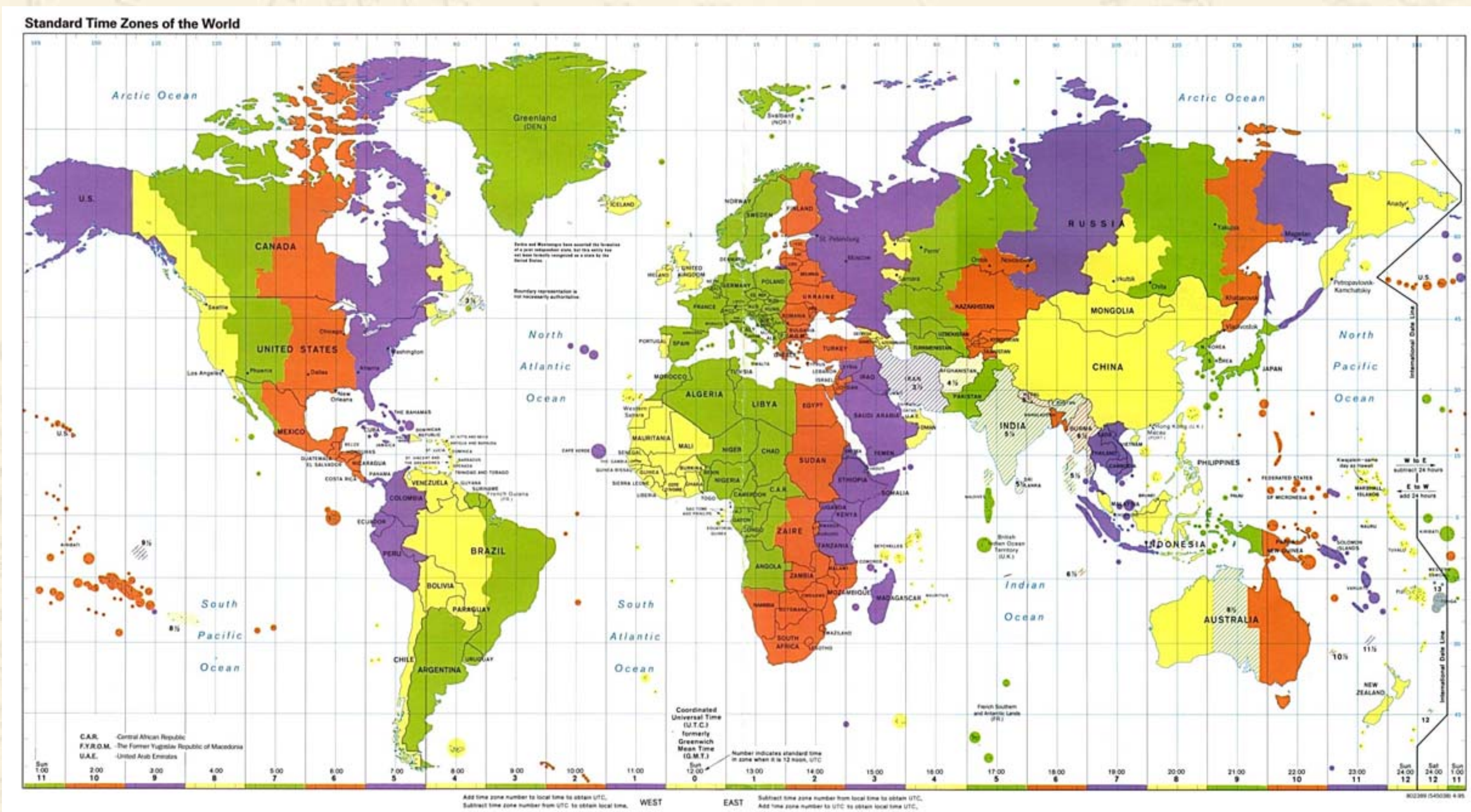
A Modern, Diversified, and Competitive Russia:

What's to be done?

Chorching Goh, the World Bank

A generous size

On March 28, 2010, Russia cut two of its 11 time zones in a bid to “revive commerce” between the country’s regions.



A fortunate location

The country is located between Western Europe, the richest region, and East Asia, the fastest growing region

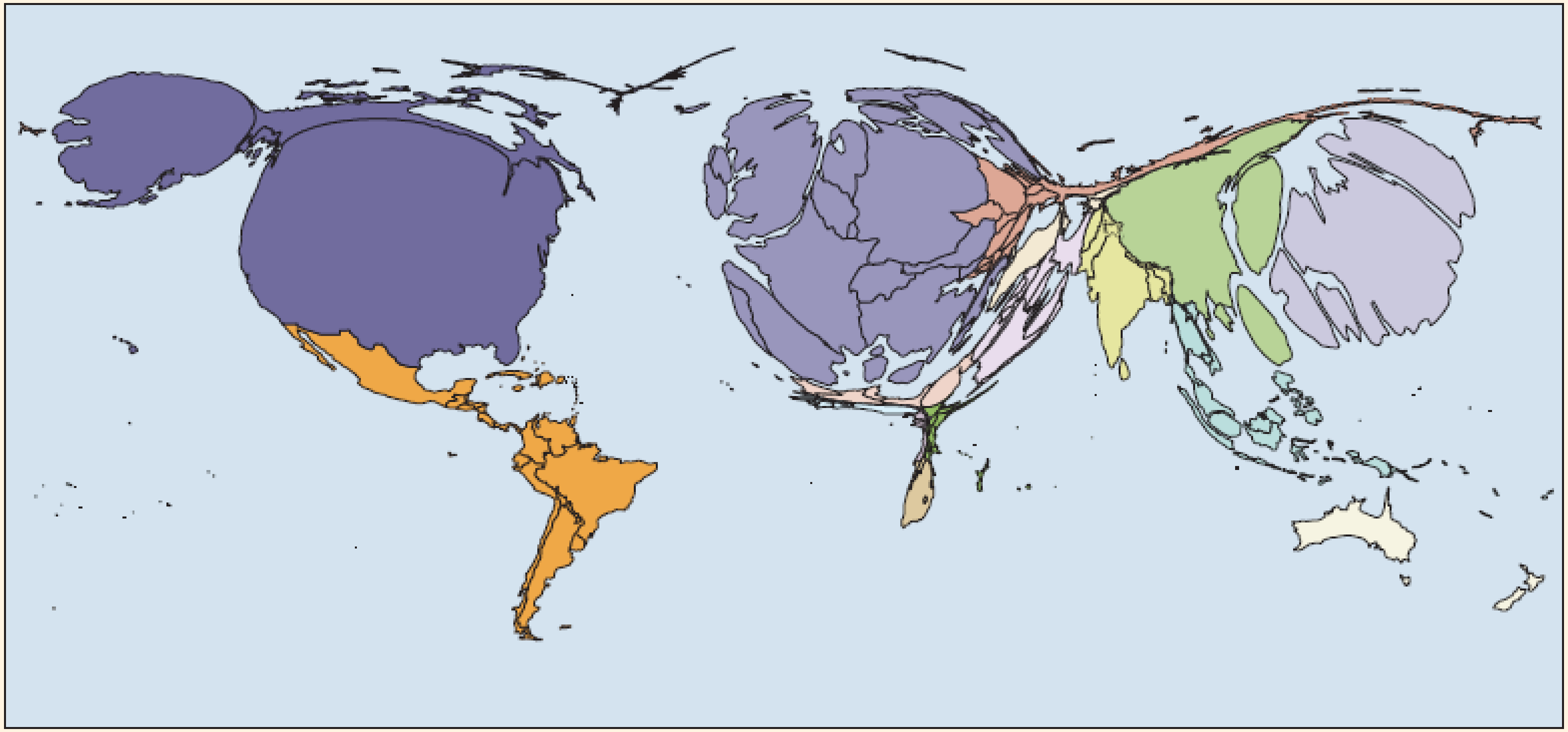
But an unfortunate legacy

For more than half a century, central planners tried to spread out people and production

With an unfortunate result

When countries are resized to reflect their economic mass, Russia is just a thin strip

A country's size shows the proportion of global gross domestic product found there



Source: WDR 2009 team using 2005 GDP (constant U.S. dollars).
Note: The cartogram was created using the method developed by Gastner and Newman (2004). This map shows the countries that have the most wealth when GDP is compared using currency exchange rates. This indicates international purchasing power—what someone's money is worth if spent in another country.

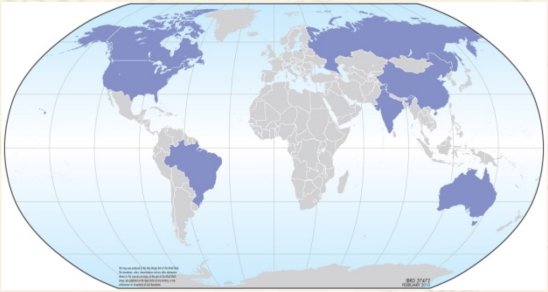
What is wrong?

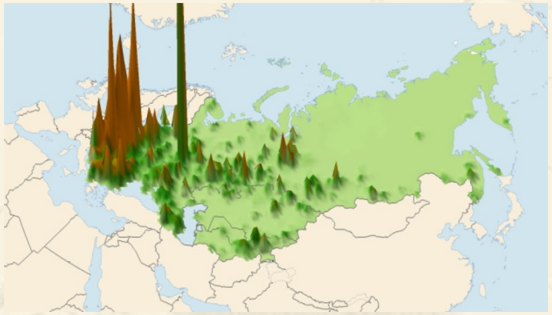
- ***Low Mobility*: Russians move just 1.3 times in their lifetimes**
  - Americans are ten times as mobile, moving 13 times.
- ***Little Concentration*: Share of the three largest cities in the population is just 12.5 percent**
  - Canada and Australia—at 75 percent--more concentrated.
- ***Limited Specialization*: Russia specializes just in the extraction of oil and gas**
  - Brazil, China and India are now competitive in a range of primary, secondary and tertiary exports.

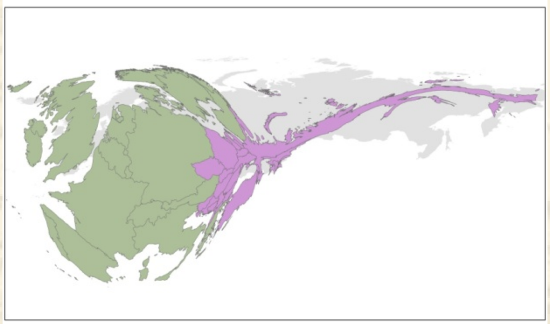
What must Russia do?

- ***Increase mobility***. Address the longest legacy of distorted economic decision-making—freeing people to be mobile across regions.
- ***Facilitate concentration***. Nurture the places where innovation and diversification will take place—its bigger cities.
- ***Encourage specialization***. Take advantage of its fortunate location through trade—specialize and strengthen production networks to the west and the east.

The Report's approach



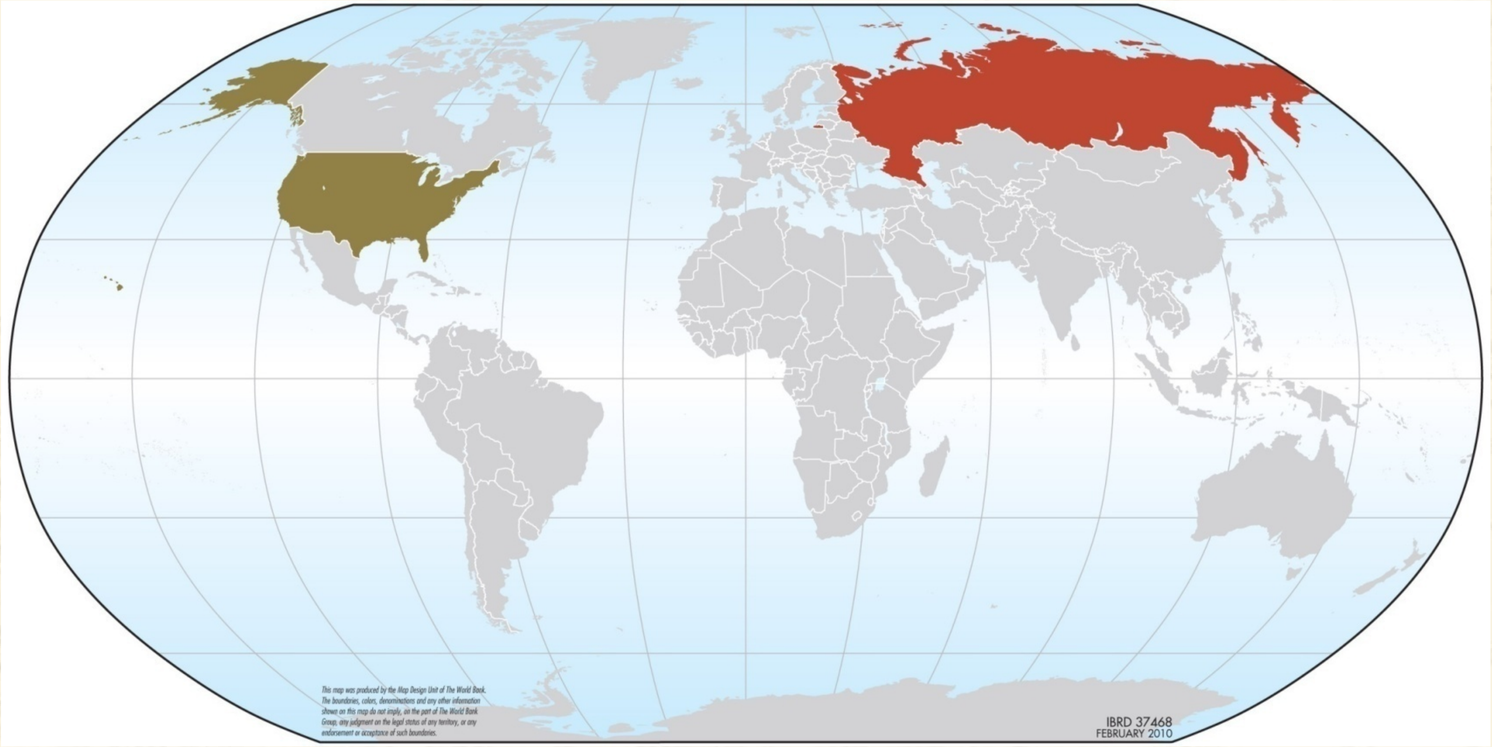




- ***Compares Russia with USA, Canada, Australia, Brazil, China, and India.***
  - ***Experiences of the seven largest countries in the world.***
- ***Outlines approach to reshape Russia's economic geography.***
  - ***Migration, agglomeration, and trade.***
- ***Proposes policies to make Russia more modern, diversified, and competitive.***
  - ***Addresses debates on monotowns, Moscow, and economic zones.***

Mobility in Russia— and in the US

The two biggest destinations of international migrants have had very different approaches to internal migration

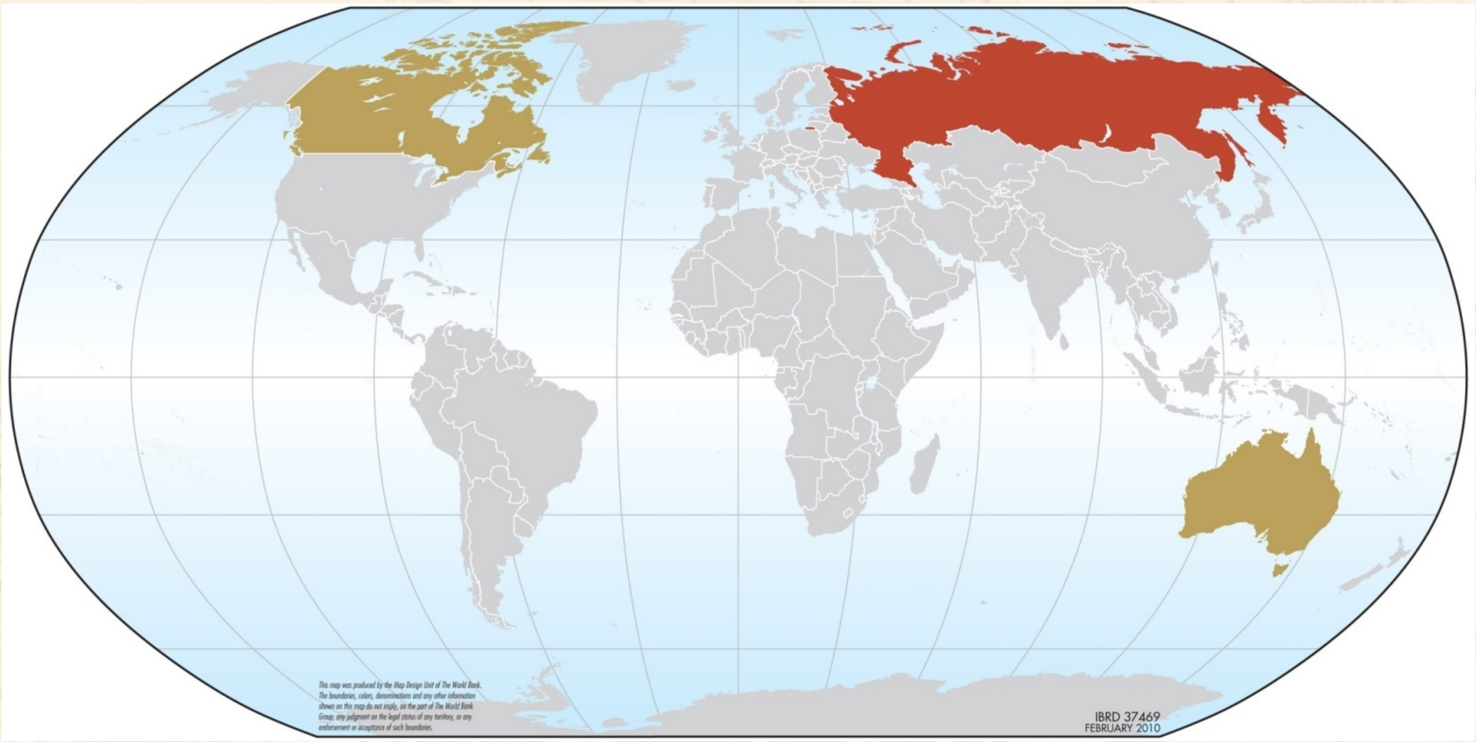


Russians are less—and less—mobile regionally

- **Russians are among the most immobile.**
  - Americans move between 12 and 14 times during their lifetimes; Australians between 13 and 15 times
  - Russians only between 1 and 2 times.
- **In the US, in 2008, 35 million Americans moved**
  - 14 percent of all Americans move during a year; in Australia, this ratio is about 18 percent.
  - In Russia, the ratio is closer to 1 percent
- **Russian mobility has been falling**
  - 3 percent in the 1990s, just 1.5 percent during the 2000s
  - Mobility of 15-24 year olds fell by 43% during 1996-2004.

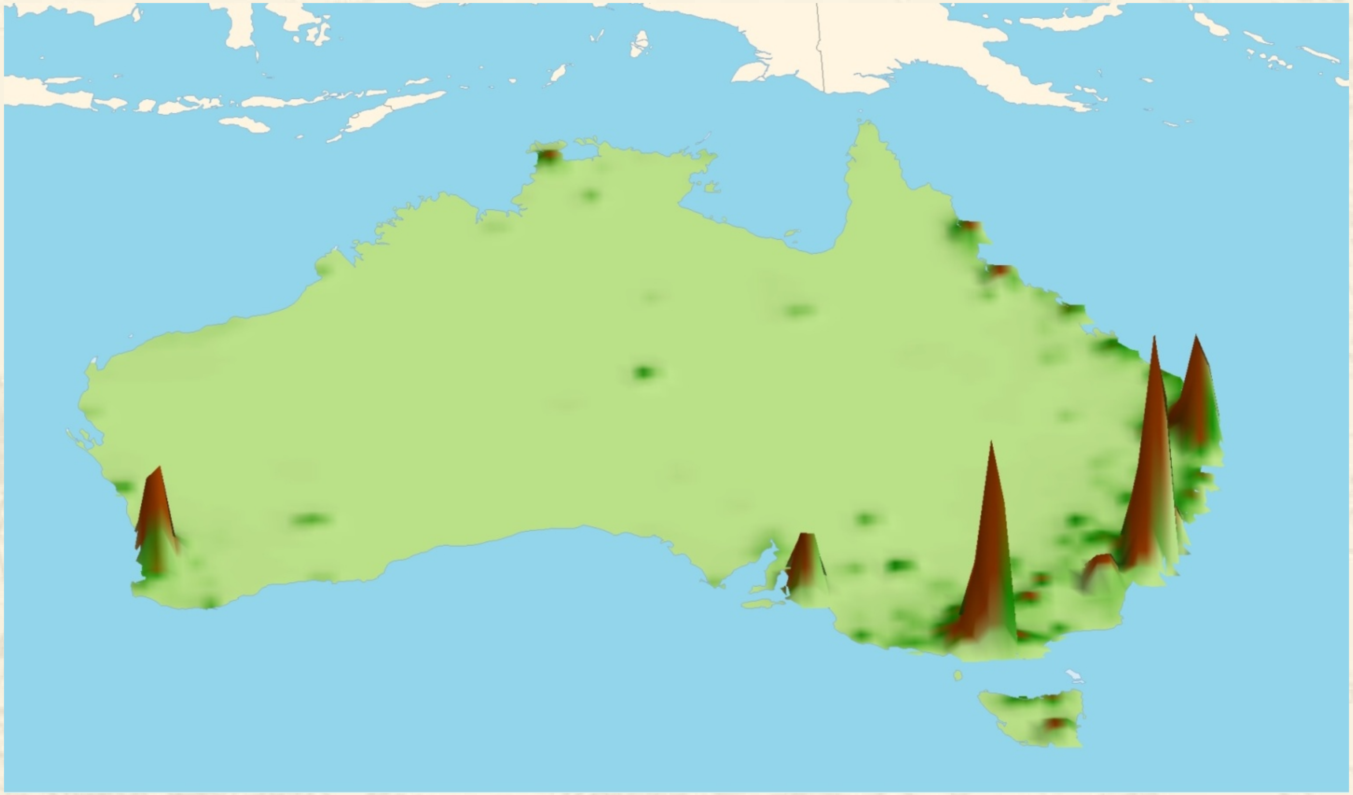
Concentration in Russia—and Australia and Canada

The three sparsely populated countries have had different approaches to concentration



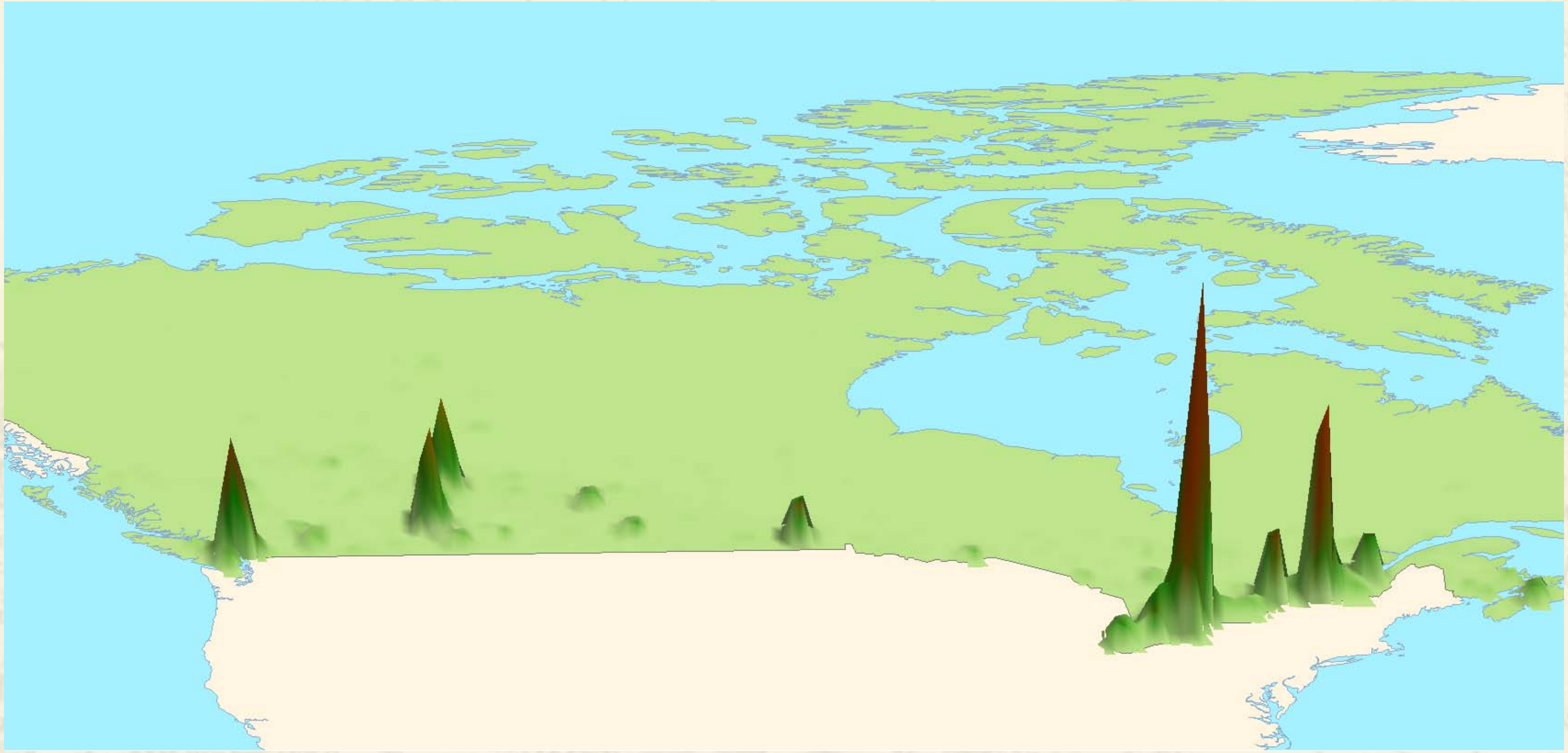
Agglomerated Australia

Three out of four Australians live in Sydney, Melbourne and Brisbane



Concentrated Canada

Two out of three Canadians live in Toronto, Montreal and Vancouver

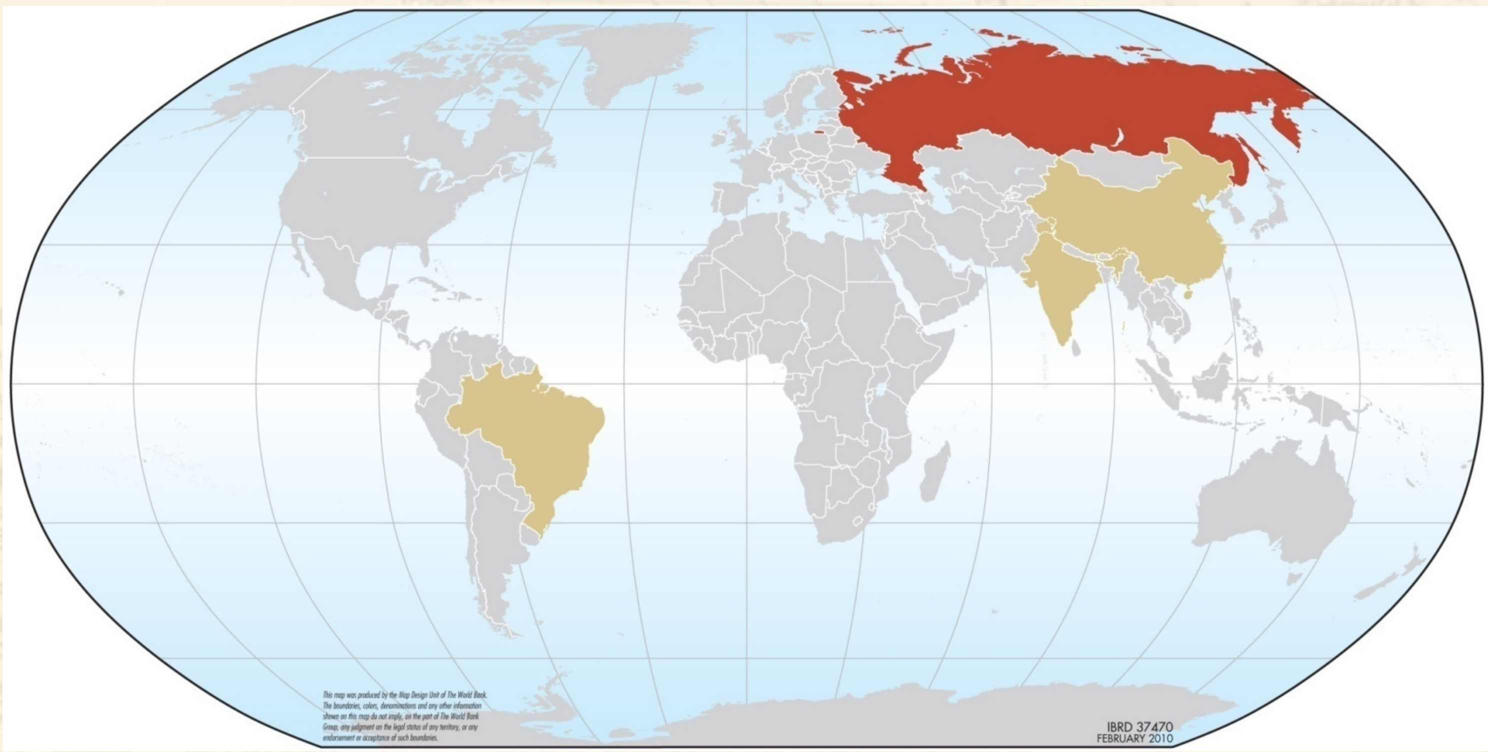


Russia is the least concentrated

- **If Russia were like Canada, the concentration coefficient in 2003 would have been 16.8, not 2.8**
- **If East Siberia and the Russian Far East were like Alaska, they would have 1 million people instead of current 15 million.**
- **And Moscow and next 114 largest cities would have more than 42 percent of the 142m Russians**
  - Just Tokyo and Osaka have 42 percent of 128m Japanese.

Specialization in Russia—and Brazil, China and India

The four biggest emerging market economies have had very different approaches to international integration



Russia should be more open

1. ***Like Brazil*, ** Russia is rich not just in oil and gas, but also in agriculture and forestry. Brazil exports soya, orange juice, offshore drilling services, automobiles (flex-fuel leader). It is the world’s third largest airplane manufacturer. Russia’s farm exports are minor**.**
2. ***Like China*, ** it could be integrated with Europe. Russia has a history of heavy industry. Russia needs foreign investment to modernize and infrastructure to improve access. China shows how to access foreign markets through well-placed SEZs and regulatory reform.
3. ***Like India*, ** Russia has a capacity in software development. But weak intellectual property rights makes it an unlikely candidate for software development today.

What is wrong

Russia's economic borders—policy barriers to the flows of trade, people, capital and ideas—are still thick

Russia is the least competitive

But during the crisis, Russia became less competitive compared with Brazil, China and India

Table 1: Comparison of GCI 2009 and 2008 for BRIC countries

Country	GCI 2008–2009	GCI 2009–2010	Change in rank
Brazil	64	56	8
China	30	29	1
India	50	49	1
Russian Federation	51	63	–12

Source: Global Competitiveness Report 2009-2010.

From Yalta to Yekaterinburg

- **In 1945 in Yalta, the US and USSR were the world's two superpowers**
  - US income was $9,000 and its population was145 million, the same as Russia's today. Now $45,000 and 300 million.
- **In 1991, with Soviet Union's end, Russia was compared with big natural resource economies**
  - Canada and Australia more diversified even back then. Today, their incomes are $40,000 and $35,000.
- **In June 2009 in Yekaterinburg, President Medvedev hosted the first BRICs conference.**
  - Russia is now grouped with Brazil, China, and India. Their incomes are lower: $7000, $3000, and $1000.

The Report's messages

1. Modernization. People in an advanced Russia will have to be more—not less—mobile internally.
2. Diversification. A diversified Russia will be more—not less—spatially concentrated.
3. Competitiveness. A more influential Russia will be more—not less—interdependent internationally.