

Russia 2020

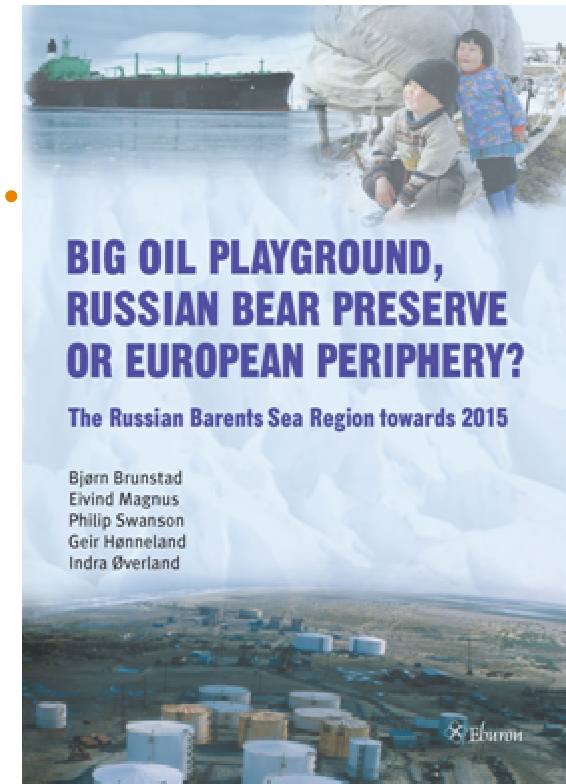


NORFACE conference, NUPI January 07

Bjørn Brunstad, ECON

ECON's Russia scenarios

- Started out with scenarios for Russian Barents Sea region towards 2015
 - Developed in cooperation with FNI, NUPI, WR
 - Aimed at international audience, with little prior knowledge on region
- Developed into scenarios for Russia as a whole towards 2020
 - Continuously adjusted according to current events
 - Complemented by early warning tracking system
- Applied as backdrop for
 - policy making towards Russia,
 - corporate strategy making for Russian market, and competition with Russian actors in other markets
 - other



Keys of current situation in Russia

- Strong economic growth
 - Oil-driven
 - Richer state, rapidly growing oil fund
- Centralisation drive
 - Authoritarian tendencies
 - Over-burdened hierarchical decision-making structure
- Policy implementation problems
 - Rule of law and property rights not well established
 - Rampant corruption
- Geopolitical games over “near abroad”
 - Applying the energy lever
- Soviet heritage and post-empire pains
 - Inferiority complex and ‘phantom limb pains’

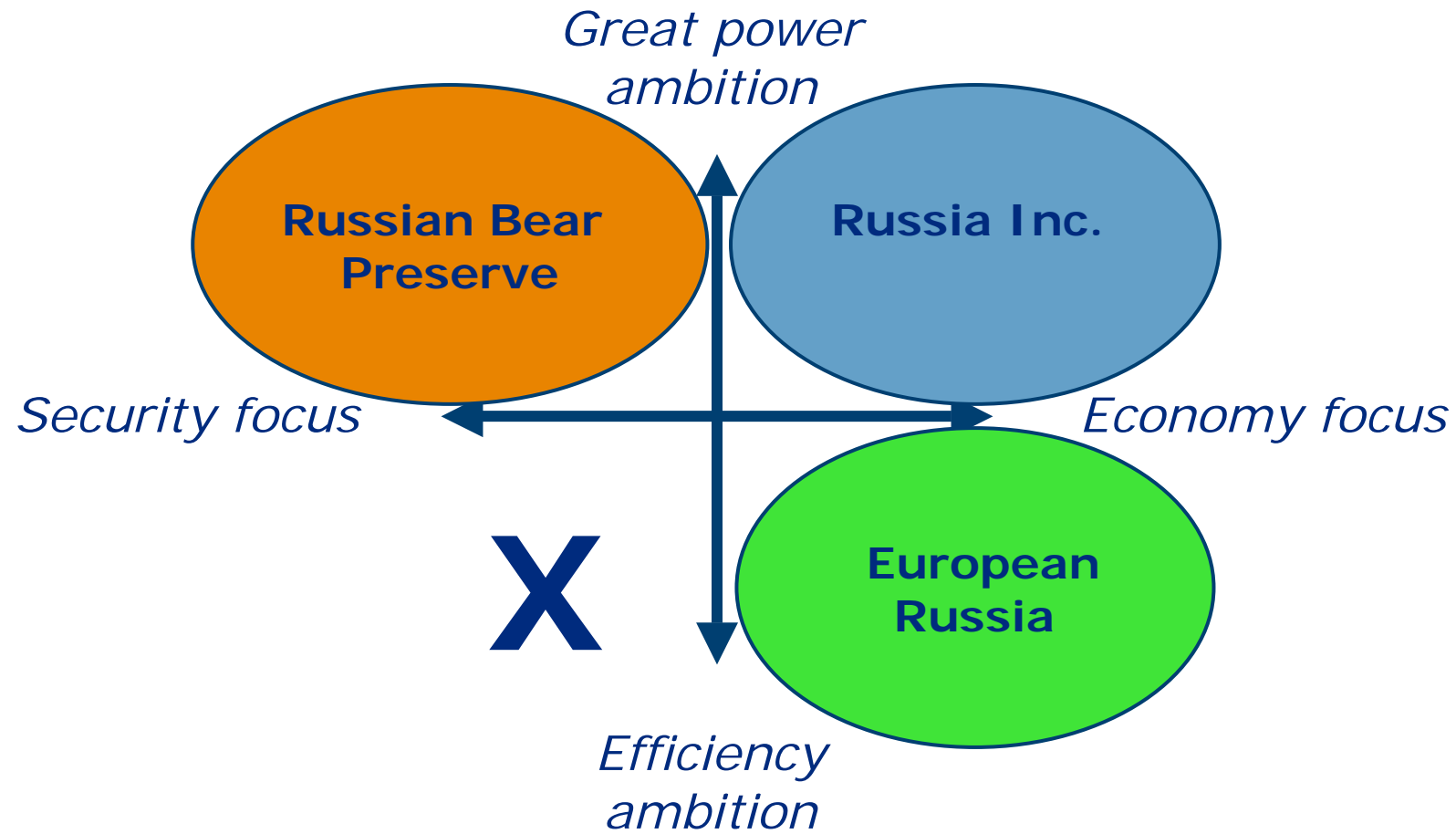
External change drivers

- Globalisation
- The rise of the Asian giants, esp. China
- Global and regional oil and gas demand patterns
- Geopolitics of energy
- Clash of civilisations and war on terror
- Global economic growth
- Foreign direct investment in Russia
- Information and communication technologies
- Climate change discourse
- Alternative energy technologies

Internal change drivers

- Investment incentives in Russian oil and gas
- Economic mentality and reform in Russia
- Demographic decline in Russia
- Migration patterns within and into/out of Russia
- The rise of a post-Soviet generation
- Social inequality
- Centralisation of power in Russia
- Centrifugal forces in the post-soviet space
- Islam in and around Russia
- Nationalism and patriotism

Scenario logic



Russian Bear Preserve



Russian Bear Preserve in 2020

- The world in an age of resource nationalism

- Russia in geopolitical balance between East and West, playing them against each other
- Energy resources used as political tools
- Weaker energy ties with Europe, more hostility
- Strong state control in strategic sectors, “silovik-CEOs”
- Machiavellian, nationalistic, authoritarian rule
- Power politics and preference for secrecy trump the rule of law

How did we end up here?

- Globalisation slowed, was met by resource nationalism across the globe
- Control over strategic resources became top priority for Russian government
- More control was main response to Russia's challenges
- Siloviki came to dominate top echelons both corporate and politics

Russia Inc



Russia Inc in 2020

- The world in an age of globalised, giant corporations with clear cultural identities

- Russia is a semi-democratic state, where “company men” dominate government
- Internationalised, Russian national majors in energy and some other sectors compete on global stage
- Energy corporations and other strategic majors still state dominated
- “Corporatised” civil society

How did we end up here?

- Globalisation became global competition of corporations with “national” identities
- Russia made great efforts to build strong corporations with global reach, economic reforms geared to this end
- State retained negative control in key corporate majors, company men entered top political positions
- Gazprom, others entered global corporate stage with aggressive expansion horizontally and vertically

European Russia



European Russia in 2020

- World in an age of regional cooperative structures

- Russia is semi-democratic state with strengthened rule of law
- Population concentrated in climatically friendly parts
- Reasonably diversified economy, more deeply integrated with Europe
- Russia a major manufacturing nation
- Very strained relationship to ambitious China in the Far East

How did we end up here?

- Globalisation galvanised regional cooperative structures competing based on joint economic strength
- Russia and Europe shared view of China as a threat, and mutual and complementary interests slowly won over suspicion
- Authorities met energy crisis with a push for domestic long-term energy efficiency
- Diversification, reforms and integration with Europe were accelerated to stimulate Russian innovation economy
- Migration towards climatically friendly and economically dynamic regions accelerated

Patterns of early warnings

Russian Bear Preserve



- Poisonings and killings
- Near abroad gas crises
 - Georgia standoff
 - Spy accusations against NGOs
- Foreign oil operations under scrutiny and pressure
 - Independent oil companies squeezed
- Stockman postponed and "all-Russian"
 - Patriotic youth movements
 - Patriotic tv-stations
- Election law changes

Russia Inc



- Gazprom investing in downstream foreign assets
 - Gazprom/Rosneft explore cooperation on shelf
- Gazprom, Rosneft joint ventures with foreign companies
 - Gazprom into Sakhalin-2
 - Alfa group seeks control in Vimpelcom, alliance with Vodaphone

European Russia



- Electricity and gas prices increasing towards market prices
- Structural reform in power sector
 - Industry parks for foreign investment
- Russia making use of Kyoto protocol opportunities
 - Privatisations of airports, transport infrastructure
- Rapid south-west migration

Conclusions

- Russian Bear Preserve is the best map at the moment, and will most likely remain so at least for a couple of years
- Russia inc is also an important frame of reference today, while fewer elements of European Russia are evident
- Both Russia inc and European Russia seem more plausible over time – as new responses will be made to looming economic challenges
- Most important juncture on the horizon is Putin succession, and new President's approach to main challenges

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