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Editors: Marcin Zaborowski (Editor-in-Chief) ● Katarzyna Staniewska (Managing Editor)
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Russia's Demographics: Is the Boat Sinking Again?

Stanislav Secrieru

The record high outflow of capital from Russia in 2014 is the most obvious consequence of the Kremlin's military intrusion into Ukraine. But it is not only investors who resent the regional security crisis and economic uncertainty. Preliminary data for 2014 and early 2015 show that Russian citizens are leaving the country in greater numbers, while Russia does not attract as many migrants as before. Shrinking human capital, coupled with a massive cash exodus will, if they continue for a long period, weaken the Russian economy and might shatter its power position in the post-Soviet neighbourhood.

Shaky Pillars of Natural Population Growth. During 20 years of demographic decline, Russia's population shrank by 5 million. In 2013, Russia recorded, for the first time since 1992, natural population growth (almost 23,000 people). The combination of higher birth rates (+0.3%) and lower mortality rates (-1.1%) helped to reverse the negative trend. According to Russia's statistics watchdog *Rosstat*, the positive tendency continued in 2014, with the natural population growth increasing in 11 months by 37,000. Still, Russia is far from achieving the baby boom that would augment the fertility rate (1.69 in 2013) to the level necessary for sustained population growth (the required fertility rate is 2.1) in years to come. Moreover, although Russia has managed to avert demographic meltdown, and, as a result of the annexation of Crimea, has even boosted its de facto population by approximately 2.4 million, these gains are likely to evaporate under the impact of economic crisis, partially triggered by aggression against Ukraine and by Western sanctions.

Throughout the 2000s, Russian citizens' economic stability and growing prosperity indirectly stimulated higher birth rates. However, as inflation hit double digits, real incomes fell for the first time in 15 years, and layoffs loom, the uncertain economic environment may prompt many Russian families to backtrack on or postpone plans to have more children. Under pressure of self-inflicted economic crisis, the Russian government might in 2015 rekindle the debate on suspending its expensive birth rate stimulus programme (that encouraged families to have second and third children) before the 2016 deadline, instead of prolonging it for a few years as was speculated in 2013. Since the programme was enacted, in 2007, the number of families with second and third children in Russia has shot up from 33%, reaching 52% in 2012. As of April 2014, approximately 5 million families received maternal capital certificates allowing them to draw money from the programme. Assuming more social welfare payments could prove an unbearable burden for Russia's shrinking budget in 2015 (projected -20% revenues), which prioritises spending in the security sector over social outlays. In addition, the Kremlin's determination to invest in military muscle in 2015 (+21%), at the expense of healthcare spending (-22%), might in the medium and long-term drive death rates upward again. Declining living standards are likely to fuel a proliferation of cardiovascular diseases (CVD) in Russia, as happened during 1990s. Thus, timely treatment of CVD, one of the main causes of death in Russia, will require more money not less.

"Creative Middle Class"' Ships. As the economy recovered and politics stabilised through the 2000s, Russians preferred to make money at home rather than emigrate in search of better futures. In 1999, almost 215,000 people left Russia. Then figures declined steadily (to fewer than 40,000 people by 2009). However, Vladimir Putin's re-election in 2012, and the political repression that followed, proved to be catalysts for emigration (123,000 people in 2012). Greater regional geopolitical risks and the worsening economic and political situation in Russia intensified this

trend. In 11 months of 2014, around 283,000 Russians emigrated, the highest number in 15 years. According to data, North America, Western Europe and Australia are among the top destinations of Russian emigrants. For instance, in the first nine months of 2014, the UK's Home Office accepted 162 applications for investor visas from Russians. Such visas allow settlement in the UK, and open the path toward citizenship in return for £2 million investment. In comparison only 96 investment visa applications were accepted in the whole of 2013. There are a growing number of Russian activists and journalists, persecuted at home, emigrating to more pluralist Ukraine.

Among those who depart from Russia are not only wealthy businessmen, but also representatives of the "creative middle class" (the social engine of post-industrial development in Russia), who can find jobs and integrate into globalised urban centres of the Western world relatively easily. With few domestic prospects in 2015, emigration from Russia is likely to grow. Back in 1922, Bolsheviks organised forced emigration of the Russian *intelligentsia*, a process known as "philosophers' ships," in order to solidify their grip on power. In 2014, the policies of Russia's political leadership are also the main cause of emigration. Facing an inhospitable and increasingly insecure environment, those among the most active part of society (regarded as the driving force behind 2011–2012 protests), and thus the most politically dangerous for the Kremlin, prefer to leave the country with their families rather than waiting to be bulldozed by the increasingly coercive state machine. This process strengthens the political regime in the short run, while the Russian economy will suffer in the medium and long term from a shortage of qualified specialists capable of generating innovation and ensuring the efficient management that Russia needs to break away from its stagnant, resource-based model of growth. A survey conducted by PwC in 2014 revealed that 78% of CEOs in Russia complained about a deficit of highly-skilled specialists. With the outflow of money and the emigration of the "creative middle class," Russia has little chance to raise significantly its share of high-tech products on the global market (0.8% in 2012).

Less of a Magnet for Migrants? Throughout the last two decades, the high number of migrants to Russia compensated for the natural population decline. Ethnic Russians from post-Soviet states flocked to Russia between 1991 and 2000. In the 2000s, the stream of migrants to Russia diminished (compared to the 1990s), and the influx became dominated by other nationalities from the post-Soviet area who sought to earn money for a certain period of time rather than to settle permanently with their families in Russia. The UN Department of Economic and Social Affairs estimated that there were 11 million international migrants living in Russia in 2013. Migration, often illegal, to Russia, compensated for the decline in the labour force, reduced unemployment rates in post-Soviet states and generated remittances. As remittances turned into a political and economic stabilising factor in the post-Soviet region, Russia gained an additional lever to exercise pressure on them (for example, the expulsion of Georgians from Russian in 2006).

However, there are signs that the process is reversing. As the Russian currency became weaker (the rouble has lost almost 50% against the U.S. dollar) and economic activity began to decline, representatives of migrants' associations in Russia predicted a drop in labour migrants of up to 50% in 2015. Although Russia's Federal Migration Service has refuted such forecasts, it had to concede that migration inflows in early January 2015 declined by 70% in comparison to January 2014. Besides the sharp decline in migrants' real incomes (caused by the rouble devaluation), there are other factors that influenced statistics on migration. In January 2015, Russia introduced a passport regime with the Commonwealth of Independent States (CIS), excluding members of the Eurasian Economic Union (temporarily Ukraine) who can still travel to Russia using internal IDs. Thus potential migrants from the CIS have to apply for an international passport first, incurring additional costs. Since January 2015, Russia has also cancelled quotas for workers (except for high-level specialists) and introduced mandatory work permits for all migrants, valid for only two years. At the same time, the price of a permit in Moscow region was raised, an example that the other Russian regions followed. In the process of getting the permit, migrants will pay for medical examinations, and a fee of more than $400 for Russian language, history and basic law proficiency tests. Taking into account the more severe migration regime, higher costs of legalisation, halved incomes, harassment by police, and life in often miserable conditions (underground, for example), many migrants might decide to leave Russia or simply not to return again. Alternatively, they might look for job opportunities in other neighbouring countries (Kazakhstan, Turkey and South Korea are among other destinations for labour migrants from Central Asia). With potentially fewer migrants from the post-Soviet region willing to work in Russia, the economy could face a shortage of unskilled labour as well (such as cleaning staff and agricultural workers). Despite the Russian authorities' forecasts that the migrant drain will freeze within two months, the conditions are set for this trend to continue.

Probable Geopolitical Shifts. Prioritisation of the military sector over human capital preservation and development signals a more aggressive foreign and security posture in the near future, with geopolitics far outweighing internal modernisation imperatives. The EU and NATO should take into consideration these developments in the process of defining new strategy towards Russia. Economically declining, Russia is likely to lose lustre in the neighbourhood, absorbing fewer imports and attracting fewer migrants. In the short term, the migrant outflow from Russia will undercut remittance volumes, curbing economic growth rates in the region and potentially creating social pressure on governments. In the medium term, the probable reorientation of trade and migrant flows from Russia to other states will weaken the Kremlin's economic levers in the post-Soviet region, but may encourage Moscow to resort increasingly to military might. Altogether, these prospects require a more robust EU and NATO eastern policy, able to shield neighbours effectively from Russia's encroachments.