



# ALEXANDER DYNKIN

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My first speaker will be Alexander Dynkin, President of the Institute of the World Economy and International Relations (IMEMO). Dynkin is an academician and his institute has been making this forecast for 20 years which is pretty accurate, and one was issued for the first time five years ago. That was a very intriguing, interesting, and correct prediction of many things that happened afterwards. The floor is yours, Alexander, and my next speaker will be Michel Foucher.

## Alexander DYNKIN

I had some doubts about the title of our workshop, because nobody knows what the global architecture will be in 20 years. If somebody explained to me how it will look, it would be easy for me to talk about Russia. Let me start with the point that Russia has a complicated story. This is not a country for beginners. For those who have different views, I recommend you revisit Tolstoy, Dostoyevsky, Solzhenitsyn, and so on, and you would understand what I am talking about.

For example, we still do not know the exact number of our casualties during the Second World War. During Stalin's time, it was stated to be 7 million, in Khrushchev's time, it was 20, and in Gorbachev's time, it was 27. This February, during parliamentary hearings, the figure of 42 million was raised. This was based on the secret archives of the State planning committee. Ponder 42 million. This history produced a very heightened and elevated threat perception in the society, and these characteristics were important. Those who do not understand that threat perception could hardly be considered expert on the Russian question. Arrogance and ignorance when we talk about Russia is not helpful.

This October, Dr Henry Kissinger raised an interesting question. He asks, "Is it the wisest course to pressure Russia, and if necessary to punish it, until it accepts Western views of its internal and global order, where would this policy lead to?" In my perception, the answer is rather simple. It would bring this policy to a new bipolarity. On the one hand, it is supposed to be Russia, China, and other BRIC members, CSTO members, and members of the Shanghai Corporation Organisation. On the other side, it would be the US, NATO, Japan, Australia, etc.

The recent sanctions against three completely different countries like DPRK, Iran, and Russia, push the world towards this frightening scenario, in my opinion. I will give the first conclusion of this scenario, if it happens. I believe that in this case, in 10-15 years, the renminbi could become the new clearing currency on a global scale.

For example, the 44<sup>th</sup> President of the United States believed that sanctions would tear apart our economy. As you may see, that did not happen. The economy adjusted to the new price structures and demonstrated moderate growth this year of approximately 2%. This is despite the fact that according to the assessment of some government experts, the sanctions damaged our economy by 1% of GDP annually.

CPI reached its historical minimum since 1992. Better sentiment, domestic demand recovery and construction activity ahead of the World Cup should keep supporting investments as well. Several years ago, the hydrocarbon export generated two-thirds of our federal budget. Currently, it is slightly above one-third. Grain crop this year also reached its maximum, and the country will become number one in wheat exports this year. Compare this with shameful mass-scale grain imports from Canada and the United States in the time of the Soviet Union.

Let me give some figures which help to find the answer to where Russia will be in the future. I will share our long-term outlook and we produce it every five years. I have outlined the previous one, and Magritte's picture is on the cover. I believe that this picture expresses very well the nature of the job of those who look ahead. The gentleman looking at the egg and paining the bird explains how I could describe the work of those who try to predict the future. I have also



included our outlook, but it is not translated into English. It will be translated early next year. There is a picture from a Japanese painter, Morimoto, who revisited Magritte's picture, and it became more complicated.

I have outlined our assessment of the population growth and the global GDP growth. You may easily find out that Russia's economic growth, according to the current patterns, is lower than the global economic growth, and this is the first observation. You may find some approaches to this new bipolarity. I have included the G7, and also the new artificially produced emerging G7. The economic might of those two groupings is approximately the same. These are rather old figures, for the year 2015.

We have also given our outlook on GDP per capita, and Russia is climbing closer to the European Union figures. China is supposed to be ahead of the average GDP per capita in the world, and the United States would be ahead. The final picture, which I would like to show you, is that our assessment about the crude oil demand peak includes the OECD countries. Russia is still growing, but we predict that the climax in crude oil demand will be some time after 2035. Currently, everybody in Russia completely understands that, and we are working on some structural changes in the economy.

If nothing were to happen and Russia were to continue with the growth of an average of 2% a year, what does it mean in the global hierarchy? Today, we are in sixth position in PPP terms, and if the growth were not higher in 2035, we would find ourselves in seventh place, just behind Brazil. In real exchange rate, it means that Russia could slide down from 10<sup>th</sup> place in world GDP currently to 15<sup>th</sup> position, right after Mexico. I believe those two countries, Brazil and Mexico, are our real competitors in many senses. This is in the sense of institution quality, regulation efficiency and structural reforms.

To overcome this inertia trend, Alexei Kudrin and a group of experts are currently working on the comprehensive programme of modernisation and institutional build-up. This is for sustainable and more competitive economic growth. The desirable GDP growth rate is 4% annually, but this is not the target. The biggest departure from previous reform programmes, which we had a lot in the past, is that this is not just an economic exercise in the field of economy. This is a more comprehensive set of roadmaps in the legal sphere, in education, foreign affairs, defence policy, culture, etc.

The appropriate parts and blocks of the strategy are debated in each respective ministry or agency, including the ministry of defence. This iteration process is continuing now, and as you can probably guess, there is resistance to those mostly liberal ideas of the authoritarian modernisation. If that strategy were accepted, it would diminish the uncertainty about future economic policy. Uncertainty, in my perception, is one of the major current risks in Russia. Other economic risks which this strategy is geared to diminish are weak property rights protection, the investment climate, and corruption. By the way, the recent World Bank Doing Business assessment for next year puts Russia in 35<sup>th</sup> position, which is five steps up. Just five years ago, in 2012, we were in 124<sup>th</sup> position. It is a substantial skyrocketing of the entrepreneurial climate domestically.

I will talk about foreign policy suggestions from Mr Kudrin. Diminishing confrontation with the West, including easing tensions around Ukraine, is the narrative of the foreign policy part of this programme. Let me say a few words if our president permits. As history teaches us, the demise of empires almost always brings tectonic shifts in the world order, and it also leaves long-lasting territorial conflicts. Look at the Kashmir conflict, which has continued for 70 years since the British departure and gave us two nuclear states. The fall of the Ottoman Empire and the Sykes-Picot legacy largely fed the current bloody events in the Middle East. The dismantling of Yugoslavia, notably Kosovo, provides another example.

Similarly, I believe the Stalin-Khrushchev borders drawn inside the Soviet Union, according to certain political expediency, have left many territorial mines. It is curious that there are so many fervent supporters of the Stalin-Khrushchev legacy in the West. In 2007, at the Munich Security Conference, Putin warned about the period of Russia's retreat and of the West exploding the troubles of the post-Communism transformation. He said that sidelining and marginalising Russia is over. The reaction, unfortunately, was simplistic. It was portrayed as an effort to launch a new Cold War.



The following year, at the NATO summit in Bucharest, he declared that the fast track for Georgia and Ukraine, or the third wave of NATO enlargement, was unacceptable for Russia. If it happens, he would call for the fastening of belts. This time, France and Germany insisted on cancelling MAP, but the spirit of it prevailed unfortunately, especially among new NATO members. In the West, there was no politician with enough imagination to escape conventional wisdom.

This time, a mirror image of the Caribbean crisis was already visible. This idea of supplying lethal weapons to Ukraine was a very dangerous step in that direction. I do not know what the world order will be in 20 years. Much courage and imagination is needed to take the road not travelled before. Without a new mode of dealing with each other and communicating with each other, it would be impossible to find more promising growth.

### **Igor YURGENS**

This resonates with what Mr Davutoglu just said during lunch. We need some kind of a new system for security, international cooperation and so on and so forth. If I understand you correctly, there is a new bipolarity in the world, in the future and the present, and a new bipolarity inside Russia regarding the progressives versus the conservatives. This is a very interesting thing to watch.