

Facing unprecedented challenges

INTERVIEW WITH ELVIRA NABIULLINA

MINISTER OF ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION



ELVIRA NABIULLINA graduated in economics from Moscow State University, embarking on a distinguished career as an expert and adviser to business and government on economic policy and reform. In 1996 she was appointed chief of the Department of Economic Reform at the Ministry of Economics of the Russian Federation, becoming deputy Minister of Economics in 1997. She assumed the post of Vice President of the Board of AK "Promtorgbank" in 1998, becoming Executive Director of the Eurasian Rating Service and Vice President of the Centre for Strategic Development in 1999. Ms Nabiullina served as Head of the Advisory Council of the Organising Committee for the G-8 Summit in St Petersburg from 2005-06 and was appointed Minister of Economic Development and Trade in September 2007.

How is Russia responding to the present international economic turmoil, and what steps is the government taking to mitigate its impact?

The current situation that we are witnessing in the world economy is a new economic reality. For the first time in recent history, troubles in the world financial market are being caused by processes taking place not in emerging markets but in the leading economy of the world – the USA. Global financial institutions are therefore having to re-evaluate such concepts as 'rating' and 'risk'.

In today's Russia, as in the rest of the world, we are searching for approaches to mitigate the impact of these negative processes. As one of the largest economies in the world, we believe that Russia should make a significant contribution to the world's financial security. That is why we are currently elaborating measures for the development of a national financial market and the formation of a regional financial centre in Russia. We will be implementing a number of solutions, combining monetary and budgetary policy with structural measures aimed at the expansion of consumer demand and the development of a more competitive business environment.

Are you satisfied with the rate of progress in the building up the non-oil sector of Russia's economy? Do you believe that volatility in oil and gas prices may exacerbate existing economic imbalances?

I think that the development of the non-oil sector should be intensified. However, even now the rates of growth in the mechanical engineering and processing industries in our country are several times higher than in the energy industry. Thus, during the first quarter of 2008 the processing sector grew by 8.7 per cent, while the extractive sector grew by less than 1 per cent. Several sectors are growing sharply, for example construction by about 30 per cent, and trade by almost 17 per cent.

What are your particular priorities in responding to the current global economic crisis?

Following a forecast rate of growth of the Russian economy of 6 per cent in 2008, 2009 is expected to show a rate of 2.4 per cent. This figure is based on an average price of oil of USD50 per barrel. We see the growth in industrial output at 3 per cent and capital investment at 1.4 per cent. So Russia should still see positive growth during this difficult time.

The crisis represents a test of our competitiveness. In recent years our competitiveness has grown, particularly in labour productivity at between 6-7 per cent, but we are still only approaching the status of being a competitive economy. We anticipate an important contribution from small businesses in this area. Our forecast is for this sector to contribute up to 50 per cent of GDP by 2015, from approx. 17 per cent today.

The Russian Government stresses innovation as a favoured means by which the country can hasten recovery from the current downturn and improve its economic performance in the longer term. What role do you see for government to achieving this?

Russia will only be able to meet the global challenges in the years ahead by innovation. I see several challenges that we must meet to raise the level of innovation in Russia. First, global competition will increase and only those countries with a strong innovative infrastructure will remain globally competitive. Russia has been getting ready for this. Secondly we are facing a wave of new technologies - info technology, bio technology and nano technology and these are the areas that will form the profile of leading market players in the years to come. Only those countries on the crest of this wave of new technology will avoid the risk of lagging behind.

Government policy encompasses many initiatives to stimulate a more competitive and technology based economy. These include policies of co-financing, encouraging the development of human capital, establishing the innovation infrastructure and providing incentives to technology based businesses. We forecast that these technologies which currently contribute 13 per cent of GDP, will contribute 20 per cent by 2012 and 50 per cent by 2020.

How concerned are you about the effect of Russia's declining population on the country's long-term economic development?

The decrease in our population is, undoubtedly, a serious challenge for us. Recalling the experience of the 20th century, all the ordeals that our country had to pass through, and the resulting unrecoverable human losses, we understand more clearly than ever that a human life is of the highest value. That is why the realisation of a demographic policy became one of highest priorities of the government's legislative programme. In 2007,

we began to take concrete measures in this area and we have already overcome the trends of increased mortality and decreased birth rate.

As for the economic aspect of this problem, in the coming years we may well face a lack of manpower. This leads us to pay special attention to increasing our labour productivity. Today, labour productivity in several branches of our economy is ten times lower than in other G8 countries. This is unacceptable. We increase productivity in the principal economic sectors at least fourfold within the next 12 years.

Despite the increasing internationalisation of many Russian companies, the issue of the country's accession to WTO is still to be agreed. What is the current status of this process and what timetable do you have for its completion?

Russia is approaching the final stage of accession to WTO. Negotiations on access to product and service markets are almost completed. Most system problems related to our fulfilment of WTO agreements have been resolved successfully and general work on the adjustment of Russian legislation to WTO requirements is practically finished, apart from amendments to three or four regulatory instruments.

The privatisation of UES notwithstanding, the current economic framework in Russia involves renewed state control and the creation of national champions in certain sectors. To what extent, in your view, should the state play an active role in the economy?

Yes, there is a public perception that the state sector of the economy is expanding. This is caused by the consolidation of state assets into new holding structures. The main goal of such activities is to arrange assets already owned by the state, which were formerly dispersed in order to optimise the management structures of state enterprises, to increase their effectiveness and, finally, to make them truly public companies, in other words, to bring them to IPO.

Besides, those state holdings are formed where there is no serious competition in our domestic market – for example, in aircraft engineering. OAK OJSC was organised in order to consolidate this branch and to create a national leader which in future could compete with Boeing and Airbus.

The Russian Government does not plan to establish 'state capitalism' – which is the term sometimes used to describe this kind of process. But without state support of certain strategically vital branches – such as aircraft engineering, ship engineering, nanotechnologies, the nuclear industry and others – it is impossible to reorganise them in a reasonable timeframe thereby accelerating the innovative development of the economy.

What is your view of the current state of the economic reform programme in Russia, and what further reforms are expected under the administration of President Dmitry Medvedev?

The main priorities for the government's economic policy include macro-economic stability, the development of economic institutions and freedoms, and competitiveness. Most of the tasks set previously have now been completed. And today, under conditions of economic, political and social stability for the first time in the post-Soviet history of Russia, we can, and have to, develop a strategy of really long-term development. At present, we are openly discussing the main parameters of the concept of social and economic development of our country to 2020. In fact, this document will determine the logic of governmental activities for many years.

Do you feel that women have a bigger role to play in Russian public life? If so, what encouragement should they be given to participate fully?

I do not see any obstacles which would impede the self-realisation of women in social life of Russia. At the same time, I agree with Vladimir Putin that women's participation in the social and political life of a country is one of the indicators of the maturity of its society.

The issue of urban regeneration remains high on the political agenda internationally, as growing migration to the world's cities places an ever-increasing burden on transport, housing and the environment. What lessons can be learned from the renaissance and redevelopment of St Petersburg in recent years?

First of all, I do not believe there is such a direct correlation between migration problems and the modernisation of the urban medium, not in Russia at any rate. The main problems of today's St Petersburg are not caused by massive immigration. Our efforts are being applied to the development of infrastructure, particularly road and transport links, and the improvement of housing maintenance and utilities.

St Petersburg is a city with a unique historical heritage, a real open-air museum, and its modernisation requires due diligence. But at all times the architectural image, social life and cultural development of this city represent a combination of novelty and tradition. Its inhabitants have always been open to innovation and keen to acquire useful experiences. Russian and foreign investments, which benefit both industry and the city's economy, are a powerful stimulus for its economic development. Thus, the value of foreign investments over the past year exceeded US\$6.3 billion, which is nine times higher than in 2003. According to international rating agencies, St Petersburg's investment climate is one of most favourable both in Russia and worldwide. **F**

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