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Russia's Path to Progress Goes Through OECD

By Chris Weafer
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In terms of symbols that give investment and business credibility, being a member of the Organization for Economic Co-operation and Development, or OECD, ranks at the very top of the list. Unsurprisingly, membership is not easy to acquire, as evidenced by the fact that even though the organization has been in existence for more than 50 years, there are currently only 34 member countries. Face control was never this tough at Moscow's glitziest nightclubs. The Kremlin is now desperate to gain admittance to this exclusive club and, put frankly, if Russia is to make progress in boosting inward investment and attracting more foreign businesses, the OECD is a club which the country needs to join sooner rather than later.

But, as with all of the best sought-after clubs, the membership rules are very demanding. As it stands, Russia is a long way from satisfying many of the exacting entry requirements. The government has a lot of work to complete if it is to achieve its goal. It is therefore encouraging that the commitment made during the Group of 20 euphoria, that Russia aimed to join the OECD "within three years," has now been followed up with the announcement of a new task force headed by Deputy Prime Minister Igor Shuvalov. At this point, the critics are reaching for their keyboards to scream "more committees, more talk, more planning … where's the action?" And quite rightly too. But everything has to start with some action, no matter how small.

The OECD was established in Paris in 1961. Its exclusive membership comprises the world's highly developed economies. Six of the former Soviet bloc states in Eastern Europe are members by virtue of the fact that they are also now part of the European Union. Turkey and Mexico are the only non-EU emerging markets to have acquired OECD membership.

According to the OECD's mission statement, the organization aims to "promote policies that will improve the economic and social well-being of people around the world." Unlike the World Trade Organization, which specifically works to improve trade between countries, or topic specific organizations, such as the International Energy Agency, the OECD has a more general focus. Its members must have open economies where entrepreneurs and businesses of all sizes can operate in a legally safe environment; where the rules are known and applied predictably and without bias. That means no corruption, no intrusive bureaucracy, a strong rule of law and a small state footprint across the economy. These are exactly the issues that Russia must work to address in order to attract much needed investment.

But beyond the business and investment rules, the OECD agenda also includes social and environmental change. In many ways, it is a system of behavior based on best practices, developed by observing how others have succeeded and failed in building sustainable economies against a backdrop of social development.

The OECD mission statement also states "the common thread of our work is a shared commitment to market economies backed by democratic institutions and focused on the well-being of all citizens. Along the way, we also set out to make life harder for the terrorists, tax dodgers, crooked businessmen and others whose actions undermine a fair and open society." Any country asking foreign investors to trust them with their money really needs to be a member of that club.

Or does it? While Russia is pushing hard to join, many other big emerging economies, such as China, India and Brazil, are less interested in joining and yet attract a bigger volume of foreign direct investment — as a percentage of gross domestic product — into new industries and infrastructure projects than Russia does. Yet all of those countries have had corruption scandals in the upper echelons of government, and all have had corporate governance issues with local companies listed on foreign exchanges. All three countries also ranked below Russia on the recent update of the World Bank's Ease of Doing Business index. China's response to persistent poor scores was to start a campaign to have the annual survey scrapped as unfair.

Yet it is Russia that routinely generates headlines about corruption, bureaucracy and poor rule of law, while the other so-called BRIC countries get greater investment inflow. As much as any other reason, this is why Russia now has to fight harder and gain entry into the OECD while the others can take more time.

For plenty of fair and unfair reasons, Russia has a worse image with international investors than the other big emerging economies. That is a simple fact, and it has to be addressed with more aggressive actions.

The OECD member countries have recently set out some key goals that they need to achieve. That list is also almost exactly the same as the wish list for investors, reformers and the new generation of Russians in an expanding middle class. Russia will have to tick those boxes, and none will be easy for a country still dealing with more basic problems. The OECD list includes membership goals:

- To restore confidence in markets, and the institutions and companies that make them function.
- To re-establish healthy public finances as a basis for future sustainable economic growth.
- To look for ways to foster and support new sources of growth through innovation and environmentally friendly "green growth" strategies.
- To ensure that people of all ages can develop the skills to work productively and satisfyingly in the jobs of tomorrow.

Chinese philosopher Lao Tzu is credited with the quote "the journey of a thousand miles begins beneath one's feet, with the first step." Over the years Russia has taken the first step in many a journey towards reform.

What's different this time? One factor that is certainly different this time is that Russia is now on the cusp of a long period of low growth, which in an emerging economy will feel like stagnation. That can only be avoided if a new investment-orientated driver model can be successfully created. I have said previously that the government does not get enough credit for a raft of improvements and reforms since May 2012. The Russian Direct Investment Fund, for example, has achieved significant success in attracting big ticket investment commitments from sovereign wealth funds this year. But of course, from such a low base, a huge amount more needs to be done.

Gaining membership in the exclusive OECD club would help bring around investors who are reluctant, or even dismissive, of the very idea of coming to Russia today. Shuvalov's task force is not exactly the first step in the long process. Russia has already signed up to the OECD's Anti-Bribery Convention and has been in informal talks with the group's secretariat for some time. But now finally there is a formal focal point within the government to coordinate the process.

Reluctant foreign investors probably have another memorable quote in mind, this one from the larger than life western actor John Wayne: "Hey pilgrim, we know you can talk the talk, but can you also walk the walk?"

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