

# RUSSIA

## The Rhythm & Rhyme of History

History might not repeat itself, but some regions seem to have a habit of regressing into roles that have dominated for centuries. No matter the state of the world, the evolution of industries or the disposition of their people, some places on earth just have difficulty escaping their past.

So here they go again. Russia entered the 21st century the same way they entered the 17th, 18th, 19th and 20th centuries. They have a lone autocrat calling all the shots from Moscow. They have an elite oligarchy controlling all of the major resources. Their government polices the media, silences opposition and breeds apathy. They fear the allure of Europe might pull their people to the West, so they close off their borders and ensure a widening sphere of influence keeps their vast nation buffered from the influence of outsiders. They have more farmland than anywhere else on the planet, but their people still starve. They seem to have one foot in the world of the advanced countries, but one still stuck in the quagmire of the developing world.

Russia is a paradox of extremes, and it is no closer to resolving these disparities than it was under the reign of Peter the Great or Catherine the Great or even Josef Stalin. In fact, it looks like they're heading backwards.

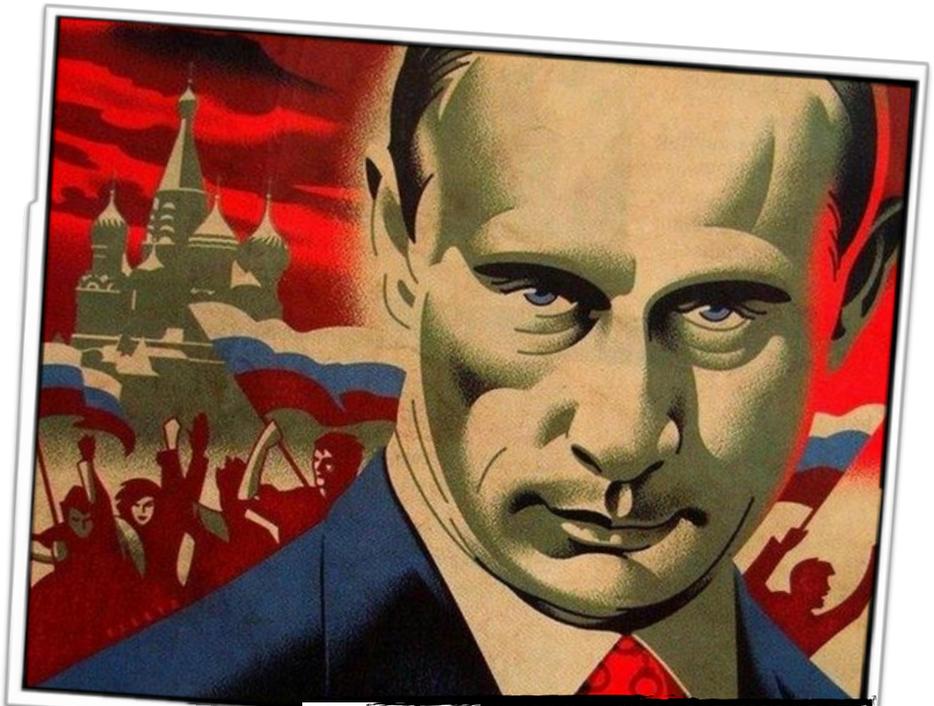
After the fall of the Soviet Union in 1989, Russians briefly experimented with democracy and capitalism.

They failed.

## Failing... Forward?

Russia opened up its polls to free elections and opened up public industries and lands to the highest bidder. It released its hold on the Soviet satellite nations, allowing each to pursue its own destiny. Russia turned inward, hoping the wonders of the free markets and the invisible hand would sweep in and compensate for decades of mismanagement and outdated business practices.

Opportunistic moguls who had friends in the right places swept in and gobbled up the factories, mines and farms from the government, buying them for kopecks on the ruble. These moguls became billionaires. The former Soviet republics degenerated into chaos, totally unprepared for self-rule. By 1998, Russia was a mere shadow of its former self. Its people were mired in a recession that left banks closed and 60% of their population below the poverty line. Boris Yeltsin had won another election, but everyone knew the democratic process was a sham, and that corruption and ballot tampering ruled the system. The nation that was once a



### Key Questions

- What have become the common elements of the Russian society?
- Describe the impact of Putin on Russia?
- How did Russia's economic policies create rapid growth? How did it limit Russia's business potential?
- What do you feel are the top 3 issues facing Russian society in the 21st Century?
- Do Russia's international interests align with the desires of the USA? Why or why not?

superpower had failed at communism, and it now seemed like it would likewise fail at their bastardized form of capitalism and democracy.

### **The Rise of Putin**

Then Vladimir Putin took over. But more importantly, then oil prices started going up. China and India needed energy and Russia had the oil, the natural gas, the coal and the timber to fill their insatiable hunger. Within a decade, Russia was clearly recovering. Its people were no longer suffering, but were actually flourishing. Unemployment dropped to 15% and many proclaimed Putin their savior. He had rescued their economy and restored their pride.

Putin then turned his forces on neighboring Georgia, invading the nation who teased Europe into believing it was going to enter NATO. Russia could not lose one of its holdings to the West. They might not be the Soviet Union anymore, but they were not exactly feeble and willing to release their neighbors from their sphere of influence. The international community was frustrated with Russia's land grab, but they did nothing. The Russia of the early 21st century was starting to look a heck of a lot like the one that ruled over Eurasia for the whole of the 20th.

Russia had crawled back from its self-inflicted purgatory, and the world watched to see if this was Russia's permanent reality or merely a blip on their road to joining the world of liberal democracies and free market capitalists.

### **Economic Rebound?**

But Russia doesn't have to follow the path of the rest of the world because it is by far the most resource-rich country on the planet. It has what the world needs. It has \$7 trillion in oil reserves, \$19 trillion in natural gas reserves, \$23 trillion in coal reserves and \$28 trillion in timber reserves. Russia's getting rich. By 2013, they'd already stocked up a savings account worth \$527 billion. They were no longer a debtor nation. Their economy was spinning.

This reliance on resources brought prosperity to the Russian people, but it also masks a ton of problems that threaten to bring down the current government should the price of energy plummet. In 2013, oil prices hovered around the \$93 a barrel range. Just fifteen years ago, it sat at around \$12 a barrel. What happens if the commodities markets collapse? What hidden problems will be exposed?

First, the Russian government under Vladimir Putin has created an unsettling, symbiotic relationship between big business and the state. Seeing how the privatization of Russian industries destroyed the economy in the 1990s, Putin pushed for what he calls "national champions," companies willing to pursue not only profits, but also do the bidding of the government whenever called upon. Here's how the system works. The Russian regime approaches a business to see how open they would be to a partnership with the government. If they decline, the Russian court system steps in. They inevitably find some minute offense or CEO indiscretion, and use this information to "legally" liberate the company from its private owners. The authorities then turn over title to an entrepreneur willing to play ball and bow to government interests. In one very public example of this type of hostile takeover, energy company Yukos was charged with tax evasion. Oddly enough their tax bill came to 111% of their actual profits, an odd figure considering other energy companies paid less than 20% of their total revenue. The courts didn't care about the lack of logic. They forced Yukos into bankruptcy and their assets were auctioned off to the highest bidder loyal to Putin. In this manner, Putin has built up a cadre of companies intensely loyal to his cause, not willing to cross him should they ever disagree.

### **Limitations**

This inconsistent, shameless interpretation of the law has scared off would-be investors from around the world. Who would want to start up a company in Russia when the government could shut it down at any moment? Would Dell Computers? Coca Cola? IKEA? Who would risk it? And because Russia has made foreign investment so unappealing, countries have also made it near impossible for Russian companies to expand

overseas. The logic being – if you don't support us, we won't support you. This unspoken blackout of Russian industries has put a ceiling on the growth of Russia's manufacturing sector. Likewise, the resource curse has handicapped the development of other industries. There's no Russian software or pharmaceutical or automobile giant that even comes close to rivaling those goods created in Europe, East Asia or the United States. Can you even name a consumer good exported by Russia (aside from vodka and caviar)?

### **Gov't Oversight**

Putin has also attempted to seal off any criticism of his policies – a task far more difficult in the age of the Internet. Russians have shown a willingness to protest in recent years. Tens of thousands marched on the capital city after Putin's 2011 phony election, and some have even begun staging flash mobs to denounce his policies. In 2012, the shock rock, punk band Pussy Riot, a group known for their colorful costumes and political messages, staged a musical protest at a Christian church. The Russian government wasn't huge fans of the girl band's antics. Trying to escape prosecution, a few of the bandmates fled the country, but two others were arrested and then sentenced to imprisonment. This trial gained international recognition and illustrated how there was an undercurrent of discontent hidden beneath the economic prosperity of recent years. The disenchanted protesters have yet to unify, but should Russian authorities continue to come down hard on civil disobedience, or should Russia's economic fortune shift, a possible political challenge could be ripe for action.

### **Unequal Distribution**

Yet even though local industries are paralyzed and freedom of speech really isn't that free, the majority still heralds the reign of Putin. They remember all too well the despair of the late 1990s. They also know that income inequality is monumental in Russia, but unlike in other countries where the rich stay rich and the poor stay poor, in Russia, wealth can come and go at a moment's notice. In the last fifteen years, 90% of Russians claim to have seen their salaries drop below the poverty line. You can be middle class one moment, destitute the next. One of the reasons for this oddity is that Russian companies don't fire people when the economy drops. In the United States, if a company needs to cut back, they simply lay off thousands of their employees. In Russia, everyone stays on, but they all take a pay cut. In this manner, during a recession, millions more see their standard of living drop than they would in a standard capitalist structure (though they won't see their depth of despair go as deep as those who find themselves fired with no hope for employment).

Russian inequality also stems from geographic realities. Russia's resources are unequally distributed. Ten regions (out of 83) produce 75% of the country's wealth. Live in those regions, you're doing well. Live outside them, you're going to struggle to make ends meet. Workers also suffer because industries are often placed far away from other resources. Under Stalin and his party officials, clusters of manufacturing plants were placed far away from Russia's western borders to ensure if Europe ever invaded, their industries would be safe. But there's a problem with this logic. These industries can be stuck out in the middle of a forest, instead of next to an airport or a port or a canal. Not only does it cost the firm a ton of money to get their product to market, for all their employees living in the boonies, purchasing luxury items, or even necessities, is near impossible. Of course, the easiest solution to this problem is to move to the cities out west. But this immigration has only exacerbated the problem, as more and more regions out east struggle to maintain any level of economic stability.

### **Modern Issues Facing Russia**

Urban migration is one of many demographic nightmares facing Russia. Its people are sick, depressed and old. Russia's alcoholism, murder and suicide rates are distressingly high. Their people contract tuberculosis, hepatitis and AIDS at rates that rival Sub-Saharan Africa. Their prenatal care is horrible, so millions are born with abnormalities. The Russian military recently claimed that 23% of their conscripts had physical disorders and 21% had mental disorders. The average life expectancy rate is 61 years for men and 73 years for women (a larger gender discrepancy rating than anything you'll find in Europe or North America). Even with these short life spans, the plunge in birth rates and minimal immigration means that Russia is getting smaller. In 2013, it had 143 million people. By 2050, that number could drop to 128 million. This reduced adult population will have

trouble replacing the workforce, but will also struggle to replenish the needed military quotas, and for a nation that has seemingly imperialistic aspirations, this could cause a problem.

### **Russia's International Interests**

Since 2008, Russia has made every inclination that it wants to again be a major player in global issues. Because of its permanent seat on the United Nations Security Council and its veto power, it will continue to play a critical role in world affairs. But this isn't enough for Russia. Every clue suggests Russia would love to have its former satellite nations back under its domain. When the nations of the Caucasus Mountains (Georgia, Armenia and Azerbaijan) pushed for democratic reforms and inclusion in the European Union, Russia stepped in and ensured that wouldn't occur. They openly passed out Russian passports to residents of these countries, and then conveniently claimed they might need to invade the nations to ensure their "citizens" were protected.

This refusal to allow democratic reforms has put Russia at odds with the United States. Although it has been hesitant to match force with rhetoric, the United States has condemned Russia's meddling in regional affairs, especially when it prevents democracy from sprouting. Likewise, Russia has been less than enthusiastic about supporting the countries of the Middle East and Northern Africa caught up in the Arab Spring. More a fan of business as usual, Russia is a bit nervous about meddling in the affairs of other countries (unless of course, Russia is the one determining the course of the affairs). And to Russia, the Arab Spring is more a harbinger of anarchy than one of stability. Whether it's in Syria or Libya or Egypt, Russia would much prefer a dictator able to keep violent factions in line, than a fledgling democracy unable to satisfy the needs of the multiple extremist ideologues. Russia also sees these Arab revolutions as opening up possible breeding grounds for radical terrorists who might one day return to Russian territories to exact their extremist agendas. The tragic massacre of 400 school children in the province of Chechnya still disturbs local and federal officials, and the idea of a new generation of terrorists on their soil causes grave concern.

For these reasons – the desire to prevent chaos and the creation of terrorist training grounds – Russia has been unable to support attempts by the United States and European nations to intervene in Middle Eastern conflicts. In Libya, when civilians were at risk of being wiped out by Muammar Gaddafi's forces, Russia chose to abstain from the UN vote, allowing England and France to create a coalition that provided air support to the rebel forces. But then the forces pulled out, leaving Libyans to contest who would have the right to fill the power void. It is this abandonment of responsibility that truly frustrates Russian foreign policy makers. In Iraq, and soon in Afghanistan, America has shown the willingness to engage militarily, but unwilling to see peace through to fruition. Once US troops pulled out of Iraq, the nation slid back into sectarian conflicts, and the same will probably hold true for Afghanistan when UN forces are pulled out in 2014. Russia does not want the same for Syria. If the Sunni rebels take over power, their fear is that they will want to exact revenge on the Shiite and Christian minorities, turning first Syria and then the rest of the Middle East into one huge religious war. Russia would prefer the status quo.

But America has a problem with the status quo, as this means dictators are allowed to oppress their people and democracy is stifled. In the first few years of Barack Obama's presidency, US- Russian relations actually improved. Vice President Joe Biden coined this improvement of relations a "reset" – a chance to start all over again as allies. Initially this reset worked. The US and Russia signed a nuclear weapons treaty, the Russians agreed to have American aircraft fly over their soil and the World Trade Organization even admitted Russia (with some needed convincing from US diplomats). But all of this goodwill has come to an end with the America's dealings with Russia over Syria and the Middle East. America would like Russia to just get in line and follow the American lead. Russia would prefer working with their partners Iran, Syria and even Israel to broker some kind of peace in the region, while allowing nations to independently determine their fates.

This puts the two nations at conflict – a situation they have grown quite accustomed to over the past hundred years.

Where Russia goes from here is anyone's guess. Will they reform their political system before the government loses all sense of legitimacy? Will they expand their industries so that they are not so reliant on a few natural resources? Will they find a way to separate the business from the government so that the entrepreneurial spirit can truly be tapped? Will they find a way to feed their people and keep them healthy so that their nation doesn't lose their ability to compete with the still expanding nations of the world?

Or will they do nothing and simply hope that their resource gift never becomes a resource curse?

We'll just have to wait and find out.

But that is for another chapter.