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Minister Pushes Intensive Approach to Economic Salvation

By Guennadi Moukine

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Ministers and businesspeople gathered Tuesday at the Russia Calling investment forum to discuss how to pull the country from its economic rut. **Vladimir Filonov**

Faced with a sputtering economy, the government must move quickly to increase transparency, reduce bureaucracy and implement structural reforms if it hopes to encourage growth and new investments, state officials and market players said at an investment forum Tuesday.

This year may be remembered by future generations as the year that had the lowest economic development rate in the modern history of Russia, Economic Development Minister Alexei Ulyukayev told the Russia Calling! forum organized by VTB Capital.

"The current [economic development] model — which depends on growing demand and positive global economic conditions, which translate external demand into domestic

demand — has exhausted itself," .Ulyukayev said in a keynote speech.

He called for a new approach to economic development, focused on diversification, increasing transparency, reducing bureaucracy, helping small business and encouraging technology and services export.

Ulyukayev said that as soon as the old economic development model stopped working, the country faced serious problems, such as slowing investment growth, which ceased in the first quarter of this year, while Russia had a negative growth rate in the second and third quarters.

"Currently we have negative 1.3 percent growth of investment capital. GDP growth is 1.5 percent in the first eight months of the year. Industrial output growth is zero," he said.

Ulyukayev said that being at the forum reminded him of an old joke that says: "We don't have culture, but we do have a culture minister, and he feels great!"

"Practically, there is no economic development," he said, paraphrasing the joke, "but the economic development minister is here in front of you!" Unlike the minister in the joke, he is feeling poorly, Ulyukayev added.

But IBS Group head Anatoly Karachinsky offered a glimmer of hope, saying that a global shortage of IT specialists had created a vacuum that Russian technology companies have a chance to fill, diversifying the economy and increasing nonresource-based exports.

Moreover, the economy is growing, at least as far as the defense industry is concerned, Deputy Prime Minister Dmitry Rogozin said. The defense sector has been growing since 2011 due to large-scale government investment in re-equipping the army with advanced weapons and vehicles, Rogozin said.

Although the number of people employed in the military industrial complex has decreased by as much as 10 percent in some sectors, the effectiveness of personnel has increased on average by 15 percent while the average monthly salary grew by 23 to 25 percent, Rogozin said.

Military industrial output in 2012 grew from 7.5 percent to 14 percent depending on the specific segment, as compared to the previous year's results. Moreover, half year results for 2013 give grounds to expect production output for this year at the level of 2012, he said.

At the same time the government is encouraging the private sector to take a more active part in the proposed rearmament program.

"The state is prepared to share the risks with private investors and allow them to create weapon prototypes, which will then see mass production," Rogozin said.

The basis for the partnership will be a new law on arms and armaments orders that will come into force starting from next year and is slated to ease doing business in the framework of public-private partnerships.

"The share of private business fulfilling defense orders is already high. For example, all

ground infrastructure for airspace defense systems is now being provided by a large private holding company," Rogozin said.

Though the private sector is highlighted by some government officials as being the engine that can drive Russia's economy out of stagnation, others see the need to take specific steps to support it.

"There is a big problem with small- and medium-sized business. The number of Russian citizens considering opening their own enterprise here is alarmingly low, just a few percent," said Sergei Belyakov, a deputy economic development minister. "People want to work either for large state companies or become government officials, which means they do not see an opportunity to make money based on their own actions or potential."

The government demotivates society and creates an environment where it is easier to be part of the distribution system rather than develop one's own entrepreneurial spirit, the deputy minister added.

Small and medium business has a powerful mechanism to stimulate the economy by producing goods and services, and the government will be taking steps to improve the situation, Ulyukayev said.

But the list of remedies revealed in the minister's speech contained few concepts that have not been mentioned before or are already implemented at some level. It included reducing costs associated with connecting to power grids and making business finance more affordable. Ulyukayev did say the government could provide credit guarantees to lenders offering financing for small business, but didn't elaborate on how this support might work or when it would become available.

Alexei Yakovitsky, global CEO at VTB Capital, echoed Prime Minister Dmitry Medvedev's comments made at an investment forum in Sochi last week, saying labor mobility was a key structural change required to make a new economic development model successful.

In an interview with Rossia 24 television, Yakovitsky said that demographic problems, if not tackled promptly, might hinder the government's attempt to reach new economic growth goals.

When the country's population is not growing the number of work-capable people continues to decrease, he said, which means that fewer people will need to do more work, achieving better productivity.

Structural reforms and changes to the labor code may be needed to increase population mobility and redistribution of labor resources within the country. It's only with these structural changes that the economy can return to 5 to 7 percent long-term growth, Yakovitsky said.

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