limited to the oil and gas sectors as well as some sectors of the economy associated with the military industrial complex, such as nuclear facilities and aerospace

Overall industry, however, lacks transparency. This becomes particularly noticeable in both heavy industry and in the crawling technology sector (though it shows some signs of progress).

STRATEGIC UMBILICAL CORDS

Russia's economic trajectory will depend in large part on the reform of policy infrastructure and physical infrastructure. In the key energy sector, the main question is whether we will see "umbilical cords"—pipelines—constructed to China (2007-08 possibly) and to Japan (2015 possibly). These cords may or may not materialize, but regardless of outcome they do raise longer-range questions about Russia as a raw-materials-dominated economy.

The challenges associated with modernizing the physical infrastructure are daunting. CSIS Trustee and former U.S. National Security Advisor Zbigniew Brzezinski has noted that it will take around \$25 trillion over the next 25 years to renew Russia's industrial infrastructure.¹ He also points to estimates that the Russian infrastructure is on average three times older than those of the OECD nations.

To put things in perspective: Though Russia occupies a territory nearly double the size of the United States, its economy is about one-tenth that of the United States. Closing this gap means that the Russian leadership will have to take decisions that are difficult to sell politically and even more difficult to implement.

BANKING ON REFORM?

Another vital indicator, says Celeste, is the extent to which Russia can reform its banking system. Even if major sectors of the economy are modernized, they will need a strengthened financial system to consolidate gains and increase efficiencies.

In this regard, Celeste asserts, the trends do not look favorable. There have been few indications that a system-wide modernization of the financial and banking system are on the horizon.

¹ Zbigniew Brzezinski, *The Geostrategic Triad - Living with China, Europe, and Russia*. (Washington: The CSIS Press, 2001), 55

DEMOGRAPHIC DECREASE

Russia's population is currently below the 145 million mark. Total population fell by five million during the 1990s and could dip below 135 million by 2025. Some experts believe that Russia might contract by an astounding one-third (nearly 50 million) between now and the year 2050, bringing total population to approximately 100 million.

Fewer people naturally means a smaller labor pool and less consumption. Such a population retraction might result in anywhere between a 1-5% decrease in gross domestic product. In other words, beyond the immediate and serious direct political and social implications, the potential decrease in population by 2020 could become a drag equivalent to a full percentage point of GDP growth.²

Celeste argues that it is not only a question of how many Russians will be alive at the 2025 point. Beyond that, she argues, we need to think about what quality of life will exist for the population then.

DISEASE ON THE RISE

Disease will contribute to this population decrease in the coming years. The Russian government estimates that in 2002 there were approximately 240,000 HIV-positive people in Russia. Other estimates calculate the number at around 1.4 million cases. In the next decade, the corresponding figure is projected to be between five and eight million HIV cases in Russia.

In addition to the HIV/AIDS pandemic, Russia is also experiencing the spread of drug-resistant tuberculosis (TB). A case in point: It is believed that the rampant spread of HIV/AIDS and TB is

² See the World Bank report entitled "The Economic Consequences of HIV in Russia," World Bank, 2002. See also "The Next Wave of HIV/AIDS: Nigeria, Ethiopia, Russia, India and China," September 2002. The National Intelligence Council assessment can be downloaded at <http://www.odci.gov/nic>.

attributable in part to Russia's penal system. It is said that 80-90% of inmates in some state-run prisons have contracted these diseases while in jail.³ The staggering number of inmates released back into the population every year creates a sort of injection scenario--pumping refined and ever-more virulent forms of disease back into society.

The public health sector is not responding in a way anywhere near commensurate with the threat. For this reason, Russia has been identified as one of the "second wave" countries of the global HIV/AIDS pandemic.

WHO'S TO FIGHT?

The end of the Cold War has left Russia's armed forces without a clear-cut enemy. Russia continues to have a Cold War military doctrine directed against a single powerful enemy and operating on largely unchanged R&D and procurement systems. The stagnation of a decade-plus old personnel policy (mass mobilization, conscription, resource systems) and the health hazards of a truly disease-ridden military force only add to the trouble. Indeed, the military's worst enemy is itself. It has become, according to Celeste, "a disease-ridden, brutal" part of Russian society.

Celeste stressed the irony that at a time of diminished military tension between Moscow and Washington, this systemic degradation of the Russian military was increasing the reliance there on nuclear weapons.

A GOOD ENOUGH SOLUTION

Amid the possible scenarios for Russia in the coming years--rapid reform, muddle through, or centrifugal--it is expected that Russia will follow the middle path.

This muddle-through scenario is not all bad. On the upside, in the near future, Russia will likely join the WTO because the incentives are too

³ Nicholas Eberstadt, "The Future of AIDS," *Foreign Affairs*, November/December 2002, p. 26.

great. Russia is currently the largest global economy not yet in the global trade framework.

LOOKING WITHIN

Celeste emphasized several times during the *Seven Revolutions Forum* that good and effective governance via public policy today would save Russia from even more significant problems in the coming decades. The country cannot afford incomplete or ineffective progress and reform. Yet governance without timeliness is not enough - only if it begins now can Russia manage to limit the variables that put its future at risk.

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