

**University of Richmond Faculty Seminar 2009: Russia, Kazakhstan and Kyrgyzstan**

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When you spend the first seventeen years of your life in a country, you think you know everything there is to know about its history, culture, and people. Ironically, it is precisely this thinking that often stops you from discovering things that weren't crammed into your reluctant head during high school – at least that's what I realized after having spent three weeks exploring various facets of Russia, Kazakhstan and Kyrgyzstan with several other members of the University of Richmond faculty. I saw familiar events through the eyes of my fellow travelers, which helped me gain a deeper understanding of the place where I grew up, and of its people. Many of the new experiences had the character of curious observations, but there were quite a few that I plan to pass on to my students in the classroom, and some that I hope to include in my future research agenda.

**Personal**

The first adjustment I had to make on the trip (not counting the jet lag) was to force myself to reexamine the places and the people that I thought to be too familiar to be given a second thought. Things that I grew up with and therefore paid absolutely no attention to were noticed and discussed by other members of the group. Old ladies selling flower bunches on street corners; people rushing by without a trace of smile on their faces; top of the line Mercedes parked next to an auto relic from the 1980's. Initial feeling of exasperation (why are we wasting time talking about everyday ordinary occurrences?) was soon succeeded by realization that many things we encountered in Russia, Kazakhstan and Kyrgyzstan weren't as simple and obvious as I deemed them to be.

I always knew that Russians (and Ukrainians, for that matter) are to a certain extent xenophobic. Pseudo-President Putin minces no words in blaming foreigners for most of the ills afflicting Russia. One always hopes that people with a certain minimum level of education can rise above such propaganda. However, while meeting with faculty members of several well-

known St. Petersburg universities our group had discovered that even academics are not immune from fear and distrust of foreigners.

During our visit of Smolny College (the first liberal arts college in Russia, located in St. Petersburg), one of the professors mentioned the “Dumbledore Army” standoff between students and faculty of the sociology department in the Moscow State University. The university officials banned foreign sources for student research, arguing that Western agents are trying to sabotage the development of the Russian identity by spreading dangerous views of the domestic government. The outcome of the standoff for the students was less successful than in the fifth Harry Potter book: they were all dismissed from the university under various bureaucratic pretences, a tactic perfected by the country in the recent decades.

A much less tragic yet just as telling incident took place during an informal chat with my colleague from St. Petersburg State University’s Economics Department over dinner. Most macroeconomists around the world point to the bursting of the U.S. housing bubble for the 2008 financial crisis. While a certain portion of the blame does lie with irresponsible consumers and predatory lending institutions, the deeper cause of the bubble lies in the large capital inflows into the U.S. from many emerging markets around the world (for example, oil producers put a large part of their windfall revenues into U.S. bonds, which are considered the safest form of investment). In fact, according to basic international finance theory, any country that exports more than it imports must necessarily finance foreign expenditure. I casually remarked to my colleague that Russia (whose exports have been exceeding its imports for the last several years) has to a certain extent contributed to the financial mess now engulfing the global financial markets by channeling a large part its trade revenues into U.S. banks. He found this view of the matters very unusual and rather displeasing; it took a few minutes of throwing professional terms over the heads of other dinner guests for us to agree that my point was valid. I was surprised that he never considered the effects of Russia’s trade policy beyond his country’s borders. What’s true in physics is also true in economics: for every action there must be an equal and opposite reaction. I don’t want to make generalizations about national attitudes based on this individual encounter – my colleague was fresh out of graduate school, just like me – but I do wonder if the Russian propaganda machine is more effective than I hoped.

## Teaching

In my Macroeconomic Theory class, I always give a lecture on international development issues right after presenting the theories of economic growth. I ask my students to identify economic prerequisites for sustainable growth of a third-world country. We all agree that focusing on infrastructure, corruption and labor force education should, generally speaking, get the job done. However, I never realized how incredibly complicated it is for governments to design and implement practical policies that can produce measurable impact on a country's economy. This complexity was illustrated on the last leg of our trip.

Kyrgyzstan is an ex-Soviet republic located in the area between three great empires that date back centuries if not millennia: Russia, China and Persia (Iran). The vast steppes of modern Kyrgyzstan, poor in natural resources, were home to nomadic tribes of horsemen that didn't stay in any one area long enough to give rise to cultural centers. After 1919, the country relied on exports to the rest of the Soviet Union of manufactured goods themselves produced with the subsidies coming from Moscow. After the collapse of USSR, Kyrgyzstan found itself ill-equipped to handle independence and implement policies to encourage economic growth.



So where does one start? I thought educational reform might do the trick, until we visited a school located in a small village half-an-hour outside of Bishkek. The feeling of hopelessness permeates the place. While younger children seem excited about discovering the world around them, older students become cynical about the usefulness of, for example, biology, in their future lives, which (judging from their parents) will revolve around small-scale retail in the capital. Teachers are generally severely underpaid, and therefore many of them aren't invested in their students' success. Children do not receive any encouragement at home; in fact, families often ask teenage boys to work the fields rather than attend school. The situation gets worse in most post-secondary institutions. One of the students seemed surprised to hear that grades cannot be purchased in the U.S. like they commonly are in Kyrgyzstan.

Since supply-side politics don't seem to be working, perhaps stimulating demand for education workers can offer incentives for students to study. However, foreigners aren't flocking

to Kyrgyzstan; widespread corruption makes for a very unattractive business environment. Even if this were not an issue, Kyrgyzstan doesn't have much to offer to foreign investors: geographically, it is too far removed from large consumer markets to act as a manufacturing and export hub. It doesn't have too many natural resources (and the government apparently had already mishandled foreign interest in its gold mining industry by first giving overseas investors too much leeway and then coming down on them too hard for abuse of the country's resources). The only promising venture, the tourist industry on the northern banks of Lake Issyk-Kul, may soon fail unless the government cleans up nuclear waste sites that pose the risk of radioactive leaks into the lake's southern part<sup>1</sup>. Plus, über-competitive China right across the border deflects investment that otherwise might have gone to Kyrgyzstan.

Our group was fortunate to have dinner with Tatiana Gfoeller, ambassador of the U.S. to Kyrgyzstan. According to her, the most promising route to economic growth and development lies in a political union of the country with either the United States, Russia or Kazakhstan (in order of local preference). Without access to foreign subsidies and goods markets, Kyrgyzstan is likely to continue stagnating and falling behind its neighbors.

There are (unfortunately) plenty of examples of failed states around the globe. While I hope that Kyrgyzstan, with its friendly and hospitable people and its beautiful steppes and mountains, will not become one of them, I now fully appreciate the political and economic challenge of turning around a stagnating country by designing a package of reforms that simultaneously target internal and external markets, education and manufacturing, culture and finance. The most immediate and easy thing to do is to convey this to my students who are (or may become) interested in international development and politics.

Another idea borne of my experience in Kyrgyzstan is to create a course on the challenges faced by developing countries from the perspective of not just economics, but also corporate governance, civil society, laws and institutions, and education, to name just a few. Such a course, grounded in the example of Kyrgyzstan, could teach many general policy concepts applicable to other countries around the world.

During the preparatory meetings prior to the trip itself, all faculty participants were asked to prepare a brief presentation about either (or all) of the three countries visited from the perspective of their research areas. Before the presentations, I approached the process of a

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<sup>1</sup> As mentioned in the presentation on ecological problems of Kazakhstan at the Kyrgyz National University.

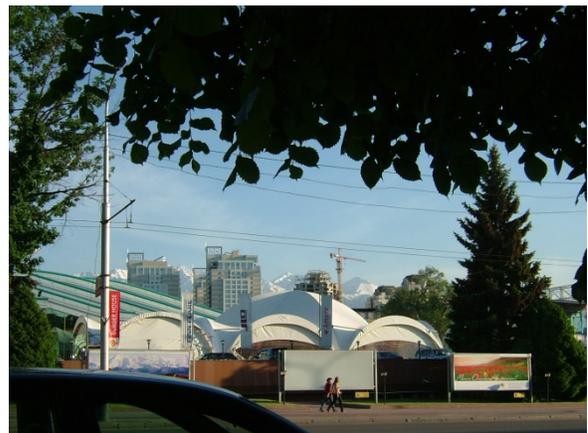
country's development from a purely economic perspective: a country must provide infrastructure, build schools and hospitals, and create a banking system to channel money from savers to investors to promote industrial growth. The presentations reminded me, for example, that in order for local companies to trade with foreigners, their accounting systems must be brought into compliance with international standards;

With this in mind, the above-mentioned course on developing countries could feature an interdisciplinary team of professors, each spending a week or two on a certain sector of a country. This could help students put together the lessons of various classes that they are exposed to during their college years and explore the interdependencies between economics, biology, political science, history, and so on.

### **Research**

When an emerging economy is deemed ready to join trade and finance networks of the developed world, it becomes subjected to an inflow of foreign capital, as global investors jump on the opportunities to make money in various sectors of the developing country. Think about the over-development of the Spanish coastline or the rapid growth of Ireland once the two countries joined the European Union. My research addresses the question of the proper management of these capital inflows by the government to prevent economic overheating and asset bubbles. Without doing too much background data mining, I dismissed central-Asian countries as not developed enough to be afflicted by speculative flows in the Western hemisphere. I was proven wrong.

Downtown Almaty is a beautiful illustration of the risks of short-term foreign borrowing used for real estate speculation. Against the backdrop of snow-covered Tian Shan range you can see construction cranes hibernating over half-finished apartment buildings that at one point promised unrivaled views of the mountains for an unreasonable amount of money. The oil boom of



2008 had sent a flood of petrodollars into Kazakhstan, a large part of which had fueled a housing bubble similar to that of the U.S. The collapse in commodity prices in 2009, combined with financial crisis that hit western economies and forced foreign banks to stop lending to

Kazakhstan, exposed the shallowness of the country's economic and financial system. Without foreign financing or oil exports, the country lost its engine of (obviously unsustainable) growth. Part of the blame lies with the government, which failed during the boom to channel money into projects that lead to long-term growth: research, infrastructure, human resource development. More interesting to me, however, is the (lack of) action on the part of the central bank, which failed to stabilize housing prices during their rapid growth in the early 2000s.

Similar bubbles happened in Russia and Ukraine (well, in Moscow, St. Petersburg and Kyiv, at least). One of my friends, who worked for an investment bank during the build-up and the subsequent collapse of the asset bubbles, half-jokingly told me that people knew something was wrong when a one-bedroom apartment in a Khrushchev-style building in the outskirts of Moscow commanded the same price as a ocean-front villa in California, compete with an outdoor pool and a two-car garage.

Given the worldwide drop in the real estate prices, many central banks are now rethinking their hands-off approach to asset bubbles. I hope that by including the data on Russian and Kazakh capital flows and housing prices, I will be able to expand my model not only to developed but also to developing countries and study the interactions between foreign capital flows, central banks and real estate market for several levels of economic development and of the depths of financial institutions.

### **To sum up...**

There certainly were many other fascinating experiences during this year's faculty seminar: the amazing cuisine (and very slow service) of Russia and Central Asia – I even got a chance to try camel milk; a meeting with a Russian entrepreneur who survived the turbulent 1990's by offering insurance on other people's loans – basically, credit default swaps that brought Wall Street to its knees a few months ago; and a very pompous reception of our group at the Kyrgyz State University, complete with long tables, name tags and a student serenading us to the music of one Enrique Iglesias's popular songs. But to me the best part of the trip was to consider all these events from the very different perspectives of my fellow faculty members. Being an economist, I tend to approach and analyze things in a certain set fashion of my field. It was very refreshing to realize that an English professor, for example, can be in the same room with me during a lecture and take away from it things that I missed or subconsciously filtered out. I didn't really understand the push for more interdisciplinary approach to education at the UofR until I

saw how wonderfully various fields complement each other when new experiences are encountered. I believe I got a much more complete picture of the countries we visited because of this benefit of viewing things from several different angles. I do hope to be a part of another faculty seminar and explore another corner of the world with a group of inquisitive faculty members from the University of Richmond.