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The World Is Liquid

By Yulia Latynina

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Despite the global crisis of 2008-09, 2010 marked the end of two decades of strong economic growth. From 1990 to 2010, the global economy more than doubled, from $22.8 trillion to $58 trillion. China, the main driver of that growth, now exports more in a single day than it did in all of 1978. Since it began reforms, China has managed to lift 400 million Chinese out of poverty.

Globalization has led to gigantic growth in the world's cumulative gross domestic product and an increase in the price of raw materials. This has made it possible for energy-rich countries such as Venezuela, Saudi Arabia and Russia to benefit, but they benefit as parasites. They don't contribute to the growth but feed off the growth of more innovative, diversified and productive countries.

If Russia were only sitting on the sidelines in a state of prolonged stagnation while other countries develop, this would be bad in and of itself. But the real problem is that the country is rapidly regressing.

In the World Bank's Ease of Doing Business Index, Russia ranks 123rd of 183 countries. (Georgia, by the way, is ranked No. 12.) In Transparency International's Corruptions Perceptions Index, Russia dropped from 147th place in 2009 to 154th last year. According to the Press Freedoms Index published by Freedom House, Russia comes in at 175th place, just behind Congo and before Gambia.

Author and journalist Thomas Friedman famously described the world as being flat. I might offer another analogy: The world is liquid. Everything — money, people and ideas — always flow to the most attractive and investor-friendly locations.

Consider money. Back before the world was liquid, moving money was fairly difficult. Now it is incredibly simple. The global banking system now moves $2 trillion daily, and that money goes wherever conditions are most favorable.

There are several estimates as to the amount of Russia's corruption. The Indem think tank believes it is more than $300 billion a year, but I would say the figure is much higher — roughly $600 billion, or 50 percent of the country's GDP, about $300 billion of which is transferred to the West.

As for the flow of people, an August 2010 survey by Superjob.ru revealed that 73 percent of the most economically active Russians would like to leave the country.

As for ideas, the situation is catastrophic. Ideas flow more like gas than liquid. Without favorable conditions, they dissipate instantly. The result is that Russia does not actually have a single modernization project.

In Russia's closed economy, the ruling elite can redistribute economic resources as they choose. They view the country's economy as a zero-sum game: The more they can take from others, the more they get to keep. An open economy in which huge numbers of businesspeople operate free from government control would destroy the power base of such a ruling elite.

The problem is that in the modern international economy, states with closed economies do not merely stagnate. They regress — and very quickly. This is because the ruling elite expropriate money and assets at the huge expense of people and ideas.

In the 19th century, these kinds of failed states were conquered. But in the 21st century, no superpower is going to attack and conquer Russia to gobble up its natural resources. This is one reason why Russia's ruling elite has lost all motivation to develop and modernize the country.

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