

# DONALD JOHNSTON

Chair of the McCall MacBain Foundation; Former Secretary-General of the OECD

## Igor YURGENS

Our next speaker is Donald Johnston, who does not need too much introduction. He is the former Secretary General of the OECD and a minister in many capacities in Canada. The Canadian OECD angle of what Russia represents is very interesting, because we are Northern neighbours. In many ways, we have an identical industrial profile and destiny. The floor is yours, Mr Johnston.

## Donald JOHNSTON

I do not pretend to have the depth of expertise that I perhaps once had, but I have observations in the global context which you may respond to. I must say the title of this panel, which is Russia in 20 years, leads me to think of what Maynard Keynes suggested, namely that we should always examine the present in light of the past for the purposes of the future. That is approach I am taking in these comments.

We know the present and how Russia has declined as a world economic power. I return to that in a moment.

I arrived as Secretary General of the OECD in 1996, just after we received a request from the then Russian Prime Minister Chernomyrdin to join the OECD.

I had very much hoped that this would happen before I stepped down as Secretary General in 2006, and to my great disappointment, personally and in a broader sense, it did not.

To start the accession process I took a very large delegation of OECD experts to Moscow. We had very constructive meetings with a number of high ranking officials including Anatoly Chubais, Boris Nemtsov, Yevgeny Primakov and Alexei Kudrin. I continued to meet regularly with a number of them, especially Kudrin and German Gref as the relationship strengthened.

I worked with Primakov in two different capacities, as Prime Minister and also as Minister of Foreign Affairs. Our engagement with Russian counterparts, including meeting with President Putin made me very enthusiastic about what I felt lay ahead for Russia over the next 10-20 years.

My first visit to Moscow as Secretary General was 20 years ago (I had been there as a Canadian Minister in the early 1980s), so it is quite appropriate that we should be talking of Russia 20 years from now realizing that 20 years go by very quickly, and many unforeseen events have happened in the past 20 years and will happen in the next 20.

When I returned from Moscow in 1997 I wrote a note which I found while writing a book published earlier this year. It read:

“Imagine a Russia with strong investment protection legislation and regulation: the rule of law rigorously applied; well-defined and fairly applied competition policy; a judicial system functioning efficiently and honestly beyond the reach of any political influence; high standard democratic practices; an investment policy that attracts businesses to Russia’s massive natural resources and its human resources – the best and the brightest! What an opportunity for Russia, for long-term security in the Euro Atlantic Region and for the world. “

Sadly it was not to be, and western powers bear much responsibility for the Russia of today under the autocratic regime of President Putin. Those aspirations of 20 years ago are no longer realistic. So today I am wary about making any predictions for the next 20 years except for the following:



First, I see little prospect of Russia exiting authoritarian one man rule whether it be Putin for the time being, or his successor.

Second, I foresee that even with an authoritarian regime Russian will become a major economic power amongst the community of nations.

For those of us old enough to remember the Soviet Union after WWII, it is difficult to believe that Russia's share of global GDP in 2015 was 1.3 trillion US dollars, or 1.8% of global GDP. Imagine this once global super power with a population approaching 150 million having an economy smaller than that of Canada or South Korea!

In the OECD countries (with perhaps changes in some like Turkey and maybe even Poland), we tend to see strong democracies supported by market economies as the way to achieve and maintain general and individual prosperity.

Obviously President Xi of China does not share that view and is offering a competing vision for renewed autocratic socialism but with increased market economy orientation.

No doubt influenced by the obvious fault lines now visible in the economic, social and political infrastructure of the American model, non democratic regimes are unlikely to emulate it, except for the wealth creation benefits of open markets.

They witness an American model which for decades has widened income disparity and increased the wealth gap, now the greatest amongst developed countries. This trend is not sustainable.

Russia under authoritarian government will perhaps adopt something closer to the Chinese model which will shortly overtake the United States as the largest economy in history.

Major transformations over the next two decades will probably create two global ideological views of governance, democratic and autocratic. The trend to strong man autocratic government is accelerating.

An essay in Foreign Affairs (September 26, 2016) reports..." Data shows that personalist dictatorships - or those regimes where power is highly concentrated in the hands of a single individual-have increased notably since the end of the Cold War. In 1988, personalist regimes comprised 23 percent of all dictatorships. Today, 40 percent of all autocracies are ruled by strongmen."

If this trend continues, in twenty years we may well see about 50 percent of the world population under autocratic governance, including Russia, with the other 50 percent under some form of democratic governance.

This need not result in adversarial relationships if their respective developments going forward are based on free trade and open market principles. Indeed that is to be hoped for in the near term in US-China relations.

As we have learned from many experts, the world is entering a new industrial revolution where artificial intelligence ( AI) with intelligent machines will play an increasingly preponderant role in our economies.

This could enable Russia to combine its highly educated population and leading edge AI technologies to move quickly to secure a global leadership role in many AI areas. This is easier to accomplish in autocratic regimes. I fear that democracies will struggle to deal expeditiously with the cobweb of paralytic bureaucracies at different levels of government which can stifle the rapid and efficient deployment of innovative technologies. There will likely be much resistance from organised labour where AI could displace traditional jobs on a massive scale.

As a result. Russia and China may emerge as winners in the competition to dominate the AI robotic revolution.

This suggests that for traditional democracies to compete in the years ahead they must also undergo renewal which will maintain their values and principles while enabling them to embrace and implement an avalanche of new technologies inspired by AI.



Russia enjoys one of the highest literacy rates in the world at 99% as well as one of the greatest percentages of tertiary education graduates.

As economist Joe Stiglitz has noted...” One of the good things that Russia inherited from the Soviet era is a high level of education, especially in technical areas so important to the new economy”

I conclude that Russia, with its rich human resource base, has the capacity to become once again a major global force in twenty years.

**Igor YURGENS**

As Einstein said, the strongest power is an intellectual power, not a military power. If we all manage to sort everything out in my beloved motherland, we will probably muddle through, but will we?