

Russia's window on the world

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This year's International Economic Forum in St Petersburg marks a further stage in the development of Russia's second capital, another year of Russia's growth, and an additional move in the country's repatriation of its ideas of itself. If the disintegration of the USSR was understandably followed by a search for new anchors of meaning in a changed world, Russia's recovery has now brought it to a new point: President Putin stressed on 26 April in his annual report to the Federal Assembly the need for a common set of guidelines, including respect towards the Russian language, the country's independent heritage, the memory of its ancestors, and "every page of our fatherland's history."

This sense of renewed pride in Russia is buttressed by the country's encouraging growth since the crisis of 1998. There were plenty then, in Russia itself as well as outsiders, who were close to despair. In fact, the recovery began surprisingly quickly, helped by stringent fiscal policies, domestic producers filling the vacuum created by suddenly expensive imports, and the elements of a market economy that had been established in the nineties – as well of course as by rising oil prices. The record during President Putin's two terms of office has been such as consistently to outperform the predictions of many of the most learned of economists, Russian or foreign. The growing importance of the St Petersburg Forum is itself recognition of the increased economic and of course also political weight of Russia in the world.

There are those in Russia who argue that foreigners look askance at Russia's return. What Russia chooses to do with its revived strength is of course a matter for outside concern or welcome as the case may be. But a prosperous and stable Russia is clearly in and of itself highly to be desired, a fact that ought not to need arguing. European Union, United States and other countries' companies have shown their eagerness to invest in Russia and to trade with her. Foreign representation at the Forum this year is strong proof of the basic proposition that Russia is seen outside the country as a necessary and welcome player in the development of the global economy.

That foreign commitment is also witness to faith in Russia's future, and to the hope of sharing in it. One question that will undoubtedly be raised is the scope

for further foreign investment, including how it may be affected by the evolving subsoil and strategic assets legislation, as well of course as issues familiar to participants in the Foreign Investment Advisory Council and to Chambers of Commerce including the Russo-British Chamber such as the role and intentions of the tax and customs authorities, the impact of regulatory provisions, whether federal, regional or municipal, and the status of the judiciary. These are of course areas where all investors, Russian as well as foreign, need to feel confident. Effective investment is a long term matter.

High oil and therefore gas prices, a benign global economic climate, and the existence of spare capacity in the Russian economy – open to exploitation thanks to the 1998 devaluation – have all been among the drivers of Russia's economic recovery and growth over the last nine years. The last set has lost its potential as spare capacity has been used up, labour shortages have begun to bite, and the ruble has strengthened. The energy sector and the diversification of the economy have accordingly become matters of particular focus for the future. That is not to imply that growth is at early risk, but only to draw attention to the fact that the Russian authorities have the issues clearly in their sights.

President Putin reported to the Assembly on 26 April that electricity supply had already become a constraint on further growth. It is reasonable to expect that the reform of the power sector which has started will help. The President called for extensive investment in new power stations, whether nuclear or more conventional. This will clearly be needed, but will also take time as well as money. As the inherited spare capacity in the economy has been exploited, so the increase in the energy demands of the Russian economy has risen from the 3 per cent of recent years to 5 per cent, which is a level more in keeping with the present overall growth rate of around 7 per cent. Gas plays a particularly important part in the provision of power, but the increase in supply from existing Gazprom assets is modest, and existing major fields are becoming less productive. Bringing the larger new ones on stream will be difficult and costly. The oil picture is not too different.

There are difficult issues here. How will

