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Business Leaders in St. Petersburg Debate Russian Economic Growth

By Nabi Abdullaev

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Participants attend the opening day of the St.Petersburg International Economic Forum in St. Petersburg on Thursday.

ST. PETERSBURG — As Russia’s resource export- and consumer- driven economic growth fizzles, dozens of top Russian officials, businesspeople and foreign CEOs put their heads together in St. Petersburg on Thursday in a quest for new drivers to boost the country’s economy.

No silver bullet was thrown on the table at the annual high-profile St. Petersburg International Economic Forum. Discussions ranged from the potential gains to be won from rectifying existing inefficiencies like corruption and declining professional education, to massive state investment in infrastructure, tapping into effectively frozen domestic capital and utilizing Russia's still competitive human capital, which is mainly focused in the technological sectors.

President Vladimir Putin covered similar ground at last year's forum, when he acknowledged that Russia's weak economic growth was not the result of slowdowns in other parts of the world, but stemmed from domestic problems.

Now, with the crisis in Ukraine putting high risk premiums on dealing with Russia and new technologies in gas production and delivery threatening Russia's cut of the global energy trade, there is additional urgency for structural reforms of the Russian economy, said Lord Peter Mandelson, chairman of the Global Counsel, a London-based strategic advisory firm, and former EU commissioner for trade.

"There is a great danger that the current global market situation starts "setting concrete" around the Russian economy," he said.

Here are some of the practical ideas floated by participants of the forum as potential new drivers for the Russian economy:

• International sanctions and a stronger dollar may require substituting imports for domestic products. Today, for example, imported goods account for about a quarter of household consumption and more than 50 percent of equipment used in the machinebuilding sector is imported, said Yekaterina Trofimova, first vice-president of Gazprombank.

• Helping small- and medium-sized domestic businesses by easing registration procedures and access to infrastructure like electricity and gas. Economic Development Minister Alexey Ulyukayev also mentioned slashing taxes, easing customs procedures, developing state guaranties for investors and setting a quota demanding that at least 15 percent of state purchases are made from small and medium-sized businesses.

• Ulyukayev and Russian Railways chief Vladimir Yakunin also spoke of developing logistical infrastructure projects that will cut costs for production.

• Easing international trade barriers — both traditional and those triggered by the Ukraine-related sanctions. General director of steel producer Severstal Alexey Mordashov, speaking at the forum, called on governments to settle conflicts through diplomatic, not economic, means.

• Improving professional vocational education. Currently, most young Russians strive to obtain a university education — even if it is of questionable quality — and after graduating they refuse to work at well-paid blue-collar jobs. Soon, Russia will not have professionals to operate construction cranes, said Vladislav Soloviev, first deputy chief of aluminum giant RusAl.

• "Smart" immigration: Better integration of blue-collar migrants, improving their skills, along with improving practices and attitudes to high-profile foreign professionals. David Owen, chief executive of Deloitte CIS, and Frank Schauff, chief executive of the Association of European Businesses, highlighted cases when foreign professionals had been punished disproportionally, including with bans from entering Russia, for minor infractions such as violations of traffic rules.

• Tapping into developed technology and "cheap" money from eastern neighbors, primarily

China, especially for massive infrastructure projects, to compensate for the outflow of the U.S. and European capital.

• Tapping into potential domestic sources of capital. Yuri Isayev, general director of the State Deposit Insurance Agency, said that over the past 10 years deposits held in Russian banks have grown tenfold to 17 trillion rubles ($500 billion), about 25 percent more that overall foreign capital in the Russian economy. If the government could lift the insurance cap on deposits from the current 700,000 rubles for longer-term deposits, this would attract more and "longer" money into the financial system. Also, Russians are generally not involved in the securities market and often entrust money to bad banks, he said. Improving the financial literacy of common citizens would boost the domestic capital market.

• Massive investment in industrial sectors other than oil and gas that have remained badly financially undernourished since the 2008 crisis.

• Improving quality of life in small industrial towns to keep people from abandoning them and the local enterprises.

• Review of tariff policies, and perhaps equalizing tariffs for industrial and individual consumers. Today, Russian metals producers pay about 25 percent more for their electricity bills than their U.S. peers, said RusAl's Soloviev. Meanwhile, the average Russian citizen often pays more for mobile phone services than he or she pays for electricity.

• The country needs massive technological breakthrough projects similar to those that kept Russian science and industry competitive during the Cold War. This will call for creation of powerful engineering hubs that would potentially export their services abroad. The president of Boeing Russia/CIS, Sergei Kravchenko, cited the example of Boeing's Russia-based engineering center, which has designed critical parts for Boeing's Dreamliner aircraft.

• Improving management practices — corporate, project management, regional and municipal. Kravchenko pointed out the examples of the Sberbank CEO Herman Gref and Sochi Olympics Organizing Committee officials, who have been learning best managerial practices, in some cases abroad, and successfully applying them in their work.

Some 6,500 participants from 62 countries are expected to visit the St. Petersburg forum before its close on Saturday, according to the city's Governor Gennady Poltavchenko.

But the final lineup is not the same one that was billed. Russia's fallout with the West over Ukraine has not only exacerbated Russia's economic problems, but reduced the economic firepower of its participants by trimming a number of U.S. executives from the visitors list.

A fierce lobbying campaign by the U.S. government against attending the forum saw cancellations from, among others, the heads of banks Goldman Sachs, Morgan Stanley and Citigroup, energy giant ConocoPhillips, aluminum producer Alcoa and PepsiCo, though some cited scheduling conflicts as the reason.

European business leaders, however, were more reluctant to pull out — while the U.S. has limited trade to forfeit in Russia, European companies are heavily integrated into the Russian economy. German businesses, in particular, have been lobbying German and European officials not allow politics to wreck two decades of mounting cooperation.

When Putin addresses the forum on Friday, it will be only a slightly less international audience than usual listening to him.

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