

March to modernity – flaws and all

(Personal account of a visit to Russia)

Getting richer

What would you think of a country that has amassed forex reserves of more than \$400 billion and rising? In a world of deficits and too much debt, it is certainly a nice bank balance to have.

Russia is a country on the comeback trail. Although the economy shrank some 7% to 8% last year, it is now growing strongly again.

The cities are brimming with new shops and global brands. We looked for the old Soviet era motorcar, the Lada, but we did not see too many. The streets are filled with cars from Germany, France, Korea, Japan, even the US and UK.

With exports you can afford imports.

The exports are largely oil, gas and some other commodities prompting criticism that the Russian economy is undiversified and heavily dependent on commodities. That is true, but exports (whether diversified or not) generate growth and rising living standards.

Some of this new found wealth is also noticeable in the renovation of many of the old churches and palaces destroyed first by the Communists, then by the Germans in World War II and then by Stalin who tried to finish off what was left. These masterpieces of a bygone era have been and are being restored immaculately. That implies healthy cash flow apart from skills and passionate pride of the past.

Old hands we travelled with who have been visiting Russia for the last twenty years kept talking about how things have improved – from Aeroflot with a brand new fleet of Airbuses to shops, available goods, standards of service and so on. Many remnants of the old Soviet economy are still visible, but there is no doubt as to which way the trend is going.

Through a South African prism

A few things are very noticeable to a South African.

- The streets are immaculately clean and so is the Moscow underground. (The exception we saw was in parts of Siberia where littering is as bad as in SA.)
- On a more fundamental level, education. We travelled more than 4 000 km on the Trans Siberian railways into the heart of Siberia. In the city of Irkutsk, rubbished by the BBC's Jonathan Dimbleby as a place of HIV/Aids and drugs, has a population of 600 000 and the province it serves a total population of 2 million. Yet there is a medical school, a technical university, agricultural college, academy of languages ... a total of 8 tertiary institutions!
- Poverty seems better. Beggars are almost non-existent. Official data suggests that poverty levels are at 14% versus 47% in SA.

- The performing arts (ballet, opera, music) rank as exceptional. There is of course a long history to the practice and support of the performing arts dating back to the time of the Tsars. Even during Communism there was generous state support and encouragement.
- SA is lucky to have the well developed private sector it has. The SA private sector is an engine of modernity and efficiency that will take the Russians a long time to build up.
- It is common knowledge that a cornerstone of that achievement is property rights, something the Russians are struggling to get right. In the 1000 year old city of Kazaan efforts to revitalise the city centre have floundered because property rights are not secure. The travails of Mikhail Khodorkovsky and his Yukos oil company undermine investment in the energy and commodities sector.
- Tenderpreneurism seems to be as rife as in SA. The richest woman in Russia is the wife of the mayor of Moscow. As we saw in the BRIC comparison we presented to clients last year, Russia scores worse than SA on corruption ratings.

Open Society

The only way that corruption can be beaten off in the long run is through openness. Here one has the distinct feeling that SA is a much more open society. Our openness can get out of hand at times and we must appear very chaotic to the Russians. Anybody can say anything – and in fact do. Newspapers claim, bloggers blog & insult, unions strike, businesses make money, politicians blame, everybody criticises, the president's private life comes under scrutiny and nobody seems to worry too much about a knock on the door.

Many of these freedoms do not exist in Russia. Mikhail Khodorkovsky, once Russia's richest man now serving jail for alleged fraud, is generally assumed to be in jail because of his political involvement in opposition to the government. Imagine Nicky Oppenheimer or Johann Rupert being prosecuted and their businesses taken from them because they support this or that political party or NGO.

The murdered journalist Anna Politkovskaya's writings clearly indicate that Russia is neither an open society nor a fully fledged democracy. And whilst the economy is booming and a new generation is getting used to a form of market economy – or rather to non-Communism – only a minority seems worried about democracy. In any case, compared to the Tsars and Communism the Russians are now enjoying unprecedented freedom and democracy.

Dealing with the past

Current day Russia is much smaller than it was in 1900 at the time of the Tsars, even smaller than it was at the end of the Second World War, and smaller again than at the time of the dissolution of the Soviet Union in 1991.

In the west republics like the Ukraine (incredibly fertile, resource-rich and as big as France) and Belarus became independent. In the south the "stans" of Kazakhstan, Uzbekistan and others also left the post-Soviet Russian Federation. That cut the population, land size and resources of Russia considerably. It must be the biggest roll back of territory since the end of the British Empire – and it happened much

quicker thus administering a much bigger shock. (Russia is of course still by far the largest country in the world and one of the best endowed with resources).

Apart from land, Russia's sphere of influence was rolled back. Poland became a member of Nato and moved decisively towards the West; Romania and Hungary became members of the EU in the 2000s; the Ukraine with a now pro-Moscow president is fiercely independent and is unlikely to willingly become part of Russia again. In this context a Russian victory in Ossetia is really small fry.

One can thus understand Mr Putin's lament that the collapse of the old Soviet Union was one of the great tragedies of the 20th century. Millions of course will disagree with him and will rather regard it as one of the best developments of the 20th century.

Mr Putin, like a minority in SA, romanticises the past. But unlike SA, one gets the impression that dealing with the past is slow and haphazard. Only now have the Russians begun to admit to the atrocities against the Polish and the forced starvation of the Ukrainians. It all happened decades ago, but people want to know. There is no such a thing as sweeping the past under the carpet.

Admitting it is one thing. Undoing the past to achieve modernity will take a few generations. That is the common challenge facing both countries.

So What?

- For all the weaknesses and deficits it still has, the economic progress of Russia is undeniable.
- It underscores the validity of the BRIC story (Brazil, Russia, India, China as the new growth engines).
- Both Russia and SA are countries in transition moving from traditionalism to modernity. We can learn a lot from each other on how to achieve modernity.
- Each country is shaped by its past. One cannot escape it, better to confront it.
- A country that lost land, population, prestige, power and influence after the fall of Communism is regaining its confidence. It will return to being a major player in world affairs in years to come.