



EXPERT OPINIONS

Two Evils for Russia: Record-High Oil Prices or Record-Low Prices

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On October 21-25, 2012 Valdai Club experts will tackle scenarios for Russia's economic development at the Club's 9th annual summit. Leading economists and analysts who will participate in expert discussions answered the most vital questions on Russian economy in the global framework in a series of interviews for the Valdai Club website. Special attention was paid to the global and internal risks, leadership, investment issues and Russia's competitive advantages.

Valdaiclub.com interview with Vladimir Popov, Doctor of Economics, advisor to the UN Department of Economic and Social Affairs (DESA).

What foreign and domestic risks do you see as key for Russia today?

The main external risk is a collapse in fossil fuel prices on the world market; the number one domestic risk is the inability to convert to high-technology before such a collapse occurs.

What is the greater of the two evils for Russia: record-high oil prices or record-low prices?

Record-low oil prices are a more daunting prospect. Unlike Singapore, Korea or China, we haven't yet learned to grow by exporting finished products, to say nothing of high-tech ones. The potential of our state institutions doesn't let us mobilize our domestic savings into 50% of GDP and use them to provide an average annual growth of 10% through the export of deep-processed products – as is the case with China, which is why low oil prices are likely to erode the Russian economy like they did in the '90s. Whereas with high oil prices, we may – just may – succeed in rebuilding the national economy to move it away from its commodity dependence. To make that happen, we should follow a sensible fuel pricing policy, to include domestic fuel price increases along with the devaluation of the ruble and higher taxes for the hydrocarbon sector.

Budget priorities: Saving or investing?

Investing in infrastructure, education and healthcare would be the best solution. If we cannot invest, we should save. We are now suffering from the Dutch syndrome in its final phase – an overrated ruble owing to big hard-currency proceeds from fossil fuel exports. Hard-currency savings help fight the disease while also encouraging export-oriented growth. At one point or another in their history, nearly all East Asian nations – Japan, Korea, countries on the Pacific Rim, and China – would have taken a course toward saving reserves and depreciating

their currency. And in the last decade, almost all of the developing countries have been saving intensively – as Mr Polterovich and I predicted back in 2002 in the article “Saving Hard-Currency Reserves and Long-Term Economic Growth.”

What is more important to Russia: social stability or the development of governing institutions?

There are many surveys, including ones conducted by myself, that show that social stability and the development of institutions usually go hand in hand – quality institutions are easier to build in a socially harmonious environment, with low inequality. If we were to gauge the quality of state institutions using criteria such as the degree of legal violations, the violent crime rate, or the shadow economy’s share, we would single out two types of developing countries – countries with high inequality and weak state institutions, on the one hand (Latin America, sub-Saharan Africa and Russia), and ones with low inequality and more efficient institutions, on the other (East and South Asia, and the Middle East).

Where do you see the Russian economy’s competitive advantages for the next 10-15 years?

Arguably, Russia has fallen down to the level of “a standard developing country” in the 1990s. Well, the general idea is correct, but the devil is in the details, as they say. There has been some degradation of course, yet in some areas, Russia retains a potential no developing country can boast. The level of public education is higher than in most developing countries; and we outstrip all developing countries in many high-tech sectors, such as nuclear energy, space exploration, aircraft manufacturing, and satellite navigation systems. Also, the past decade has seen our state institutions improve. Recent statistics indicate that the crime rate is on the decrease in Russia; specifically, the number of murders has decreased to 12 per 100,000 people in 2012, down from 32 in 2002. Hopefully, we’ll make the most of our advantages to reorient the domestic economy from commodities to high technology.

How would you assess the quality of Russian leadership inside and outside the country, as well as that of global leadership in general?

Russia is not a military, political or economic leader in the world today, which is, perhaps, logical, given the country's size. As for moral authority, the ability to generate ideas and initiatives that foreign governments and nations will listen to – this is something Russia could boast about back in the Soviet era and will hopefully retain through the 21st century. The communist ideal of social justice and a brotherhood of men has – admittedly – caught the imagination of millions in the 20th century, whatever we personally may think of this concept. So the question is: Will Russia be able to come out with some equally ambitious projects for reforming social systems and international relations in this century or will it end up as a “common developing country” instead?