Global Economic Crisis and Prospects for Modernization in Russia

Axel van Trotsenburg
Vice President, Concessional Finance and Global Partnerships

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Overview

I. The Goal of Sustained Economic Growth

II. Why Economic Diversification?

III. What Have We Learned?

IV. Impact of Global Economic Crisis

V. Post Crisis Recovery & Long Term Path
I. The Goal of Sustained Economic Growth

- Sustained economic growth—economic literature and for policy makers
- Concern over frequent crises
- Debate has evolved over time
  - Role of government
  - Capital accumulation
  - Trade and integration
  - Foreign capital
  - Social inclusion
I. The Goal of Sustained Economic Growth

• G20: “Shared Growth Beyond the Crisis”
  ▪ Agenda examined macroeconomic stimulus; international financial and domestic institutional regulation and reform; strengthening fiscal safety; opening trade and investment; and the Doha negotiations on multilateral trade liberalization.

• Diversification strategies
II. Why Economic Diversification?

• It is a well established fact that diversified economies attain higher growth rates over the longer term
  ▪ Less volatility and macro stability encourage sustained private investments

• Diversification necessary but not sufficient
  ▪ India and Mexico
II. Why Economic Diversification?

- Over the past decades many developing countries have successfully diversified from Latin America to South Asia and East Asia
  - Korea, India, Malaysia, Indonesia, Brazil, Mexico
- Many resource rich countries have also diversified
  - Norway, Canada, Chile
II. Why Economic Diversification?

Evolution of Export Concentration and Real GDP per Capita in Malaysia

Source: Export Diversification and Economic Growth (2008), Heiko Hesse.
II. Why Economic Diversification?

Evolution of Export Concentration and Real GDP per Capita in Chile

Source: Export Diversification and Economic Growth (2008), Heiko Hesse.
III. What Have We Learned?

Lessons from international experience

- Focus on long term strategies and sustained political commitment
- Initial conditions- natural endowments
- Quality and sustainability of policies
  - Macro stability, competitive exchange rates
  - Institutions, regulations
  - Open trade and competition policies
  - Human capital
  - Technology and Innovation: R&D, FDI
- Social impact, inclusion matters
  - Inter and intra generational distribution of wealth
III. What Have We Learned?

- Importance of **product** and **market** diversification
  - Small, resource-poor economies - “export diversification”
  - Some countries diversified within resource-based sectors (plus related services)
III. What Have We Learned?

Economic Diversification in the G7 and Transformation Economies (Diversification Quotient)

<table>
<thead>
<tr>
<th>Country</th>
<th>G7</th>
<th>Transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>6.25</td>
<td>6.85</td>
</tr>
<tr>
<td>Japan</td>
<td>6.12</td>
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<td>5.55</td>
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<tr>
<td>France</td>
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<td>Italy</td>
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<tr>
<td>Germany</td>
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<td>Dubai</td>
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<td>5.27</td>
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<td>Ireland</td>
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<tr>
<td>Hong Kong</td>
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</tbody>
</table>
III. What Have We Learned?

- Resource rich and commodity dependent countries face specific challenges
  - Competition for natural resource rents, entrenched interests
  - Protected markets and import substitution bias - discredited in the 1970s
  - Limited constituencies favoring macro stability and reform
IV. Impact of Global Economic Crisis

• The crisis shows that commodity dependent economies were more exposed.

• Trade patterns also played a role:
  - Mexico more diversified but suffered a sharp decline given close links with the US.
  - Germany fell but bounced back quickly due to diversified market base.
Oil Price Changes in 2008-2010 & Projections

World Bank oil price forecast. Average crude (Brent, Dubai and WTI), simple average, $/bbl

Source: World Bank Staff
IV. Impact of Global Economic Crisis

- Russia one of the most affected-Commodity price bust exacerbated by burst of credit market bubble:
  - GDP fell by 7.8 percent in 2009
  - But unemployment and poverty outcomes better than expected
- The economy has bounced back in 2010 and enjoys a short-term windfall in oil prices
- The challenge: to manage new oil windfall well and advance structural reforms
### IV. Impact of Global Economic Crisis

#### Global Environment for Russia, 2009-2012

<table>
<thead>
<tr>
<th></th>
<th>2009 (actual)</th>
<th>2010 (actual)</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>World</td>
<td>−2.2</td>
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<td>3.1</td>
<td>3.4</td>
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<tr>
<td>High-income countries</td>
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<td>2.8</td>
<td>2.4</td>
<td>2.7</td>
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<tr>
<td>Developing countries</td>
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<td>7.0</td>
<td>6.0</td>
<td>6.1</td>
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<tr>
<td>Russian Federation</td>
<td>−7.8</td>
<td>4.0</td>
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<td>4.0</td>
</tr>
</tbody>
</table>

*Source: Global Prospects for world growth; Russian Economic Report for Russia, The World Bank.*
V. Post Crisis Recovery & Long Term Path

• The post-crisis world is likely to be much more competitive. Adjusting to this world will be a challenge for all countries, including Russia.

• Five Questions for Reflection:

1. *How to get support for the long term view of development?*
   • *What is offered to the young generation?*

2. *How to address the winners and losers from reform?*
V. Post Crisis Recovery & Long Term Path

3. How to ensure a “level playing field”
   • It is not about picking “winners” but to create a favorable environment- SME development

4. How to get enthusiasm beyond the elite?
   • Challenge is that politics are short term and local

5. What will be Russia’s role in the global economy in 20 to 30 years?
Thank you!