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Russia Overtakes Portugal – and Spain Is Next

By Martin Gilman

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Some cliches bear repetition. A relatively recent one, in reference to the global economy, is how the tables have turned. As we know, once relatively poor countries such as Brazil, Russia, India and China have been growing rapidly relative to the so-called advanced economies and have also become the main drivers of global growth, especially once they had bounced back from the financial crisis that began four years ago.

This outcome was far from obvious when Goldman Sachs created the BRIC moniker in 2001, leading to a much-quoted study in 2003 that contained some seemingly fanciful projections to 2050. At the time, it was only a study. Of course, no one, at least among mainstream analysts, envisaged the stagnation and even reversal of fortunes of the once-dominant Western economies.

Confirming the cliche, the International Monetary Fund just published its semiannual World Economic Outlook. In its own understated manner, it highlights just how much, and how rapidly, the tables have turned in the global lineup of nations. Not surprisingly, progress in re-allocating the control of the institution to the world's new group of creditor countries has been grudging and partial.

Just a little over a decade ago, China's per capita gross domestic product was the equivalent of only $945, compared with $35,252 in the United States, or a ratio of 1:37. The IMF is projecting that this ratio will shrink to 1:8 next year. Other emerging countries display a similar progression. In the case of Russia, the change is even more dramatic. Its per capita GDP in 2000 was $1,775 but is projected to rise to $16,338 in 2013. Thus, the ratio relative to the U.S. is expected to decrease from 1:20 to 1:3. This, however, is only a part of the dramatic reversal of fortunes related by the IMF, which studied the data of about 100 countries over 60 years.

Many Russians with a long memory will savor the new IMF data by recalling that on Dec. 30, 1999, then-Prime Minister Vladimir Putin said, "It will take us about 15 years and an annual growth of our gross domestic product by 8 percent a year to reach the per capita GDP level of present-day Portugal or Spain, which are not among the world's industrial leaders."

At the time, this seemed utopian, but according to the just-published IMF data, last year Russia overtook Portugal's 2000 per capita GDP in U.S.-dollar terms and will overtake Spain's 2000 benchmark by the end of this year. Moreover, when Putin made the comparison, Russia's per capita GDP was only 15 percent of Portugal's. By 2013, it will rise to 78 percent of Portugal's projected per capita GDP, a difference of well under $5,000.

The IMF also notes that "the resilience of emerging market and developing economies —measured by their ability to sustain economic expansions and recover quickly from downturns — has increased markedly. The past decade was the first time that these economies spent more time in expansion, and had smaller downturns, than advanced economies." In other words, while the BRICs may have some way to go to catch up to the standard of living in advanced economies, they have already displayed the type of sustained periods of economic growth and ability to snap back quickly when an external shock hits. In fact, as evidenced by the record of the past decade, the BRICs are now, as a group, better performers than the advanced countries, many of which are mired in stagnation.

As the leaders of world finance gather in Tokyo at the end of this week for the annual IMF meeting, they will no doubt be preoccupied by a crisis in the global economy that stubbornly refuses to subside. Aside from the U.S., where there seems to be feeble but positive growth, the only bright spot for the moment is the emerging and developing economies. At the same time, however, the IMF has warned that the relative calm these economies enjoyed the past two years could well be temporary and that they would not be immune to the poor prospects in their main trading partners. With a significant risk that advanced economies could experience another downturn, it is likely that —emerging-market and developing economies will likely end up "recoupling" with advanced economies, much as they did during the global financial crisis.

Yet it is in this subdued context that Russia looks good. This perspective may be hard to square for those who view the glass as half empty. Russia surely has its problems with corruption, the rule of law and the government's dawdling over structural reform. But Russia is also clearly one of the countries characterized in the IMF study that has created a buffer to external shocks through broad countercyclical fiscal and monetary policies. There is no doubt that the Russian government will take heart in the IMF's recommendation that in the context of volatility and possible external shocks, it would be prudent to strengthen the buffers through a flexible exchange rate policy and a prudent fiscal stance. Russia has the lowest ratio of public debt to GDP in the Group of 20 countries and has been adding to its public and external reserves.

For once, it would seem, Russia is on the right side of history. It has the economic profile of a country that could stay that way. Real GDP growth, fueled by domestic demand, is on track for this year at about 4 percent, higher than the rate for Brazil and all the major advanced economies. Russia's low debt, rising reserves and willingness to allow the exchange rate to adjust mean that it is not a given, as many assume, that a negative oil shock will lead to economic dislocation.

The good news for Russia is that it is emerging as one of the leaders in this new rebalancing of financial and economic fortunes, a role that perhaps it can develop further when it takes over the revolving presidency of the G20 for next year.

Russia's relative success is surprising to many. After all, since 1997, the country has suffered two economic crises: the 1998 default and the accentuated slump in late 2008. Yet Russia recovered rapidly. Now the challenge is to weather the storms ahead.

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