



More Rough Weather in Russia?

Anders Åslund assesses the dangers facing Russia's buoyant economy posed by growing state control and the crackdown on corruption.

Transcript of interview recorded January 22, 2013. © Peterson Institute for International Economics.

Steve Weisman: After returning from Moscow, Anders Aslund of the Peterson Institute for International Economics is here with fresh assessments of the political and economic scene there. This is Steve Weisman. Anders, you have been positive Russian economic developments, but not so on the political side. What is your impression of the economy?

Anders Aslund: Basically the macro economic situation is very good, but there are now new worrisome features in this regard. It's very striking that nobody takes the big campaign about better investment environment seriously. It's not expected that there would be an improvement for small and medium sized enterprises. The OECD [Organization for Economic Cooperation and Development] accession, which would have been good for law and order, is not getting closer. And Russia is taking a pretty tough attitude to the World Trade Organization, which it has just become a member of last August.

Steve Weisman: What do you mean by that "tough attitude" on the WTO?

Anders Aslund: There are several cases that might reach WTO arbitration. One is recycling fees for imported cars, which do not apply to cars produced in Russia and this is against the WTO agreement.

Steve Weisman: Who is bringing that complaint?

Anders Aslund: The European Union is bringing it up. The United States car companies are mainly producing cars in Russia, so they do not feel too concerned about this matter. Another issue is particularly raised by Sweden and Finland, within the European Union. That is that Russia has before joining the WTO just increased import tax from 5 percent to 15 percent for a large number of paper types. And there are other cases also. So the sense is that Russia is not trying to adjust to the WTO, but rather trying to fight the agreement it has already concluded.

Steve Weisman: What other threats to the economy did you see? I think in the energy sector as well?

Anders Aslund: The big concern in the energy sector is that Rosneft, the big state company, which is very poorly managed and not profitable, is now buying TNK-BP, which has been highly profitable, one of the most successful oil companies in the world for the last six years. And now a bad state company is taking over an extremely successful private company. Clearly, this is a matter of a deterioration.

Steve Weisman: Is this a nationalization or purchase?

Anders Aslund: It is a nationalization through purchase. A state company is buying a private company.

The private owners, BP and a group of Russian oligarchs, are very happy to sell to the Russian state for a very good price. But the question is what is in it for the Russian nation? A big loss. But the worst case, as before, is Gazprom, a natural gas company which is probably a good candidate for being the worst managed company in the world and possibly the biggest value destroyer in history.

Steve Weisman: So with this increasing state takeover of the energy sector, is Russia more vulnerable to the price volatilities in natural gas and oil?

Anders Aslund: Yes, and of course in gas, we know that the prices are falling. In oil, there's a broad expectation that these high oil prices cannot hold when there is so much newly produced oil, particularly in the United States. So there is a broad expectation that the oil prices will decline over some time.

Steve Weisman: And Russia is not in a position to take advantage of the new technologies to explore for natural gas and oil on its own territory?

Anders Aslund: Indeed. Russia had, in the 1990s, lots of medium sized private companies, both Russian and foreign, in oil and gas, and now these are being squeezed out or have been squeezed out. And these are the kind of companies that push the new technologies in this country. And Russia is happy to invite the oil majors to Russia, but they have not been very good on the new technologies, rather late acceptors. And they are now being invited, but Russia itself does not allow small Russian companies to develop new technologies.

Steve Weisman: What's the impact of the increased anti-corruption campaign on the economy?

Anders Aslund: What suddenly has happened now is that the investment companies are downgrading their expectations for investment next year, which also means that, for example, JP Morgan has reduced their GDP forecast for next year. So people are clearly scared by the anti-corruption campaign and by what Putin calls de-offshorization, that is, trying to take various measures to force Russians or to tempt Russians to stay with them in Russia. And this has really shaken people off.

And with regard to the anti-corruption campaign you see two tendencies. In the elite where corruption is prevalent, people are scared and trying to get money out of country or trying to diminish the risk by whatever means they have. Ordinary people are surprised to see how extraordinary corruption was at the top and they are getting furious.

Steve Weisman: But Putin still seems invulnerable to this antipathy, and protests have diminished.

Anders Aslund: Well, not necessarily. We're seeing that the opinion polls have much lower approval ratings of Putin. In one of the main opinion polls he has approval rating of about 40 percent, which is not much where it used to be at 60 percent. And we're seeing that he does not seem to be in control of the various decisions. If you ask about the anti-corruption cases that are being pursued, people always point finger at one official or the other, but not at Putin himself. So he does not seem to be in charge.

And when you ask, "How could Rosneft, the state oil company, be allowed to buy the TNK-BP for \$55 billion of state money at substantial cost to the state and damage to the state?" People say that Putin could not say no to his old friend Igor Sieczin, who is the chairman of Rosneft and who has no experience whatsoever in state management.

It's also said that Sieczin is a total micro-manager and Putin of course cannot say no to him in any regard. So the sense is that Putin is not growing stronger, but losing control over his nearest circle. In fact, the in-fighting has reached quite a dangerous level.

Steve Weisman: Finally, prospects for US cooperation, US-Russia cooperation on Iran, Syria, North Korea, in 2013?

Anders Aslund: I think that we should simply accept that the best we can hope for in the West-Russia relations is a minimum of damage. The current Russian attitude is to not only say no to everything that the US says, but also undertake what they call asymmetric measures; that is, to do something extra in response to what the US does. So the best we can hope for is just a cooling down. I would generally advise the US administration to minimize contacts with Russia when these contacts can only arouse irritation and aggression.

Steve Weisman: Thank you, Anders.



