

# Russian Economic and Integration Prospects

Peter Havlik

The Vienna Institute for International Economic  
Studies (wiiw)

15th March 2008

# 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 dissonant?

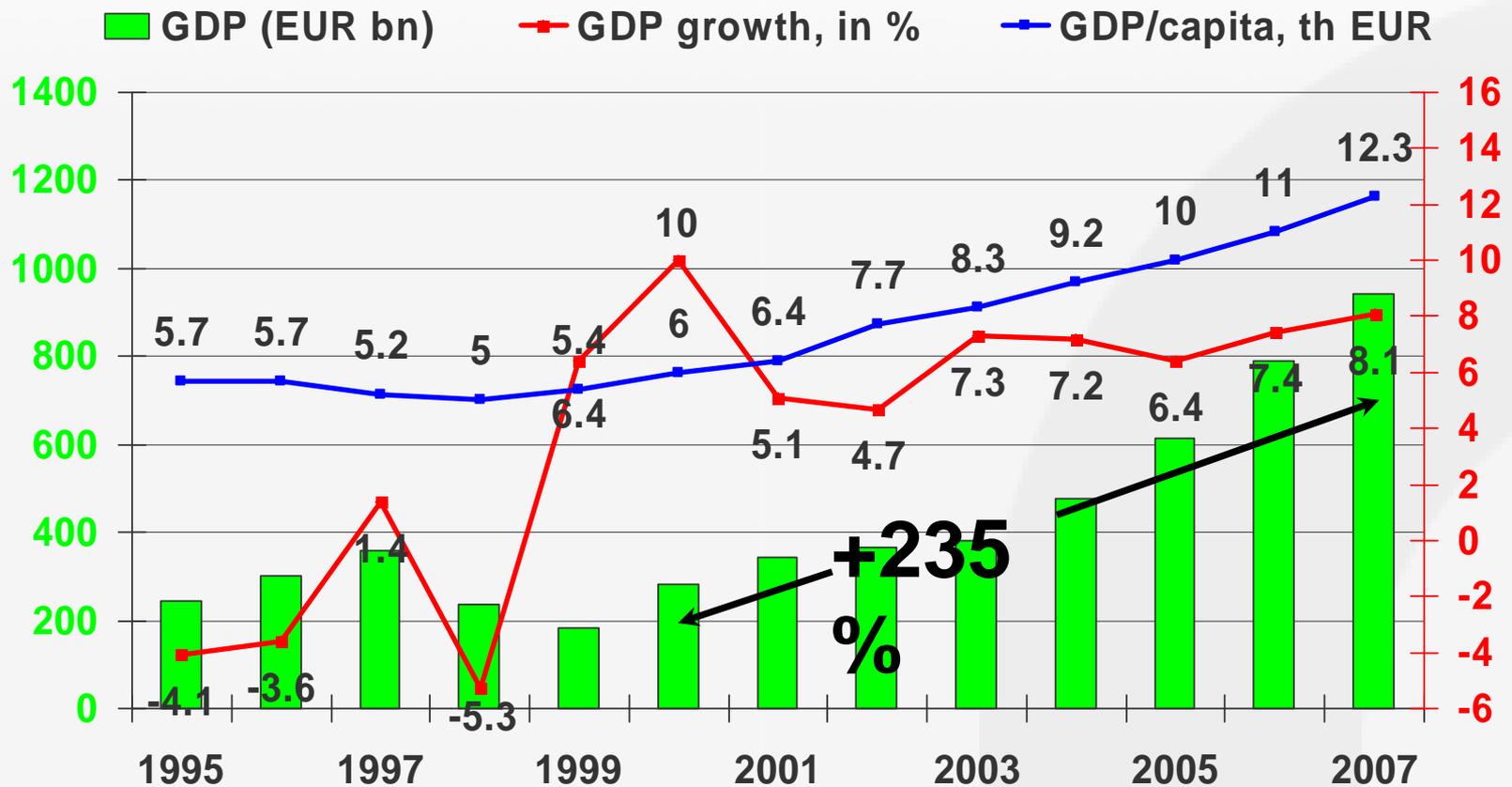
# Putin's key achievements

- 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



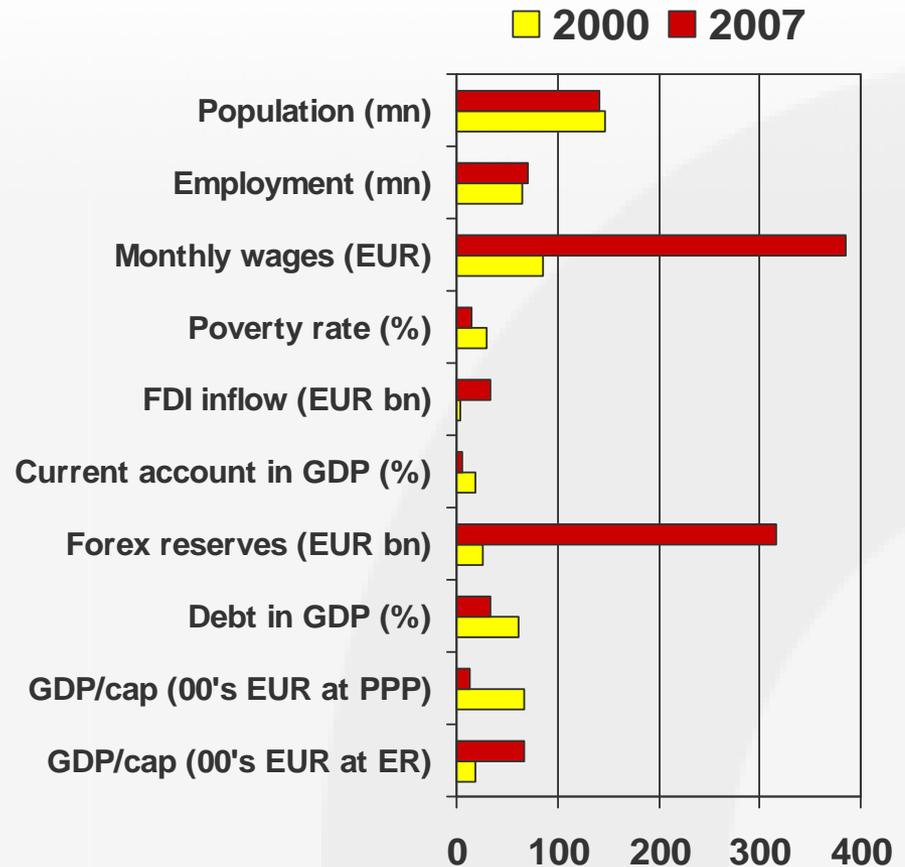
Cartoon: Kommersant Vlast

# Russian GDP: nominal (EUR bn), real growth (%) and per capita (EUR at PPP)

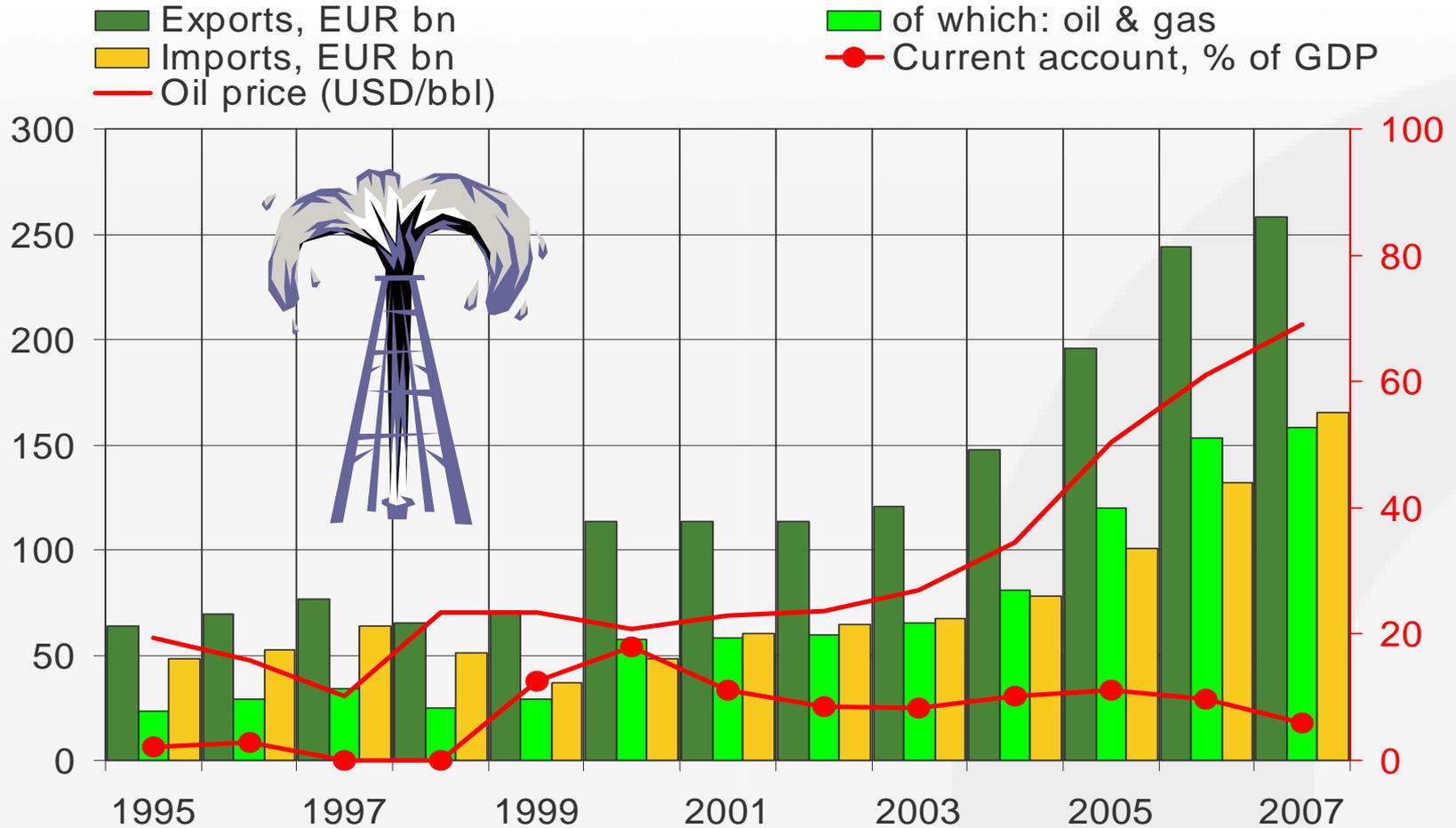


# Putin's key economic achievements

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

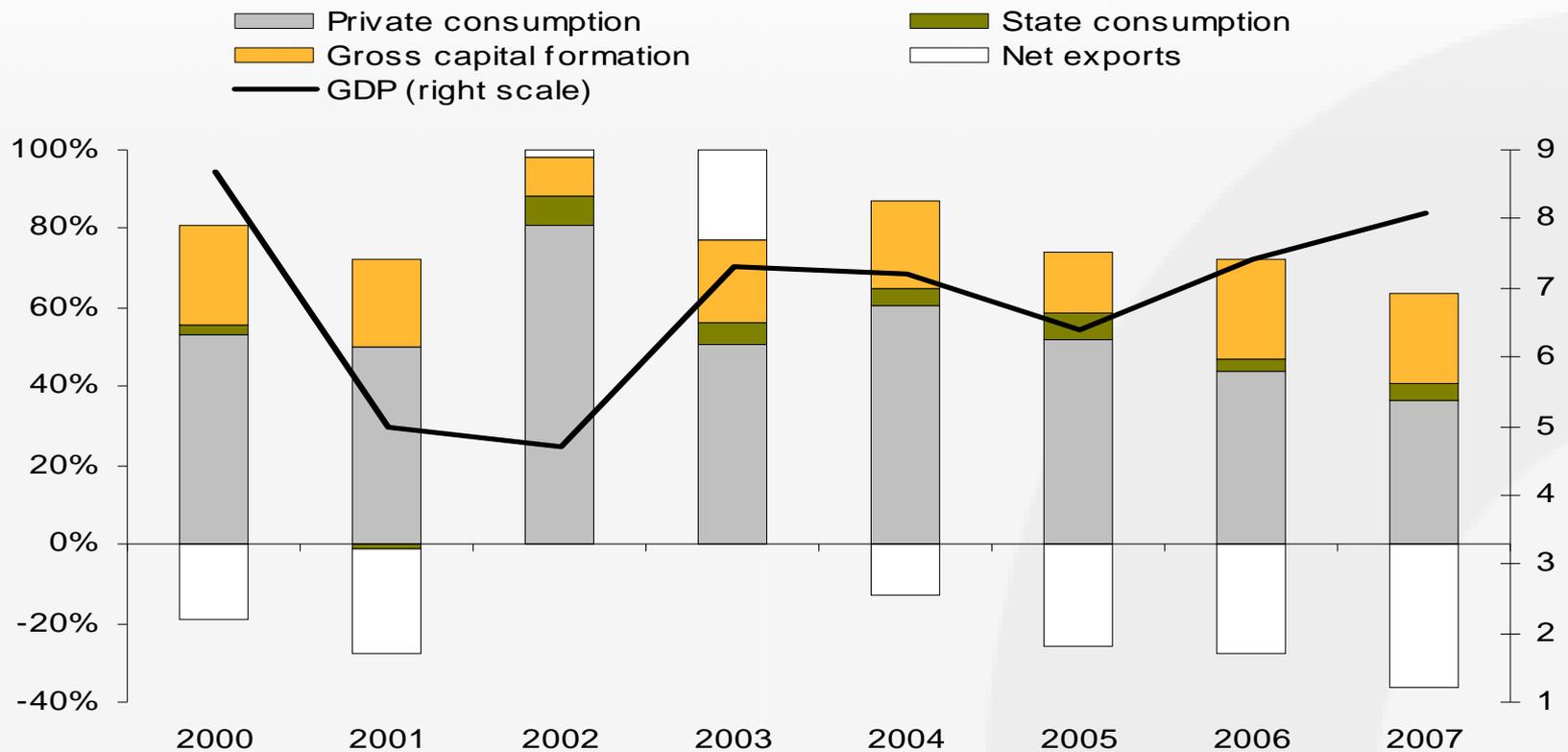


# External sector

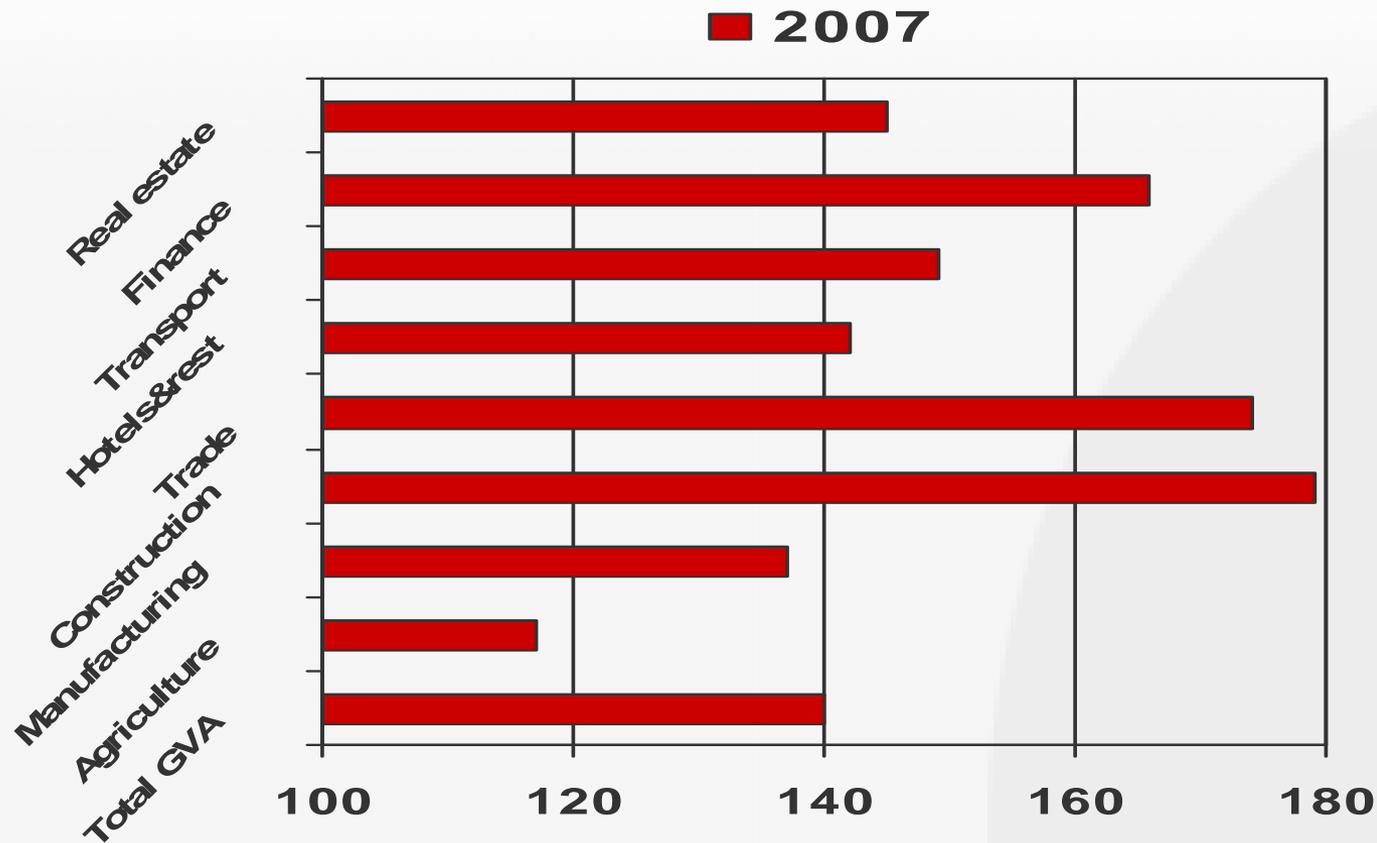


# Drivers of GDP growth, 2000-2007

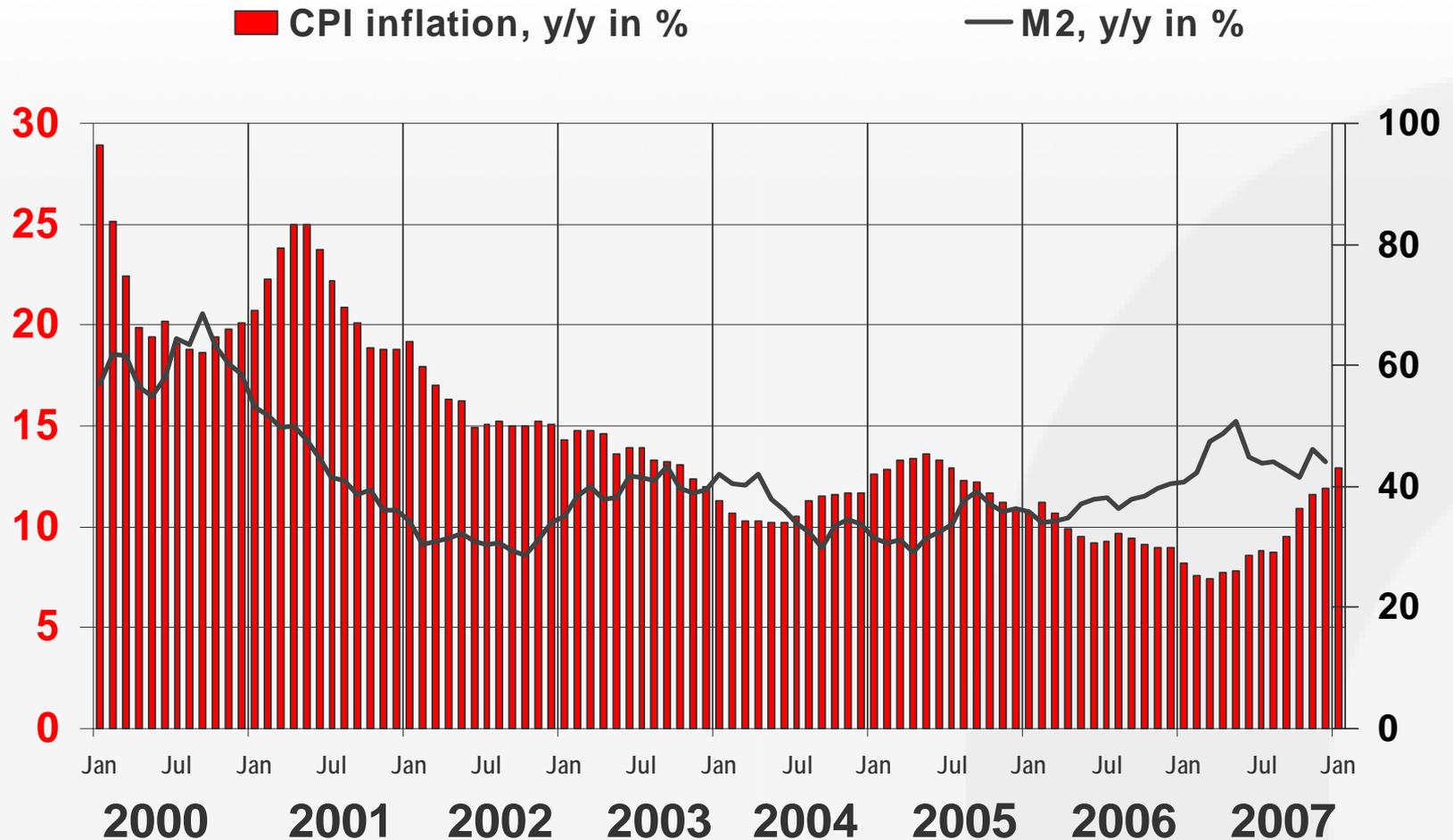
contributions of main components to GDP growth, in %



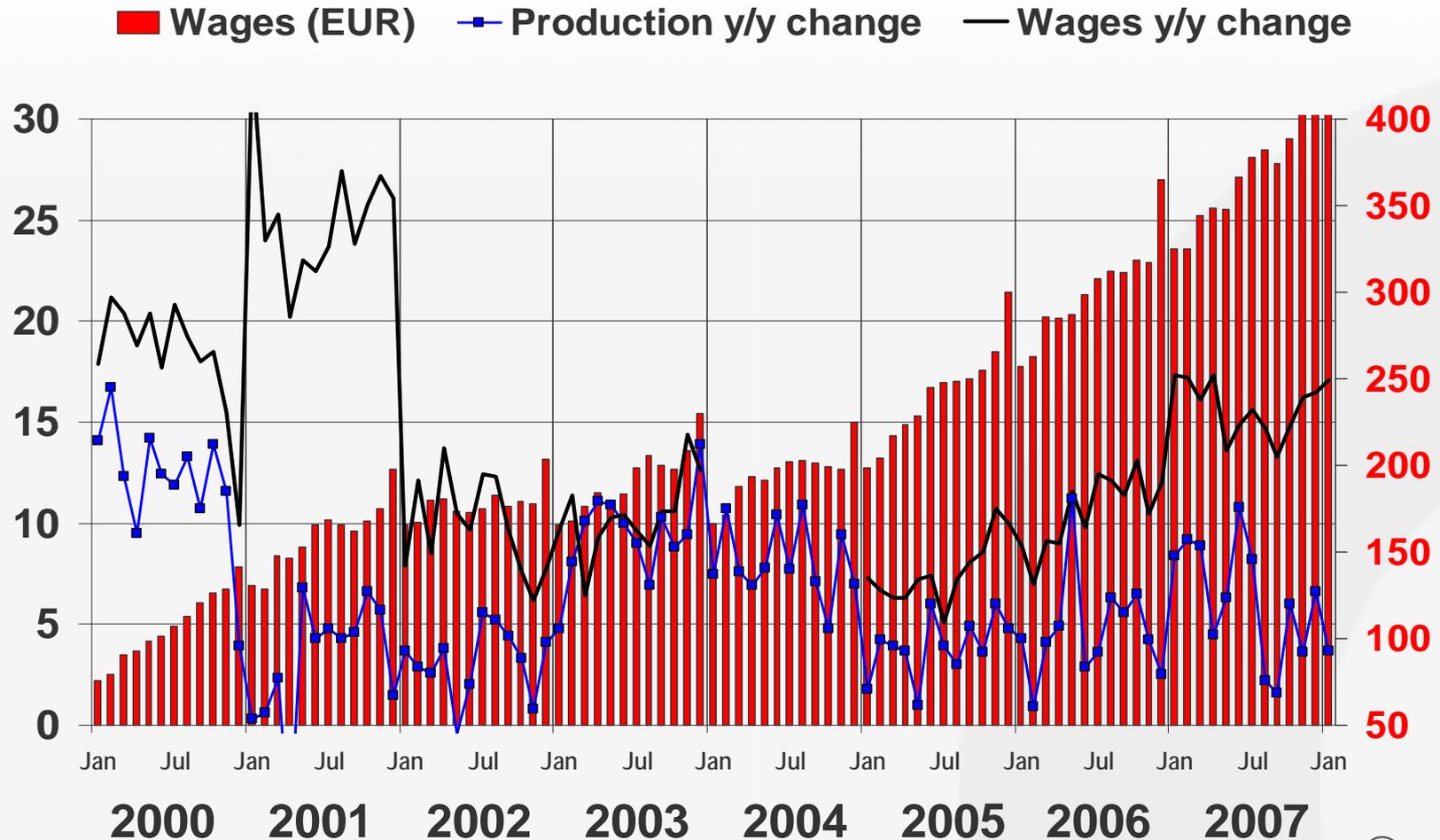
# Economic growth by sectors, 2002-2007 (2002=100)



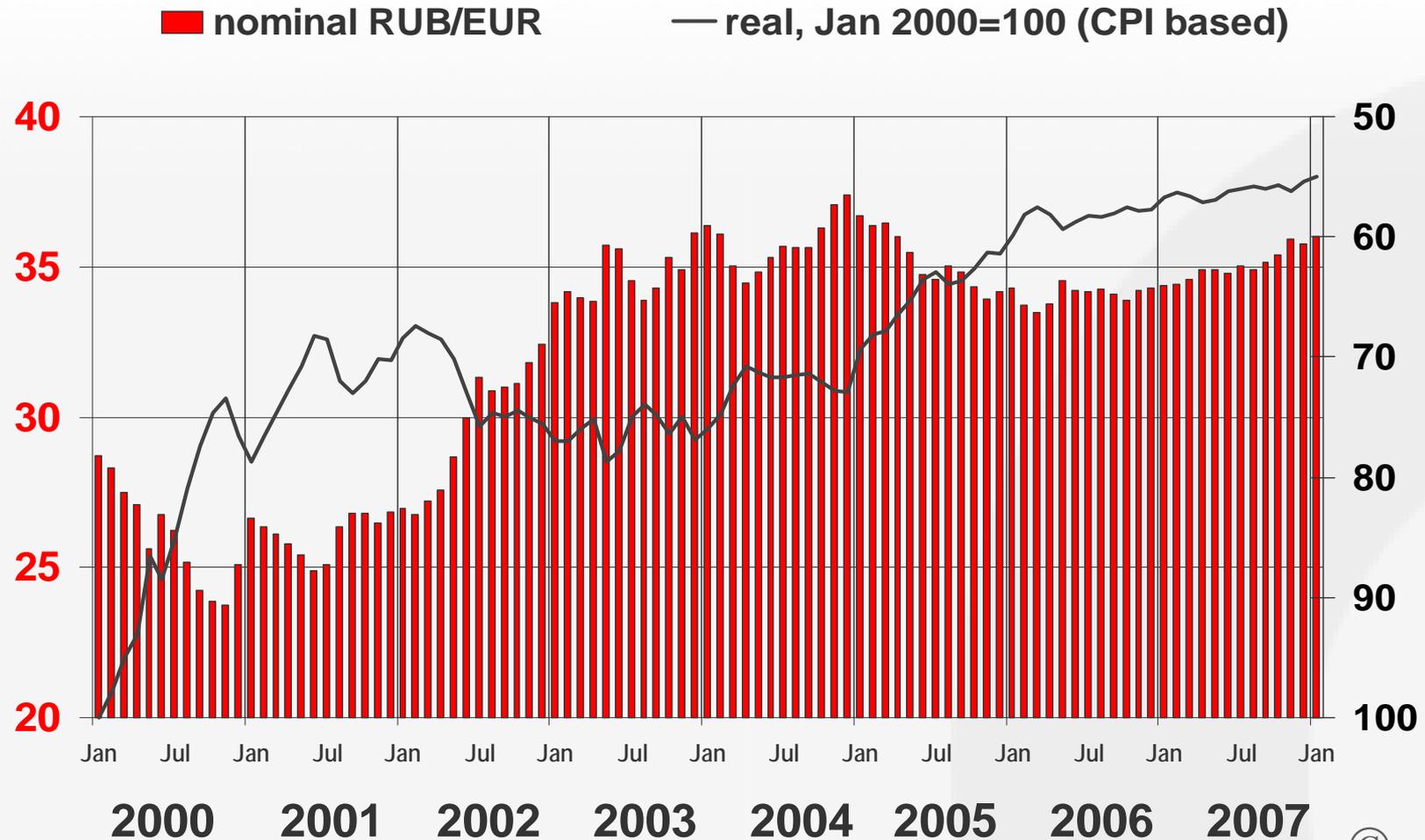
# Inflation and M2, annual change in per cent



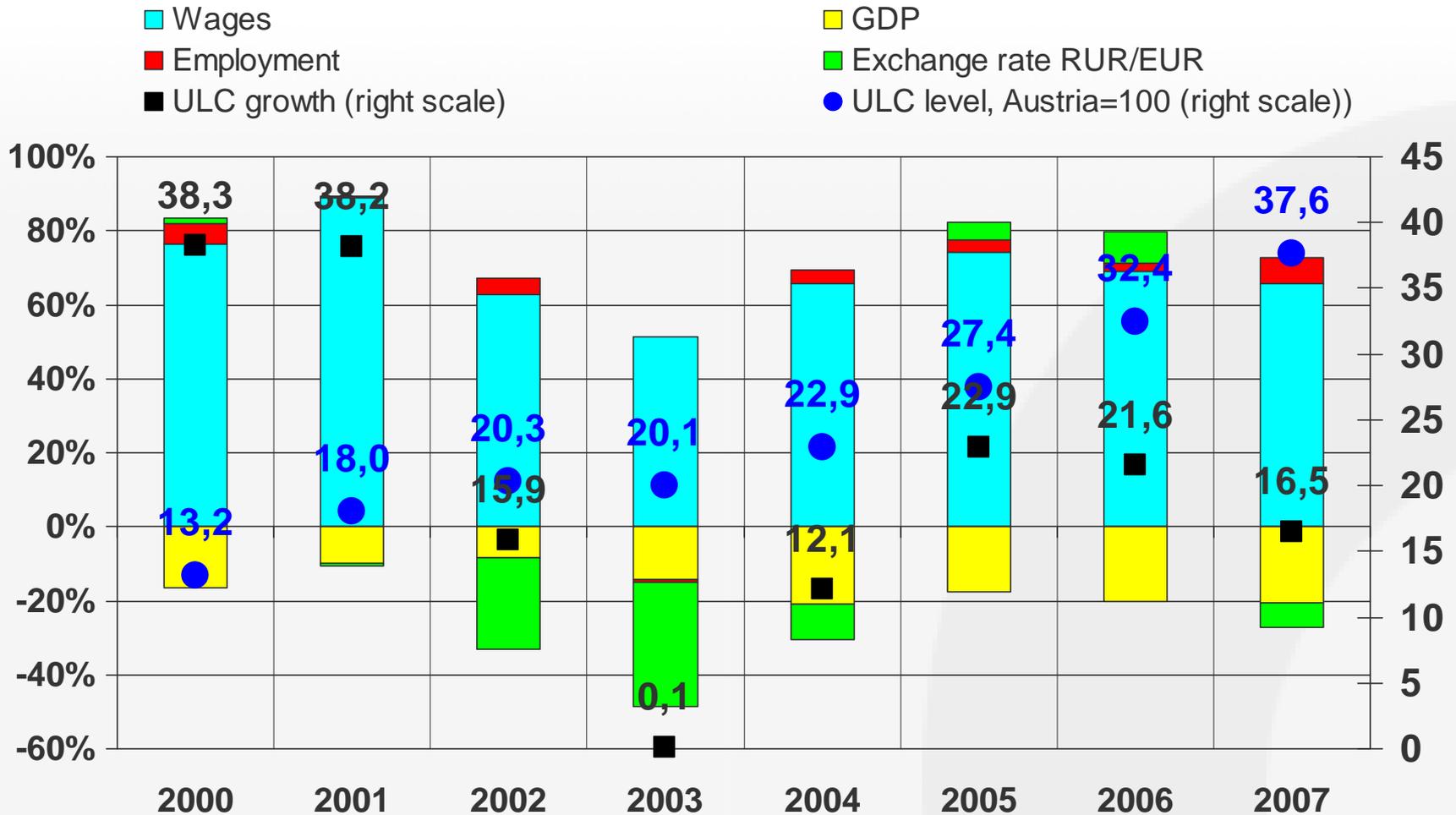
# Industrial production and wages



# Nominal and real exchange rates



## 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

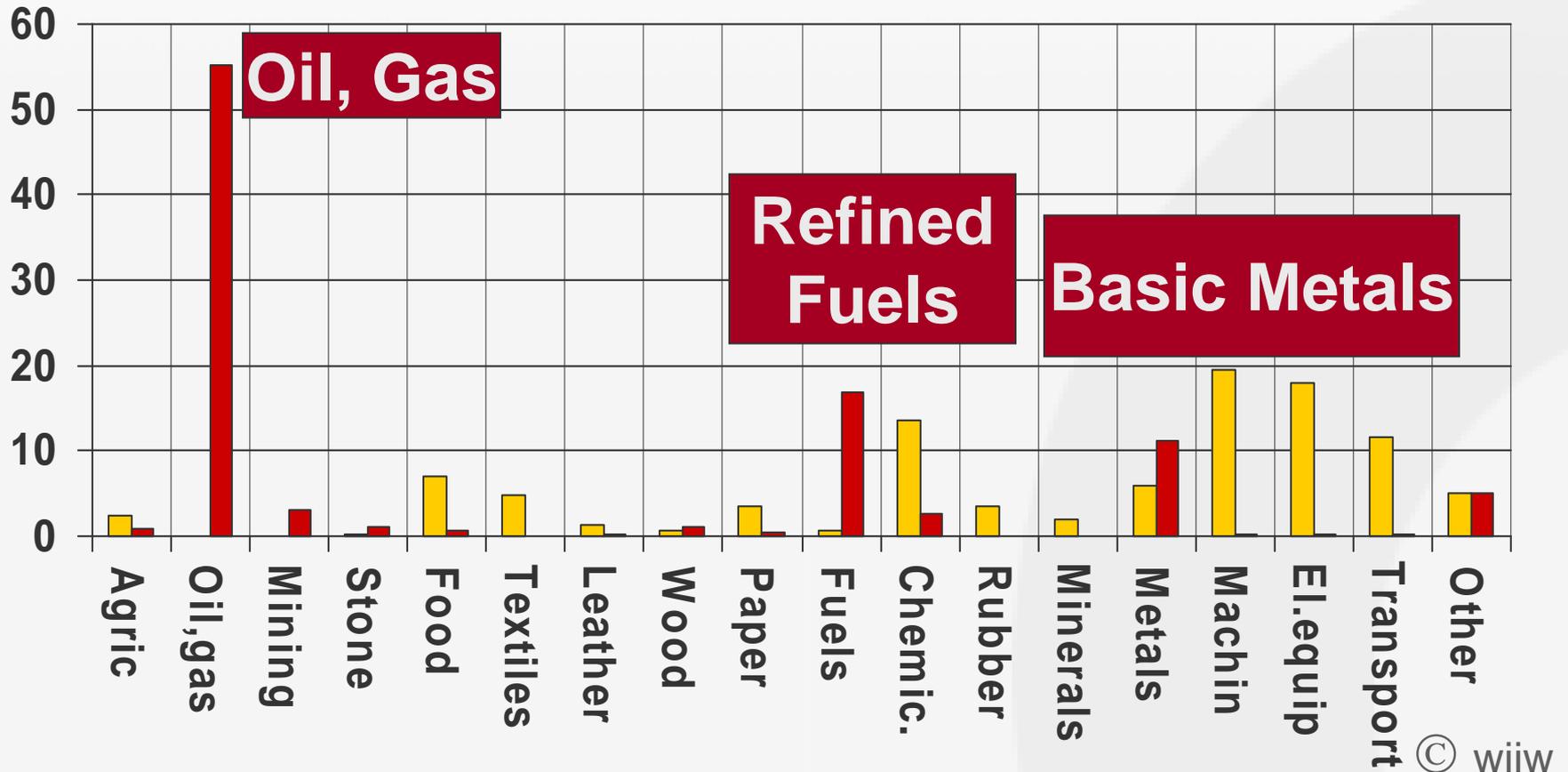
- High economic growth, improved living standards, external public debts repaid
  - Power consolidation in the Kremlin
  - Taming oligarchs
  - Russia back on the world stage
- But:
- Excessive dependence on energy (Dutch disease danger)
  - Democracy rolled back, human rights record mixed
  - Reviving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



Cartoon: Kommersant Vlast

# 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)



# Selected Oil and Gas Pipelines in the FSU

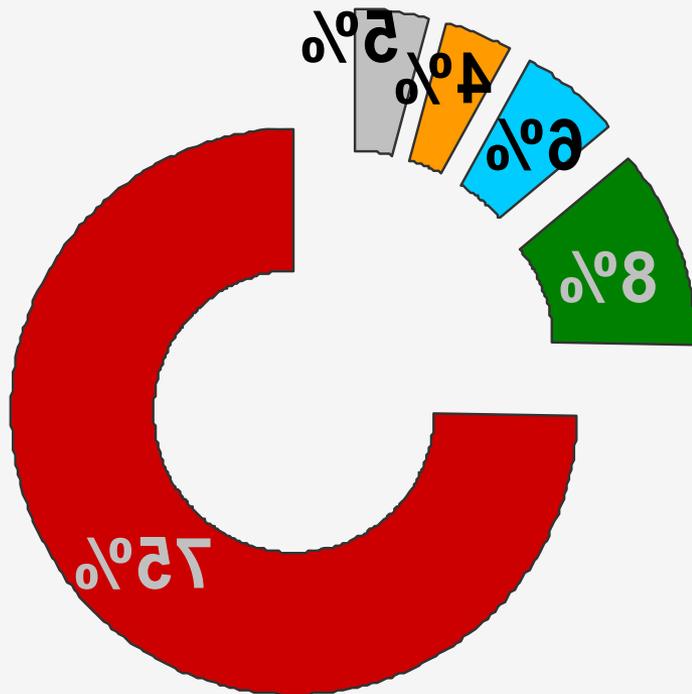
Selected Oil and Gas Pipeline Infrastructure in the Former Soviet Union



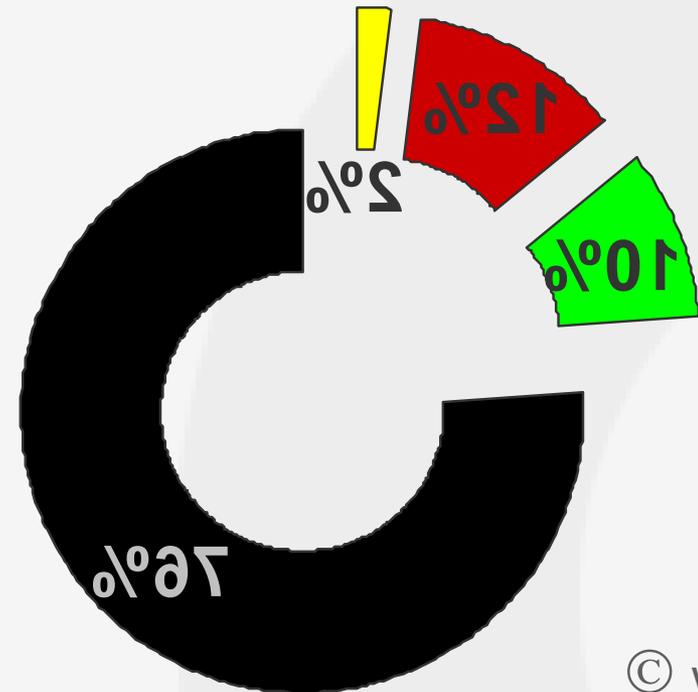
# CIS and the EU: Economic size, 2007

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	■ Kyrgyzstan	134
■ Latvia	184	■ Moldova	152
■ Lithuania	171	■ Russia	156
■ Azerbaijan	317	■ Tajikistan	183
■ Armenia	230	■ Turkmenistan	.
■ Belarus	171	■ Uzbekistan	153
■ Georgia	176	■ Ukraine	167
■ Kazakhstan	197	■ CIS	163

# CIS (FSU): Key economic data (3)

## GDP per capita at PPP in 2007, EUR

■ Estonia	17680	■ Kyrgyzstan	1640
■ Latvia	14540	■ Moldova	2200
■ Lithuania	15000	■ Russia	12320
■ Azerbaijan	8000	■ Tajikistan	1360
■ Armenia	5000	■ Turkmenistan	.
■ Belarus	8800	■ Uzbekistan	2220
■ Georgia	3600	■ Ukraine	5760
■ Kazakhstan	8810	■ CIS	9000
■ NMS(10)	13840	■ EU(27)	24860

## CIS (FSU): Key economic data (4)

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

■ Estonia	18	■ Kyrgyzstan	50
■ Latvia	17	■ Moldova	41
■ Lithuania	33	■ Russia	15
■ Azerbaijan	18	■ Tajikistan	15
■ Armenia	31	■ Turkmenistan	50
■ Belarus	46	■ Uzbekistan	25
■ Georgia	38	■ Ukraine	38
■ Kazakhstan	17	■ CIS	.

## CIS (FSU): Key economic data (5)

### Share of CIS in imports, in %, year 2007

■ Estonia	18	■ Kyrgyzstan	63
■ Latvia	16	■ Moldova	36
■ Lithuania	29	■ Russia	15
■ Azerbaijan	33	■ Tajikistan	62
■ Armenia	34	■ Turkmenistan	
■ Belarus	66	■ Uzbekistan	
■ Georgia	35	■ Ukraine	43
■ Kazakhstan	45	■ 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 Abkhazia, 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 ?

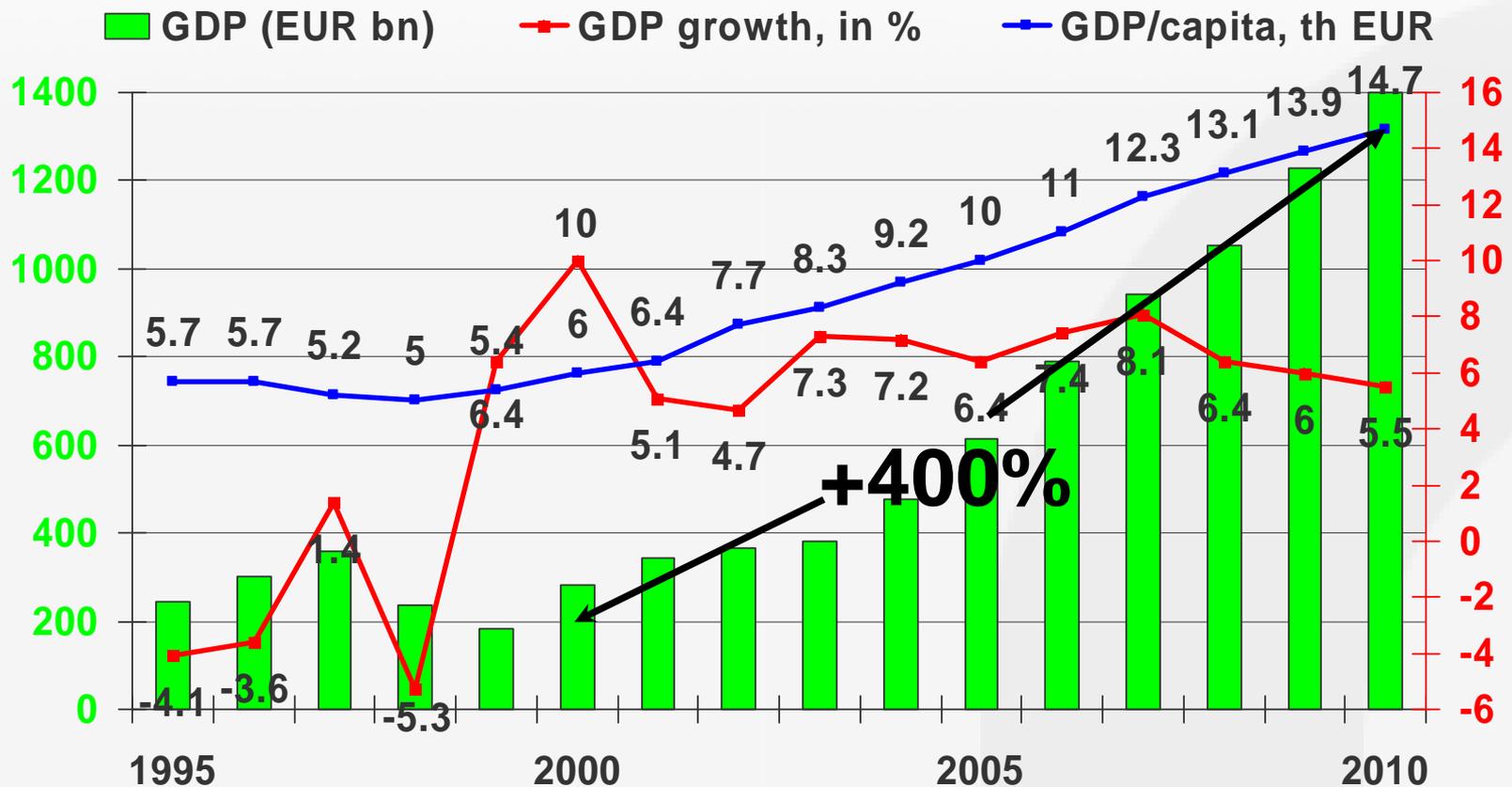
# EU neighbourhood co-operation challenges

- 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) !

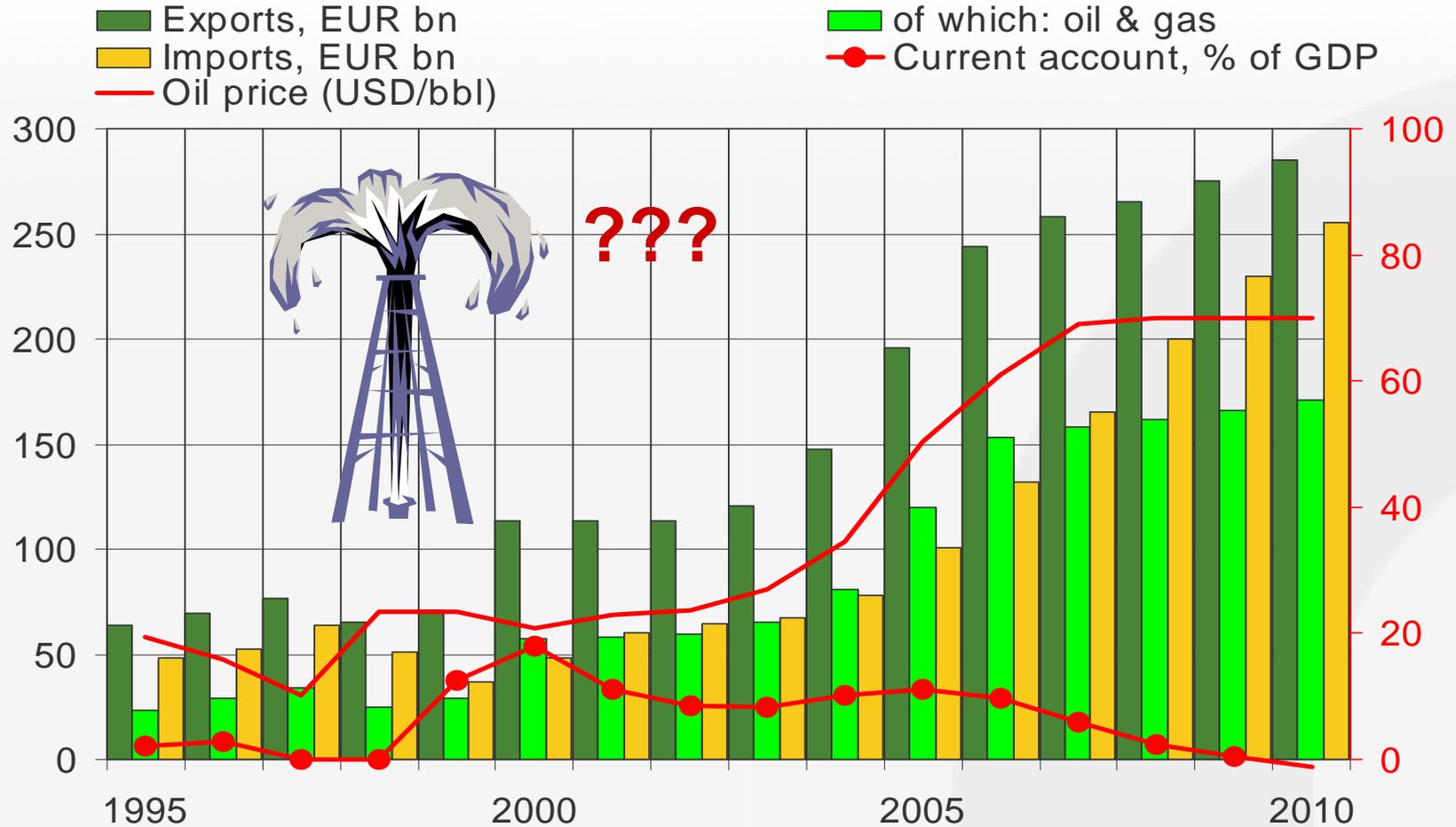
# Economic outlook and challenges facing the new President Dmitry Medvedev

- Diversification of the economy
- Transition of power

# Russian GDP: nominal (EUR bn), real growth (%) and per capita (EUR at PPP)

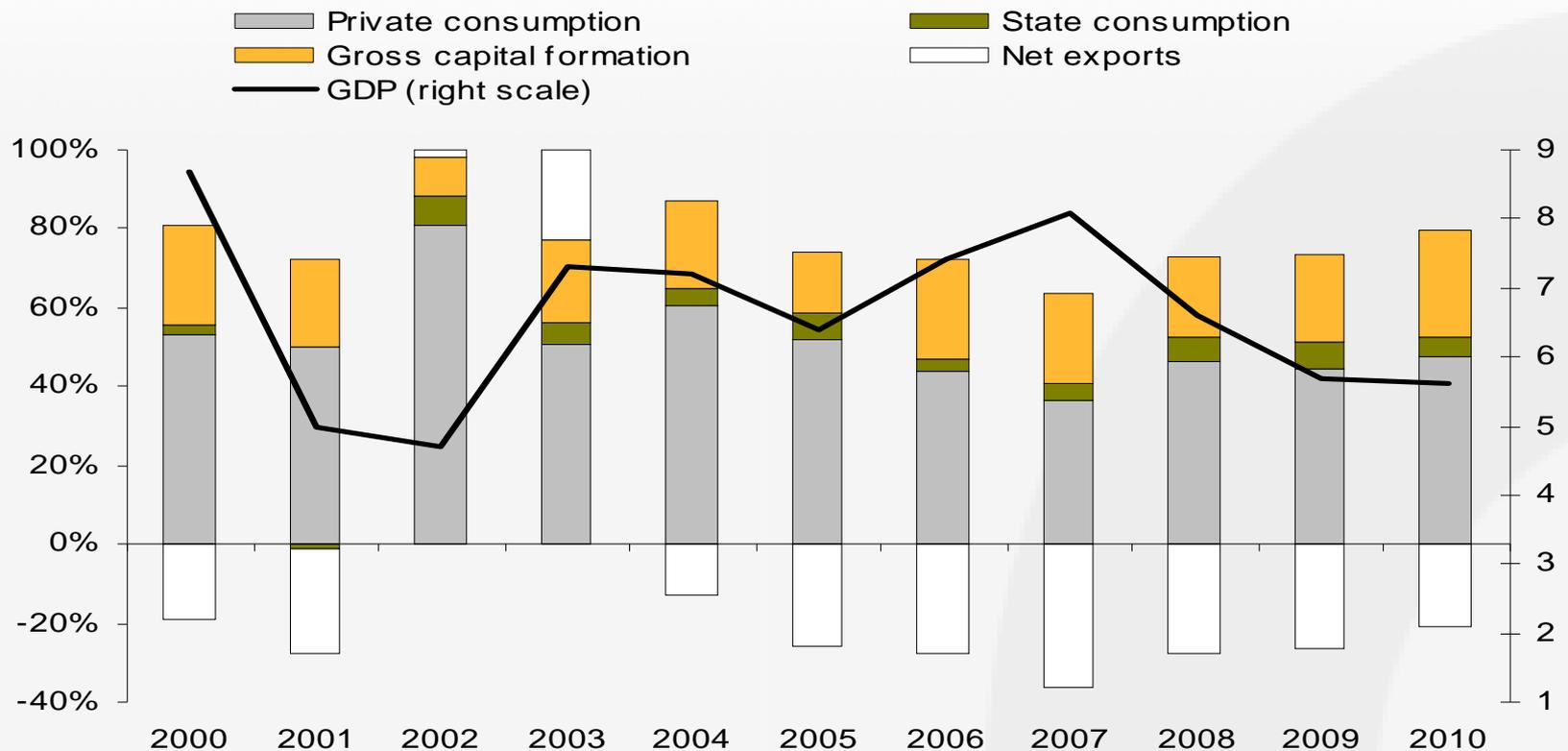


# External sector



# Drivers of GDP growth, 2000-2010 (A)

contributions of main components to GDP growth, in %

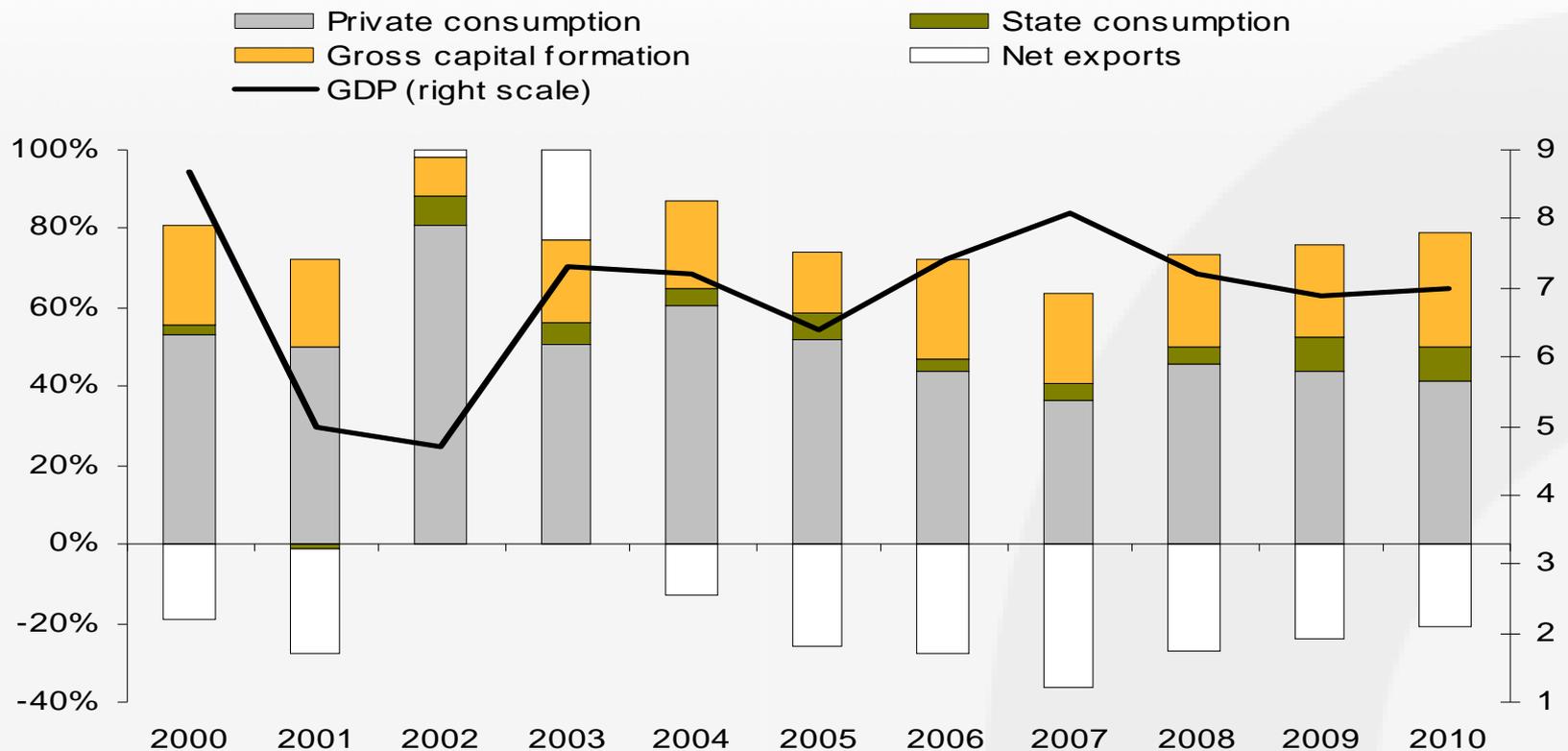


*Scenario A: Oil price constant (USD 70/bbl), resource-based growth, little diversification*

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) ?



Cartoon: Kommersant Vlast

Thank You for your attention !!!

Arigato daimas !!!