

In Urgent Need of a Big Dosage of Acceleration

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January 17, 2011

The  **Moscow Times**

With Moscow making yet another attempt to modernize the country, many commentators have drawn parallels with former Soviet leader Mikhail Gorbachev's policies of perestroika and glasnost, arguing that they are essential if Russia is to modernize.

But a third word in Gorbachev's troika of early slogans never caught on internationally like the other two. Uskoreniye, or acceleration, was Gorbachev's shorthand for increasing long-term trend growth.

Russia urgently needs a healthy dose of uskoreniye. Past reforms were efforts to catch up with the West, but now other developing countries are catching up fast with Russia itself. Of the other three BRIC countries, China has far higher growth rates and actually manufactures products, while India has a strong service sector, is expanding manufacturing and could outperform China in 2011. Both have populations about 10 times that of Russia and both are innovating rapidly. Brazil's crime levels are horrendous, but it has strong positions in biofuels

and small and medium-sized aircraft.

In attracting investment, perceptions matter, but Moscow's recent policies are often self-defeating. Despite President Dmitry Medvedev's policy of trying to transform Moscow into a global financial center, the State Duma, with the backing of the country's largest businesses, supported moves to restrict information to minority shareholders. Even if they come to nothing, such moves increase uncertainty, deter foreign and domestic investors and help ensure that Russian assets remain cheap compared with their peers in developed countries. Certainly, Gazprom, Rosneft and other Russian "blue chips" would have a much higher market capitalization if they operated in a developed market. Indeed, Western investors like to say how these companies are undervalued — and for good reason.

Like all developing countries, Russia has huge developmental needs, which are often best met by Western know-how and technology. European and U.S. companies have huge amounts of cash on their balance sheets and face anemic growth at home (except for Germany), so they would welcome investment opportunities. Russia should move fast to exploit this situation, but both per capita and absolute foreign direct investment in Russia remain low as investors look to much larger and more promising markets like China and India.

Russia is making progress, but it needs to implement better policies more consistently and much faster to escape the middle-income trap. That approach would also be Moscow's best-ever move to polish its image.

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