



Russia's Faltering Economy

Anders Åslund says Russia has made consistently bad economic choices and is falling behind economically while the rest of the world climbs out of the global recession.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Anders Åslund is here to talk about Russia and the Russian economy. Anders is the author most recently of the *Russia Balance Sheet* and other authoritative books on the Russian economy. Thanks for joining me, Anders.

Anders Åslund: My pleasure.

Steve Weisman: Anders, Russia is again asserting itself on the international stage at the G-20 and other forums. How has Russia fared in the global economic downturn and what may be a nascent recovery?

Anders Åslund: The big point is that the Russian economy has done very poorly indeed and if you compare with the other three BRIC countries, Brazil has about flat GDP this year, India and China are booming, but Russia expects a GDP fall of no less than 8.5 percent of GDP this year.

Steve Weisman: That would make it one of the biggest declines in the world—I mean certainly the industrialized world.

Anders Åslund: Indeed. One of the biggest declines among the sizeable economies.

Steve Weisman: Why has Russia had so much trouble climbing out of the downturn? In previous conversations on Peterson Perspectives and elsewhere, you have, on occasion in the last year, thought that Russia was heading in the right direction or at least listening to the right advisors. What happened?

Anders Åslund: The short of it is that nothing was done. Russia has really not had any economic policy worth mentioning. We have a common statement now by Rahm Emanuel that a crisis is a terrible thing to waste. Russia has wasted this crisis altogether and not adopted any economic legislation worth mentioning. You can also say that the Russian government has done two things. It has poured money on state corporations and oligarchs and it has poured money on the population so that disposable income hasn't fallen. But that's about it.

Steve Weisman: Who is in charge of the economy? Is it Prime Minister Putin or President Medvedev or somewhere in between?

Anders Åslund: Formally in the Russian system, the prime minister is effectively the chief executive of the economy. But in reality you can say that nobody is really in charge and that's probably an explanation to the problem. We've had a wide economic policy debate, but it hasn't resulted in anything. It has rather been that sometimes the Putin camp is up, sometimes the Medvedev camp, but it hasn't resulted in any substantial structure changes.

Steve Weisman: What are the two or three most important things that Russia should've done and missed the opportunity to do so, and is it too late?

Anders Åslund: It's never too late. You can always do things. What I would say, as the two most important things, is: first to do something serious about corruption. There are so many elements in it that you could do. The other is: improve exchange rate policy. Russia has for years talked about introducing inflation targeting but it hasn't done so as yet and it still has double-digit inflation, will probably have 11-percent inflation this year in spite of the deflationary situation.

Steve Weisman: What's the cure for that?

Anders Åslund: The cure for high inflation is to let the exchange rate float and to impose positive real interest rates rather than having some kind of half pegging to the euro and to the dollar, as is currently the case.

Steve Weisman: Wouldn't that risk plunging the economy even further down in the short run?

Anders Åslund: Not really. What has happened instead is that Russia had an unnecessary liquidity freeze domestically because people have understood the exchange rate policy and speculated against the ruble that has been more damaging.

Steve Weisman: Russia most recently in London issued a joint statement with the other BRIC countries—Brazil, India, and China. What's your perception of this group now? They seem to have such different track records, different philosophies, and yet we think they met together as a group and we often refer to them as a group. Do they really have that much in common?

Anders Åslund: Basically I do think that they have that much in common. They are big, emerging economies, both in terms of economic size and in terms of population. And after all, Russia is the most economically developed of them; but Russia needs to do quite a lot in order to keep up with the others and two features stand out. One is that Russia has been doing so badly in terms of economic growth and the other is that Russia is today the only country in the G-20 that is not a member of the World Trade Organization.

Steve Weisman: There's no indication that Russia is going to change its policy and resume the process for joining. Is that right?

Anders Åslund: Well, there is. As usually in Russia, you have two policies: the Putin policy and the Medvedev policy. The Medvedev policy is that Russia is supposed to join the World Trade Organization within the year. The Putin policy is that Russia is not going to join and the outside world and Moscow itself doesn't know, which is the real policy.

Steve Weisman: That's very confusing. What do you think? Which way are they going?

Anders Åslund: Indeed, you can say that there are two different views of it. One is that Russia is in a suboptimal equilibrium where nothing really happens beyond this. But this doesn't make sense for a big, proud, historical nation like Russia, not to be able to join the WTO. Russia must be able to solve its problems.

Steve Weisman: Why are people in Russia opposed to joining the WTO? What would they have to give up to join?

Anders Åslund: Extremely little. You can say that this is the security police establishment that wants as little international integration as possible, and then WTO is the most important. Then you have other minor interests, agriculture as always in all countries and a bit of automotive industry that tends to be protectionist. But the automotive industry is really down and out now.

Steve Weisman: In their joint statement, the BRIC countries again opposed protectionist steps. But Russia is not practicing what it's been preaching in that regard. Is that fair?

Anders Åslund: Sure, and it was particularly noticeable immediately after G-20 meeting in Washington in November last year. Russia introduced confiscatory tariffs for a secondhand car that's imported into Russia, as if just to make the mark that Russia didn't bother about the decision.

Steve Weisman: What's the latest prospect for energy rescuing or cushioning the blow to Russia?

Anders Åslund: Basically with this oil price around \$70 per barrel or so, Russia is in a situation that it doesn't change. It's not so high that Russia becomes a real petro state and it's not so low that Russia has undertaken serious reforms.

Steve Weisman: It's hard for you or anyone to imagine what goes through the mind of President Obama and the others at the G-20 when they meet President Putin. But let's take an educated guess. What do you think it is?

Anders Åslund: Well...

Steve Weisman: I should say Prime Minister Putin.

Anders Åslund: Let's hope that they meet President Medvedev and I think, increasingly, the view is: why don't these people get their act together? They have all these resources and the problems are so evident and they don't do anything about it. The most outstanding fact that I keep repeating is that Russia has not extended its road network since 2000 because Russia is too corrupt to build roads. No serious country can manage like that.

Steve Weisman: Is the West achieving any success on the political and security issues that compensate for this discord on the economic side?

Anders Åslund: Well, you can say that the West doesn't lose anything from Russia damaging itself economically. If anything, Russia has all the more interest in reaching an arms

control agreement with the United States because Russia will have to reduce its armament in the case. It simply doesn't have the resources for it. Currently, Russian arms expenditure is 7 percent of US arms expenditure. So Russia should be happy about any arms agreement with the United States.

Steve Weisman: I'm sorry, 7 percent of what the United States spends is what Russia spends or 7 percent of the GDP? I'm sorry.

Anders Åslund: Sorry, 7 percent of US arms expenditure. This is the number for last year and this is in current dollars. So Russian arms expenditure is very small and it's not very efficient either.

Steve Weisman: All right. Anders Åslund, thank you very much for taking some time to review this dismal situation. We'll have you back soon. Thanks again.

Anders Åslund: Thank you.

