

# YAROSLAV LISSOVOLIK

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## Igor YURGENS

Our next speaker is Yaroslav Lissovolik, who now works as the Chief Economist for the Eurasian Development Bank. Twice already during the discussion, I quoted Zbigniew Brzezinski and you quoted someone else. They said that whoever controls Eurasia is probably the master of the geopolitics of the world, so we are keen to know: are we going to be the leaders of Eurasia or are we going to slide a little bit with One Belt and One Road, and just give it as a present to our Chinese friends?

## Yaroslav LISSOVOLIK

This is probably one of the biggest questions for the next several decades, what the strategy of Russia will be in terms of structuring its alliances internationally. I do think that as Mr Foucher noted, China is a big part of Russia's foreign economic policy strategy in the coming decades. It is the largest trading partner, if you take it country by country.

This is going to be one of the key issues for Eurasia. We are already seeing signs of competition, hopefully creative and constructive competition, between Russia, China in Eurasia. In some parts of Eurasia, in Central Asia, clearly the influence and the economic presence of China has increased tremendously. Before I come back to some of these issues, let me start with a broader general observation.

If there is one thing that we can be certain about with regard to Russia in the next several decades, it is that it will attempt to stage a catch-up effort. That effort will definitely necessitate a certain strategy. The strategy that dominated before seemed to be very simplistic. It was clearly not very successful, in the sense that it was largely dependent on the hope that the West would deliver the goods, so to speak. The disillusionment with regard to that vision was palpable and was striking in some ways in the past several years.

There are some examples that I would bring, and Mr Johnston touched upon some of these issues. In the WTO accession, if there is one thing that could have been done better in the preceding decades, it is that the West could have assisted Russia in gaining membership at a far earlier stage. Russia was waiting at the door and seeing a lot of the CIS countries get into the WTO ahead of it, waiting for nearly 20 years to get into the organisation. Instead, it would have been far better if Russia was allowed to compete equally, on equal terms, at the outset, at the beginning of the 1990s. This was one of several issues that Russians have with regard to the preceding several decades.

Accordingly, there will be a strategy that to some degree will represent a contrast effect of sorts with regard to the experience of Russia in previous decades. One part of the strategy that we are already starting to see to some degree is more emphasis on self-sufficiency, the realisation that Alexander Gerschenkron's thesis that "countries that are lagging will adopt technology and catch up quickly" does not seem to have worked for a lot of reasons, and there needs to be a more concerted effort to forge ahead with modernisation in other ways that rely more on Russia's own economic and historic heritage..

To some degree, self-sufficiency and import substitution may be a far bigger part of the economic strategy going forward. What is very interesting is something that you are hearing in the domestic policy debates, as all these economic plans are being devised by Kudrin, by Oreshkin, by the government etc., is the word non-linear catch-up. This means that if previously, the vision was that we adopt this or that technology step by step, we go through all of the necessary stages and all of the requirements to reach a certain level. Now, Russia is looking for shortcuts, and some of these shortcuts may be precisely represented by the new infatuation of President Putin. This is the digital economy, the new economy. From what I understand, that seems to be the topic of greatest interest for the Russian president.

In terms of the model that Russia is going to emulate, again, I would side with Mr Foucher. In the preceding several decades, we have had an over-arching Eurocentric strategy in terms of economic alliances and in terms of the vision of how things are to develop. China is certainly seen as far more successful in terms of its transition path. To some degree, it is only inevitable that this model will attract the attention of Russian policy makers, as will some of the other successful models in East Asia. One of the examples that President Putin likes to cite, and has cited on many occasions, is South Korea. That is a model that was not devoid of certain autocratic elements itself in the early stages of its development.

In terms of the components of catch-up, you can take the macro model of any country, capital, labour and productivity. In terms of capital there is a key issue that is still unresolved from the previous decades and that still has to be resolved, which is infrastructure. The issue of industrialisation has not been delivered upon so far. Infrastructure is something that should allow Russia to deal with the number one curse that has already been mentioned by Mr Yurgens, which is distance. The issue of distance is tremendously important and under-appreciated by a lot of the economists. You can look at the balance sheets of a lot of the Russian companies, which are strenuously competing with their peers from the West. Transportation costs tend to be far higher, in terms of shipping costs, from the hinterland regions and from the inner regions of Russia to external markets.

Then we go to the second component, which is labour. With regard to labour, demography is likely to stay the same. It was a tremendous shock, probably one of the largest shocks that Russia experienced in the transition period. We are now still experiencing this. The lower growth rates that are exhibited by the Russian economy are partly because we are losing hundreds of thousands of people from the labour force each year. This is the aftershock of the 1990s. In these circumstances, migration will have to remain part of the economic policy package. A key issue for Russia will be quality rather than quantity. In terms of quantity, Russia is currently one of the highest recipients of labour markets in the world.

One issue that I would highlight with regard to labour was again mentioned by Mr Johnson, very rightly so, which is the issue of human capital. In all of the discussions on the economic strategies of Russia, human capital is being ascribed significant attention. One interesting angle is generational. Any timeframe of 20 years that you look at is about generations. You look at the transformations in other countries, including Ukraine to some degree probably, and the role of generations is clearly to be seen.

We are starting to see some very interesting signs of this generational shift, including in the upper echelons of power in Russia. You have, for example, the new economy minister, Mr Oreshkin, a very capable policy maker, who has risen to heights in a matter of several years. Believe it or not, he is recruiting some of his deputies from Facebook and social media. In terms of how the Russian government is starting to operate, it is going to be very different. This generation, with the likes of Oreshkin, is a very interesting one that is likely to be quite influential. The emphasis in terms of getting new people on board, whether it is the governors or the economy ministry, headed by Oreshkin is precisely to recruit the young.

Finally, with regard to productivity, this is probably one of the biggest frustrations and one of the biggest question marks for the future. If you take the past 10 years, first of all, almost every year, productivity was consistently below wage growth. Secondly, if you take the past 10 years, there was no catch up at all vis-à-vis the West. This is where we started from 10 years ago, in terms of a level of around 30%, or one-third, of the US level of productivity. This is roughly the same as where we are now.

Arguably, there are good things to be said about low base effects that could be exploited by Russia and that could provide some upsides. There are some low base effects that have not been fully exploited so far. I would first and foremost single out economic alliances. If you look at the number of FTAs secured by Russia, for advanced economies, this is 14-15, and for Russia, this is 1-2. One of the recent ones was Vietnam. Russia is doing it together with the European Economic Union, but there are dozens of countries that are waiting in line to forge a free trade area with Russia and its Eurasian partners. These are diverse potential partners such as Singapore and such as South Korea, which is very keen from what I understand to secure an FTA. There are other players, like Israel for example.

Some of these cases are actually near-term goals for the government. This whole issue of what is called new openness by Russian policy makers, openness that is now based on forging economic alliances across the world. Finally, after joining the WTO, Russia can pursue a proper trade policy. The second issue in terms of low-base effects is investment. Russia's growth, if it was staged in the preceding decades, was largely consumption-driven. Investment, I believe, is likely to be the main driver of economic growth in the coming decades. That to some degree would allow Russia, if it deals with some problems like corruption, to address the infrastructure barrier.

Now, in terms of this, I am getting pretty much to the end of what I wanted to say. There are other resources that could be deployed and could present a potential upside to some of these scenarios that we saw from Mr Dynkin. I think the experience of 2006-07 for example shows that Russia's resources abroad, which are not always readily observed, could be a factor. What I am talking about is the capital of Russia abroad.

Judging by the size of the capital outflow in the preceding decades (perhaps in the trillions of dollars), hundreds of billions of dollars from abroad could come back if conditions were to significantly improve. We saw precisely that, for brief periods of time, in 2006-07, when Russia experienced sizeable net capital inflows. Another possible upside potential is the Russian diaspora. Russia has one of the largest diasporas in the world. According to the foreign ministry, it is either third or fourth of the world. It is probably one of the most high-tech diasporas. If Russia is capable of exploiting some of this potential that is out there, then this would be more of a factor in attaining higher growth rates.

Finally, I want to end my intervention with reference to Dostoyevsky, who was already mentioned here today. Believe it or not, the last piece that he wrote in his diary in 1881 was an economic piece on Russia's economy. He made economic predictions, and we all know that Mr Dostoyevsky is great in terms of predictions. His main message to Russia was about the lack of long-term horizons, short-termism, as probably the ultimate most important barrier with regard to economic development that needs to be overcome. The second issue was trust, the lack of trust undermining the effectiveness of economic policy. Whatever was said by Dostoyevsky significantly more than 100 years ago still remains the case. Some of these issues will hopefully be finally addressed in the coming several decades. I think there is cause for hope.

### **Igor YURGENS**

We will carry on with our narrative on bipolarity. No matter in which pole we want to be, democracy or no democracy, we have to do it in line with Mr Lissovlik, with whom I agree 100%. We have to work on human capital, investment capital, and technological breakthrough, for which we need a little bit more of a relaxed political climate. Those Russian people in the West, about 8 million high-tech people, will not come back easily.