Last BRIC Standing?

Russia in 2050 – or Why Geography and Demography Matter More than Growth Rates for Long-Range Forecasting

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Abstract

Certainly, all other things being equal, an economy will do better when its firms are efficient, its workforce is productive, its institutions protect property rights, and its leaders are not corrupt. But, all other things are not equal. Some things – such as demographic trends and the distribution of natural resources – exert a powerful, if hidden, influence over long-term trajectories in geopolitics and global political economy. This paper contends that, of the group of regional powers referred to as the BRICS (Brazil, Russia, India, China, South Africa), it is Russia, not China, that is likely to be in the best geopolitical position 30 years from now. As the world’s population surges towards a projected 9 billion by 2050, the world’s most critical resources - fossil fuels, arable land, and renewable freshwater resources -- will be increasingly scarce and costly. Russia’s total and per capita share of these resources will both constitute tremendous assets, especially vis-à-vis other ambitious regional powers. Russia’s demographic trends, which will decline but not fall as precipitously as once projected, are likely to produce a more manageable population whose living standards can be boosted far more easily than will be the case in China or India. Under these conditions, Russia will increase its already formidable advantage in human development indices while having a relatively easier time managing to balance investments in its population’s needs and its broader regional and global agendas. This is not an endorsement of Russia’s policies or institutions; the point is that these may not matter as much as we think when it comes to long-term trends in geopolitics and economic development.

Edward Mansfield (2014) offers a two-fold appraisal of the significance of rising powers—defined here as the BRIC countries—for the study of international political economy (IPE). On the one hand, current approaches in IPE suffice to explain the behavior of rising powers since none threatens the present architecture of the global economy or the positions of the United States and European Union. On the other hand, one rising power, China, has managed to surpass the others in military and economic capabilities, warranting a closer examination of the linkages between political economy and national security. While this view seems eminently reasonable, I argue that forecasting the relative material capabilities of the BRICs over a longer period, say over the next quarter century, requires stretching the boundaries of IPE to pay close attention to incremental changes in demographic patterns and in the geographic distribution of vital resources. Such factors are difficult to capture in the ontologies of conventional IPE theories; yet, over the long run, they may well determine the upper limits for a rising power’s capabilities in the global economy. With this in mind, I offer the following tentative proposition: Russia is the BRIC country with the best prospects for boosting both its global economic clout and its population’s living standards over the next quarter century.

The BRIC Club and Russia

In 2009, Russia’s economy contracted by a shocking 8% in the midst of a global economic crisis and falling oil prices (while India and China recorded GDP growth rates of 7.4% and 9.1%, respectively). Since then, Russia has become the only BRIC to be viewed as a candidate for exclusion from the category. The Russian economy has come to
be seen as corrupt, institutionally rigid, susceptible to the resource curse, and bogged down by crumbling infrastructure and low productivity (e.g., Aslund 2009). Paul Krugman, among others, has stressed that Russia’s reliance on oil and gas exports for 40% of government revenue made its “petro-economy” more similar to Saudi Arabia than to China, India or Brazil, which rely more on labor-intensive manufacturing (cf. Bloomberg 2011). Even Russia’s Ministry of Economic Development now projects that Russia will not reach the 4% growth target set by Vladimir Putin following the 2012 presidential election.

While Russia’s economy has serious deficiencies and may well be under-performing, the picture becomes less bleak once we consider a wider range of economic data across the BRICs. Russia’s GDP growth rate has fallen, but it still exceeded that of Brazil and the world as a whole, in eleven of the thirteen years from 2000 to 2012. Russia may devote a far smaller share of its GDP to gross fixed capital formation than China and India, but it has consistently ranked ahead of Brazil since 2001, and its level of total gross fixed investment has risen sharply over the last fifteen years. While Russia does rank lower than the other BRICs in perceptions of corruption, none of the BRICs score well on the transparency index, and cross-national studies of actual corruption offer no evidence that Russia is significantly more corrupt than the other rising economies (Treisman 2010). And while the World Bank’s (2013b) latest Doing Business Report has Russia ranked 92nd in terms of the ease of doing business, up 19 spots over the previous year’s rank and ahead of Brazil (116th), India (134th), and even China (96th).

These observations suggest that we should not hastily dismiss the world’s sixth largest economy based on falling growth rates. For long-range forecasts, we must also
consider a rising power’s access to vital resources (particularly arable land, freshwater, and energy reserves), given its population size and consumption patterns. Such factors do not directly correlate with annual growth rates or capacity for innovation. They do, however, impinge on the relative material capabilities of rising powers in the global economy.

Demographic Catastrophe or Higher Living Standards?

The decline in Russia’s population since 1992 has been characterized by many as a looming crisis (e.g., Eberstadt 2011). What has been overlooked is the reduction in the rate of population decline: the average annual rate of change fell from -0.26% per year between 1992 and 2005 to -0.12% per year between 2005 and 2010, followed by a slight increase thereafter (United Nations 2011; World Bank 2013a). This is an outgrowth of several shifts: in-migration now matches or outpaces out-migration; the infant mortality rate is now half what it was during most of the 1990s; and the fertility rate has been rising since 2006 (Adomanis 2013; World Bank 2013a). Russia’s population will soon start to decline again, but long-term projections have had to be revised upward. In 2000, the United Nations used its medium-fertility variant model to project that Russia’s population would fall to 104 million by 2050. The 2010 revision used the same variant to project a population of 126 million (United Nations 2011).

At the lower rate of decline now expected, Russia’s population size may well be a blessing in the long run. Specifically, Russia is in a position to extend its lead over the other BRICs in living standards without drawing away resources from other objectives. Consider, for example, that while China’s per capita income has nearly quadrupled since
2000, Russia’s advantage over China ended up tripling in that period thanks to Russia’s much larger absolute increase in its per capita income (World Bank 2013a). The point is not to reaffirm the truism that countries with smaller populations can more easily convert growth into increases in per capita income. It is to highlight the fact that Russia is in a much better position than the other BRICs when it comes to boosting living standards without significant opportunity costs with respect to other objectives.

This is evident in per capita healthcare expenditures (based on PPP). The figure for Russia ($1316) has surpassed that for Brazil ($1043), which led the BRICs until 2005, and is more than three times China’s ($432) and nearly ten times India’s ($141). While infant mortality had already declined significantly in the USSR, the level has continued to fall, with the gap between Russia (9 per 1000 live births) and the U.S. (6) now one-third of what it was in 2000. The other BRICs have also made progress, but still lag behind: China is at 12, Brazil at 13, and India at 44. Moreover, Russia’s 9.7 hospital beds per 1000 people are more than the figure for Brazil, India, China, and South Africa combined (World Health Organization 2013). In education, while literacy rates have risen everywhere, Russia’s population has the highest average years of schooling per student (11.7), not far behind the U.S. (13.3) and well ahead of China (7.5), Brazil (7.2) and India (4.4). In addition, Russia has 76% of those completing secondary schooling exposed to tertiary education, a figure that is closer to the 95% for the U.S. than to the 27% for China, 26% for Brazil, or 18% for India (World Bank 2013a). These gaps are not likely to disappear anytime soon given that the countries that are lagging have larger populations with a higher incidence of poverty. Nearly 12% of China’s population and 33% of India’s—a total of some 500 million individuals—live below the World Bank’s
extreme poverty threshold of $1.25 per day (PPP at 2005 prices). In Russia, as in the
U.S., that figure is 0% (World Bank 2013a).

All these differences combine to account for why Russia is pulling away from the
other BRICs on the United Nations’ human development index (HDI). Russia’s current
HDI rank of 55 is eighteen spots higher than what it was in 2006. The other BRICs have
made gains in their composite scores, but have seen their rankings drop over the same
period: Brazil has fallen 15 spots to 85th, China has fallen 7 spots to 101st, and India has
fallen 4 spots to 136th (United Nations 2013). Thus, far from being selected out by a
demographic catastrophe, Russia’s population is enjoying a higher average standard of
living relative to the populations of the other BRICs. And, the gap is likely to keep
growing once we consider the varying resource pressures facing each of the BRICs.

A Resource Blessing: Land, Water, Energy

As the global population climbs towards a projected 9 billion in 2050, the world’s
most vital resources are becoming more scarce and costly. Russia’s per capita shares of
these resources, however, are growing. In terms of arable land, Russia’s per capita
acreage stands at 0.85 hectares, four times greater than the world average of 0.2 hectares
and ten times the per capita acreage for China at 0.08 (World Bank 2013a). With just 2%
of the world’s population, Russia controls 11% of the world’s arable land, while China
and India have a combined 36% of the world’s population with access to just 24% of
arable land. The proliferation of genetically modified grain might lessen the pressure on
some populations in some regions. But this does not change the fact that, over the next
quarter century, Russia will have more flexibility than the other BRICs in a world where
global stocks of cereals have been declining and food prices have been trending upward (FAO 2013).

In terms of internal freshwater resources, the past five decades have witnessed a 50% decline in per capita global supplies. By 2030, demand is projected to rise by 75-80%, producing a greater shortfall worldwide even with the discovery of new sources and improvements in water productivity (European Environment Agency 2010). Under these conditions, it is significant that Russia’s per capita access to internal renewable freshwater resources is five times the world average, while China’s figure is one-third of the world average and India’s just one-fifth. While these figures are not currently suggestive of a crisis for China and India, the long-range forecast is far from reassuring. At a minimum, it appears that China and India may have to expend more resources to preempt water scarcity at least in some locales.

This brings us to the energy sector. While the other BRICs scramble to satisfy their growing energy needs, Russia not only remains a net exporter but has proven oil reserves that are almost double that of the other BRICs combined. Brazil, India, and China together consume nearly five times as much total energy as Russia, but Russia’s per capita energy usage is four times that in the other three combined (World Bank 2013a). Even if Russia’s energy exports are contributing to a “resource curse”—for example, by delaying institutional reforms or dampening the push for innovation—the negative impact of this on Russia’s annual growth rates is unlikely to outweigh the benefit of not having to seek out new sources of energy, as the other BRICs are having to do. More generally, the resource curse for Russia is not likely to be as problematic as for countries that became reliant on petroleum exports prior to industrialization (Treisman
2010). In fact, there are indications that revenues generated by Russia’s energy exports are not all being squandered. Between 1999 and 2012, Russia’s world rank in international currency reserves rose from 39th to 5th, while its rank in total gross fixed capital investment went up from 32nd to 7th.

To be sure, revenues generated by fossil fuel exports can take a hit when there is a sudden drop in oil prices or a glut in the world gas market. Indeed, the increased output of shale oil and liquefied natural gas (LNG) in the United States has reduced energy imports significantly. Yet, global demand for oil and gas is growing unabated, with total worldwide energy consumption expected to rise by 50% by 2035 (U.S. Energy Information Administration 2011). In Europe, while increased supplies of LNG allowed some countries to cut back on pipeline gas from Russia in 2012, the demand for Russian gas jumped more than 15% during the first half of 2013 (Marson 2013). This suggests that, while energy prices will undoubtedly fluctuate year-to-year, the band within which these fluctuations occur will continue to rise over the next quarter century, as has been the case for the past quarter century (BP 2012). Until alternative energy sources are made easily and cheaply available on a global scale, the revenue generated by fossil fuel exports is likely to confer a long-range advantage for Russia relative to the other BRICs.

Finally, it is worth remembering that Russia has the military capabilities to defend its natural resources. While China is spending twice as much annually as Russia on its military, this does not translate into a meaningful advantage against a country that possesses a massive nuclear deterrent. For its part, Russia is currently able to devote a higher percentage of its GDP to military expenditures while also spending more per
capita on education and healthcare. Simply put, the long-range “guns-and-butter” equation looks far better for Russia relative to the other BRICs.

**Conclusion: The Long-Range Influence of Demography and Geography**

The two largest BRIC economies, China and India, may keep recording higher growth rates than Russia. But, they are also likely to face increasingly complex trade-offs as their massive populations continue to grow. India may have become a responsible and respected member of the G-20. But, the Indian economy has been slowing down, and the slowdown played a role in ending the rule of the once-dominant Congress Party despite lengthy periods of high growth that once reached as high as 10 percent and justified India’s status as a BRIC economy. Looking ahead, the new business-friendly government of Narendra Modi has promised to revive growth, attract more investment, and improve infrastructure (with a recently approved railways budget that envisions a network of high-speed rail lines to cut down travel time between major cities). Yet, with a population projected to reach 1.6 billion by 2050, the difficulties of improving on India’s current per capita GDP rank (123rd in the 2013 World Bank rankings) are only too obvious. Even if India were to return to annual growth rates of 7-8 percent, the challenge of providing employment for the growing population will require considerable resources without undermining crucial outlays to deal with basic issues such as food security, improved education and healthcare facilities, and more widespread access to running water and electricity in sprawling squatter settlements and the rural areas where a majority of India’s vast population still resides.
But, far more than India, it is China that is thought to be the regional power that is most likely to continue to improve its geopolitical clout and perhaps even emerge as a global power that can challenge the position of the United States and the other members of the G-7. The sheer size of China’s economy makes it easier to imagine China mounting a challenge as not just a regional power but a global power as well. China’s economic growth has also declined, but given the higher peak, the current growth rate of over 7 percent remains higher than most emerging economies; and it is certainly far higher than the other BRICS’ growth rates. Given the sheer size of China’s economy, which is likely to surpass the United States’ as the world’s largest economy, there is no question that China will continue to be a dominant Asian power and a formidable global power for many decades to come. Even so, China’s industrialization drive is eventually going to reach its limits, and it is far from clear how China will be able to manage its massive workforce while providing for the needs of a still growing population that is going to surpass 1.5 billion before beginning to decline. Under these conditions, the costs of satisfying China’s consumption needs as well as rapidly growing energy needs will inevitably run up against the imperative of improving living standards in a country where, despite a drop in poverty rates, 300 million people still live under the World Bank’s $2/day poverty line.

Russia is no more likely than China to be able to carry out a successful challenge to the present global order, largely due to the fact that the sheer economic size and military power of the United States and its European allies will remain preponderant, even if these enter a period of decline. Yet, thanks to its much smaller population and much larger share of vital resources, Russia is far better positioned than other regional
powers to pursue both higher living standards and greater clout within its immediate surroundings and within the international system writ large. At a minimum, even with poor governance or increased corruption, Russia has more of a buffer when it comes to the pressures of meeting the competing imperatives of maintaining the living standards of its population and sustaining its geopolitical ambitions. One indication of this is in the relative positions of Russia and China vis-à-vis the United States and Europe on a number of key indicators. Table 1 compares how Russia and China measure up to the United States in terms of demographic trends, national income, social spending, and access to vital resources. That Russia, which faces far lower population pressures, is much closer to the United States on many of this factors points to long-range trends that do not quite match up with the expectations and inferences commonly attached to China’s projected rise to the position of the world’s largest economy. Table 2 compares trends in per capita gross national income across Russia and China to two member countries of the original European Union (EU-15): Italy, which matches up most closely with the EU-15 average, and Portugal, which represents the lowest ranked of the EU-15. This table shows that, despite the massive increase in China’s per capita GDP, the gap between Russia and China has only continued to increase, presumably as a result of Russia’s higher starting point and the absence of resource pressures. Yet it is also worth noting that the gap between Russia and the two European powers has come down during this period, with Russia almost having caught up to the lower-ranked EU-15. Together, the tables draw attention to the ways in which demography and geography are working towards Russia’s long-term advantage in often invisible ways, without being reflected in high annual growth rates or in marked shifts in policies or institutions.
Table 1: Selected Indicators - China, Russia, U.S.*

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Russia</th>
<th>U.S.A</th>
<th>China / Russia as % of U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (1000 persons)</td>
<td>1,344,130</td>
<td>142,960</td>
<td>311,592</td>
<td>431.4 / 45.9</td>
</tr>
<tr>
<td>Gross National Income – GNI (PPP, billion $)</td>
<td>11,271</td>
<td>3,032</td>
<td>15,211</td>
<td>74.1 / 19.9</td>
</tr>
<tr>
<td>- GNI per capita (PPP - $)</td>
<td>8,390</td>
<td>21,210</td>
<td>48,820</td>
<td>17.2 / 43.4</td>
</tr>
<tr>
<td>- GNI per capita increase since 2000</td>
<td>+6,050</td>
<td>+14,550</td>
<td>+11,750</td>
<td>---</td>
</tr>
<tr>
<td>Education - per capita expenditures</td>
<td>335</td>
<td>827</td>
<td>2,636</td>
<td>12.7 / 31.4</td>
</tr>
<tr>
<td>- Tertiary education (% of pop.)</td>
<td>27%</td>
<td>76%</td>
<td>95%</td>
<td>28.4 / 80.0</td>
</tr>
<tr>
<td>Healthcare - per capita expenditures</td>
<td>432</td>
<td>1,315</td>
<td>8,607</td>
<td>5.0 / 15.3</td>
</tr>
<tr>
<td>- Infant mortality (per 1000)</td>
<td>13</td>
<td>10</td>
<td>6</td>
<td>---</td>
</tr>
<tr>
<td>Arable land (1000 hectares)</td>
<td>109,999</td>
<td>121,750</td>
<td>162,751</td>
<td>67.6 / 74.8</td>
</tr>
<tr>
<td>Per capita (hectares)</td>
<td>0.08</td>
<td>0.83</td>
<td>0.53</td>
<td>15.1 / 160.4</td>
</tr>
<tr>
<td>Renewable freshwater resources (billion cu. m)</td>
<td>2,813</td>
<td>4,313</td>
<td>2,818</td>
<td>99.8 / 153.1</td>
</tr>
<tr>
<td>Per capita (cu. meters)</td>
<td>2,053</td>
<td>30,388</td>
<td>9,044</td>
<td>23.1 / 335.0</td>
</tr>
<tr>
<td>Energy use, per capita (kg of oil-equivalent)</td>
<td>1,807</td>
<td>4,943</td>
<td>7,069</td>
<td>25.6 / 69.9</td>
</tr>
<tr>
<td>Oil output (mil. barrels/day)</td>
<td>4.3</td>
<td>10.1</td>
<td>10.1</td>
<td>42.6 / 100.0</td>
</tr>
<tr>
<td>Proven reserves (mil. barrels)</td>
<td>20,350</td>
<td>60,000</td>
<td>20,680</td>
<td>98.4 / 290.1</td>
</tr>
<tr>
<td>Human Development Index Rank</td>
<td>101</td>
<td>55</td>
<td>3</td>
<td>---</td>
</tr>
</tbody>
</table>


Table 2

GROSS NATIONAL INCOME (GNI) PER CAPITA (PPP – current international $)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Russia</th>
<th>China</th>
<th>Italy</th>
<th>Portugal</th>
<th>China - Russia</th>
<th>Italy - Russia</th>
<th>Portugal - Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>5,570</td>
<td>1,490</td>
<td>20,830</td>
<td>13,490</td>
<td>-4,080</td>
<td>15,260</td>
<td>7,920</td>
</tr>
<tr>
<td>2000</td>
<td>6,660</td>
<td>2,350</td>
<td>25,560</td>
<td>17,430</td>
<td>-4,310</td>
<td>18,900</td>
<td>10,770</td>
</tr>
<tr>
<td>2005</td>
<td>11,560</td>
<td>4,090</td>
<td>28,290</td>
<td>21,050</td>
<td>-7,470</td>
<td>16,730</td>
<td>9,490</td>
</tr>
<tr>
<td>2008</td>
<td>19,850</td>
<td>6,200</td>
<td>33,010</td>
<td>24,450</td>
<td>-13,650</td>
<td>13,160</td>
<td>4,600</td>
</tr>
<tr>
<td>2009</td>
<td>18,600</td>
<td>6,740</td>
<td>32,070</td>
<td>23,880</td>
<td>-11,860</td>
<td>13,470</td>
<td>5,280</td>
</tr>
<tr>
<td>2012</td>
<td>22,720</td>
<td>9,040</td>
<td>32,920</td>
<td>24,770</td>
<td>-13,680</td>
<td>10,200</td>
<td>2,050</td>
</tr>
</tbody>
</table>
Such a long-range forecast is intended neither as a cautionary tale of a resurgent Russia, nor as an endorsement of Russia’s current policies or institutions. It is an effort to rethink the relative prospects of the rising powers in view of certain material facts that tend to get short shrift in social scientific theorizing. Theories of international political economy tell us that, all other things being equal, economies perform better when leaders are more accountable and regimes better secure property rights; when international organizations reduce the transaction costs of monitoring agreements; or when dominant political coalitions embrace open-economy policies conducive to trade and investment. But, long-range forecasts require taking into account that all things are not equal. In fact, insufficient attention to some of these things—such as slow-moving demographic shifts and worldwide distributions of valued resources—may be one reason why, as Mansfield (2014) notes, social scientists do not have a strong track record of long-range forecasting.

If we hope to do better in this regard, we may need to leverage a more expansive version of what Peter Katzenstein and I have termed “analytic eclecticism” (Sil and Katzenstein 2010). Analytic eclecticism is intended to self-consciously frame problems in such a way as to focus attention on the complex interactions of mechanisms typically explored separate contending research traditions in social science disciplines. What this paper has suggested that analytic eclecticism’s reach needs to be further expanded to trace how these interactions and their effects are reshaped, muted or reinforced in the long run by certain “brute facts” in demography and geography. Such facts, if they are considered at all, tend to get relegated to “context” or treated as “exogenous” in social science theoreis. Yet, they can exert a powerful, if hidden, influence the long-range prospects and trajectories of states currently thought of as rising powers in the global economy.
Bibliography


