



# Embassy of the Russian Federation in the Republic of South Africa

## PRESS-RELEASE

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### “Economic tasks”

30-01-2012

We are living in a period of radical change in the global economy. Technology is being modernised faster than ever before. Much of what is routine to us today looked like science fiction 15 to 20 years ago. The struggle for global leadership has become more acute than ever before, and we see countries whose standing seemed rock solid giving way to those countries that were looked down on only yesterday. The threat of man-made catastrophes and environmental disasters is greater than ever. But human opportunities have never been greater either. And it is those who make the fullest use of these opportunities that will be the winners.

In these circumstances we must ensure sustainable progressive development of our economy and try to shield our citizens from the hardships of crises as much as possible, while at the same time consistently and rapidly modernising all economic sectors, from the material and technical base to approaches to our economic policy.

### **Russia’s role in the global division of labour**

After the collapse of the Soviet bloc, Russia had to find a new place in the global division of labour, whose main power centres and proportions had developed without it and, worse still, in an atmosphere of confrontation with the Soviet Union. The developed economies had erected barriers around their markets to protect their own interests. Differences in technological standards were an additional problem that hindered integration into the global economy.

But we have nevertheless developed an economy that is now an integral part of the global economy. This has been achieved mostly thanks to our natural resources. Global sales of gas, oil, metals, timber and other raw materials and low value-added products account for over 25% of Russia’s GDP.

Today Russia is dependent on the global economy and has been integrated into it very strongly, stronger than the economies of most other countries.

It has become commonplace to speak about a resource-based Russian economy. The Soviet Union’s self-sufficient and self-contained economy was not designed to work in new conditions. Only the most liquid sectors, connected with the export of unprocessed raw materials and semi-finished goods, survived the largely spontaneous market transformation. In fact, there was a large-scale de-industrialisation, with a loss of quality and the structure of production becoming too simple, which explains our excessive dependence on the import of consumer goods, technology and complex products, as well as on the fluctuation of prices of our main export goods. These are factors over which we have, by and large, no control.

Having an economy that cannot guarantee us stability, sovereignty and prosperity is unacceptable for Russia. We need a new economy with a competitive industry and infrastructure, a developed services sector and effective agriculture: an economy based on modern technology. We must develop an effective mechanism for modernising our economy and attract the huge material and personnel resources needed to achieve this goal.

However, we should not rely on protectionist measures to diversify our economy, and not because we have joined the World Trade Organisation. On the contrary, we joined the WTO because our economy is highly dependent on the external market in terms of both production and consumption. Ultimately, it is people and companies that pay high import duties. Excessive protectionism invariably leads to stagnation, low quality and high prices.

### **Time for technological catch-up**

We need to find solutions to overcome our enfolding unilateral technological dependence.

No one is going to repeat the experience of the Soviet Union of course. I am referring to the policy of building a totally isolated technology sector as part of its stand-off with the West. As a result, most of our “original” technology, in conditions of isolation, fell behind that of our rivals; this became clear once the Iron Curtain collapsed.

The scenario we have in mind is entirely different. Russia must play a bigger part in the international division of labour, not only as a supplier of commodities and energy, but as an owner of regularly upgraded cutting-edge technology in at least some sectors. Otherwise, we are doomed to deplete our resources by constantly exchanging them for expensive foreign technology to produce consumer goods, materials and pharmaceuticals that we cannot develop ourselves. These technologies will gradually come to make up a greater share of global GDP, while the share of commodities and conventional services will shrink.

To regain technological leadership, we need to select priority sectors wisely. Candidates include the pharmaceuticals industry, high-tech chemistry, composite and non-metallic materials, aircraft manufacturing, information and communications technologies and nanotechnology. And Russia’s nuclear and aerospace industries have maintained their international leadership positions and technological advantages. This list is not closed; more industries may be added, depending on international market trends and, to a large extent, on the initiatives proposed by business owners and workers in these and other industries.

It is often argued that Russia does not need an industrial policy, since the government often selects the wrong priorities and gives preference to the wrong sectors, supports ineffective and inefficient producers, and hinders innovations which would have emerged naturally in a free market environment. It is difficult to argue with these statements, but they are only true with all other conditions being equal. Russia has gone through deindustrialization, which significantly damaged its economic structure. Large private capital is not flowing into innovative sectors because investors are reluctant to take the high risk. We will certainly use tax and customs incentives to encourage investment in innovative sectors. But it will take years for this to have an effect, and it may not have any effect at all if more attractive investment opportunities open up elsewhere in the world. Capital knows no borders. Are we ready to risk Russia’s future for the sake of pure economic theory?

Our decisions to establish large state corporations and vertically integrated holding companies were in fact dictated by the industrial policy priorities: Russian Technologies, Rosatom, United Aircraft Corporation and United Shipbuilding Corporation, and other conglomerates. The idea was to discourage the decline of the more intellectual sectors of national

industry, to preserve its research and production potential through consolidation of resources and centralised management. This goal has definitely been achieved.

We had to consolidate those assets, that were officially government-owned but managed disjointedly, and which had often lost all links with their respective research and design centres.

The strategies of the large industrial holding companies were aimed at creating internationally competitive corporations, with high market capitalisation and stable or expanding niches on the global market. It is these corporations, engaged in versatile activities from the most advanced research and product design to manufacturing, supply and maintenance of their high-tech products, that control the global markets for aircraft, ships, computers, pharmaceuticals, medical equipment and other products. They provide the orders for small innovation companies and are taking over successful start-up businesses.

Most integrated companies have so far failed to become globally competitive or highly capitalised, nor are they consistently profitable. We are not going to abandon our projects halfway through. In some areas, like the aviation sector, we have only just managed to complete the difficult assets consolidation process. Clearly the viability of each such project needs to be evaluated. Right now, they need top managers with expertise in the innovative business sphere.

I want to stress that government efforts were focused on restoring Russia's ability to compete in those sectors which involved only a few players on the global market. This did not mean there was any attempt to suppress private initiative, because there was no such initiative in these sectors. It would be erroneous to draw conclusions about the expansion of state capitalism on the basis of our work to accumulate and restructure assets and get them ready for sale.

We have compiled a plan for the reorganisation of each company and their subsequent entry into the market. Some of them will become public liability companies and their shares will be subsequently sold off. These include the Russian Technologies, the non-military assets of the Rosatom and some other state corporations. It will be impossible to accomplish this objective overnight, but we cannot delay its implementation indefinitely. I think it will be possible to reduce the level of state involvement in some commodity companies by 2016 and to complete the withdrawal from the capital of major non-commodity companies which are not connected to the natural monopolies or the defence sector.

We are expecting Russian capital to take an active part in the privatisation process and the subsequent development of high-tech assets. At the same time, we need to look for customers among global investors who would be willing to invest in the research production base, as well as bring their connections and their position on the major international markets to the table.

The successful experience of economic modernisation in countries like Korea and China shows that a push in the right direction from the government is necessary, and that the outcome from such a push outweighs the risk of making a mistake. It will be hard to implement diversification without a concerted effort. Understanding all the risks of selectivity, we must have a fully transparent policy of choosing priorities and of state support, open to assessment and discussion by competing companies and professional communities.

Competition lies at the heart of the modern economy and it is founded on companies, who develop and own advanced technologies, striving to prevent the users of these technologies from using the so-called technological core. This means the entire technology servicing cycle, not just research and development projects. This is highlighted by the example of Russian companies attempting to buy foreign assets during the crisis. Our Western partners promptly called a halt to proceedings, as soon as talk switched to the purchase of facilities with a complete production cycle (including even in car manufacture).

As a rule, the supplying company usually seeks to retain control over any complicated aspects of servicing equipment and production processes when selling state-of-the-art technologies. Consequently, customers become dependent on the supplier not only in terms of the technology, but economically as well. A country will incur long-term economic losses if it falls behind in advanced technological solutions. This will happen even if the assembly plants are located on its territory. The lion's share of profits goes to where the head offices, laboratories and design bureaus are located.

That is why developed economies work on the principle of technology cooperation. Their mutual dependence strengthens economic and political stability.

### **Russia's innovation cycle**

Ensuring competition is the main pre-requisite for creating the demand for innovation in the economy. It is competition that prompts private businesses to seek better technical solutions and to regularly introduce new products. I can see all the challenges that our accession to the WTO is putting before a number of industries at home. And I would like to assure them that I will do my best to cushion transition-based problems. However, the manufacturers of industrial and technological goods must be clearly aware that the days of competing in a single national market have gone. From now on, there will be no comfortable niches. For hi-tech products there will only be one market – a global one.

The other side of the coin is to offer innovation. Russia can do more than simply buy innovation – we can also generate it. Our place in the future depends on how well we will use our potential.

The high levels of education among our people, our impressive legacy of fundamental science, our engineering schools, and the infrastructure for pilot-scale production which is preserved in many industries, are all factors that we have a duty to use.

In recent years, we have invested heavily in institutions capable of commercializing applied research. One example is RUSNANO, another is the Russian Venture Company, and then there are government-run tenders for innovative facilities at various universities. In addition, many Western companies have been attracted to participate in the Skolkovo project.

However, learning how to sell things is not enough. Sustainable innovative growth also requires a steady inflow of new ideas, fundamental research products, and finally, creative-minded specialists capable of developing new technologies.

Restoring the innovative nature of the economy should begin with universities – which should be seen as both centers for fundamental science and resources for innovative people. We need to pursue a national objective that results in globally competitive Russian universities. By 2020, we should have several world-class universities that span the entire spectrum of modern material and social technologies. This means that we must ensure the steady funding of university-based research teams who have a view to international development.

Like their international rivals, for scientific research purposes, Russian research universities should be receiving resources of up to 50% of budgeted education expenditures. I proceed from the assumption that we will, at the same time, pursue a carefully considered restructuring of professional education – a restructuring that would be carried out in cooperation with the expert community and with the public.

Ten-year programmes of fundamental and exploratory studies should be approved for the Russian Academy of Sciences, leading research universities, and government-run scientific

centres. But the viability of these programmes will have to be defended and regular reports will have to be submitted as they are put into practice. They will be submitted to the taxpayers and to the scientific community, rather than just to the officials at the Ministry of Education and Science. Authoritative international specialists will be invited as well. These reports would be assessed by national leadership in cases where defence and other projects of direct national interest are concerned.

Preferential development of research universities does not mean that the Russian Academy of Sciences and government-run scientific centres will be neglected. On the contrary, the Russian Academy of Sciences' institutes can only develop steadily in a situation where they can attract strong specialists.

We will increase funding by several times, up to 25 billion roubles in 2018, for government-run scientific foundations that support independent research teams. The amount of the grants should be comparable with what researchers receive in the West.

We must continue our efforts to integrate Russian research centres, universities and enterprises into international mechanisms that are available for documenting scientific results and converting them into actual profit.

We must overcome the inertia of our large domestic capital that, to be honest, has nothing to do with innovative projects, research and development. Currently, 47 state-run companies are involved in innovative programmes. But private corporations must make it common practice to spend 3%-5% of their gross product on research and development. There must be proper tax mechanisms in place and, most importantly, private business executives must realise that without this initiative, they won't be seen as equal players in the global market.

Secondly, the modernisation of technology requires mastering imported technology as soon as possible. There are excellent examples of importing advanced technology culture. Our experience has been quite good in car production, with nearly half of foreign cars being produced by Russian workers. Customers see no difference between their quality of work and our own. The next step is to adapt production through setting up technological development centres here, in Russia. A substantial share of foreign brands of household appliances are produced in Russia. Our largest food producers supply products that are almost exclusively local. It is very important for us that the global leaders in technology make a shift from perceiving Russia as an interesting and potentially successful market and investing in local production, to developing new technology and new products here, in Russia. But they will do so only if they see technical universities and research centres that are competitive on the international level.

By investing in competitiveness of the advanced areas of the economy, Russia is also taking on the solution of a global social task: developing a creative class and shaping an environment in which it can attain its potential. But there are large sectors that are stuck in the previous century in terms of their technology and organisational culture. To a large extent, this can be attributed to the fact that we purchase equipment but forget about new production logistics, quality control and, in some cases, about basic technological regulations. The largest industries that this relates to are of course construction and transport.

The government will support large infrastructure projects. Firstly, this means transportation networks and reliable communication with Siberia and Russia's Far East. Local road networks are also very important. The current state of affairs is truly paradoxical. With its huge territory, Russia suffers from a lack of land that is suitable for construction. This is due to an underdeveloped infrastructure. You can build a house or a factory 50 km or even 80 km from a big city in Europe, America, Japan or South Korea; while in Russia, untapped lands begin 20-

30km away, where there are no roads, gas, water and electricity and the land is worthless because it cannot be used.

Development of Russian land must start with the lands surrounding large economic centres. The expansion of metropolitan areas by 50%-100% will increase the available areas by several times. This will help overcome the deficit completely and reduce the cost of residential and industrial properties by 20%-30%. Rural and suburban farming will see significantly greater profits, with farming industry workers enjoying a much better standard of living.

Businesses, especially small and medium-sized businesses, are quickly engaging with new opportunities that emerge along with the development of infrastructure, and road networks in particular. But only the state is able to build this infrastructure under the current circumstances, along with the participation of private businesses (public-private partnerships). But this will require a substantially more efficient management of expenses. We must not spend more on construction than our neighbours. We are ready to hold international tenders and to attract well-known foreign companies as operators and contractors. Beginning next year, we are going to arrange compulsory public technology and price audits of all large investment projects with state participation. The audit will involve international experts.

The farming industry requires particular attention. The growth in this sector has been quite good in recent years. Most developed countries provide support to their agricultural producers in one way or another, and Russia is no exception. There are two reasons for this. Firstly, uncertainty of the global market and dramatic fluctuations in food prices make agricultural security – that is, the country's ability to provide food for its people – as important for economic and social stability as a balanced budget and a strong currency. Secondly, the agricultural sector is an important element of a competitive environment in the economy and for creating small and medium-sized business, the foundation of healthy capitalism.

### **Where to get the capital?**

Private investment is the main source for creating new production facilities and jobs. The situation here can hardly be called optimistic. Russia is losing out to rival countries in terms of its investment climate. Substantial amounts of capital are being withdrawn from Russia.

Yes, this situation can be explained in large part by our actions in the late 1990s and early 2000s. At that time, a conflict had flared up between those who had appropriated in the 1990s the main financial flows based primarily on the sale of commodities, fuel and, and those who wanted to return them to the state and use them for the benefit of the entire society. It is my opinion that we did the right thing at the time, increasing the state's influence in commodity sectors.

This is not only because certain oligarchs had tried to continue directly buying their way through the political system. At the very beginning of my first presidential term, we faced persistent attempts to sell key assets abroad. The preservation of this country's strategic resources in the hands of several private owners for a period of five to ten years meant subsequent outside control over the Russian economy.

This is not meant to imply some anti-Russian conspiracy. The issue is completely different. Look at how international capital behaves under conditions of instability, turbulence and anticipation of an impending crisis. These investors do not hesitate to withdraw their assets from emerging markets in order to save the national nucleus of their businesses. In their opinion, Russia ranks among such markets, which was no doubt also the case in the early 2000s.

Sustained national development is not only determined by macroeconomic indicators. A country's stability also hinges on the fact that most investors who make investment-related decisions live in the country, link their children's future with it and associate their long-term interests with the country's development.

What needs to be done in order to solve the problem of capital?

First of all, we must expand the volume of the domestic market, thereby making it more attractive for direct investment. We are currently doing our best in this area. We have made the shift from declarations and statements of intent to real integration for the first time since the break-up of the Soviet Union. The past few years has seen the establishment of the Customs Union, the Common Economic Space and the CIS Free Trade Zone. Technical regulations are being harmonised. Russia is consistently trying to establish a common market together with its neighbours. This market would not hinder the penetration of goods and services in any way, and there is no question of there being any uncertain terms. Of course, we are taking into account the interests of our partners during this process, we compromise and even make concessions. But these concessions will soon pay off many times over. We proceed based on the premise that the huge market of the Common Economic Space will make each of our countries more competitive.

Second, the national business environment and the country's long-term investment climate still leave a lot to be desired. In the past few years, we have launched numerous reforms on the initiative of President Dmitry Medvedev. These reforms are called upon to improve the business climate. But there have not yet been any noticeable shifts. We are losing in the competition of jurisdictions. Businesses operating in Russia often prefer to register property and transactions abroad. This has nothing to do with our tax regime, which is, in general, competitive. Nor does it have anything to do with the lack of legislation meeting modern requirements. Of course, such legislation must be improved, because it is not yet flexible enough and because it does not provide the entire range of instruments that are needed for the business community. However, the main problem is rooted in a lack of transparency in the work of state representatives from customs and tax services and their accountability to society. This is also true of the judicial and law enforcement systems. Calling things by their names, this amounts to system-wide corruption. Business expenses and the related payments may vary, depending on the "benevolence" of certain officials within the state machinery. In this case, business people find it more appropriate to seek out patrons and to come to some kind of agreement, rather than abiding by the law. Instead of facilitating a more cost-effective performance on the part of their companies, these "agreeable" business people will try to suppress their rivals and carve out a place in the market for themselves by tapping the potential of affiliated officials from the tax, law enforcement and judicial systems.

We must pave the way for businesses that are ready to succeed as a result of fair competition. This is a fundamental and system-wide task which cannot be resolved with the help of any economic policy. We must alter our state, as well as our executive and judicial branches. We must do away with the accusatory bias of law enforcement, investigative, prosecutorial and judicial agencies. We must eliminate all vestiges and leftovers of Soviet-era law enforcement concepts and all legal snags that make it possible to open up a criminal case against any party involved in a commercial dispute. All economic cases must be tried by commercial courts, rather than by general jurisdiction courts. We must openly discuss and submit all the necessary specific proposals on this issue together with the expert community, judges and business people before the year is out. I am confident that State Duma deputies will support these amendments.

As of January 1, Russia and Kazakhstan have established a common economic space. The example of Kazakhstan is quite revealing. The World Bank estimates that Kazakhstan currently ranks 47<sup>th</sup> in terms of its business environment. Russia is in 120<sup>th</sup> place. I propose that we come

closer to reaching all the best parameters that comparable nations have, facilitating a comfortable business environment within the next few years.

We must change the entire ideology of state control over business activity, and we must drastically limit these functions. Our strategy must hinge on the business community's presumption of innocence. We must proceed based on the premise that the creation of conditions for the activity of honest business people is more important than possible risks associated with unscrupulous behaviour.

Third, ordinary people's money is almost useless in the capital market. This means that the population does not receive its share of earnings resulting from economic growth and increased capitalisation of the economy. We need programmes for incorporating people's money into investments via pension funds, trust funds and mutual funds. In advanced market economies, this makes up a considerable part of the national capital.

We should create a situation in which long-term money in the form of steadily growing private savings, including pension savings, comes into being within the Russian private sector.

This cannot be achieved unless we work consistently to reduce inflation. Price growth affects each person's earnings and discourages people from saving. We are often advised to solve our economic problems through the irresponsible printing of money or a reckless buildup of public debt. But we know only too well that in this case a short-lived illusion of prosperity will soon give way to a price surge. That's what happened in this country in the 1990s.

But lower inflation rates will not automatically create additional capital. We need to be active in assisting new institutions to emerge.

It is necessary to introduce government-sponsored mechanisms that will provide for the security and even profitability of pension savings accounts. It is necessary to test new methods, such as opening pension savings accounts directly with banks. Support for the formation of long-term money should become a priority for the next 10 to 15 years. This is a protracted process: we must not be anxious that it will not produce an immediate effect. The main condition of its future success lies in the fact that Russia is witnessing a rapid growth of its middle class, which is ready to invest in better healthcare, better housing, higher pensions, etc. The government must see to it that this money does not disappear.

Let me say this, especially for the opposition. What is mentioned above does not mean that we will to any extent draw back from free education and healthcare or stop increasing regular pensions. We will not. We will improve the quality of services guaranteed to every citizen in this country by the Constitution. A separate article will be devoted to this issue.

### **Reducing government involvement in the economy**

The art of economic management under present-day conditions consists primarily of identifying the proper ratio between the role of the government and private initiative.

The global crisis has created supporters of state management, with additional arguments in favour of their position. But we know that Russia differs from many other countries in that the government continues to control a relatively large share of the economy and is more heavily involved in regulation, while its regulation methods, on the contrary, are inferior to the best equivalents. Our economic policy should be adjusted so as to reduce the scale of state regulation, to replace regimentation by market mechanisms, and to substitute liability insurance for administrative oversight.

Earlier I mentioned our plans to privatise a number of key assets. But I should specify that this privatisation will be of a structural, not a fiscal, nature. That means that we sell not only in order to procure additional money for the budget, but primarily in order to encourage economic competition and pave the way for private initiative. But it would be foolish to sell property cheaply while ignoring the market situation. No thrifty proprietor would act in this way.

There is a great deal of talk among the public that the privatisation of the 1990s, including loans-for-shares auctions, was dishonest. I fully agree with that assessment. But any confiscation of property at this point, as some suggest we do, would simply cause the economy to grind to a stop: plants would be paralyzed and a surge in unemployment would follow. Besides, many current owners of these assets are formally good faith purchasers. They did not breach any laws at the time. Many of them are modernising their plants and creating new jobs. They are efficient owners. But their behaviour during the crisis in 2009 and 2010 revealed that the business community's social responsibility has grown as well.

It is also necessary to reduce the involvement of predominantly public-owned major companies and banks, as well as natural monopolies, including Gazprom, in other companies' assets. Non-core assets, including media holdings, should be separated.

The purchases of new assets by government-run companies in Russia must be restricted. The major players should not interfere with the normal development of private businesses in their particular sectors, nor should they box private entrepreneurs out from more lucrative projects.

### **Macroeconomic requirements for growth**

Sound capitalism that works for everyone will not emerge in Russia unless macroeconomic stability is maintained and reinforced. This has been perhaps our greatest achievement in recent years. We have learned to appreciate macroeconomic stability and to use various instruments to preserve it even in the most difficult circumstances. Thanks to reserve funds that were created preemptively, we managed to weather the first wave of the global crisis with relative ease.

Economic actors must be confident about Russia's macroeconomic stability for years to come if they are to make long-term investments. In particular, the business community must understand how the government plans to resolve key fiscal problems and how it will finance approved budget expenditures, including those required for the modernisation of the economy.

We have already assumed significant long-term budget commitments, primarily in the social sphere, and we intend to meet them. In addition, we are planning to spend significant resources on the modernisation of our Armed Forces, on the development of healthcare and education, as well as on road construction and repairs. How can we finance this spending?

First, we need to spend more efficiently, clearly identify our priorities, and reject anything that is superfluous. We need to impose strict control over the cost and quality of construction and government procurement prices. Essentially, we need to eradicate kickbacks in the use of public funds at the federal and regional levels. By tackling these issues, we will save at least 5% and possibly even 10% of the budget, or about 1% to 2% of our GDP annually.

The draft law on the federal contracting system mandates the preliminary public review of the format of government procurement and the starting price for government purchases. I believe this procedure needs to be applied to all major procurements, exceeding say 1 billion

roubles in value, without waiting for the new law to come into effect. Let's put suppliers' private interests to work for the public good.

Suppliers, along with journalists and all interested public organisations, should get used to discussing whether the technical solution being purchased is up-to-date, what companies can successfully implement the project, and, finally, what is the most cost-effective way of doing it.

In our fiscal policy, we need to turn our backs on the practice of financing agencies rather than the public services that they are supposed to provide. Wherever possible, we need to transition to normative per capita financing, meaning that money will go directly to the citizens that apply for services.

This will ensure an additional 10% to 15% in savings and will allow us to increase the salaries of teachers, doctors, and university instructors, and to provide patients with medication without reducing other forms of social spending.

Second, we need to ensure a balanced pension system that will help reduce budget transfers to the Pension Fund.

Third, we will need tax reform. We have no plans to increase the tax burden on the non-commodity sectors of our economy, which would undermine our policy of economic diversification. But there are other places where we can find additional tax revenue, including expensive real estate, luxury goods, alcohol, and tobacco, as well as increased rental fees in those sectors where they are undervalued.

Most important is a surtax on wealth, or to be more precise, a luxury tax. All major decisions should be taken as early as this year, so that next year the owners of expensive homes and vehicles start paying higher taxes. However, it is important not to go overboard and to ensure that these measures are not applied to the middle class.

There is significant potential for increasing tax revenue by eliminating tax evasion through offshore arrangements and fraudulent companies. Law-abiding businesses will only benefit from this, as they will no longer have to compete with those who thrive on defrauding and deceiving the government.

We must also reject, once and for all, the temptation to adjust the tax system to accommodate increased spending. This policy increases uncertainty in the business environment for companies, thereby seriously undermining the investment attractiveness of our economy.

Our key objective is to restore long-term conformity between government spending and revenue. The two have been out of balance since the economic downturn, when significant resources were allocated to mitigate external shocks. That happened in most of the countries that were hit hard by the crisis.

The experience of the EU and the United States demonstrates the economic, social and political dangers of failing to maintain a balanced budget. In Russia, this problem is exacerbated by the strong dependence of government revenue on oil and gas prices.

In addition, we need to be very careful about taking government loans, always keeping in mind the lessons learned from recent global and Russian economic history. First, large debt always means a partial loss of national sovereignty. It creates a situation wherein any deterioration of the economic environment makes the country dependent on investors, international organisations, and lender nations, which then dictate what measures a government must take.

In this regard, Russia, with the lowest sovereign debt among G20 countries, is currently in a more favourable position than other nations. We should maintain this advantage as a guarantee of our macroeconomic stability. Second, when people lend money to their government, they reduce the money available for private investment. And if we want to increase the level of private investment, we should avoid running high budget deficits.

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Labour productivity in Russia is three to four times lower than that of the developed economies. What does this mean? For a nation, low labour productivity means a globally uncompetitive economy. For the individual, low productivity means a bad job that is not well-paid. The reason for this is not, as some bright individuals claim, that Russia people can't or don't want to work, or don't work hard enough. This is not true. The reason is that their jobs are outdated and unproductive.

A new generation of Russian citizens – young professionals and future graduates – has very high expectations for their careers. Our country has never faced such a serious educational and cultural challenge. But I am certain it is a positive challenge.

A logical solution to low efficiency of labour would be to create highly productive and therefore well-paid job for educated and ambitious people, through upgrading existing production facilities and creating new ones in both traditional and completely new sectors of economy.

Russia's new economy will be a diversified economy where many competitive sectors will be developed alongside a modern fuel and energy industry. The proportion of high-tech and knowledge-based industries in Russia's GDP must increase by 50% by 2020. This will double Russia's high-tech exports.

Our new economy will be an efficient economy, with high labour productivity and low energy consumption. We must close the gap with leading countries, which means doubling productivity throughout the economy and, in key sectors, matching or outpacing the productivity of our competitors. Otherwise we will not be able to successfully compete in the global economy.

The new economy will provide highly productive and high paying jobs. The average wage will grow by 60-70% and reach nearly 40,000 roubles per month in 2011 prices. The gross amount will, of course, be higher.

It will be an economy of continuously upgraded technology. The share of enterprises that implement technological innovations must increase two-and-a-half times from the current 10.5% to 25% by the end of the decade, reaching the current average in Europe.

It will be an economy in which small businesses will provide at least half of the jobs in the economy. By 2020 intellectual and creative work must make up a substantial part of the small businesses that export their goods and services on the global market.

Each macroeconomic indicator and each particular project must clearly point to the number of new jobs it will provide and the way it will change the quality of employment and therefore the quality of life in Russia.

The renewed economy must give everyone – entrepreneurs, public sector employees, engineers and skilled workers – an opportunity to realise their potential. This is the social dimension of the economy. I will speak about this in my next article.