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Memphis Economic Club

From Memphis to Moscow: Adjusting to a New World View

By Martin Gilman

I. Returning to Memphis tonight is somewhat of a personal Odyssey for me. So, since I'm back in my hometown, let me reveal a secret as to why I left Memphis to explore the world in the first place.

Maybe I was inspired by the exploits of Richard Halliburton. Native Memphians will recall that, after his birth in 1900 and youth on Court Avenue, he set off on adventures that made headlines and sold several blockbuster books in the 1920s and 30s – and now all that is left here is the memorial tower that his father built in his memory on the campus of what was Southwestern when I was growing up nearby, but now called Rhodes College.

Or perhaps I needed to get far away from the endless comparisons with my Eagle Scout older brother, Ron.

In fact, the predominant reason I always remember is that I really cherished the life here and yet felt the good life in Memphis was all too vulnerable to what happens in the wider world. So I felt compelled to set off and do my part to protect that special world that I have always called "home". At least that was my own rather romantic reasoning.

Now, when I was a teenager growing up in midtown Memphis, I read books – the Christian Brothers High School, then located on East Parkway, made sure of that – and one notion I read I believe by Rousseau really disturbed me: it was that a person's world view was fully formed by the age of 15.

This was disturbing because I already understood that the world was not static, and the received wisdom from my parents might be inadequate to address, or even comprehend, an evolving *Zeitgeist*. Perhaps in their times or those of my grandparents, with a slower pace of change, one could perhaps afford to be complacent.

Now – in our fast-changing world -- such complacency could lead to not only expensive mistakes and foregone opportunities, but much worse.

Even a 100 years ago, also in an age of rapid globalization and innate optimism, an earlier generation of politicians and business leaders stuck with a world view from the previous century leading to some of the tragic events of the 20th century. Are we about to repeat their mistake?

I contend that we must try, perhaps against our natural inertia, to adjust our world view to the emerging realities of the 21st century. This need to revise our views is perhaps no where more urgent and far-reaching than where it concerns Russia and its place in the world.

II. Like most Americans of my generation, I was raised to fear the Soviet Union and considered its motives in the worst possible light. Sure, I knew that the Soviets were our allies in defeating Hitler and indeed bore the brunt of that effort in terms of casualties. But I also remember the Cuban missile crisis and how scared I was as a CBHS freshman in October 1962. Even when Gorbachev took over and tolerated the fall of the Berlin Wall in 1989 and the subsequent dismemberment of the Soviet Empire, I still clung to my old world view about these new Russians. If my own circumstances had not changed, I wonder how those preconceptions would have continued to influence my current perceptions of world events?

III. However, after years in Europe and in Washington, and even two years in Africa, I found myself in Moscow. What was a boy from Memphis to make of it?

Either I could choose to ignore the many hard-working and well-intentioned Russian people around me – who, in fact, were just like me except that they were unlucky enough to have been born into modern history's most perverse and extensive social experiment, whereas I was born right here. Or I could follow my curiosity to try to understand why this Russia was not the land of demons that I had imagined.

Fortunately for me, cognitive dissonance intervened as a consequence of living in a foreign environment where few, if any, shared my old world view. This dissonance was, initially at least, even more disturbing than the rigid adherence to my teenage world perspective... a bit like suddenly living among "round-earthers" after being convinced that the world was flat.

IV. What I have learned? Well, Moscow is not Memphis; Russia is not America. And it is not useful to judge one by the other.

Let me stress the glaringly obvious. Russia today is not the same country when I started working on Russian issues in the IMF in 1993, much less the Russia of Soviet times: 14 years ago the country was flat on its back economically and dangerously chaotic with thousands of nuclear missiles. In fact, it's not even the country I returned in 2005 when I left the IMF to become a professor at Moscow's top university in economics.

Russia today has a trillion dollar plus economy, the eighth largest in the world, bigger than India's or Brazil's or even Canada's. In 2008, Russia's GDP per capita should be closing in on Poland's and Mexico's, vaulting six-fold over the 2000 level in dollar terms. The growth rate of Russia's GDP per capita is double

that of China in dollar terms. In fact, Russia has posted the fastest growth rates of dollar-denominated GDP (at market rates) among emerging markets. Russia has a decidedly capitalistic economy with the state sector barely larger than the US, and much smaller than those of Western European countries.

In the first six months of 2007, net private capital inflow into Russia was over \$67 billion, more than during the entire first decade after the collapse of the Soviet Union. With a budget discipline that those in Washington can only envy, Russia has built up a stabilization fund of almost \$150 billion and more than \$450 billion in hard currency reserves, the third largest in the world after China and Japan.

The reality is that most international businesses today cannot afford not to be in booming Russia. Just one example of the interest of foreign investors in Russia is the recent joint venture formed by International Paper's acquisition of 50 percent of Ilim Pulp which will help Russia diversify beyond timber exports, a natural strength in a country which has on its territory 25% of the world's forests, and develop its wood and paper product exports. There has been a lot of debate on whether foreign companies can invest in strategic sectors in Russia. This is an example of a Western company which has successfully done so and is reminiscent of the TNK/BP deal which broke new ground 4 years ago. It is a good example of commercial rationale overcoming a challenging political environment.

Booming investment and a rapidly developing financial sector are changing the face of the domestic Russian economy. And remarkably, the pace of change has not been slowed by the political calendar. There was some fear 12 months ago that next month's parliamentary elections and presidential elections next March could destabilize Russia's economic momentum.

But, with four months left before the presidential elections, it seems likely that politics will have minimal impact on business and finance in Russia. The Kremlin and the Government have worked hard to ensure a sense of continuity through the election cycle. The three-year budget is one strong example of that determination. The oil-stabilization fund is another. Promoting the architect of Russia's financial stability, Finance Minister Alexei Kudrin, to the position of Deputy Prime Minister, is a third important example.

Unlike the Soviet Union, Russians are connected to the world today in powerful ways, and young Russians wake up every day with choices their parents could only dream of. Russia is among the top ten countries in the world in total number of Internet users, also ahead of India and Brazil. Russians, some 14 million of them last year alone, are traveling abroad more often and more widely.

While the gap between rich and poor is still much too big, the number of Russians living beneath the poverty line has been cut in half over the past decade. Most interestingly, a middle class is beginning to emerge, perhaps as

much as a quarter of the population. It is not yet the tax-paying, politically-engaged, self-aware middle class that has developed over time in other countries. But this well-educated, well-travelled, property-owning class is the beginning of the core constituency for modern market and democratic institutions, a growing group of people with a real stake in how their tax money is spent, how decisions are made, how their property is protected, and how the rule of law can protect their assets and those of their children.

V. In conclusion, after 14 years of involvement in Russian affairs, and 8 years of living in Moscow, how do I see Russia?

At the risk of generalization, let me venture a few points:

- Russia is not just an oil story. Even today, energy exports amount to less than 20% of Russian GDP, compared to about 35% for Saudi Arabia, and 30% for Venezuela. When people think about Russia's economic future, they tend to think of what's in the ground, but the truth is it's what's up here, it's the tremendous potential of Russia's resourceful, creative and well-educated people, that sets this society apart from other countries which happen to be rich in natural resources.
- Unlike the Soviet Union, Russia has no global agenda of ideological or geopolitical domination but mainly wants to exert predominant influence (but not imperial control) within the territory of the former Soviet Union and the centuries-old Russian empire. Moves by the state to dominate the oil and gas sector would seem to be more or less in line with world practice outside the U.S. and U.K, at least at earlier stages of development. Corruption is extremely serious, and its democracy is immature – hardly a surprise only 15 years after the collapse of such a pervasive totalitarian state.
- Anyone who has spent any time in Russia, or who has studied Russia's history, cannot fail to be impressed not only by what this remarkable people have endured over the years, but what they have contributed to human civilization. In the last century alone whether it's Pasternak in literature, or Shostakovich in music, or Chumakov helping to conquer polio, or Gagarin and the scientists behind him who launched Sputnik exactly 50 years ago last month and pioneered the exploration of space, Russians have demonstrated creativity and scientific potential as impressive as those of any other people on our planet.
- Finally, has my personal odyssey made Memphis any safer? Probably not. But the road has been rich in meaning. I have learned that Russians are like us (or we, them) more than I ever could have imagined, even more than West Europeans with whom I share many affinities. But, most of all, I have understood that Memphis is as much a state of mind as a place, and so – in that sense – I feel as if I never left.

Thank you.