



At a crossroads Russia in the global economy

Sergey Kulik, Nikita Maslennikov and Igor Yurgens shed light on the different paths for Russia's economic development. This revelatory and entertaining book is reviewed by WCR

Globalisation has led to greater competition. The explosion of advanced technologies now means that knowledge-pools and resources have connected all over the planet, levelling the playing field as never before. In this highly-interdependent modern world a country's economy and foreign policy are strongly linked, and Russia's foreign ventures have exacerbated the effects of the economic headwinds it faces.

Russia is a good example of an imbalance between economic potential and foreign-policy ambitions. Russia has the largest territory in the world and is one of the two largest holders of nuclear weapons (the US is another one). It is also one of the five permanent members of the United Nations Security Council. The majority of observers remain sceptical about Russia's long-term prospects as a great power of the twenty-first century. In their opinion, Russia's domestic situation is undermining the potential that Moscow has demonstrated in recent years.

Economically and demographically Russia is far behind. Its population accounts for approximately 2% of the world's population, and with a falling population against the rising global population. In 2017 Russia occupied ninth position in the world rankings. According to the International Monetary Fund's World Economic Outlook database of October 2018, in 2017 Russia's share in the world total GDP calculated in purchasing power parity (PPP) terms amounted to 3.2%, with declining tendency over time (in 2008, it amounted to 3.9%). Its share in global trade was even lower, at 1.8%.

Russia is searching for an identity in the rapidly-evolving interdependent world. Interdependence is expanding the opportunities to individual nations, and the question is how Russia takes advantage of these developments. This is just one of the issues raised by Russian economists, Sergey Kulik, Nikita Maslennikov and Igor Yurgens in *At a Crossroads: Russia in the Global Economy*, a thorough overview of the challenges that Russia faces in the coming decades.

The authors explore the structural limitations and growth potential of the Russian economy, examining the labour force, the state of competition in the economy, the government's negative impact on economic competition is its excessive control and supervisory regulation, an inertia of structural constraints that has significantly affected the economy.

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A poor business and investment climate is not the only issue explored. Russia is having difficulty in diversifying away from the dominant role of the hydrocarbon sector, the deteriorating economic and political relationships with the US and EU is of concern, and the strengthening of relations with Russia's eastern neighbours and the pivot to the East is examined in depth. Russia is aiming to have a decisive goal of being at the centre of the integrative processes in Greater Eurasia.

The credibility of these strategic ideas will depend on several areas.

Improving the investment climate, including strengthening property rights and contract enforcement, and a reduction of red tape that discourages foreign investment. Reducing the state's footprint in the economy and increasing the role of the private sector, particularly in Global Value Chains.

Fighting corruption and business extortion will be impossible without democratic oversight of public administration, law enforcement and public security agencies, and without media freedom. Further progress will be driven by the coherence and credibility of government policies. Political reforms and better guarantees of civil liberties can help increase economic freedom, innovation and business initiative.

Infrastructure investment is urgently needed to improve connectivity, reduce transportation costs and ensure better access to domestic and foreign markets. Energy infrastructure upgrades are also of vital importance. Creating a more efficient goods market, among others, by simplifying customs procedures. Deeper integration of Russia in the global economy will require far-reaching economic and technological partnerships and cooperation with leading advanced economies, including the EU and the US.

The future economic development of Russia will require global economic growth and the stability of international commodity and financial markets, and Russia should be an active player in defending the global economic order and in strengthening it through relevant reforms. Strengthening trade relationships beyond Russia's immediate neighbours will be part of this development.

The Russian government should support innovation by allocating more resources to research and development. The rapid development and spread of technology in the midst of the fourth industrial revolution, which captures all dimensions of modern civilization, is leading to fast-paced and profound changes in the structure of the global economy and the configuration of global markets and the essence of supply and demand.

Indeed, the Kremlin views mastery of the digital area as strategic development resource. The changes taking place are so significant that the world may well be embarking on the greatest technological transition in its entire history, to a point where natural resource wealth and the cheapness of labour cease to be the fundamental determiners of growth.

Given Russia's increasing labour-supply constraints, the development of innovative business activity and high-value added manufacturing and services is the only realistic long-term strategy that would enable an upper-middle-income economy such as Russia to diversify away from the hydrocarbon monoculture.

The authors summon up Russia's dilemma:

... the Russian strategic interest is in the expansion of both international competition and cooperation along the whole perimeter of pax economica, driven by Moscow's greatest possible contribution to weakening the current geopolitical tensions. The speed and comprehensiveness of the solutions will depend directly on sharing the

road with Russia's trading partners. This will, to a large extent, be conditional on an adequate understanding of the logic of Russia's past and present interaction with the global economy, which this book has endeavoured to illuminate.

Overall this is an excellent book that is destined to shape the debate about Russia's future. Russia's choice at this juncture will determine the future of its economic development for many years to come. ■

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