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Forum for Research
on Eastern Europe and
Emerging Economies



STOCKHOLM INSTITUTE OF
TRANSITION ECONOMICS

Russia's economy—challenges and opportunities (an outsider's view)

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Director of SITE

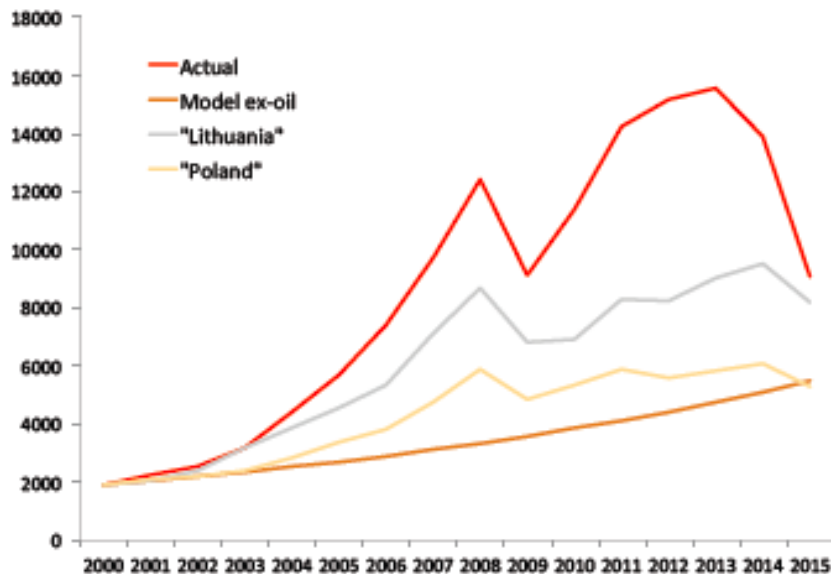
Presentation at Carnegie Moscow Center, Feb 8 2017

Russia's oil—challenge or opportunity?

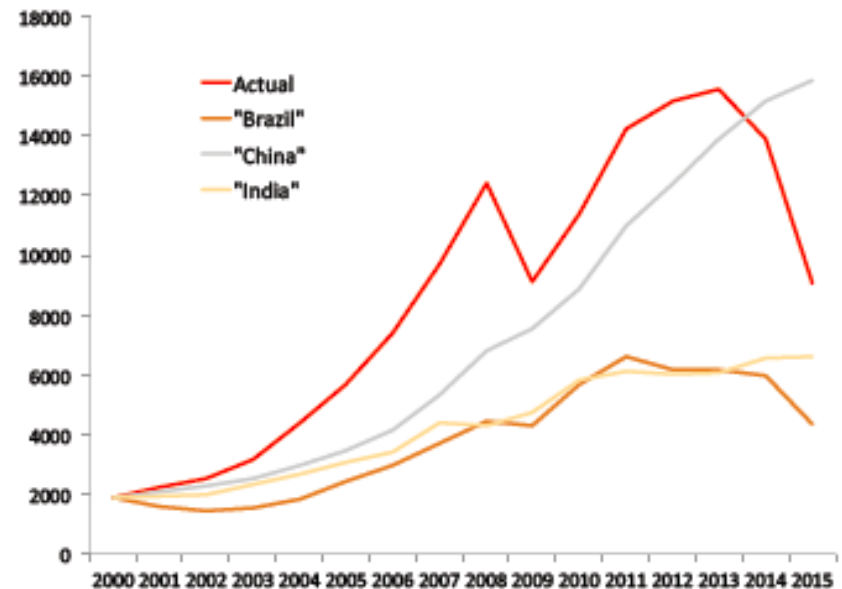
Russia without oil—some counterfactuals

USD income

Russia as a non-oil transition country



Russia as a BRIC peer



Russia and oil—uncertain future

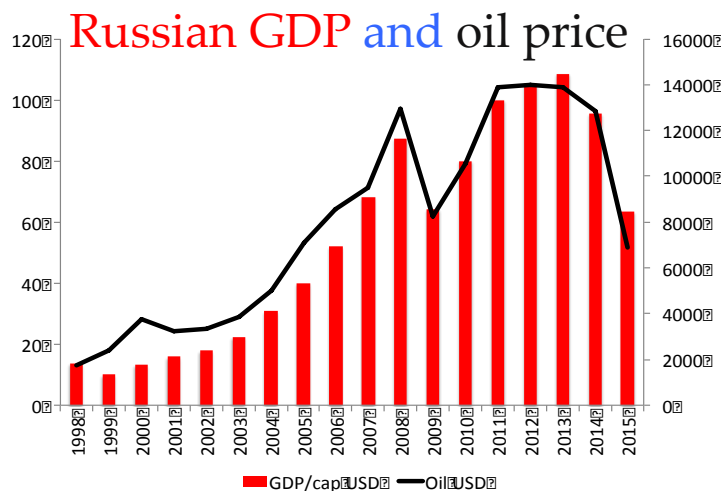
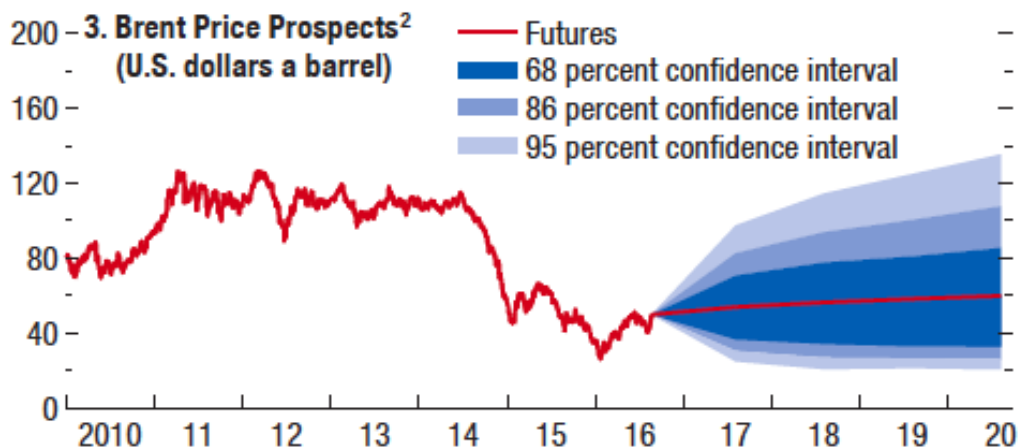
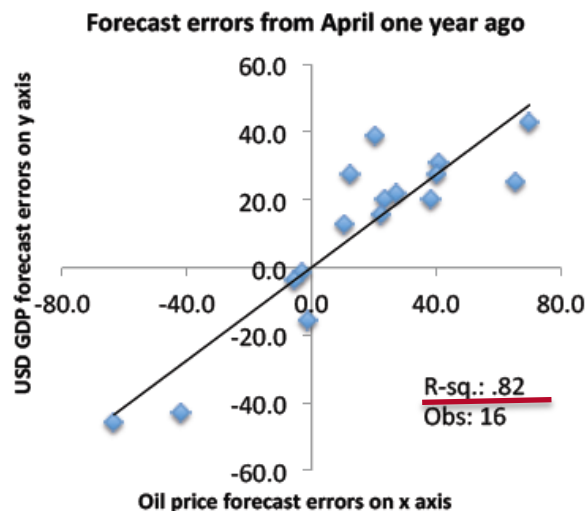


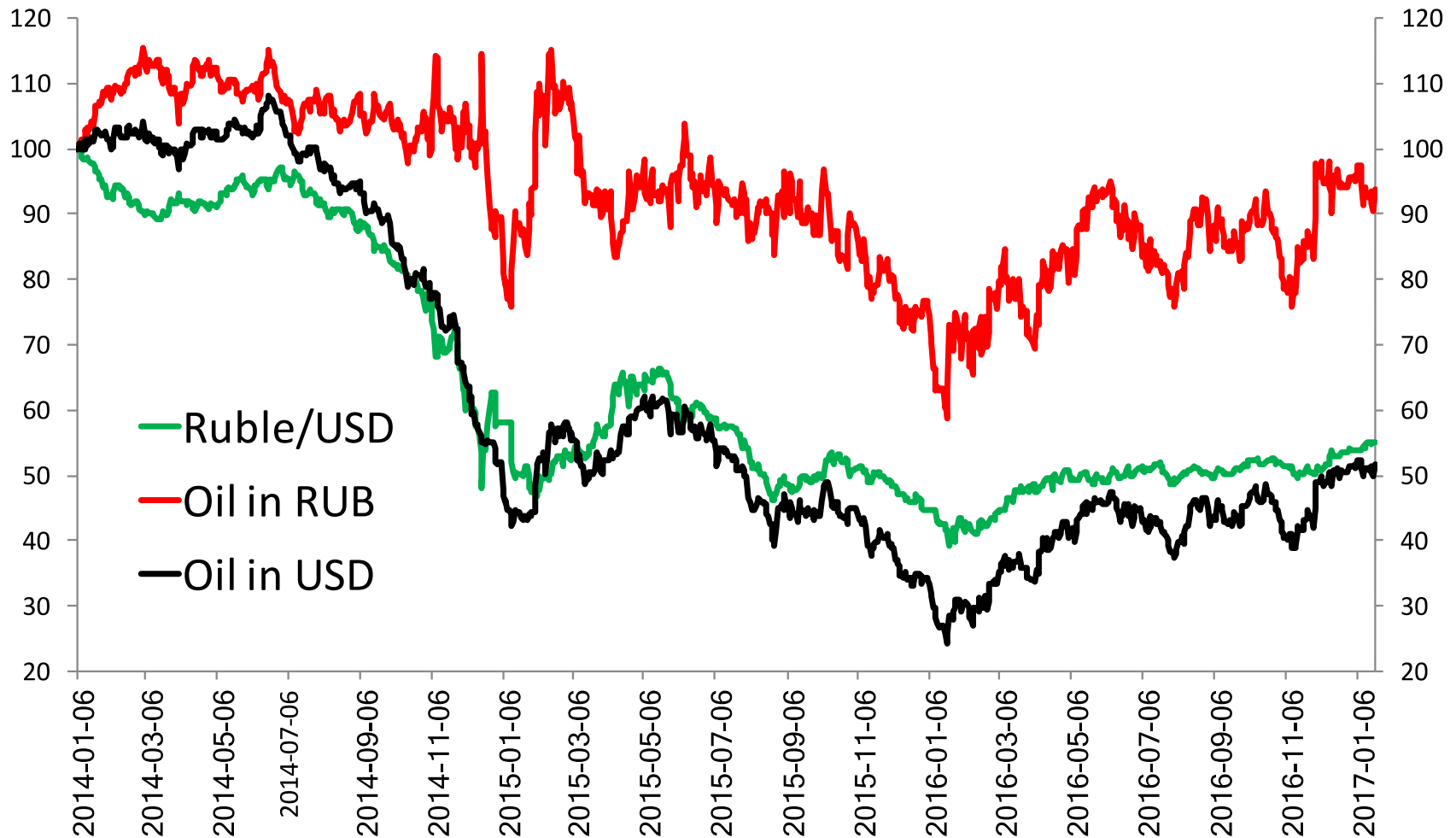
Table 2. One variable regressions of income on oil price

Dep. Vars.	First differences		Percent growth rate	
	USD income	2008 RUB income	USD income	2008 RUB income
1993-2015				
oil price (same trans.)	105.03***	596.68***	0.4311*	0.1653***
constant	221.96*	3182.44	13.20*	0.4646
Adj. R-sq.	0.88	0.42	0.08	0.43
# Obs	23	23	23	23
2000-2015				
oil price (same trans.)	105.72***	553.27***	0.6862***	0.1399***
constant	260.23	7842.61***	7.32***	2.64***
Adj. R-sq.	0.92	0.69	0.77	0.62
# Obs	16	16	16	16



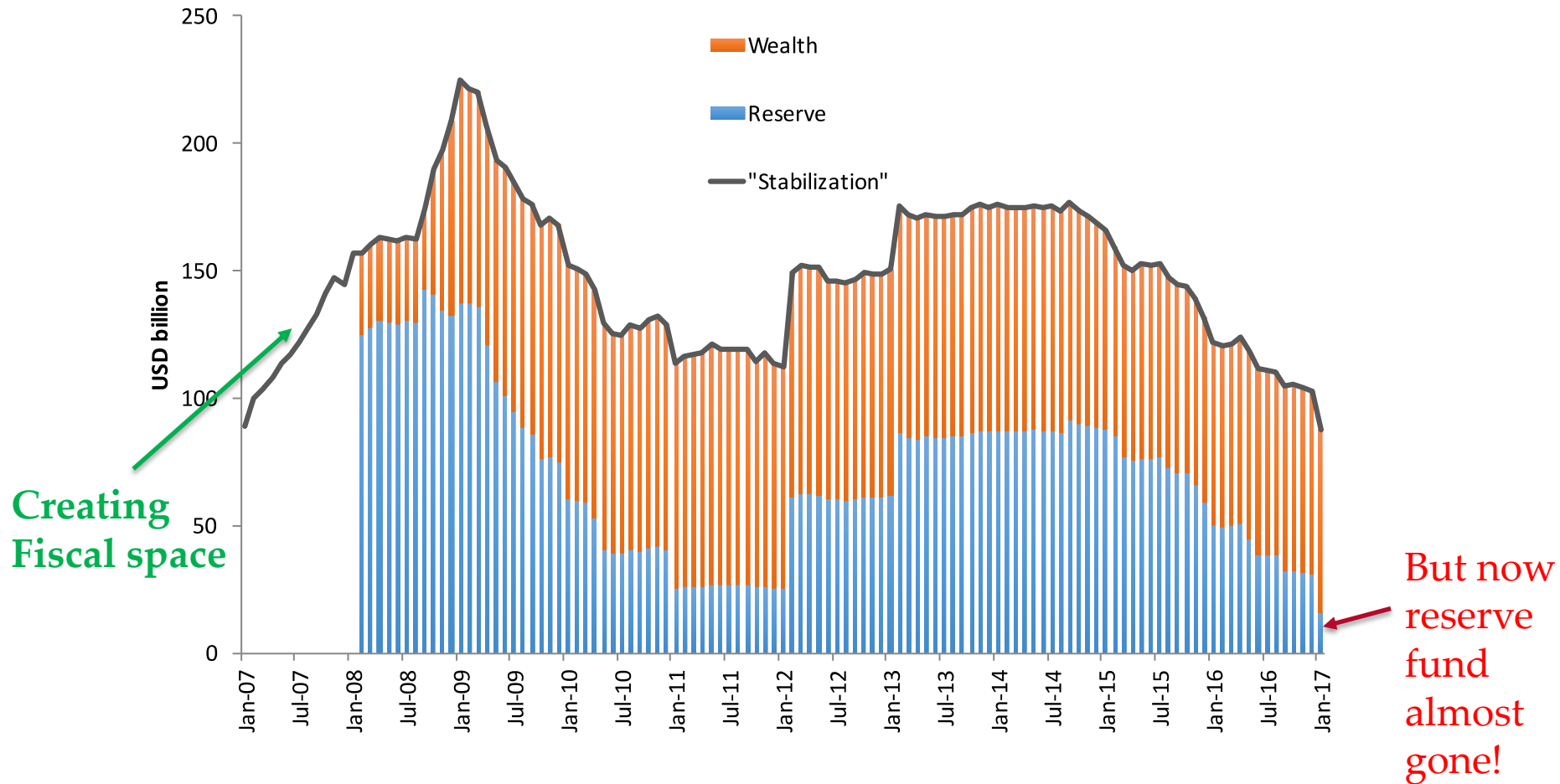
Macro management of oil 1

—Exchange rate flexibility



Macro management of oil 2

—Fiscal space (running out)



Structural transformation harder

“Putin does not see the end of the era of hydrocarbons”



“...many started saying that the era of hydro-carbons was coming to an end...no real reason for such far-reaching conclusion yet.”

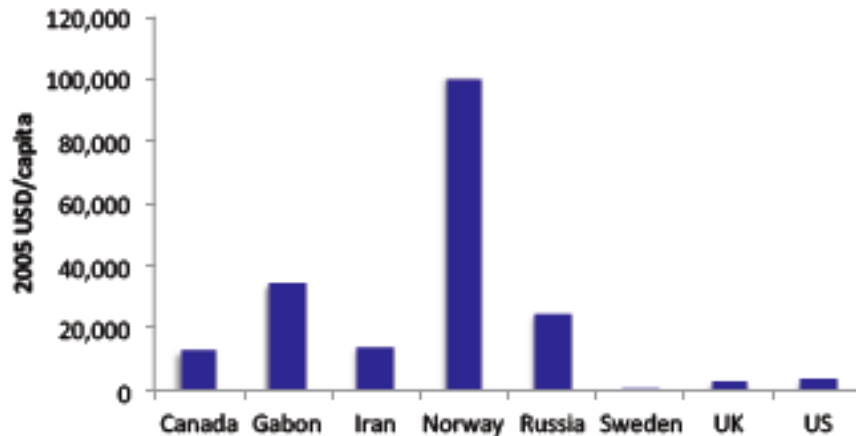
“...Mankind is moving towards green energy.”

President Putin at World Energy Congress in Istanbul quotes from pravda.ru

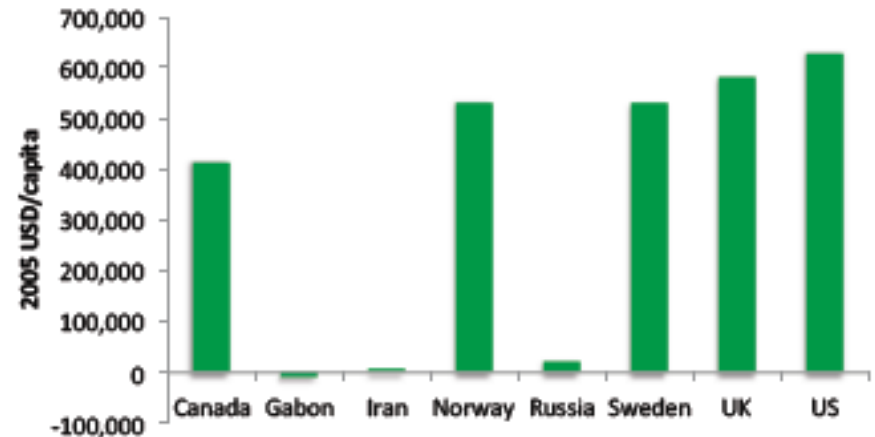
Challenges or opportunities?

The future without oil(?) – mining the minds

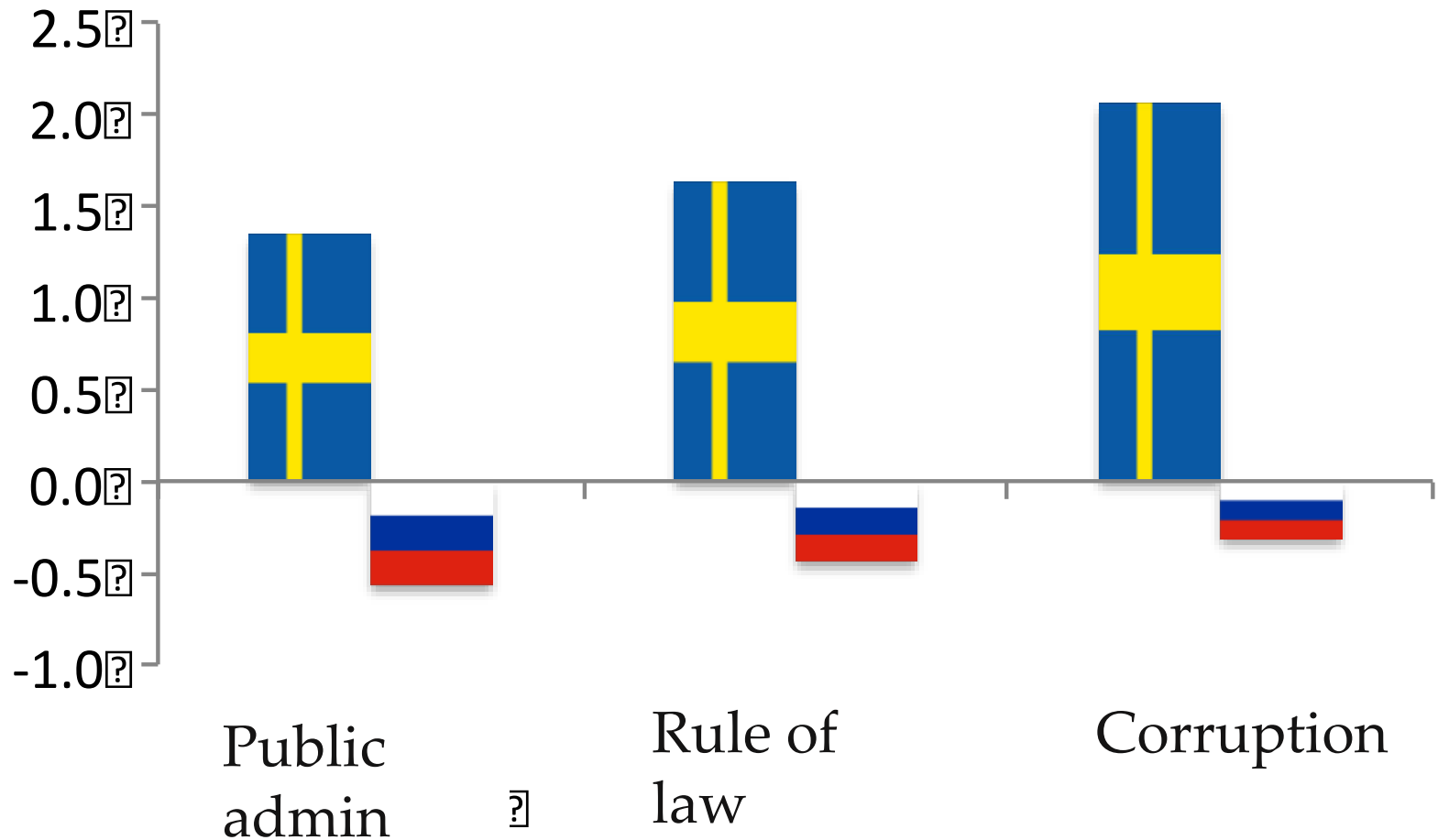
Subsoil



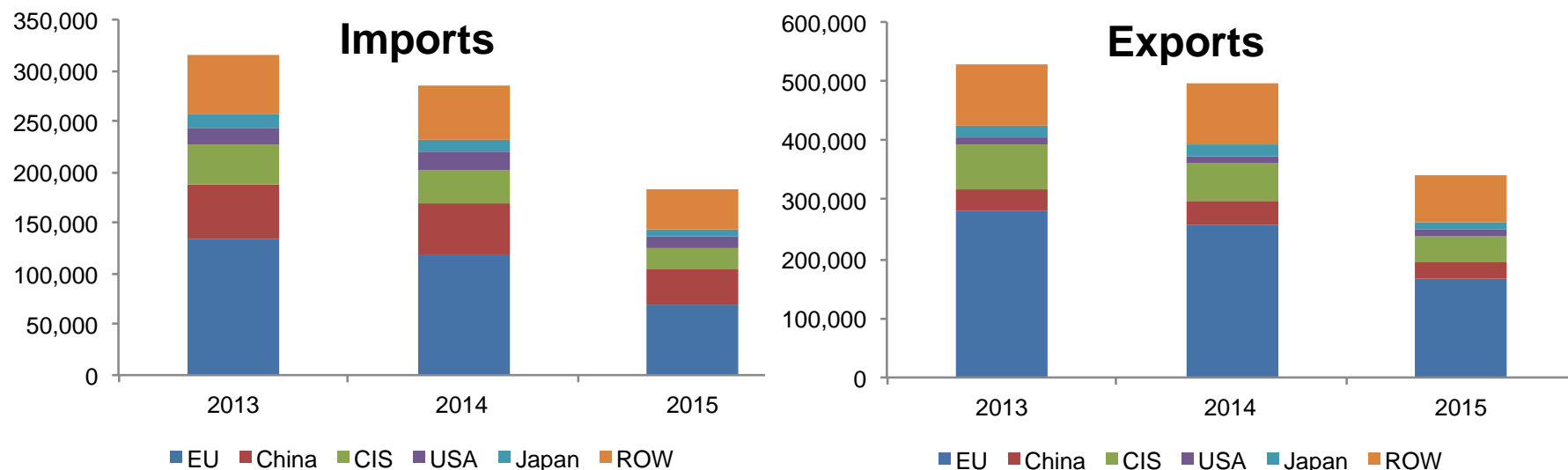
Intangible



Areas of structural reforms

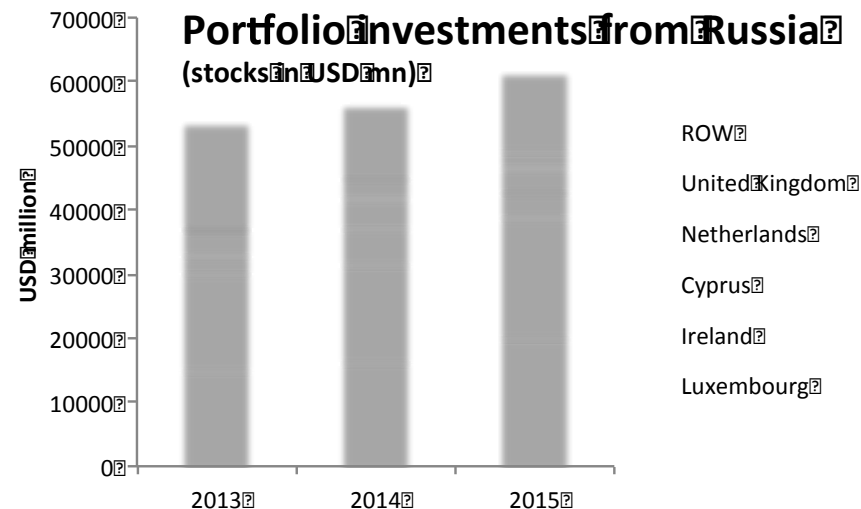
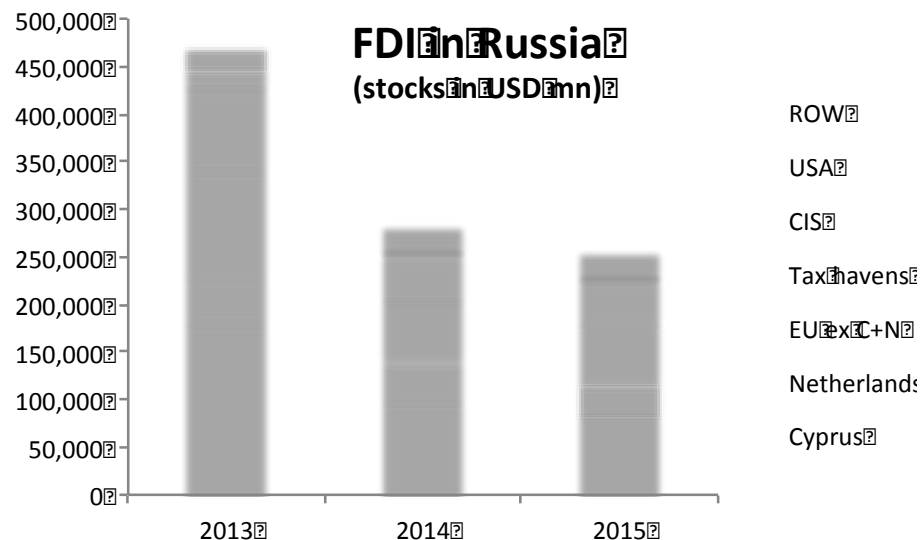


Russian trade—EU biggest partner by far



- Imports 2013 – 2015: **-42%**
- Exports 2013 – 2015: **-35%**
- **EU's** share of total trade went from **50 to 45%**
- But CIS (13%) & China (12%) still far less important

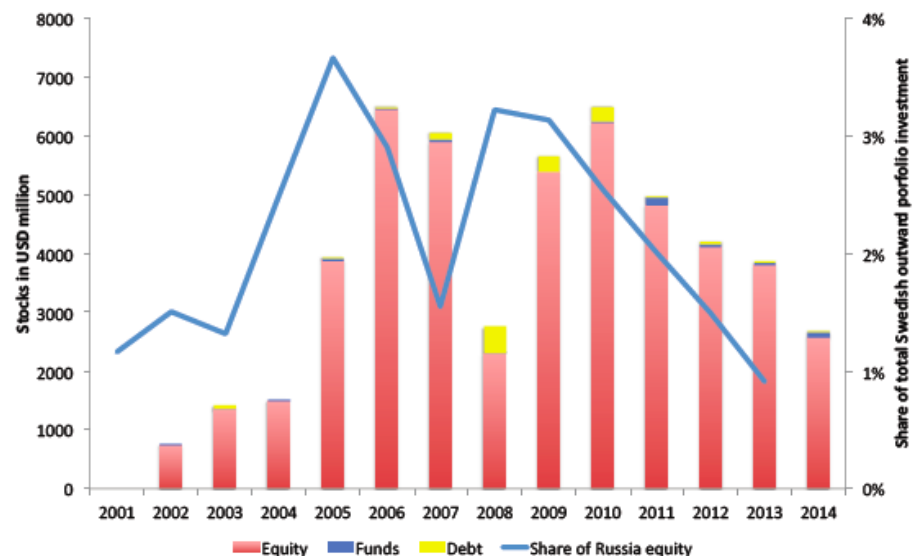
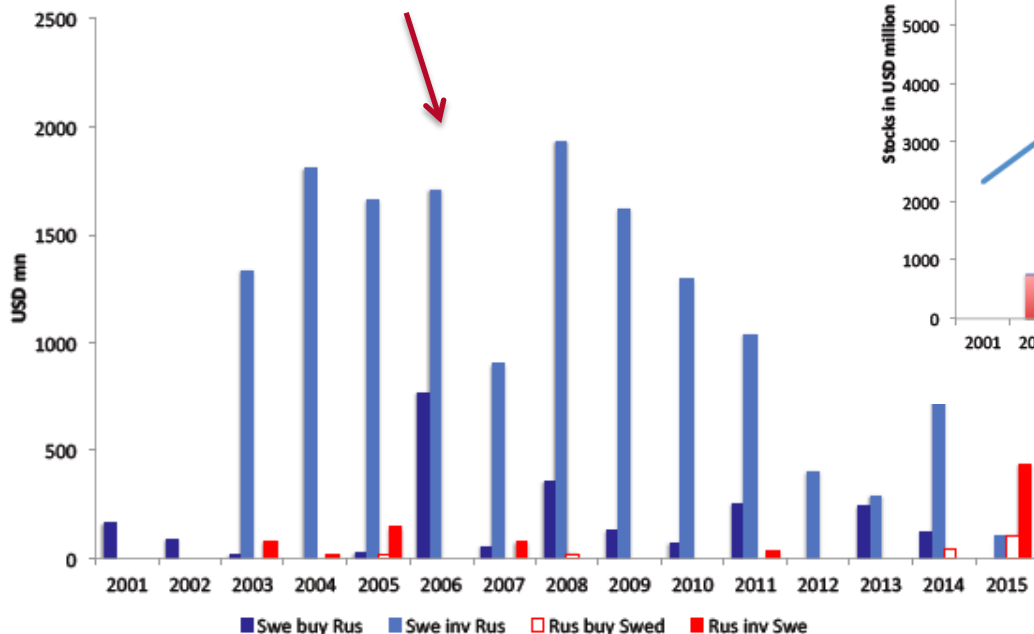
Russian investments—EU again main partner



- Investments often through tax havens
- => Hard to know source and destination
- EU (and EU havens) major partner
- Most “real” FDI likely from EU

Swedish—Russian ties

FDI going down...

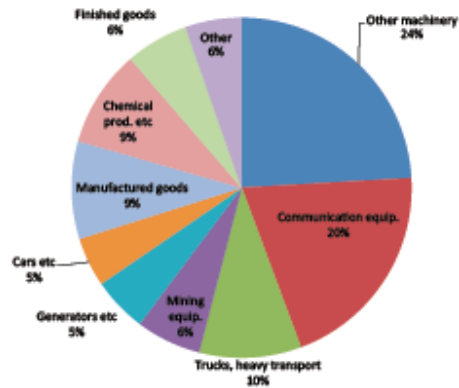


...as is portfolio investments

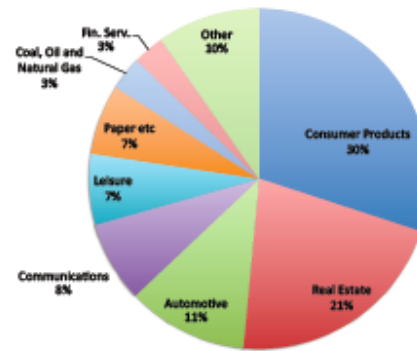
From T. Becker, "Investment Relations between Sweden and Russia", forthcoming in *Foreign direct investment to and from Russia: Recent trends and international investment cooperation*, Edited by Kari Liuhto, Sergei Sutyrin and Jean-Marc Blanchard

Swedish—Russian ties

Swedish exports to Russia



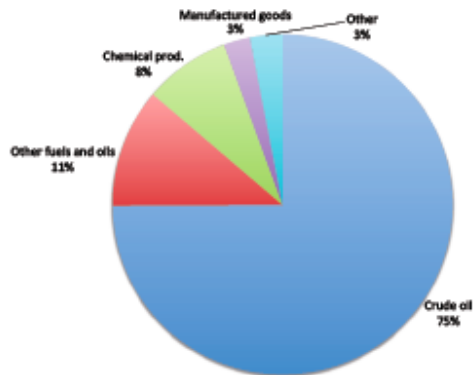
Swedish greenfield FDI to Russia



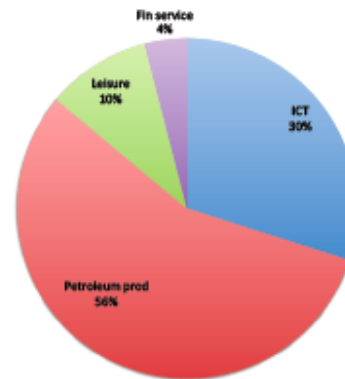
Diversification

VS

Russian exports to Sweden



Russian greenfield FDI in Sweden



Concentration

Conclusions

- “No man is an island” (John Donne, 1624); development in isolation is not an option even for super large Russia
- Current external links are too heavily focused on exchanging natural resources for consumption and investment goods
- Oil creates too much uncertainty and is not a sustainable driver of growth for Russia or the world
- Oil (and other natural resources) still an asset that can be used to transform the economy, but it needs to start sooner rather than later
- Russia already has the potential to leverage its human capital, use this!
- The EU, including Sweden, are natural partners for Russia in this transformation, both for trade and investment, and of course meetings of ideas!



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Thank you!

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