Russian Economic and Integration Prospects

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Energy Fuelling Growth and Superpower Ambitions

- Putin’s key achievements
  - GDP growth and the ambivalent role of energy

- Russia and the EU: unequal or equal partners?
  - Russian economic dominance in the CIS
  - EU-Russia Neighbourhood integration prospects

- Economic challenges for the future
  - Is the rapid growth sustainable?
  - Duo Putin-Medvedev potentially disonant?
Putin’s key achievements

- Improved living standards
- Rising employment
- More FDI inflows
- Repayment of external debts
- Ballooning Forex reserves
- Restoring stability, stronger role of the state
- Russia is global player again
- External relations deteriorate
- Nationalism, racism, revival of the Soviet past
Russian GDP: nominal (EUR bn), real growth (%) and per capita (EUR at PPP)
Putin’s key economic achievements

- Rising incomes and wages
- Less poverty, more inequality
- Rising employment
- Surging FDI inflows
- Repayment of external debts
- Ballooning Forex reserves
- Political stability
- Stronger state
- Persisting corruption
- Democracy weakened
External sector

- Exports, EUR bn
- Imports, EUR bn
- Oil price (USD/bbl)
- of which: oil & gas
- Current account, % of GDP

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Drivers of GDP growth, 2000-2007
contributions of main components to GDP growth, in %

Source: wiww Annual Database incorporating national statistics, wiww forecast.
Economic growth by sectors, 2002-2007
(2002=100)
Inflation and M2, annual change in per cent

CPI inflation, y/y in %
M2, y/y in %

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Industrial production and wages

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Nominal and real exchange rates

- **nominal RUB/EUR**
- **real, Jan 2000=100 (CPI based)**
Unit Labour Costs (ULC) and contributions of key components 2000-2007, annual growth, in %
EU-Russia integration prospects and challenges

- Energy trade
- EU-Russia Neighbourhood
The legacy of Putin’s presidency

- High economic growth, improved living standards, external public debts repaid
- Power consolidation in the Kremlin
- Taming oligarchs
- Russia back on the world stage
  But:
- Excessive dependence on energy (Dutch disease danger)
- Democracy rolled back, human rights record mixed
- Reviving ugly remnants of Soviet past
- Rising assertiveness, external relations deteriorate
Structure of EU-Russian trade, 2006, in %

- **EU exports**: EUR 56 bn (1.7% of the total)
- **EU imports**: EUR 137 bn (3.7% of the total)

Categories:
- Agric
- Oil, Gas
- Refined Fuels
- Basic Metals
- Other
Selected Oil and Gas Pipelines in the FSU

Map showing routes of oil and gas pipelines in the Former Soviet Union. The map includes regions such as West Siberia, Arctic Ocean, and Russia. A table compares oil production in different basins, listing regions like West Siberia and North European Gas Pipeline, with production figures in Thousand Barrels per Day (TBD).
CIS and the EU: Economic size, 2007

Russia, Ukraine, Kazakhstan, Belarus, (rest) CIS

Real GDP in the CIS

Real GDP in Europe
EU(15), NMS, Russia, Ukraine
CIS (FSU): Key economic data
GDP levels in 2007 (2000=100)

- Estonia: 182
- Latvia: 184
- Lithuania: 171
- Azerbaijan: 317
- Armenia: 230
- Belarus: 171
- Georgia: 176
- Kazakhstan: 197
- Kyrgyzstan: 134
- Moldova: 152
- Russia: 156
- Tajikistan: 183
- Turkmenistan: .
- Uzbekistan: 153
- Ukraine: 167
- CIS: 163
### CIS (FSU): Key economic data (3)

**GDP per capita at PPP in 2007, EUR**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita, EUR</th>
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<tbody>
<tr>
<td>Estonia</td>
<td>17680</td>
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<td>Latvia</td>
<td>14540</td>
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<td>Lithuania</td>
<td>15000</td>
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<tr>
<td>Azerbaijan</td>
<td>8000</td>
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<tr>
<td>Armenia</td>
<td>5000</td>
</tr>
<tr>
<td>Belarus</td>
<td>8800</td>
</tr>
<tr>
<td>Georgia</td>
<td>3600</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>8810</td>
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<tr>
<td>NMS(10)</td>
<td>13840</td>
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<td>Kyrgyzstan</td>
<td>1640</td>
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<td>Moldova</td>
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<tr>
<td>Ukraine</td>
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<td>EU(27)</td>
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### CIS (FSU): Key economic data (4)

**Share of CIS in exports, in %, year 2007**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
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<tr>
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<td>Latvia</td>
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<td>Lithuania</td>
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<td>Armenia</td>
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<td>Georgia</td>
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<td>Kyrgyzstan</td>
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<td>Moldova</td>
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<tr>
<td>Russia</td>
<td>15</td>
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<td>Tajikistan</td>
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<td>Turkmenistan</td>
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<td>Uzbekistan</td>
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<tr>
<td>Ukraine</td>
<td>38</td>
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<tr>
<td>CIS</td>
<td></td>
</tr>
</tbody>
</table>
CIS (FSU): Key economic data (5)
Share of CIS in imports, in %, year 2007

- Estonia 18
- Latvia 16
- Lithuania 29
- Azerbaijan 33
- Armenia 34
- Belarus 66
- Georgia 35
- Kazakhstan 45
- Kyrgyzstan 63
- Moldova 36
- Russia 15
- Tajikistan 62
- Turkmenistan
- Uzbekistan
- Ukraine 43
- CIS
CIS (FSU): Key integration projects

- 12 FSU republics: Commonwealth of Independent States (CIS)
- Common Economic Space (CES): Russia, Belarus, Kazakhstan, Ukraine
- Union of Russia and Belarus
- Central-Asian Cooperation: Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan (+Belarus, merged with Eurasian Economic Community)
- GUAM: Georgia, Ukraine, Azerbaijan, Moldova
- Russian capital dominates energy, metals and telecom sectors in the CIS – integration from „below“
Common Economic Space (since 2003): Russia, Ukraine, Belarus, Kazakhstan

- The aim is to establish Customs Union
- Ukraine’s reluctance reflects unclear relations with the EU, aspiring for membership in the EU and NATO
- Difficulties in dealing with Lukashenko’s Belarus
- Good understanding with Nazarbayev’s Kazakhstan

Likely consequences
- Better market access for exports to Russia (especially UA metals and food, machinery from BY)
- Cheaper fuels imports from Russia (shift to the ’country of destination‘ principle of VAT taxation)
EU-Russia: institutional relations

- No EU accession, PCA Agreement (expired 2007, automatically prolonged)
- ‘Market economy’ status (since 2002)
- ‘Energy dialogue’ and ‘Strategic partnership’ (Kyoto Protocol)
- WTO accession deal with the EU (May 2004)
- Road Map for Four Common Spaces (May 2005)

But:

- Growing mutual suspicions, contest for „near abroad“
- EU concerns with values (Chechnya) and market access (energy supplies; financial services; investments in strategic sectors)
- Russia refuses to ratify Energy Charter
- Prospects unclear: “New Neighbours” or “Common Spaces”?
EU-Russia co-operation prospects and challenges

- Lack of coherent EU policies, yet NMS bring new accents
- Russia grudgingly accepted NATO and EU enlargement
- EU external border (Estonia, Latvia) not ratified yet, bad relations with Belarus, disappointment with Ukraine
- Independence of Kosovo, consequences for Abkhasia, South Ossetia, Transdnestria and Nagorny Karabakh
- Russia demands more than Neighbourhood Programmes
- Russia is suspicious towards EU initiatives in the CIS
- EU Free Trade Area with both Russia, Ukraine and Belarus?
EU neighbourhood co-operation challenges

- Reforms are instrumental to the development of good relations with all EU neighbours
- Trade diversification, investment climate improvements (FDI) are crucial for a sustainable development in the CIS
- Effective border regions assistance from the EU
- Develop ‘partnerships’ and ‘common spaces’ between the enlarged EU and all its New Neighbours simultaneously
- Avoid / remove new divisions and artificial barriers
- Do not create unrealistic expectations (Ukraine)!
Economic outlook and challenges facing the new President Dmitry Medvedev

- Diversification of the economy
- Transition of power
Russian GDP: nominal (EUR bn), real growth (%) and per capita (EUR at PPP)
External sector

- Exports, EUR bn
- Imports, EUR bn
- Oil price (USD/bbl)
- Oil price (EUR/bbl)
- Current account, % of GDP

1995 2000 2005 2010
Drivers of GDP growth, 2000-2010 (A)
contributions of main components to GDP growth, in %

Scenario A: Oil price constant (USD 70/bbl), resource-based growth, little diversification
Source: wiiw Annual Database incorporating national statistics, wiiw forecast.
Drivers of GDP growth, 2000-2010 (B)
contributions of main components to GDP growth, in %

Scenario B: Oil price constant (USD 70/bbl), successful diversification away from energy.
Source: wiiw Annual Database incorporating national statistics, wiiw forecast.
Medvedev’s future plans and challenges

- Four “I“s as key priorities:
  - Institutions
  - Innovations
  - Investments
  - Infrastructure
- Using Industrial Policy instruments
- Public-Private Partnership
- Outward expansion of Russian businesses (CIS, EU, etc)
- Is he a hawk or a dove?
- Will he be able to step out of Putin’s shadow?
- Will he survive the whole term?

Cartoon: Kommersant Vlast
Medvedev’s future plans and challenges

- Is GDP growth sustainable?
- Demography, emerging labour shortages and migrant workers
- Will duo Medvedev-Putin function smoothly?
- What about rivalling apparatuses?
- What about corruption and inefficiency in general?
- Less confrontation in external relations?
- Restoring the CIS, a new partnership with the EU (more than energy)?
- Confronting China (Far East) and USA (NATO)?
Thank You for your attention !!!

Arigato daimas !!!