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Putin's New Economic Liberalism

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The most remarkable change in Russia after the December protests is that people have started speaking freely again, as in the good old 1990s. Gradually, a new economic policy is being formed. Although much remains uncertain, Russia is likely to pursue a much better economic policy than in the last eight years.

President-elect Vladimir Putin is injured but not beaten. He has made a number of political concessions — notably allowing direct elections of governors, although he is trying to weaken the initiative with filters. But the revived political opposition is likely to call his bluff and fight them, extracting some gains and suffering some losses. For the opposition, the battles forming in Yaroslavl and Astrakhan can help it to organize and leaders might arise. Although Russia may in the future introduce a few more checks and balances, they will be less than in a democracy.

Putin is more likely to make concessions on economic policy, which is closer to his past policy and less damaging to his political power. His annual report to the State Duma on April 11 is his best policy statement to date, following his reformist economic pronouncements during the election campaign in newspaper articles and to the Troika Dialog conference in early

February. His speech largely coincides with the government's updated Strategy 2020. Judging by his words, Putin has returned to his liberal economic positions of 2000-02, and words do mean something in politics.

The style of his speeches has changed considerably. In 2004-11, Putin spoke like former Soviet leader Leonid Brezhnev, who was famous for celebrating fictitious achievements and promising even more successes while ignoring the problems. Putin's April 11 speech could hardly have been more different. His comparisons with international standards were reasonable, showing both Russia's weak and strong sides. His themes were largely liberal economics, and he barely mentioned energy.

The three pillars of this economic policy are continued solid macroeconomic policy, more international economic integration and eclectic structural reforms aimed at building a new economy.

Russia's macroeconomic data remain excellent. Russia's gross domestic product grew 4.3 percent in each of the last two years and will probably grow almost as fast this year, despite the recession in the euro zone. Because of high oil prices, Russia had an unexpected budget surplus last year, and no significant deficit is on the horizon until 2020, unless the oil price falls precipitously. Last year's current account surplus was $101 billion, more than 5 percent of GDP, and international reserves have recovered to $514 billion. Moreover, annualized inflation has fallen to 4 percent and is likely to stay reasonably low. Unemployment stands at 6 percent. These are wonderful results during a period of global slowdown, and they are likely to hold.

In terms of international integration, Russia finally completed its 18-year negotiations on entering the World Trade Organization in December, and its membership will be consummated this summer. A group of World Bank economists led by David Tarr has estimated that the outcome will be a rise of Russia's GDP of 3.3 percent in the next five to seven years and 11 percent of GDP in the long term. These gains will arise primarily from more foreign direct investment and more competition in business services. Putin strongly defended WTO accession because he understands that it is in the country's best interest.

Recently, Russia has also ratified the anti-corruption convention of the Organization for Economic Cooperation and Development, or OECD, and Putin expressed his intention of bringing Russia into the OECD soon, which he said "would mean that the economy would gain the global quality mark." For Russia's legal and economic development, the OECD is far more important than the clownish Group of Eight and G-20 meetings, if for no other reason than the OECD has legally binding standards.

Amid this, there is a stark contradiction: Putin's continued enthusiasm for the Customs Union with Kazakhstan and Belarus, as well as for the Unified Economic Space, which he called "the most important geopolitical and integration event in the post-Soviet space since the end of the Soviet Union." The Customs Union will generate minimal trade but divert trade for Kazakhstan and Belarus to Russia, which will have to pay for this with various subsidies.

Fortunately, Putin also praised the more viable alternative — the free trade area within the post-Soviet space that eight out of these 12 states concluded last year. Such a free trade

area could work if it becomes based on WTO principles. Now, six post-Soviet states are members of the WTO, and Kazakhstan is likely to join within a year. The announced introduction of export credit insurance also helps. Putin praises alliances between Russian companies and leading global producers and welcomes foreign direct investment.

Russia's dominant problem is, of course, high-level corruption, and the big question is whether Putin finally will feel forced to rein in his friends and supporters. It sounds as if he is intent on doing so marginally. His rent-seeking model requires steadily increasing oil prices, which is no longer likely.

Putin seems to have become serious about improving the business and investment climate. He promised a package of laws on deregulation of red tape and pledged to raise Russia from No. 120 to No. 20 on the World Bank's index for ease of doing business. Many other post-Soviet states have made great strides on this index. Georgia has actually risen more than 100 places. Specifically, Putin complained that Russia ranked 178 out of 183 countries with regard to the ease of receiving construction permits and demanded major improvements in this area. He also promoted e-government and promised to cut the state administration by 100,000 civil servants.

Putin's other big anti-corruption promise — open public tenders — is supposed to include foreign companies to make tenders more competitive. Audits of state companies are also planned. Putin has spoken at some length about the need to build more roads, which he has persistently failed to do because of corruption.

Putin continues to promise more resources for the standard, long-neglected areas, like research and development, education and health care.

Naturally, skeptics point out, Putin has said all these things before, but that was in 2000-02. Now he is making these commitments under pressure from an active protest movement. This political tension is not likely to go away. The speed of Russia's transition to a more modern economy appears to be accelerating.

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