

Putin Offers Little Change at Russia's Top Economic Forum

By [Ivan Nechepurenko](#)

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President Vladimir Putin speaks during a session of the St. Petersburg International Economic Forum 2015 (SPIEF 2015) in St. Petersburg, Jun. 19.

ST. PETERSBURG — More than a year into an economic firestorm that is pushing Russia into its first recession in six years, Russia's flagship economic forum in St. Petersburg was titled "Time to Act."

With Western sanctions over Ukraine and fallen oil prices battering the economy, thousands of business executives, officials and experts gathered at the St. Petersburg International Economic Forum last week, looking for signals on what Moscow's next step would be.

Among the options: reconciliation with the West, root-and-branch economic and political reform, or an embrace of Chinese cash.

But President Vladimir Putin in his keynote speech Friday opted for none of the above, railing

against the United States, ignoring calls for comprehensive reform, and playing down Russia's much-mooted "pivot" to Asia.

Addressing a packed hall, Putin admitted that the Russian economy was shrinking, but radiated confidence that the country would weather the storm.

"We have stabilized the situation, absorbed the negative short-term fluctuations, and are now making our way forward confidently through this difficult patch," he said.

Flanked by businessmen from Bahrain, China, Argentina and Germany on the forum's main stage, Putin trumpeted Russia's openness to investment: "We are responding to the restrictions imposed from outside not by closing off our economy, but by expanding freedom and making Russia more open. This is not a slogan; this is the substance of our actual policies," he said, without listing any specific measures to make this scenario more likely.

Russian economic data, however, is bleak: The economy shrank by 2.2 percent year-on-year in the first quarter of 2015, and analysts expect a contraction of around 3 percent for the year in full. The ruble has lost more than one-third of its value against the U.S. dollar since last summer due to sanctions and falls in the price of oil, Russia's main export.

Industrial output and capital investment have plunged, while declining incomes have caused sharp falls in consumer spending and spurred the biggest rise in poverty in Putin's 15 years in power.

An oil price boom that sustained growth in the 2000s has, at least for now, ebbed. Analysts predict that Russia's economic recovery will be long and weak.

Yet Putin's message to the country's economic elite was that the government had the situation under control and Russia was bound to recover and become more prosperous in the longer term.

No Sanctions Respite

Many foreign investors at the forum appeared to err on the side of Putin and voiced their confidence in Russia's long-term potential. Maurizio Patarnello, CEO of Nestle Russia, which has invested nearly \$2 billion in the country, channeled the sentiment: Russia was too big a market to lose, he said, even if its economy will take longer to develop than previously thought.

But Patarnello also had his finger on another zeitgeist: "You won't find anyone here saying anything good about sanctions," he said.

On this Putin offered no respite. A question and answer session with the president following his speech was dominated by Ukraine, where the West accuses Russia of supplying troops and equipment to separatist militias.

Repeating well-worn mantras, Putin insisted that Western countries must influence Kiev to negotiate directly with the self-proclaimed authorities in the country's breakaway regions.

Russia's policy was not aggressive, Putin bristled, but is a reaction to pressure exerted on it

by Western states.

"They [the United States] tell us they know what's best for us. Let us decide what our interests and needs are by ourselves, given our own history and culture," Putin said, earning applause from the audience.

Putin went on to specify that the United States is attempting to influence Russia's internal politics by financing nongovernmental organizations operating in the country.

Asked whether Putin's speech inspired hope of a solution to sanctions that were marring his business, one Russian executive who declined to be named simply grimaced.

More of the Same

Putin was also more or less mute on one mooted alternative for economic growth — drastic reform. Putin's silence contrasted sharply to statements made by other heavyweight former government figures.

"Any crisis is the result of bad management," German Gref, a former minister and now head of Sberbank, Russia's largest lender, said during Thursday's opening session, earning a round of applause.

Russia is in the midst of "a fully fledged crisis" that will require significant reform to overcome, Alexei Kudrin, a former finance minister and a critic of Putin's who is nonetheless loyal to the president, told the session.

Putin did use his speech to call for the creation of a new class of managers who could oversee measures to improve the business climate, but offered neither major reforms nor backing for the opinions voiced by Gref or Kudrin.

The failure to push through bold measures is a familiar story for many. Russians have known what to do to reform the economy for years, said one European executive who declined to be named. What they need to do is "walk the talk," he said.

A drop in the value, if not number of investment deals signed during the conference seemed to reflect a degree of pessimism about the current state of Russia's economy.

Compared to the 175 deals worth over 400 billion rubles (\$7.4 billion) signed last year, the 205 agreements signed this year were worth just 293 billion rubles (\$5.4 billion), organization committee representative Anton Kobayakov said Saturday.

Asia Pivot

Many at the forum looked for signs in this year's event that sanctions would push Russia to pivot toward Asia at the expense of Europe, which remains by far Russia's biggest trade partner.

The choreography of Putin's address to the forum appeared crafted to make the point — only two of the seven businessmen and officials who shared the stage with Putin hailed from Europe. One of these, Heinz Hermann Thiele, chairman and owner of Knorr-Bremse,

a German manufacturer of vehicle braking systems, denounced the destructive effect of sanctions on trade.

The other, Greek Prime Minister Alexis Tsipras, whose country is locked in difficult debt negotiations with European and IMF creditors, used the pulpit to announce that "We in Europe were delusional for some time. We believed we were the center of the world."

But both government officials and Putin himself denied that Russia was seeking to boost trade with the East as a replacement for the West.

"Not only Russia, but the whole world is looking to Asia. Europe is also trying to develop these relations, while we are neighbors [with China]. This is a natural movement," he said.

The pivot to the east is "a myth," said one Russian executive, adding that Moscow was rightfully fearful of China using Russia's temporary weakness to establish a domineering position in the country's economy.

With Western governments reducing pressure on European and North American executives to boycott the forum — which in 2014 caused many to cancel plans to attend — the event bustled with Western businesspeople.

Sitting beside Putin in the question and answer session, Ronnie Chan, a Hong Kong tycoon, looked out at the hall and noted a lack of Chinese faces.

"I'm not sure that your businesspeople are ready to take advantage of the China market," he said.

"I feel very lonely here," he said.

Contact the authors at i.nechepurenko@imedia.ru and p.hobson@imedia.ru

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