

# Problems of Russia's Resource Export Dependent Economy

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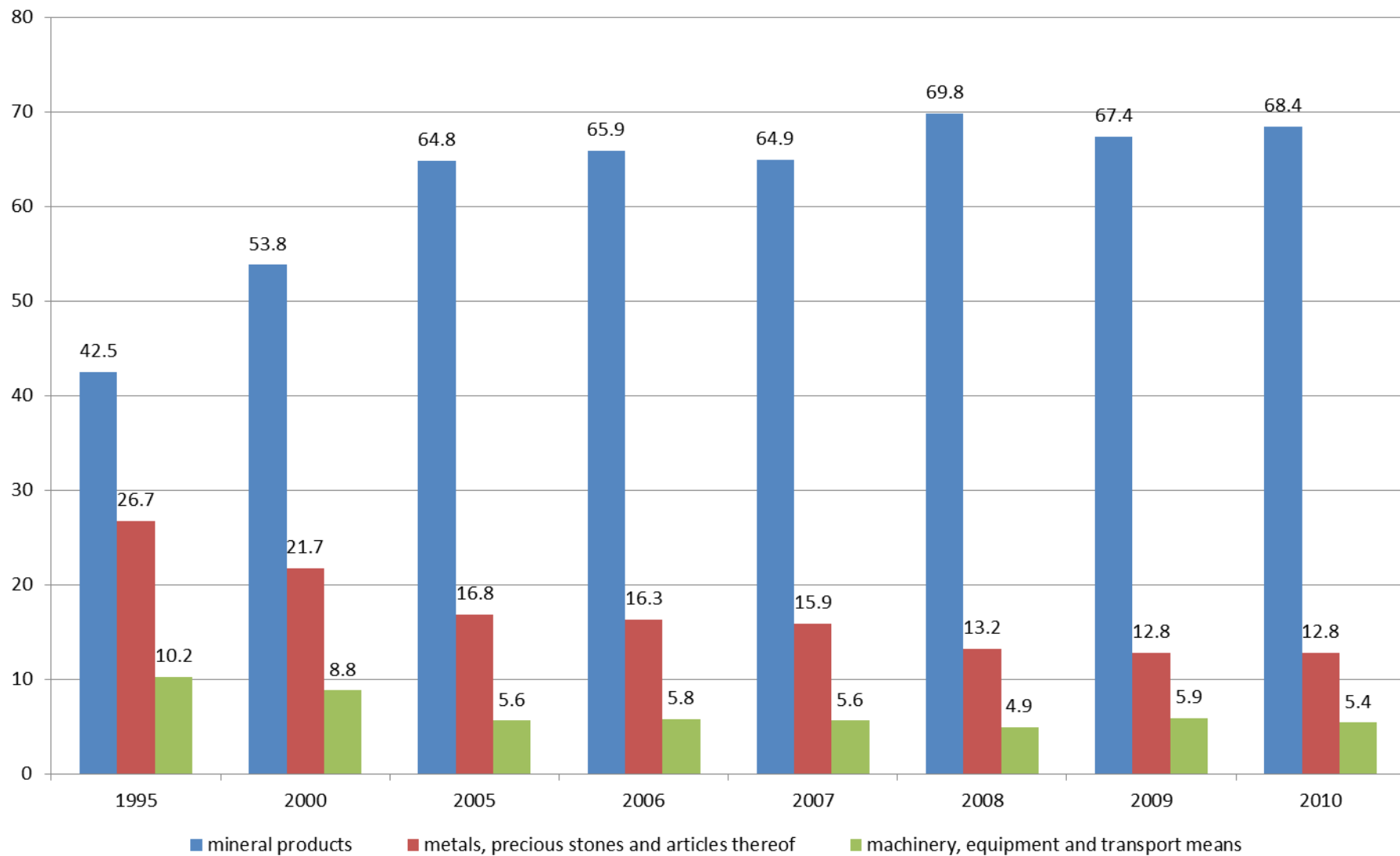
University of Massachusetts Amherst

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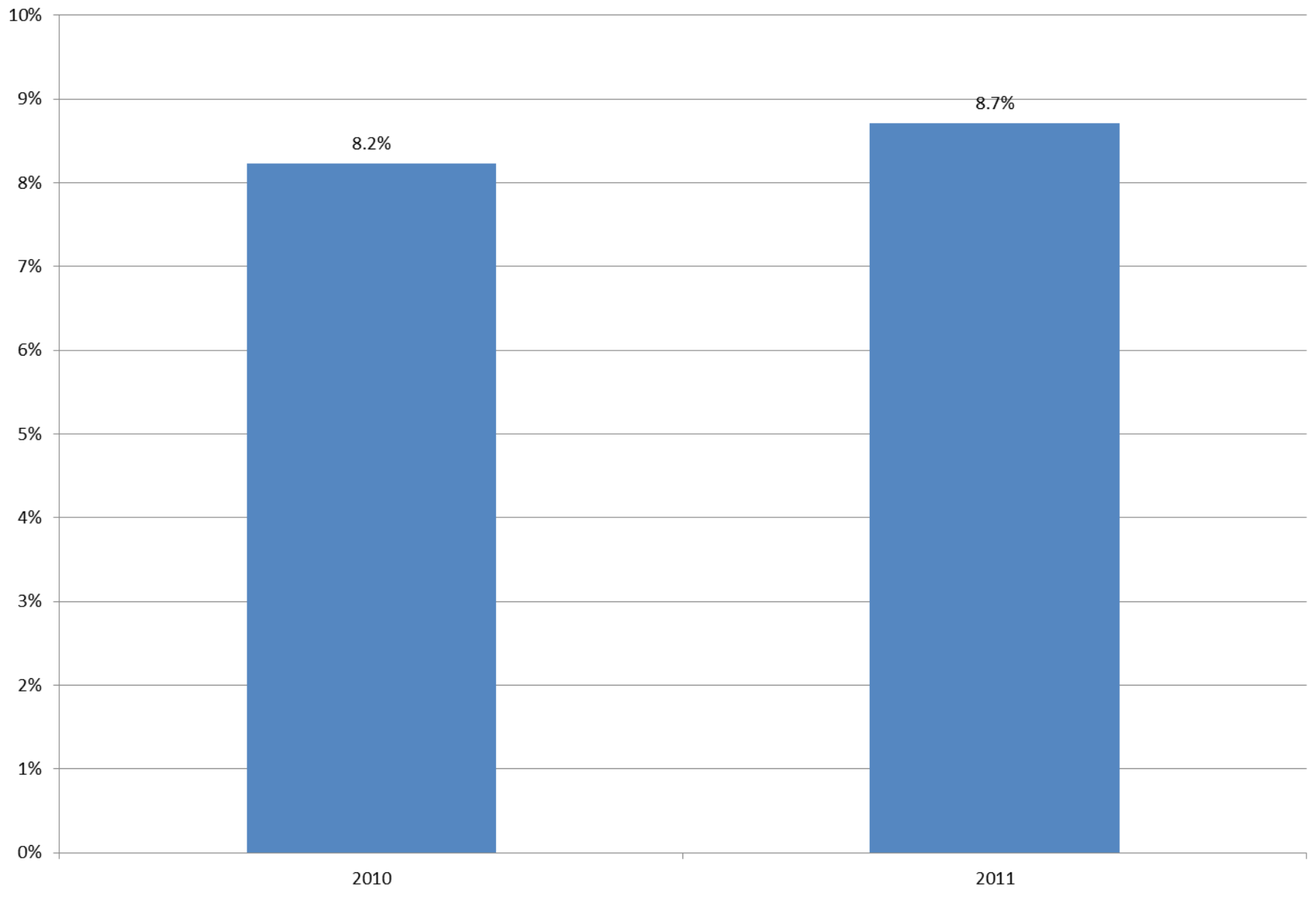
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**Figure 1. Commodity Structure of Exports of Russia  
(Percentage of Total Exports)**



**Figure 2. Net Exports as a Percentage of GDP for Russia**



# Problems of a High Net Export Ratio

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- 1) Russia's growth is highly dependent on unpredictable world market demand.
- 2) Russia's own consumption and investment are 8% less than what it produces.

A large percentage of Russia's output goes to provide consumption and investment in other, typically richer countries.

# Why Russia's Economy Became Dependent on Resource Exports

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At the end of the Soviet period, Russia had a diversified, industrialized economy.

The neoliberal strategy for transition from central planning to the market destroyed Russia's industry.

# Corruption

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Export of valuable resources generates a large revenue flow with low costs.

This is an invitation for corruption, as various groups compete to get hold of part of that revenue flow.

All resource export economies tend to have this problem.

# Retarding Development of Industry

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The profit motive steers effort and energy toward whatever activity is most profitable – and in Russia that is resource development and export. The profit from sale of resources is largely a rent due to nature's gifts.

# Mismatch between Population and Economy

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Resource export is the central economic activity in Russia.

But relatively few people are required to develop and export natural resources.

Russia has a large population that is urbanized and well educated.

This resource-export economy offers no place for most of Russia's people.



# Mismatch between Population and Economy (continued)

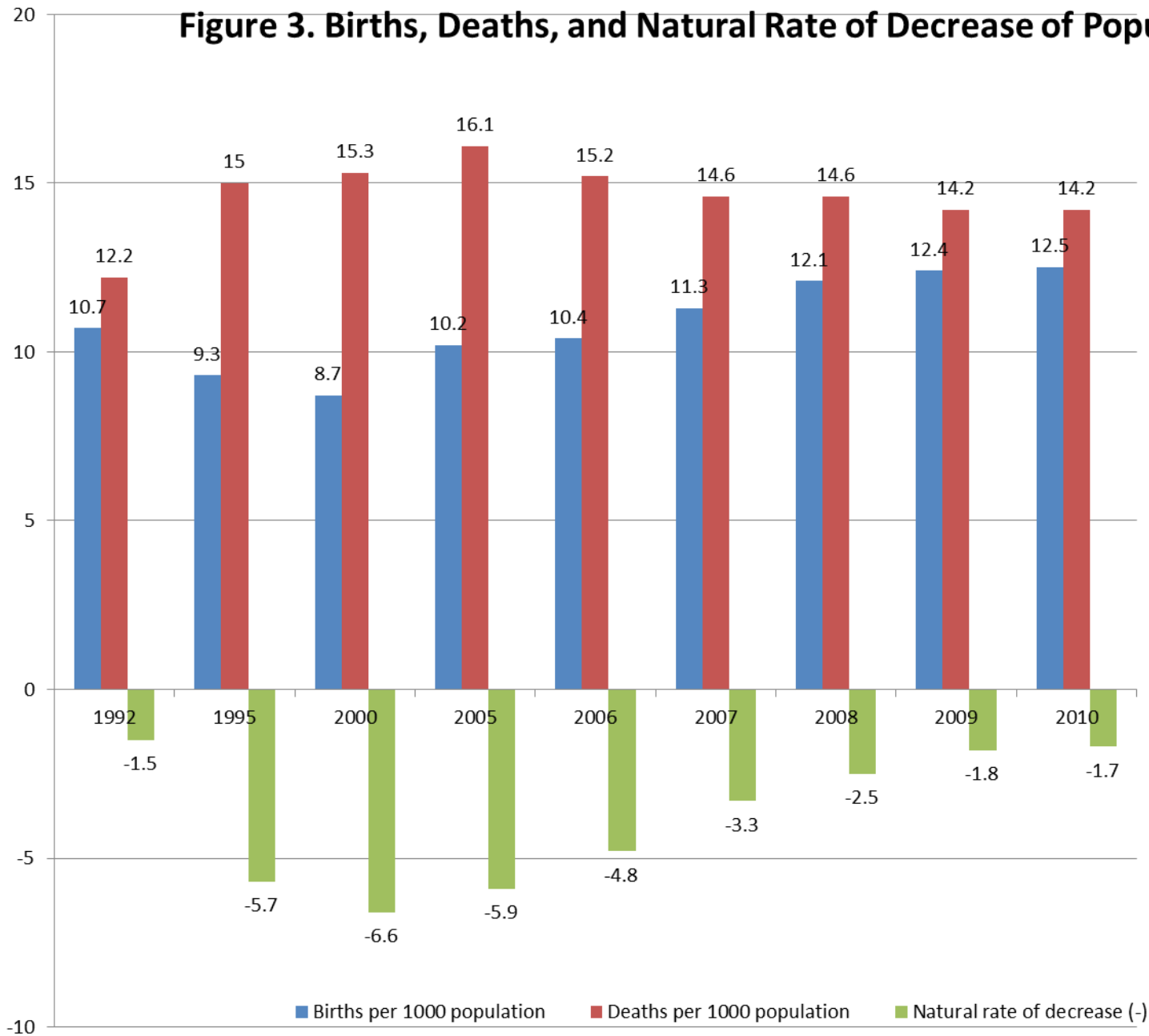
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The continuing natural decline in Russia's population since 1992, due to the death rate exceeding the birth rate, has several causes.

However, it can also be seen as a response to the mismatch between economy and population.

If people are not needed in this economy, they tend to decrease in numbers through a low birth rate and high death rate.

### Figure 3. Births, Deaths, and Natural Rate of Decrease of Population



# Russia is Weakened in the World

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To remain a great power, a country must have a strong industrial base as well as a sizeable population.

Russia's current world power status rests upon its past industrial achievements.

# Developmental State Model

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A reorientation of Russia's economy would require a shift to a developmental state model.

The state regulates the economy aimed at moving it “up the economic ladder” toward a more technologically advanced, stronger, more diversified economy.

# Examples of Developmental States

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USA in the 19th Century

Japan in the 19th Century and post-World War II

South Korea after World War II

China since 1978

# A Developmental State Strategy for Russia

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- 1) Industrial policy aimed at promoting the long-run development of key industries.
- 2) Financial policy aimed at directing cheap credit toward productive purposes rather than speculative activities.
- 3) State investment in infrastructure (transportation, communication, power), science and technology, and education.

# A Developmental State Strategy for Russia (continued)

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4) State direction of the use of Russia's natural resources, to emphasize domestic development rather than export revenues.

5) Regulation of Russia's interface with the global economy, in order to

- a) protect infant industries where necessary
- b) encourage needed foreign direct investment while discouraging short-term and speculative capital inflows and outflows.

# Investment and a Developmental State

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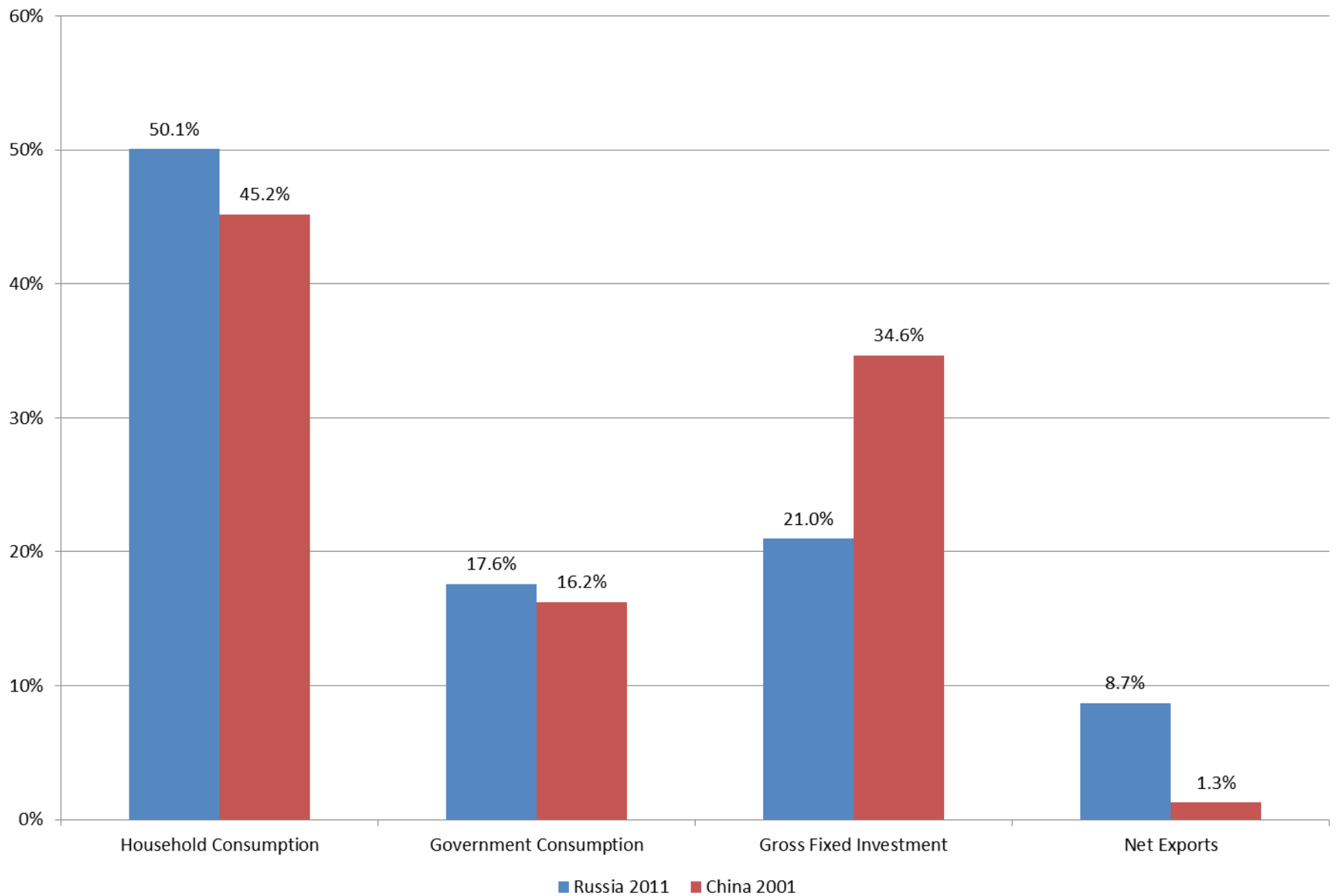
A key requirement for pursuing a developmental state strategy is to increase fixed investment.

Fixed investment is too low in Russia, at about 20% of GDP.

It is too low for a country that requires a reorganization of its economy.



**Figure 4. Shares of Major Components of GDP, Russia and China**



# Investment and Net Exports

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If Russia moved its trade balance to near zero, it could raise its fixed investment share by almost 9 percentage points of GDP, to almost 30% of GDP.

That would enable Russia to pursue a developmental state strategy, including reserving more of its natural resources for domestic use.

# Potential Benefits of a Developmental State Model for Russia

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- 1) A diversified, industrialized economy that fits its population
- 2) An economy that provides the basis for long-term development of its people
- 3) An economy that would enable Russia to continue to play a major role in the world

If Russia stays with its current resource export dependent model, economic and political decline will be Russia's future.