

**Nurturing Asia Pacific Growth in the Aftermath of the Fiscal Crisis in Europe:
Paradigm Shift and Structural Change Needed, or the Russian Approach Perhaps?”
by Leonid Moiseev, Ambassador of Russia to Singapore**

Ladies and Gentlemen,

It is an honour to speak today about Russian approaches, especially given Russia's chairmanship in APEC this year.

Russia's first Strategy Blueprint

As far back as in 2007 Russia drafted a development strategy “Concept of Long-term Socioeconomic Development of the Russian Federation”. The ultimate goal of this concept was for Russia to become one of the world's top five economies and, along with this, to establish itself as a leader in technological innovation and global energy infrastructure, as well as a major international financial center.

The major thrust of this Concept was that Russian economy remains overly dependent on energy exports while the global economy is becoming incredibly competitive, driven by a shifting balance of financial power to developing countries, regional economic integration, and technological innovation. To become a global economic power, Russia must move toward innovation-based development.

The Concept outlined development strategy using Russia's current competitive advantages in energy, transport and agriculture; creating a scientific and technological complex to enable specialization in high technology; creating economic and social conditions that support development of the best human capital; and developing democracy and the protection of rights and freedoms.

Some of these goals have been achieved. However, the outset of the economic crisis in 2008 as well as social and demographic trends in Russian society made it clear that Russia needs a new, more sophisticated approach to fine-tune its economy.

Current Economic Situation in Russia

By 2012 Russia's economy has fully recovered. Russia enjoys the highest growth rates among G-8 nations. In 2012 Russia's GDP volume reached Russia's pre-crisis level (about USD 1.4 trillion).

According to IMF data, while sovereign debt in eurozone amounts to almost 90% of GDP, in the US exceeded 100% and in Japan – 226%, in Russia it is less than 10% with foreign debt – just only 2%. Russia was the only country in G-8 with a budget surplus in 2011. Russia's gold and foreign currency reserves amount to USD 513.9 bn, which puts Russia in the third place after China and Japan.

Dynamic regional economic integration under the customs union between Russia, Belorussia and Kazakhstan increased mutual trade by 37% in 2011. The Eurasian Development Bank was established. Starting from 2012 we are moving towards deeper integration within the framework of the Common Economic Area covering free movement of goods, capital and working force. Important macro-economic and customs decisions are delegated to the supranational Eurasian Economic Commission. The next step is to launch the Eurasian Economic Union, which will be open for other CIS countries to join in 2015.

Vladimir Putin in his pre-election address set out a task for Russia to take substantial role in the world economy not only as a natural resources supplier, but also as a major player in modern technologies, reaffirming commitment to the 2007 Strategy concept. Russia already has undoubted advantages in pharmaceuticals, high-tech chemistry, aero-space industry, nano-tech, information and telecommunication

technologies, and, of course, nuclear power. Last year Russia was finally admitted to WTO.

During the recent years we invested in a lot in institutions engaged in commercialization of applied scientific research. Now this trend is successfully implemented by the “Rosnano”, the Russian venture company, “Skolkovo foundation”, etc. Private corporations are encouraged to allocate 3 to 5 per cent of their budget to research and development. We will continue our efforts towards further integration of our scientific centers into relevant international mechanisms as well.

One of the most serious bottlenecks is physical infrastructure. The government supports huge infrastructure projects, first of all, to ensure stable logistics connectivity between the western and eastern parts of the country. It will also contribute to the Russian inter-continental transit potential, offering new routes between the West and the East. Joint development and exploitation of huge projects like the Northern Sea Route from the Atlantic to the Pacific oceans is also under consideration.

Russia’s “Strategy 2020”: Russia needs quality economic growth and a new social policy

In March 2012 a group of leading Russian economists presented a blueprint for Russia’s future economic reforms in a document named “Strategy 2020”. This programme for the future Russian Government was commissioned by V.Putin. The main points of the document are the following.

Russia’s economy is entering a new stage – implementation of structural change solutions with no precedent in previous experience.

During the last 12 years Russia’s development paradigm was mainly defined by the 1998 financial crisis. We believed that a weak currency is better than a strong one, because weak currency stimulates domestic production growth. We believed that the

budget should always be balanced. We pumped more and more money into education and health-care trying to make them better, since in the previous years our education and health-care were bad due to under-financing. In sum, we tried to relegate to the back burner the most urgent reforms while disguising the growing disproportions with ever increasing budget outpours. As a result what we have now is quite a bunch of “unfinished business”, a weak and in part corrupt bureaucracy, a huge and largely ineffective budget-supported social network, a weak competitive climate and a tough administrative overregulation.

The first and foremost task is to basically modernize Russia’s social infrastructure, reorient Russia’s budget expenses, to fully adapt Russia’s legislature and legal system to the realities of post-industrial era. All the rest modernization efforts will be directly influenced by the success or the lack of success in addressing these tasks.

There are two obvious perils on this path: 1) to exceed significantly budget limitations and as a result to face rampant inflation; 2) to adopt unreasonable liberal approach and to backpedal on the government social responsibilities to the most vulnerable strata of population.

The best option is to proceed on the path of socially-oriented reforms.

The Strategy suggests that a discussion should take place on the following key issues: whether a strong or a weak national currency is preferable; whether deficits are acceptable in principle; what is the optimal structure of future budget expenses. A forecast should be made of possible tendencies in the labour market, employment situation and social climate as a whole.

There are no “magic bullets” for social reforms: pension system is in deep crisis in all developed countries, there are no known well-performing health-care systems in major economies.

The Strategy offers two key proposals: 1) to concentrate main efforts in the coming six years on restoring effective system of stimulative wages to several professional groups, notably, teachers and educators, doctors and medical staff. The main task is to change cardinally for the better situation in the sphere of professional education and thus eradicating the existing major “traffic jam” in economy. Soviet-era secondary professional training should be transformed into shorter specialized courses in order to lessen dependence on working migrants. The bachelor’s degrees should be made more “applied”.

It is essential to activate the existing and launch new “drivers” of economic growth, namely:

- revenues from exports of oil, natural gas, steel and chemicals;
- added value from the best human capital;
- concentrate on modernization of economic institutions (protection of property rights, abolition of excessive regulations in major spheres of economic activity), and upgrading of economic activity’s infrastructure.

Significant breakthroughs should be achieved in agriculture, housing, health protection and transport.

These recommendations are now brought to public discussion with the goal to finalize the Strategy by the time of the inauguration of the new Russian President on 7 May 2012.

Nurturing Asia-Pacific Growth (APEC Priorities for 2012)

Russia's chairmanship in APEC is aimed at promoting the domestic economy integration into the system of economic ties in the Asia-Pacific for the sake of modernization- and innovation-driven economic development, primarily in Siberia and the Russian Far East.

As APEC chair, Russia intends to make an important contribution to achieving the forum's objectives and offers to develop new initiatives in trade and investment liberalization, facilitating business, intensifying regional economic integration, and ensuring human security. Russia also plans to propose that APEC should focus on such practical issues as bolstering food security, improving transport and logistics systems.

Cooperation on modernization – another Russian priority in APEC – is in the interests of all APEC member economies. First and foremost, this involves initiating the exchange of advanced know-how on how to shape a favorable institutional environment for innovative development and creating regional cooperation mechanisms in science, technology and innovation.

Russia is supporting APEC's activities in enhancing cooperation to strengthen the region's financial sector and developing a more inclusive financial system, strengthening the region's supply and production chains through effective disaster risk reduction strategies, accelerating the structural reform agenda toward achieving a more resilient and competitive economy.

Russia will support the efforts within APEC to secure the conclusion of the WTO Doha Round in order to move towards trade and investment liberalization.

Russia as the host of APEC 2012 will build on the extensive work that has been done and do its best to increase sustainability and the pace of future common development. To this end, tangible results should be achieved in the following areas: (I) trade and investment liberalization, regional economic integration; (II) strengthening food security; (III) establishing reliable supply chains; and (IV) intensive cooperation to foster innovative growth.

I. Trade and investment liberalization, regional economic integration. The 2011 APEC Leaders' Declaration states that "APEC's core mission continues to be further

integration of our economies and expansion of trade among us” and that “strengthening regional economic integration ... plays a key role in promoting regional peace and stability”. To reach this goal, it is necessary to facilitate progress on the recently raised issues of trade and investment liberalization as well as to proceed with the regulatory coherence searching for the achievable ways to align technical regulations and standards. APEC should continue to expand discussions of next generation trade and investment issues and to search for a long-term agenda for APEC regional economic integration.

APEC should continue to ensure sustainable and innovative growth, develop secure trade and liberalize investment in the region. We should be ready to respond to new challenges of global economic development and trade and bear a responsibility for global economic growth and financial stability. We also reaffirm APEC’s aspiration for achieving the Bogor Goals and while seeking to promote consistency among free trade agreements, ensure further progress towards the FTAAP. APEC economies in 2012 need to effectively proceed with the structural reforms agenda, and to be even more active in engaging business – both major companies, and small and medium enterprises – in discussions of trade and investment liberalization issues and undertaking concrete steps in implementing Public-Private Partnership approaches.

II. Strengthening food security. As reaffirmed by Niigata declaration and discussed in 2011 APEC has an important role to play to improve regional and global food security searching for the sustainable development of the agricultural sector and facilitation of investment, trade and markets. While deepening discussions on food security and helping APEC economies to fight volatility of international food prices, in 2012 APEC should continue to elaborate proposals for sustainable agriculture development and stable markets including the increased transparency, monitoring and information exchange on agricultural production, supply and demand; developing

markets infrastructure, reducing costs and losses in food production and food supply chains. APEC economies also need to contribute to joint efforts on food supply support, including liberalization of investment and innovative agricultural development.

To ensure future health of APEC citizens, it is necessary to work out and implement measures aimed at raising quality and safety of food products, easier conformity to food safety standards and provision of food for socially vulnerable population groups. APEC should also discuss an interconnection between future sustainable growth and food security, elaborate measures on responsible maintenance of ecosystems, on combating illegal fishing and trade in other biological and wildlife resources.

III. Establishing reliable supply chains. To ensure APEC-wide connectivity in the region that strongly supports the economic growth APEC should continue to elaborate and implement steps towards reliable, competitive and barriers-free supply chains both within the APEC region and covering APEC and other major markets. It is highly important to implement concrete steps in tackling the bottlenecks, including barriers on trans-border movement of goods and obstacles that increase the time and cost of transportation. APEC should contribute to transparency and visibility of supply chains identifying and consistently removing restrictions on information exchange and telecommunication interconnectivity, applying promising satellite-based tracking technologies.

APEC should continue helping economies in advancing modern logistics, as well as navigation and customs technologies aiming at efficient interaction of transportation systems. Furthermore, future supply chains in APEC should respond to possible risks related to their maintenance and development; it is necessary to ensure appropriate risk management, safe operation and protection of transport and

transportation facilities. APEC should strengthen capacities of APEC economies in emergency prevention and relief, development of related coordination and information exchange.

IV. Intensive cooperation to foster innovative growth. Putting to practice the Leaders' 2011 commitment to set a model for innovation in the region as the best path toward fostering innovations that will increase productivity and ensure economic growth, APEC should fruitfully contribute as a part of the Growth strategy to the economies' innovation strategies and policies. We should elaborate measures to foster cooperation among the economies in major innovation related areas, further develop hi-tech sectors and address barriers to investment in these sectors. It is necessary to promote technological progress among all APEC economies through strengthening trans-border cooperation and networking among innovation centers, high-tech clusters, universities and research institutions.

APEC should elaborate and implement measures that conform the business' interests in innovations and build up a basis for intensive cross-border businesses, science and government cooperation. Innovative growth in APEC should be based on adoption of cutting-edge telecommunication technologies, bridging of digital gap and development of Internet economy. It is also important for APEC to contribute to the discussions on the issues of human capital: human resources development, support for global life-long education, balanced gender policy, support for youth, creativity, healthy lifestyle and relevant healthcare issues.