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Crony Capitalism Gone Wild

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Many governments of the world face similar, if not identical challenges. The difference is that some meet them successfully, while others do not. Those that win out in this competition do so by attracting foreign investment and achieving higher growth rates for their economies and higher standards of living for their citizens.

The volume of passenger traffic has increased sharply over the past two decades as globalization picks up speed and an increasing number of people have the desire and means to see the world. Because passenger aircraft must refuel on long routes, stopovers have become commonplace, and a greater number of airports now vie for the business of providing transit services.

Creating the optimum network of flight routes for an airline is a real art, and those companies offering the best schedules and shortest and most comfortable connections enjoy a tangible competitive advantage. What's more, the airports that manage to provide the best combination of services for airlines and passengers will also create thousands of long-term jobs.

But as in any competitive field, those who are late or slow in making the necessary decisions will lose out to rivals who act faster in securing market share. Often, major international airports must plan their development several decades in advance, both to raise the billions of dollars in investment needed and to ensure that the airport will provide the needed services for many years into the future.

In the last month, two global international air hubs Dubai and London announced their strategic plans. Dubai set the very concrete goal of building an entirely new airport within the next 15 years that will become the world's largest, serving up to 160 million passengers per year. By comparison, Chicago's O'Hare International Airport, one of the world's busiest, has almost 100 million passengers yearly. Building such an airport would undoubtedly create the largest air transit hub in the world and promote the long-term growth of the economy of Dubai an emirate that, incidentally, has only small oil reserves. And, of course, the Emirates airline could use such a hub to multiply the scope of its business and become a leading global carrier.

Moscow could also occupy a significant place in the global air transit market. Its geographic location has obvious advantages over other possible transit points, adding just more than an hour to routes between Europe and China-Southeast Asia, and about two hours to routes between Asia and North America. To achieve the added capacity in air traffic, Moscow would also have to build new runways. Soviet state planners long ago made provisions for the nearly unlimited expansion of Domodedovo Airport and for the possibility of building up to 10 additional runways there. Although by law, only the state can build new runways using federal funds, under Russia's crony capitalism, leaders hand out the lion's share of road-construction contracts to friends of the political elite. Since the owners of Domodedovo Airport are not buddies with the president, the government will not allocate money to build new runways there.

That is why Moscow cannot become a major international hub of passenger air traffic. It also explains why it cannot become a modern international financial center. To create a global financial center anywhere in the world, the host country must first establish favorable conditions for investors and strengthen the legal framework to protect property rights.

In Moscow, the project to create such a center quickly turned into an ordinary construction tender that Sberbank, headed by a friend of the president, has the best chance of winning. As part of that project, Sberbank has already purchased a chunk of land on the outskirts of Moscow at a price tag of several billion dollars. Now it must either write off that expense as a loss or finagle a comparable sum from the federal budget to hide the loss.

In fact, many of Russia's current problems are linked to the lack of competition in the economy and politics. Such a system enables President Vladimir Putin to maintain his uncontested iron grip on power, and it allows his close friends to become billionaires. It is also the reason that Russia has no chance of winning the global race for competitiveness.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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