

Jon Hellevig

Managing Partner of Hellevig, Klein and Usov and Avenir Accounting

Only a SWOT Analysis Will Tell if Things are Good or Bad

This year started with some dire predictions about the imminent and inevitable destruction of the Russian economy with ensuing widespread social unrest. According to the consensus of the press and the financial analysts Russia was to be the country that suffered most from the worldwide financial crisis. All was doom and gloom.- Now the year is about to end, and although it's been a tough one for most of us the country did not fall apart as we were promised and the skies did not come tumbling down over our shoulders.

As it is so often the case with Russia these predictions were largely founded on wishful thinking, but narrowness of vision of the analysts also contributed to a great extent. It seems these cut-and-paste analysts only considered the wildest street rumors instead of trying to penetrate to the facts. All bits of information were given a negative twist. Even the huge currency reserves evaporated in a matter of days in the magic bulb of the analysts after they invented the idea that the currency reserves "only" equaled in size the total national debt, that is, including the corporate borrowings – ignoring that Russian was not anymore a planned economy where the state would be liable for all the country's debt. And even so having hypothetically paid all the debt of the national economy Russia would still remain debtless. The other reserves in form of the national wealth funds in turn "would only last until 2011" and then the country would need to borrow again – well, other countries needed to borrow (and a lot) already in January 2009.

The storyline was that Russia had not learned anything from the previous crisis and had not diversified its economy being solely dependent on export of raw materials and energy, which in turn were doomed to remain worthless from here to eternity, as they argued. But those predictions did not materialize, while prices were down they were not wiped out. The myth of the non-diversification is simply not true either which is proven by the very statistics. Russian industrial production year-on-year is down approximately 12 % and GDP will be down with some 8%. The corresponding figures for one of the most diversified producer of state-of-the art manufactured goods, Finland, are –18% and -9%. These figures for Russian were only half of those of such "model reformers" as Ukraine, Estonia, Latvia and Lithuania. And by now it is clear that Russia is back on a growth trajectory.

A real analysis of a countries economic prospects can be made only by relating it to other countries by analyzing its strengths, weaknesses, opportunities and challenges; notwithstanding the scarecrow pessimism of the Russian finance minister Kudrin such a comparative SWOT analysis shows Russia has a lot going for it. We need to understand that this time we are not faced with a traditional cyclic recession, instead we are witnessing the retirement of the West. And as people do not recover from old age, neither do countries. The worldwide repercussions of the crisis are temporary and come as natural reactions to the cataclysm in the West. As soon as the rest of the world learns to get by with their own currencies and resources without the

intermediation of the West they will recover and progress. A lot remains to be built and extracted in Russia and the other emerging countries. But the West is ready built and has already used all the advantages it used to have in form of market economy, democracy, education, innovativeness, competition etc. On most of these parameters the West is in a permanent recession that it cannot overcome, at least not before the present societal models will be totally overhauled – which will not come easy. But the good thing for the others is that instead of even trying to do anything about their problems. Western governments are throwing fuel in the fire with their massive stimulus packages. This spending will eventually sink them but at the same time keep the rest of the world afloat as they may keep selling their products to the gluttonous West during their own transition period. This means that Russia gets time and funds to overhaul its economy selling raw materials and energy to the Western governments that are so busy burning their heritage.

With all the debts that the West is fast accumulating the next big thing for Russia is the inevitable acknowledgement that its finances are solid. In 2010 investors will value creditworthiness.

The outcome of all this is that the standard of livings between the West and the rest will eventually converge. I predict that Russia will be the big winner in the decade to come.