



Russia's Road Back

Anders Åslund, coauthor of The Russia Balance Sheet, finds that Russia has made progress pulling back from financial crisis and could be returning to a liberalizing path.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest is Anders Åslund, senior fellow at the Institute, prolific author of many recent books and studies, most recently *The Russia Balance Sheet*, coauthored with Andrew Kuchins of the Center for Strategic and International Studies. Welcome, Anders.

Anders Åslund: Thank you.

Steve Weisman: Russia is trying, as the rest of the world is, to crawl out of the financial crisis. What are the signs of whether Russia is making any progress?

Anders Åslund: I think that Russia has recently acted very well on the crisis. You can say that a few essential things have happened. First, Russia has devalued and now maintains a realistic market exchange rate. Secondly, Russia has adopted an anticrisis program and changed the budget accordingly. And Russia now has a budget deficit of 7.4 percent of GDP planned for this year, while Russia had a budget surplus of 4 percent of GDP last year. And I think that's about the right kind of stimulus to the economy, substantial but not so much as to be fiscally irresponsible. And Russia has reserves to cover this. And the third point is that Russia has changed its policy toward enterprises and their owners. Previously, the policy was to bail out all rich oligarchs or possibly let the state take over their enterprises. Now, it is much more a Western style of enterprise management: The government provides bailouts in a few cases when absolutely necessary, but not too many.

Steve Weisman: Who's responsible for this shift in policy?

Anders Åslund: You can say that the Russian government now consists of two different sides. One is Putin and his KGB people, and the other side is Dmitry Medvedev, the new president, and his technocrats. And it's the technocrats who have got more power during the crisis because they have more plausible solutions. And Prime Minister Putin so far seems to be accepting of this. So President Medvedev is clearly relevant. But the major players in the government are First Deputy Prime Minister Igor Shuvalov and Alexey Kudrin, deputy prime minister and minister of finance, who has managed the Russian budget quite well all along and now he's been given valors for his work.

Steve Weisman: Mr. Kudrin is visiting the United States this week in late April and will be speaking at the Peterson Institute. What implications are there in this latest remarkable trend for Russia's foreign policies and its domestic politics, including the crackdown on freedoms in recent years?

Anders Åslund: I think that we are seeing the smallest changes in foreign policy and the largest changes in domestic economic policy. And domestic order in politics is easing. A new sign of this is that President Medvedev a few days ago had a big meeting discussing how to increase the freedom of nongovernmental organizations, clearly in opposition to a law restricting all freedoms of nongovernmental organizations that President Putin signed into law in January 2006. And the latest sign is that Svetlana Bakhmina, a lawyer in the oil company Yukos, who was sentenced to six and a half years in prison, was today released. And this is a very positive political sign.

Steve Weisman: You mentioned in your book that Russia is at a crossroads in the economic sphere. You lay out three scenarios.

Anders Åslund: One scenario is the old Putin role: low growth rate, living on energy resources, and maintaining hard authoritarianism. Another scenario is what I believe in most now: a liberalization both of economics and politics, and opening up to the West, the world, and increased globalization. And the third scenario is some kind of a serious crisis scenario, a substantial breakdown.

Steve Weisman: What would bring about a breakdown?

Anders Åslund: The big discussion in Russia since November has been that there would be a protest in one of the one-company towns, of which there are very many in Russia, where the big factory has stopped and there's no management from the top that can manage the crisis, and the crisis spreads.

Steve Weisman: It sounds like if the liberal scenario is chosen, it might be because the leadership wants to avoid the third scenario.

Anders Åslund: Yes. I think this is very much the situation now because the comment often made now is that the technocrats who are doing the liberalizations are not really convinced liberals. They are rather problem solvers. And I don't know if that's a bad thing.

Steve Weisman: This would be the second or maybe the third return of the technocrats since the fall of communism.

Anders Åslund: Yes. You can say that the reforms were done in 1991–93, after one big collapse. Then, reforms were undertaken 1998 to 2002 after the financial crash of 1998. So then after the crash of 2009, we would expect substantial reforms again. This would be a natural pattern.

Steve Weisman: You said that it's unlikely that Russia's foreign policies will be affected. On the other hand, is this not a good time to press the reset button as the Obama administration has suggested?

Anders Åslund: I wouldn't say unlikely to change but slower to change. The foreign policy changes are likely to come, but we should not expect it to lead. But it was very striking from reports of the meeting between President Medvedev and Obama that President Medvedev was very forthcoming in this meeting and it was not at all characterized by the old hard terminology that President Putin used increasingly in these meetings. So there was a new attitude.

Steve Weisman: That meeting was in London on the outskirts of the G-20?

Anders Åslund: Yes, it was on the first of April and it was a big meeting where we have delegations. The American delegation was very struck by how positive and forthcoming President Medvedev was, although there wasn't much of substance. But what question should we look for? I think that a renewal of Russia's attempt to join the WTO is one of the first things, because that matters in a crisis, that you have better market access, in particular when you are one of the world's biggest metal producers, because metals often suffer from antidumping actions.

Russia has a big interest in an economic downturn to get better market access, which was not there during the boom years when everything was easy to sell. And this is also a practical question where Russia has very good technocrats and they can take it away. The best sign in this direction is that the former minister of agriculture, Alexei Gordeyev, has just been sent out to work as a regent governor in Southern Russia. And instead, a progressive woman who is known for being a free trader has been appointed minister of agriculture. And that will make it much easier for Russia to enter the World Trade Organization (WTO), because Minister of Agriculture Gordeyev simply sabotaged Russia's WTO negotiations for years, and he was allowed to do so.

Steve Weisman: Finally, what should the United States do to present a more conciliatory tone to Russia?

Anders Åslund: The big message is that there should be broader and deeper Russia-US relations. And in our book, *The Russia Balance Sheet*, we suggest six packages of areas where progress should be done. Missile defense should be discussed, together with Iran, and this should be taken out of the Russia debate. Arms control should be revived, which Presidents Obama and Medvedev had pretty much decided in London.

Thirdly, we think that some European security conference, which the Russians are calling for, would be a good thing to bring new life into

European security discussions, and to revive the treaty on conventional forces in Europe and the Organization for Security and Cooperation in Europe.

And the fourth one, which is close to my heart, is to revive the economic issue, WTO accession for Russia. The United States should finally abandon the Jackson-Vanik amendment, which is just obsolete. The United States needs a bilateral investment treaty with Russia, which both sides are in favor of, and the Bush administration concluded this agreement on civilian nuclear cooperation and that should be put into life.

Then a fifth basket is energy cooperation, which should now be revived when the Russians realize that they need a greater role for foreign oil companies and gas companies in Russia itself.

And finally, we have the question of democracy and human rights. These questions we think should be primarily dealt with in multilateral fora, the OSCE and the United Nations, but they should not be forgotten.

Steve Weisman: Anders, thanks so much for summarizing the way forward for us. Good luck with the book and thanks for joining us.

Anders Åslund: Thank you.

