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Russia Should Follow the Saudi Lead (Op-ed)

Moscow knows it's time to lay the foundations of a post-oil future while it still can

By Christopher Skakhovsky

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Crown Prince Sheikh Mohammad bin Salman and President Vladimir Putin **Kremlin Press Service**

For Russia, 2017 marked a return to economic growth after oil price fluctuations and geopolitical tensions, thanks in part to a landmark deal between Moscow and OPEC that cuts oil production through to the end of 2018.

By driving Brent futures to their highest level in more than two years and pushing oil inventories towards their five-year averages, Russia and its fellow oil producers have secured higher baseline prices.

Critically, Moscow now enjoys a window of stability – which should now be used to recalibrate

domestic markets and further reforms. By diversifying the economy and reducing dependence on energy revenues, Russian economic planners should look to inoculate the country against a repeat of recent economic woes.

They clearly know this break from the roller coaster can't be taken for granted. Growth slowed more than forecast in the third quarter of 2017, and central bank Governor Elvira Nabiullina has warned even $100 a barrel oil prices can't push medium-term growth past 2 percent without an overhaul of the economy.

Former finance minister Alexei Kudrin has consistently highlighted structural drags on the economy, stemming from both the bureaucracy and the judiciary; Kudrin has put forward recommendations that reformers should take into account if Russia's economy is to avert stagnation.

At least one of Russia's key counterparts in the production cut deal has already recognized the urgency of diversifying its own economy.

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Saudi Arabia, which saw its budget deficit balloon to 15 percent of GDP and its reserves drained during the oil crash, has begun enacting sweeping reforms within the framework of an ambitious Vision 2030 plan. The Saudis, led by Crown Prince Mohammad bin Salman, have spent the past two years enacting major reforms to shift the Saudi economy away from its reliance on petrodollars.

That programme holds many lessons that Russia could take to heart. A major component of Vision 2030 involves using the expected proceeds of a sale of 5 percent of "crown jewel" and state-owned oil company Aramco to inject capital into Saudi Arabia's own sovereign wealth fund.

The new capital is largely destined for the tech sector, via partnerships with SoftBank and investments in companies like Uber. One of the key goals of Vision 2030 is sending a message Russia also wants to get across to foreign investors and partners – namely, that "the kingdom is open for business."

To deliver that message, Bin Salman himself is actively undertaking commercial diplomacy with high-profile upcoming visits to Western partners in London and Paris.

His government is simultaneously taking a number of steps to increase investor confidence. The most prominent include breaking down restrictions on female participation in economic life, streamlining customs and visa requirements, and opening up its stock market to outside investment.

Similar business-minded reforms would be well received in Russia. Unlike oil prices and Western sanctions, the Russian government has a great deal of control over many of foreign investors' most frequent demands – policy stability, a simplified, less bureaucratic business environment and the rule of law.

The Russian banking sector, for one, has already started taking important steps towards

reform. Over the last four years, more than 350 highly-indebted "zombie" banks have been removed from the market, while Otkritie, a high-profile lender set up by four billionaires, was bailed out by the state after it went belly up in September.

While sceptics point out that the "clean-up" has increased state influence over the banking sector, it has also removed important risks from the market. Many of the shuttered financial institutions did not respect anti-corruption safeguards and primarily served the interests of wealthy individuals who created private banks to enrich themselves and bankroll their own businesses.

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Even those banks not implicated in money laundering often pursued bad business strategies, leaving themselves open to crumbling at the slightest macroeconomic shock.

The restructuring of the banking sector is just one of many initiatives that can promote greater transparency in the Russian economy. Among Russia's top companies, a Transparency International report released in the past few weeks has found a few standout examples of good governance.

Perhaps the most prominent is Sberbank in the financial sector, which tied food distributor Magnit for first place and has become a poster child for successful renewal under CEO and former trade minister Herman Gref. The Sberbank chief also happens to be a key liberal voice advocating for the types of economic reforms proposed by finance minister Alexei Kudrin.

In stark contrast, Transparency also found quite a few cases of lagging standards and lack of safeguards.

The group's primary criteria included whether the companies provided publicly available information on anti-corruption measures, whether they were transparent in terms of their holdings, and whether they divulged key financial data in on a "country-by-country basis." The group gave low scores to 84 percent of Russia's top 200 companies, with the median score only coming out to 2.6 out of 10.

With growing calls for diversification away from oil and gas, Russia's investment climate should increasingly shift in a direction that helps bring back foreign direct investment from potential partners in Europe.

To speed that process along, the government should move to tackle overarching issues in the judiciary and public procurement while encouraging the private sector as a whole to implement international standards.

Moscow, like Riyadh, knows it's time to lay the foundations of a post-oil future while the energy markets give it room to work.

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