

What to Expect From the St. Petersburg Economic Forum (Op-ed)

The dominant theme at SPIEF will be: "keep doing what you're doing, just do it better."

By [Ben Aris](#)

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Vyacheslav Prokofyev / TASS

The great and the good are meeting on Thursday in Russia's northern capital for the annual flagship investment summit, the St. Petersburg International Economic Forum (SPIEF). But the agenda this year may be more political than at any time since the event was launched in 1997.

Sanctions and Iran

Tensions with the West have reached a crescendo with multiple crises setting Russia at loggerheads with its Western partners: The Sergei Skripal poisoning case in London; new

[sanctions](#) imposed by the United States in April; the Western allies' bombing of Syria. And the grinding low-watt war in Ukraine's eastern provinces.

All these issues have had a caustic effect on Russia's relations with the rest of the developed world. And they are high on the agenda at SPIEF too.

The headline guests this year are French President Emmanuel Macron and Japan's Prime Minister Shinzo Abe, who are both in town to broker deals, make peace and counter Washington's decisions to reimpose sanctions on Iran and launch a trade war by hiking import tariffs. German Chancellor Angela Merkel was just in Sochi a week earlier on much the same mission.

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As a measure of how complicated these geopolitical dynamics have become, the West suddenly finds itself in a de facto alliance with Russia against the United States over these issues. And that's even before any of the issues that were topping the agenda last year have been solved.

President Vladimir Putin must be lapping up the confusion as his tough man stance has been exonerated. The first round of sanctions imposed in 2014 following Russia's annexation of Crimea was supposed to hobble the economy and force Moscow to change its ways.

They have had the opposite effect of entrenching Putin who has skillfully played the "fortress Russia" card to shore up his base. In the March presidential elections, Putin won a historic victory, even after counting out the dummy votes statisticians claim the state stuffed into ballot boxes.

Spending spree

The meat and potatoes of the St. Petersburg forum, however, is not the politics, but fixing the Russian economy.

Following Putin's re-election in March for his fourth and theoretically final term in office, the government has been reformed and tasked with making a "breakthrough" in the quality of life for the people. To do this, the Kremlin is proposing to spend upwards of 8 trillion rubles (\$130 billion) on the social sphere, investment and technology to upgrade the economy and bring back prosperity.

Putin laid out the blueprint in his state-of-the-nation speech in January and followed through immediately after his inauguration by signing off on a new set of so-called [May decrees](#) that set ambitious targets for the federal and regional governments. The decree sets a number of ambitious goals; becoming a top-5 world economy, halving the poverty rate and increasing natural population growth to meet demographic needs.

Russia has just spent five years in a military cul-de-sac. Putin anticipated the standoff with the West, and from 2013 sacrificed Russia's prosperity to spend every spare penny on re-equipping the military.

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Russia can't win a war against NATO, but a recent EU study found that European forces can't beat a Russian army without U.S. help and that was the point: to make a military confrontation with Russia so costly and damaging that no Western power would ever be willing to attack.

That mission has largely been accomplished and the military budget in the next three-budget plan has been slashed. The drain on the budget has been extraordinary and seen Russia's economic growth stagnate to 1-2 percent. It is likely to remain stuck there for the foreseeable future unless there are radical and deep structural reforms.

The pain this has caused is visible on the street. Poverty has risen as incomes fell, exacerbated by the collapse in oil prices at the end of 2014.

A recent survey by government statistics agency Rosstat found poverty has risen in 44 out of 71 regions and that now 13.8 percent of the population is on or under the line. At the other end of the spectrum anti-government protests have become more common, led by anti-corruption blogger and opposition activist Alexei Navalny, who organized a series of never-seen-before rallies in Russia's regions last summer.

While the protestors represent a small minority of Russians and the propensity to protests is at an all-time low, according to independent pollster the Levada Center, the protesters are becoming more vocal.

Political stagnation

Prime Minister Dmitry Medvedev has appointed a new government that has disappointed Russia watchers but speaks volumes about how Putin, and the population, see the task ahead. Analysts had been hoping for a radical shake-up but most of the ministers kept their jobs.

The biggest disappointment was the appointment of former Finance Minister and co-head of the presidential council Alexei Kudrin, the author of the new reform plan, to the relatively toothless Audit Chamber, a government spending watchdog. Analysts were hoping for a powerful position in government like Economic Development Minister, or a similar role in the presidential administration, like deputy head of staff.

However, the technocratic makeup of the new government is prioritizing evolution over revolution. Recent polls by the state-owned pollster VTsIOM showed that for the first time the majority of the population want change; they qualified that with a desire for gradual change.

Russia is caught in the middle-income trap, where life is not that bad and both the Kremlin and the population are as much concerned with hanging on to the gains made as they are making further progress. The middle-income trap typically kicks in when GDP per capita is about 40 percent of that in the U.S. and Russia is currently at 38 percent.

But the slower pace is a problem as Russia's growth of 2 percent is half of what the International Financial Institutions (IFIs) predict the global average will be. And while productivity is rising, it is rising at a slower pace than in the other emerging markets. The

upshot is while life is acceptably pleasant for most Russians the country is slowly falling behind the rest of the world.

More of the same

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Putin has beefed up the liberal reform bloc in government by promoting Russian Finance Minister Anton Siluanov to deputy prime minister and expanding his portfolio to include the economic development brief.

One of the new faces is the former colleague of both Kudrin and Siluanov Tatyana Golikova, who came from the Audit Chamber and was made deputy prime minister to oversee the social sphere.

Her elevation to such a powerful job also suggests the role of the Audit Chamber might change. Golikova proudly boasted she had saved the budget 46 billion rubles while running the Chamber and burst into tears at the lectern in the Duma when giving her farewell speech.

It remains to be seen, however, if these competent liberal reforms can make enough difference to lift Russia out of the income trap, as the system is still riddled with corruption, inefficiencies and won't get the root and branch reforms so many observers believe it needs.

Ben Aris is the founder and editor of Business New Europe. The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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