

F2

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# 2MO646 “International Trade”

## Russian Federation and its position in the world trade

(c) Ilya Bolotov, Ph.D., MBA

## Jokes on the topic:

Russia is so big that it requires its own continent.

In the West, corporations influence the government's decisions.  
In Russia, the government influences the decisions of corporations.

Source: the Internet

# Presentation Outline

- ❑ **General information on Russia**
- ❑ Russia in the international trade
- ❑ Specifics of the Russian economy
- ❑ Doing business in Russia

# Physical Map of Russia



May, 15 2013

Source: Ezilon.com

# Russian Territory (1)

- Russian territory consists of the **mainland, islands, continental shelf** and an **exclave**, Kaliningrad Oblast (former Northern East Prussia with the capital Königsberg, now *Kaliningrad*), disconnected from the mainland.
- Russian territory was bigger earlier (!), especially in the 19<sup>th</sup> century (modern Russia + 15 other recognized states, Finland, part of Poland + the Russian America).



## Russian Territory (2)

- **Russian territory** covers 11.26 % (1/9) of the world's total surface area, 12.65 % (1/8) of the inhabited surface area and ca. 1/3 of Eurasia; in total – ca. 17.1 mil. sq. km.
- 23 % of the territory lies in Europe and 77 % in Asia with Ural mountains and Caucasus mountains / Kumo-Manych Depression (in Fore-Caucasus) serving the role of the border.
- **Russian territory consists of two parts:** the European part (European Russia and North Caucasus) and Siberia (sometimes divided into Siberia and into the Russian Far East).
- **Total border length:** ca. 60 000 km (only ca. 36 % are land frontiers, ca. 64 % are sea frontiers)



# Time Zones in Russia



| Time      | Zone                      |
|-----------|---------------------------|
| UTC+03:00 | MSK-1: Kaliningrad Time   |
| UTC+04:00 | MSK: Moscow Time          |
| UTC+06:00 | MSK+2: Yekaterinburg Time |
| UTC+07:00 | MSK+3: Omsk Time          |
| UTC+08:00 | MSK+4: Krasnoyarsk Time   |
| UTC+09:00 | MSK+5: Irkutsk Time       |
| UTC+10:00 | MSK+6: Yakutsk Time       |
| UTC+11:00 | MSK+7: Vladivostok Time   |
| UTC+12:00 | MSK+8: Magadan Time       |

Source: <http://www.russia-ukraine-travel.com/>  
Wikipedia

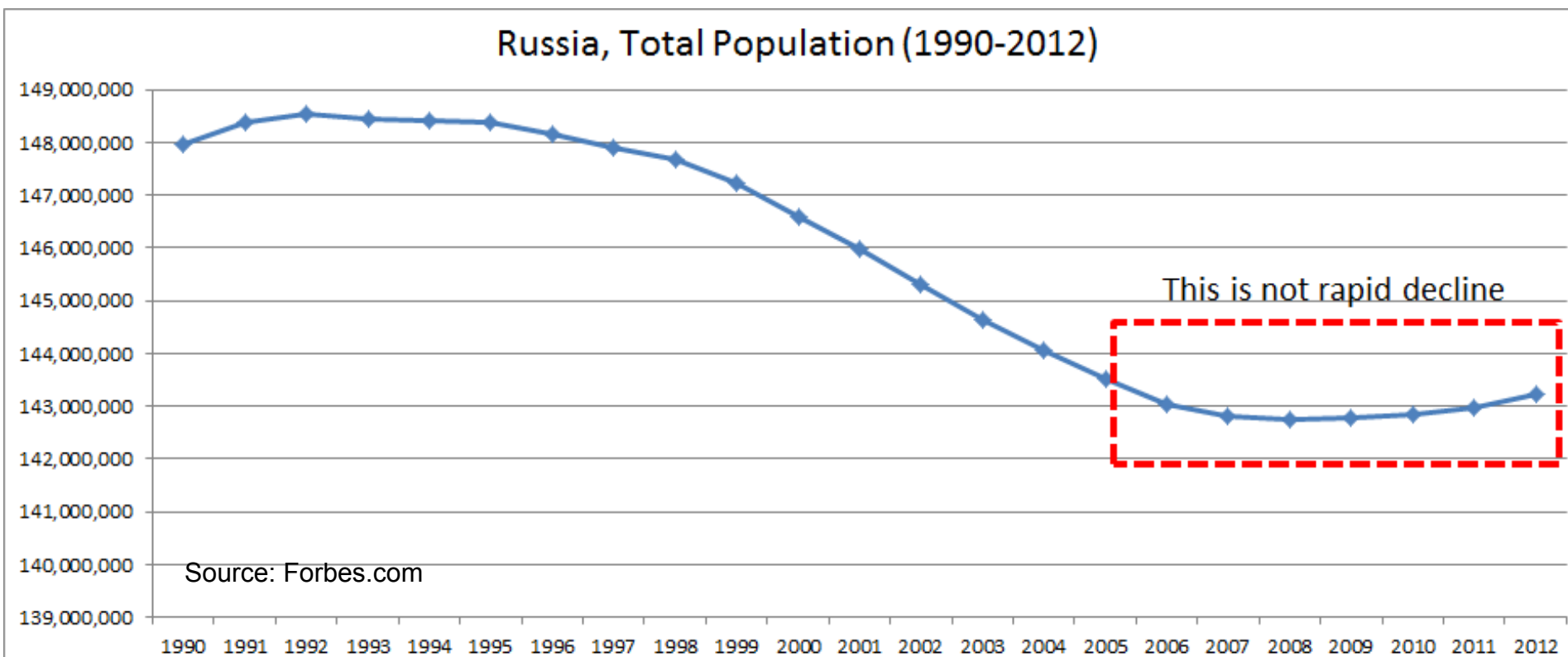
**Russia abolished winter time in 2011 (!)**  
Each time zone is abbreviated, the most known is MSK (Moscow time).

# Demographic Information

- **Total population: ca. 142 mil. people** (last census – 2010), 9<sup>th</sup> biggest in the world (see next slide).
- **Most populous areas:** *European part* and South Siberia.
- **Life expectancy:** 63 years (men), 75 years (women)
- **According to the Moscow Demographic Research Institute:**
  - During the last 19 years, Russia lost **4.5 %** of its population.
  - In 2006–2007 the divorce top-10 were Russia—4.8 (per 1000 population), Ukraine—3.8, the U.S.—3.7, Belarus—3.6, Lithuania and Latvia—3.3, Cuba—3.2, Czech Republic—3.0, Estonia—2.8 and Denmark—2.6.
  - In 2010, more than half of registered marriages were broken up in Russia: 640 thousand divorces vs. 1.2 million marriages.



# Population – Evolution since 1991



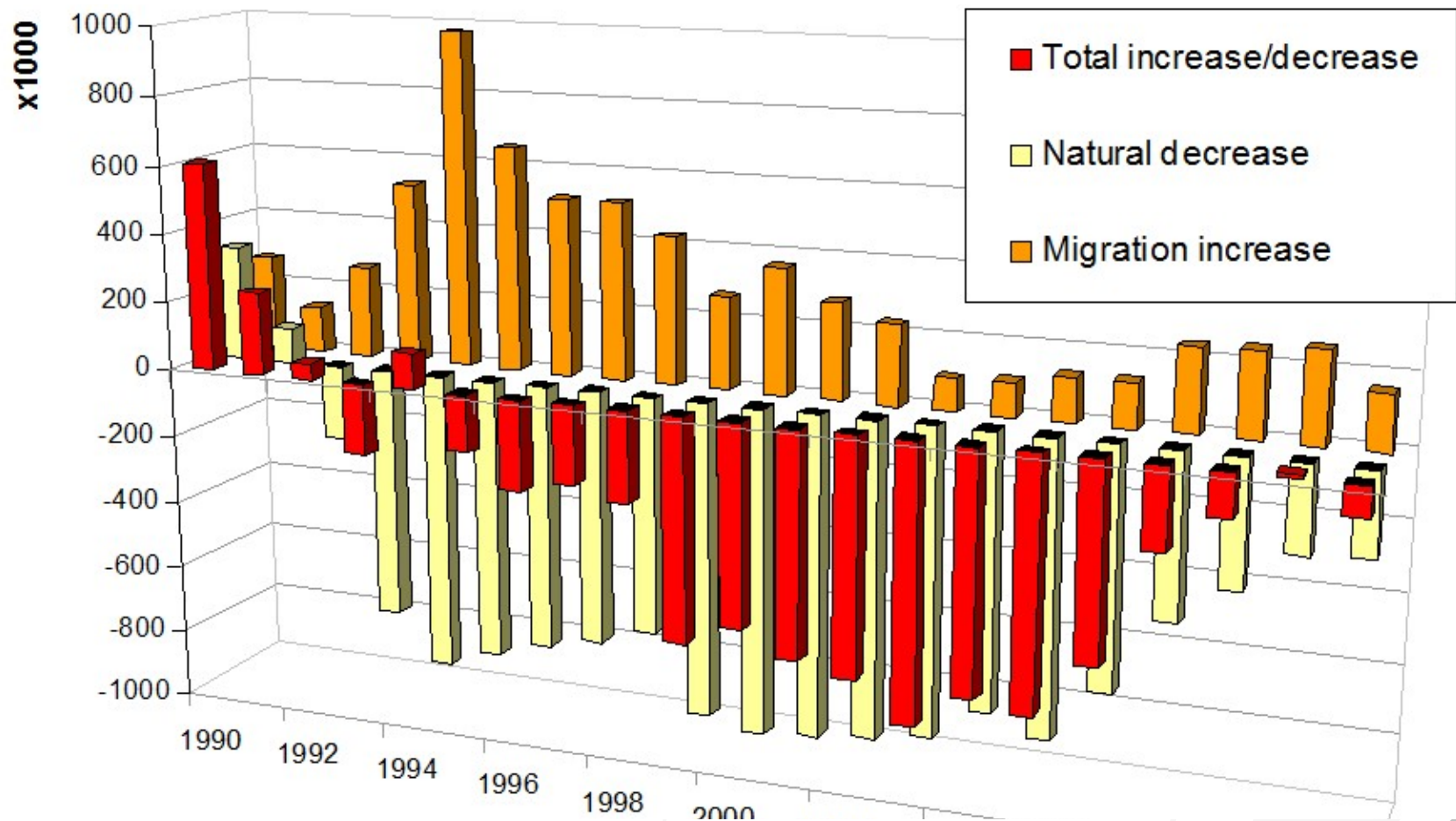
## 1990s: Change of Values

- Emigration (brain drain)
- Rise in poverty
- Rise in alcoholism

## 2000: Pro-birth politics of the Russian State

- So-called “Mother capital” (for the second and further children, can be used later on their education or on improvement of the family’s living conditions).

# Migration



# Administrative Division – Overview

## Civil division:

- *Created by the Presidential Decrees of the president Putin (2000):*
  - **8 Federal Okrugs / Districts** (regions) – aggregates of all subjects.
- *Created by the Constitution (1993) – six types, 83 subjects:*
  - 21 Republics – states inside the state.
  - 46 Oblasts – territories surrounding big cities.
  - 9 Krays – big territories, mostly in Siberia and in the Far East.
  - 4 Autonomous Okrugs – similar to krays, but smaller.
  - 1 Autonomous Oblast – Jewish autonomous oblast.
  - 2 Federal Cities – Moscow and St. Petersburg.

## Economic division:

- 12 Economic Regions.

## Military division:

- 4 Military Districts (since 2010 “United Strategic Commands”).

## Federal Okrugs / Districts



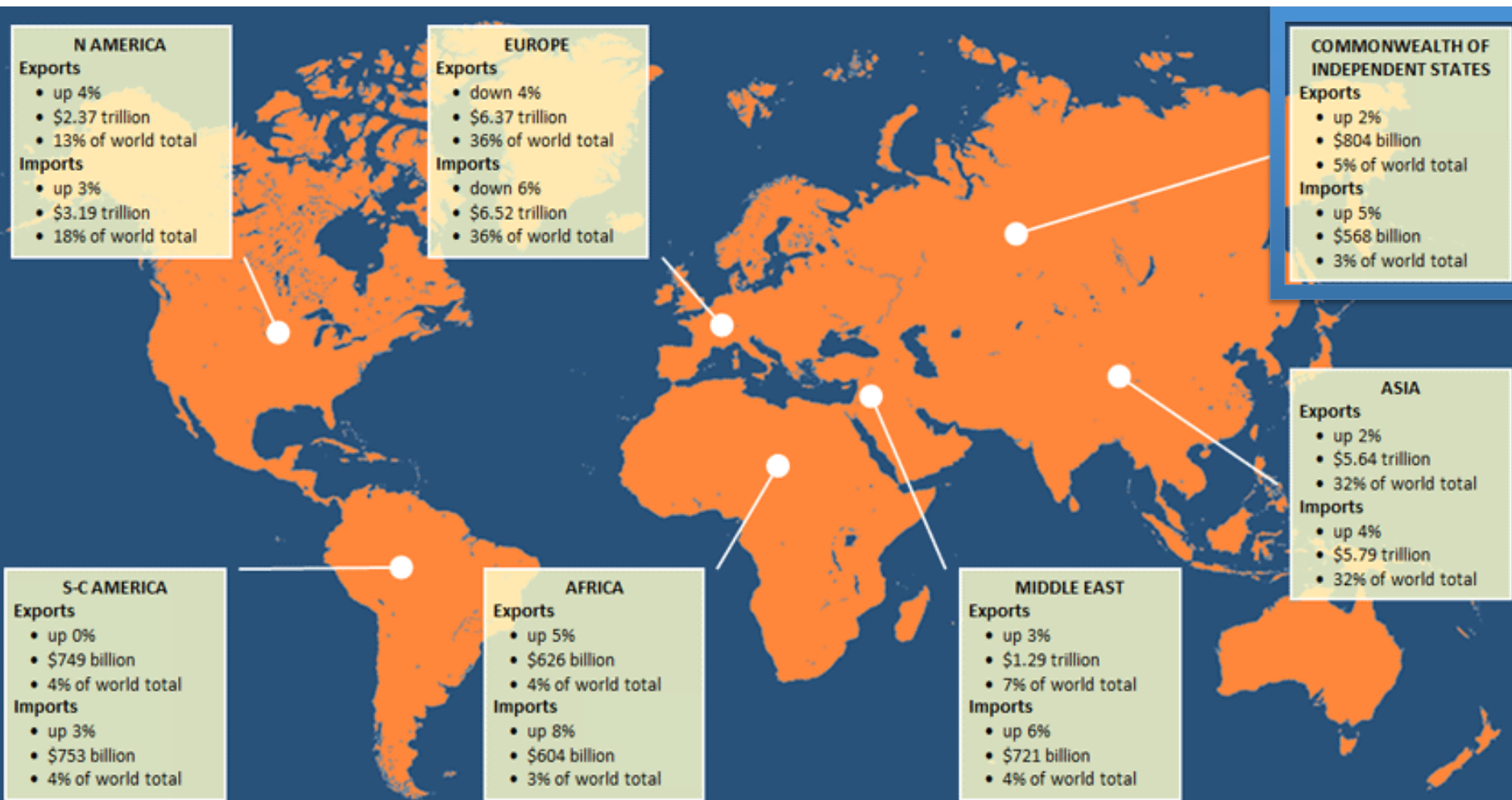
|  | <b>Name of district</b>          | <b>Area<br/>(km²)</b> | <b>Population<br/>(2010 Russian Census)</b> | <b>Federal<br/>subjects</b> | <b>Administrative<br/>center</b> |
|--|----------------------------------|-----------------------|---|-----------------------------|----------------------------------|
|  | Central Federal District         | 652,800               | 38,438,600                                  | 18                          | Moscow                           |
|  | Southern Federal District        | 418,500               | 13,856,700                                  | 6                           | Rostov-on-Don                    |
|  | Northwestern Federal District    | 1,677,900             | 13,583,800                                  | 11                          | Saint Petersburg                 |
|  | Far Eastern Federal District     | 6,215,900             | 6,291,900                                   | 9                           | Khabarovsk                       |
|  | Siberian Federal District        | 5,114,800             | 19,254,300                                  | 12                          | Novosibirsk                      |
|  | Urals Federal District           | 1,788,900             | 12,082,700                                  | 6                           | Yekaterinburg                    |
|  | Volga Federal District           | 1,038,000             | 29,900,400                                  | 14                          | Nizhny Novgorod                  |
|  | North Caucasian Federal District | 170,700               | 9,496,800                                   | 7                           | Pyatigorsk                       |

Source:  
Wikipedia.

# Presentation Outline

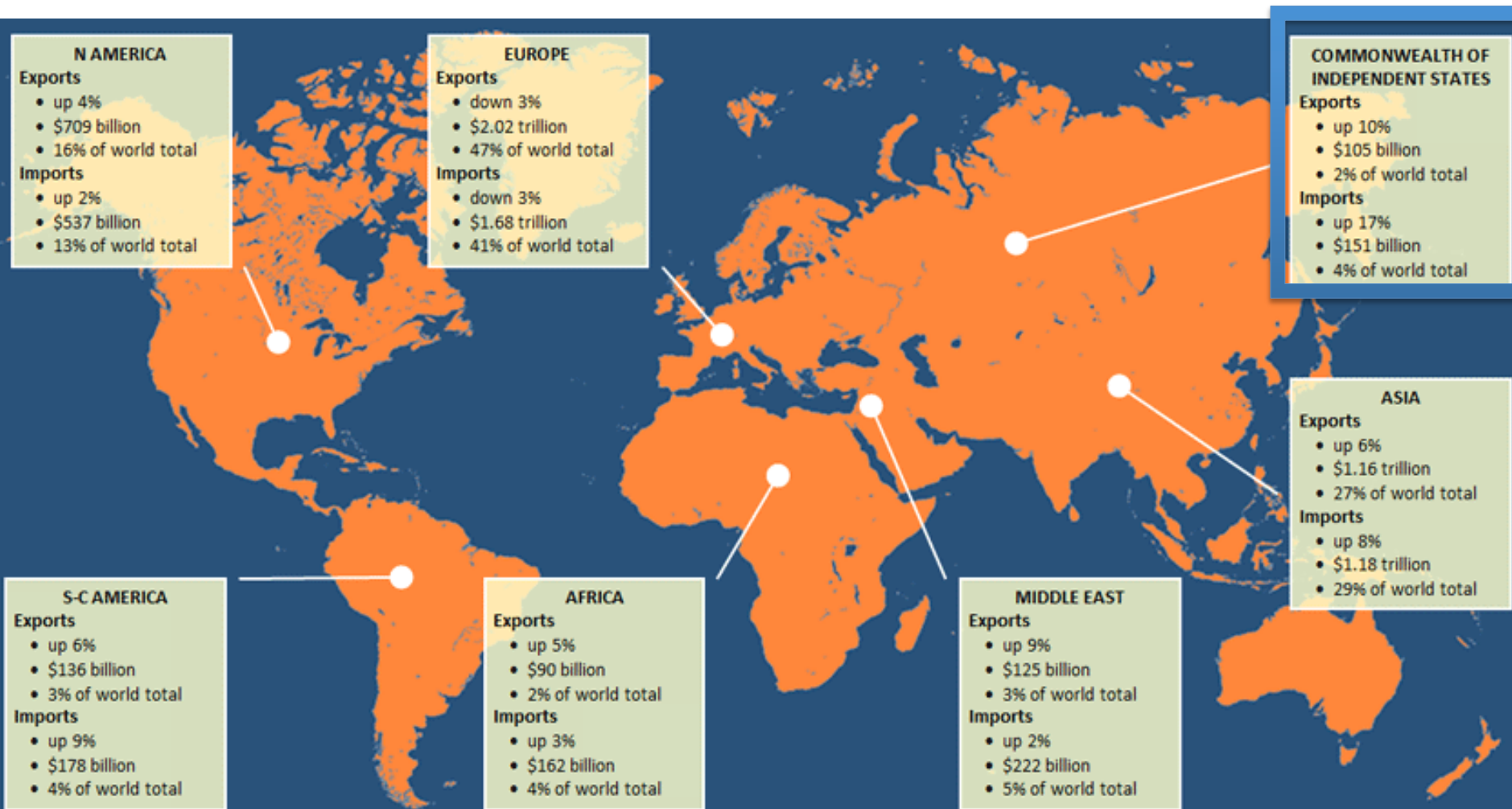
- ❑ General information on Russia
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# Merchandise exports and imports in current US dollars by region, 2012





# Exports and imports of commercial services in current US dollars by region, 2012



## WTO. Merchandise trade: leading exporters and importers, 2012

| Rank | Exporter                   | Value<br>bn. USD | Share | Annual<br>%<br>change | Rank | Importer             | Value<br>bn. USD | Share | Annual<br>%<br>change |
|------|----------------------------|------------------|-------|-----------------------|------|----------------------|------------------|-------|-----------------------|
| 1    | China                      | 2049             | 11.2  | 8                     | 1    | United States        | 2335             | 12.6  | 3                     |
| 2    | United States              | 1547             | 8.4   | 5                     | 2    | China                | 1818             | 9.8   | 4                     |
| 3    | Germany                    | 1407             | 7.7   | -5                    | 3    | Germany              | 1167             | 6.3   | -7                    |
| 4    | Japan                      | 799              | 4.4   | -3                    | 4    | Japan                | 886              | 4.8   | 4                     |
| 5    | Netherlands                | 656              | 3.6   | -2                    | 5    | United Kingdom       | 680              | 3.7   | 1                     |
| 6    | France                     | 569              | 3.1   | -5                    | 6    | France               | 674              | 3.6   | -6                    |
| 7    | Korea, Republic of         | 548              | 3.0   | -1                    | 7    | Netherlands          | 591              | 3.2   | -1                    |
| 8    | Russian Federation         | 529              | 2.9   | 1                     | 8    | Hong Kong, China     | 554              | 3.0   | 8                     |
| 9    | Italy                      | 500              | 2.7   | -4                    |      | - retained imports   | 140              | 0.8   | 6                     |
| 10   | Hong Kong, China           | 493              | 2.7   | 8                     |      |                      |                  |       |                       |
|      | - domestic exports         | 22               | 0.1   | 33                    | 9    | Korea, Republic of   | 520              | 2.8   | -1                    |
|      | - re-exports               | 471              | 2.6   | 7                     | 10   | India                | 489              | 2.6   | 5                     |
| 11   | United Kingdom             | 468              | 2.6   | -7                    | 11   | Italy                | 486              | 2.6   | -13                   |
| 12   | Canada                     | 455              | 2.5   | 1                     | 12   | Canada a             | 475              | 2.6   | 2                     |
| 13   | Belgium                    | 446              | 2.4   | -6                    | 13   | Belgium              | 435              | 2.3   | -7                    |
| 14   | Singapore                  | 408              | 2.2   | 0                     | 14   | Mexico               | 380              | 2.0   | 5                     |
|      | - domestic exports         | 228              | 1.2   | 2                     | 15   | Singapore            | 380              | 2.0   | 4                     |
|      | - re-exports               | 180              | 1.0   | -3                    |      | - retained imports b | 199              | 1.1   | 11                    |
| 15   | Saudi Arabia, Kingdom of c | 386              | 2.1   | 6                     |      |                      |                  |       |                       |
| 16   | Mexico                     | 371              | 2.0   | 6                     | 16   | Russian Federation a | 335              | 1.8   | 4                     |

# WTO. Merchandise trade: leading exporters and importers, 2012

| Rank | Exporters          | Value<br>bn. USD | Share | Annual<br>%<br>change | Rank | Importers                 | Value<br>bn. USD | Share | Annual<br>%<br>change |
|------|--------------------|------------------|-------|-----------------------|------|---------------------------|------------------|-------|-----------------------|
| 1    | United States      | 614              | 14.1  | 4                     | 1    | United States             | 406              | 9.9   | 3                     |
| 2    | United Kingdom     | 278              | 6.4   | -4                    | 2    | Germany                   | 285              | 6.9   | -3                    |
| 3    | Germany            | 255              | 5.9   | -2                    | 3    | China a                   | 281              | 6.8   | 19                    |
| 4    | France             | 208              | 4.8   | -7                    | 4    | United Kingdom            | 176              | 4.3   | 1                     |
| 5    | China a            | 190              | 4.4   | 4                     | 5    | Japan                     | 174              | 4.2   | 5                     |
| 6    | India              | 148              | 3.4   | 8                     | 6    | France                    | 171              | 4.2   | -10                   |
| 7    | Japan              | 140              | 3.2   | -2                    | 7    | India                     | 125              | 3.0   | 1                     |
| 8    | Spain              | 140              | 3.2   | -1                    | 8    | Singapore                 | 117              | 2.8   | 3                     |
| 9    | Singapore          | 133              | 3.1   | 3                     | 9    | Netherlands               | 115              | 2.8   | -5                    |
| 10   | Netherlands        | 126              | 2.9   | -7                    | 10   | Ireland                   | 110              | 2.7   | -5                    |
| 11   | Hong Kong, China   | 126              | 2.9   | 7                     | 11   | Canada                    | 105              | 2.6   | 1                     |
| 12   | Ireland            | 115              | 2.6   | 2                     | 12   | Korea, Republic of        | 105              | 2.6   | 7                     |
| 13   | Korea, Republic of | 109              | 2.5   | 16                    | 13   | Italy                     | 105              | 2.6   | -8                    |
| 14   | Italy              | 104              | 2.4   | -1                    | 14   | <u>Russian Federation</u> | 102              | 2.5   | 16                    |
| 15   | Belgium            | 94               | 2.2   | 0                     | 15   | Belgium                   | 90               | 2.2   | -1                    |
| 16   | Switzerland        | 88               | 2.0   | -7                    | 16   | Spain                     | 90               | 2.2   | -5                    |
| 17   | Canada             | 78               | 1.8   | -1                    | 17   | Brazil                    | 78               | 1.9   | 7                     |
| 18   | Sweden             | 76               | 1.7   | 2                     | 18   | Australia                 | 65               | 1.6   | 10                    |
| 19   | Luxembourg         | 70               | 1.6   | 0                     | 19   | Denmark                   | 57               | 1.4   | -2                    |
| 20   | Denmark            | 65               | 1.5   | -2                    | 20   | Hong Kong, China          | 57               | 1.4   | 2                     |
| 21   | Austria            | 61               | 1.4   | 1                     | 21   | Sweden                    | 55               | 1.3   | 0                     |
| 22   | Russian Federation | 58               | 1.3   | 10                    | 22   | Thailand                  | 53               | 1.3   | 1                     |

# Ten biggest non-CIS trading partners, 2011

| EXPORT         | million USD | Percent | IMPORT            | million USD | Percent |
|----------------|-------------|---------|-------------------|-------------|---------|
| Netherlands    | 62567       | 14.29   | China             | 48264       | 18.49   |
| China          | 35241       | 8.05    | Germany           | 37676       | 14.43   |
| Germany        | 34174       | 7.81    | Japan             | 15004       | 5.75    |
| Italy          | 32582       | 7.44    | USA               | 14601       | 5.59    |
| Turkey         | 25429       | 5.81    | Italy             | 13401       | 5.13    |
| Poland         | 21369       | 4.88    | France            | 13276       | 5.09    |
| USA            | 16604       | 3.79    | Republic of Korea | 11593       | 4.44    |
| France         | 14857       | 3.39    | United Kingdom    | 7179        | 2.75    |
| Japan          | 14701       | 3.36    | Poland            | 6651        | 2.55    |
| United Kingdom | 13997       | 3.20    | Turkey            | 6374        | 2.44    |

|   | 1995                   | 2000       | 2005       | 2007       | 2008       | 2009       | 2010       | 2011       |
|---|------------------------|------------|------------|------------|------------|------------|------------|------------|
|   | As percentage of total |            |            |            |            |            |            |            |
| <b>Export - total</b>   | <b>100</b>             | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |
| of which:   |                        |            |            |            |            |            |            |            |
| foodstuffs and agricultural raw materials (excluding textile) | 1.8                    | 1.6        | 1.9        | 1.8        | 2.6        | 2.0        | 3.3        | 2.2        |
| mineral products  | 42.5                   | 53.8       | 64.8       | 65.9       | 64.9       | 69.8       | 67.4       | 68.4       |
| chemical products, rubber                                     | 10.0                   | 7.2        | 6.0        | 5.6        | 5.9        | 6.4        | 6.2        | 6.2        |
| leather raw materials, fur and articles thereof               | 0.4                    | 0.3        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        |
| wood, pulp-and-paper products                                 | 5.6                    | 4.3        | 3.4        | 3.2        | 3.5        | 2.5        | 2.8        | 2.4        |
| textiles, textile articles and footwear                       | 1.5                    | 0.8        | 0.4        | 0.3        | 0.3        | 0.2        | 0.2        | 0.2        |
| metals, precious stones and articles thereof                  | 26.7                   | 21.7       | 16.8       | 16.3       | 15.9       | 13.2       | 12.8       | 12.8       |
| machinery, equipment and transport means                      | 10.2                   | 8.8        | 5.6        | 5.8        | 5.6        | 4.9        | 5.9        | 5.4        |
| others  | 1.3                    | 1.5        | 1.0        | 1.0        | 1.2        | 0.9        | 1.3        | 2.3        |

Source: FSSS

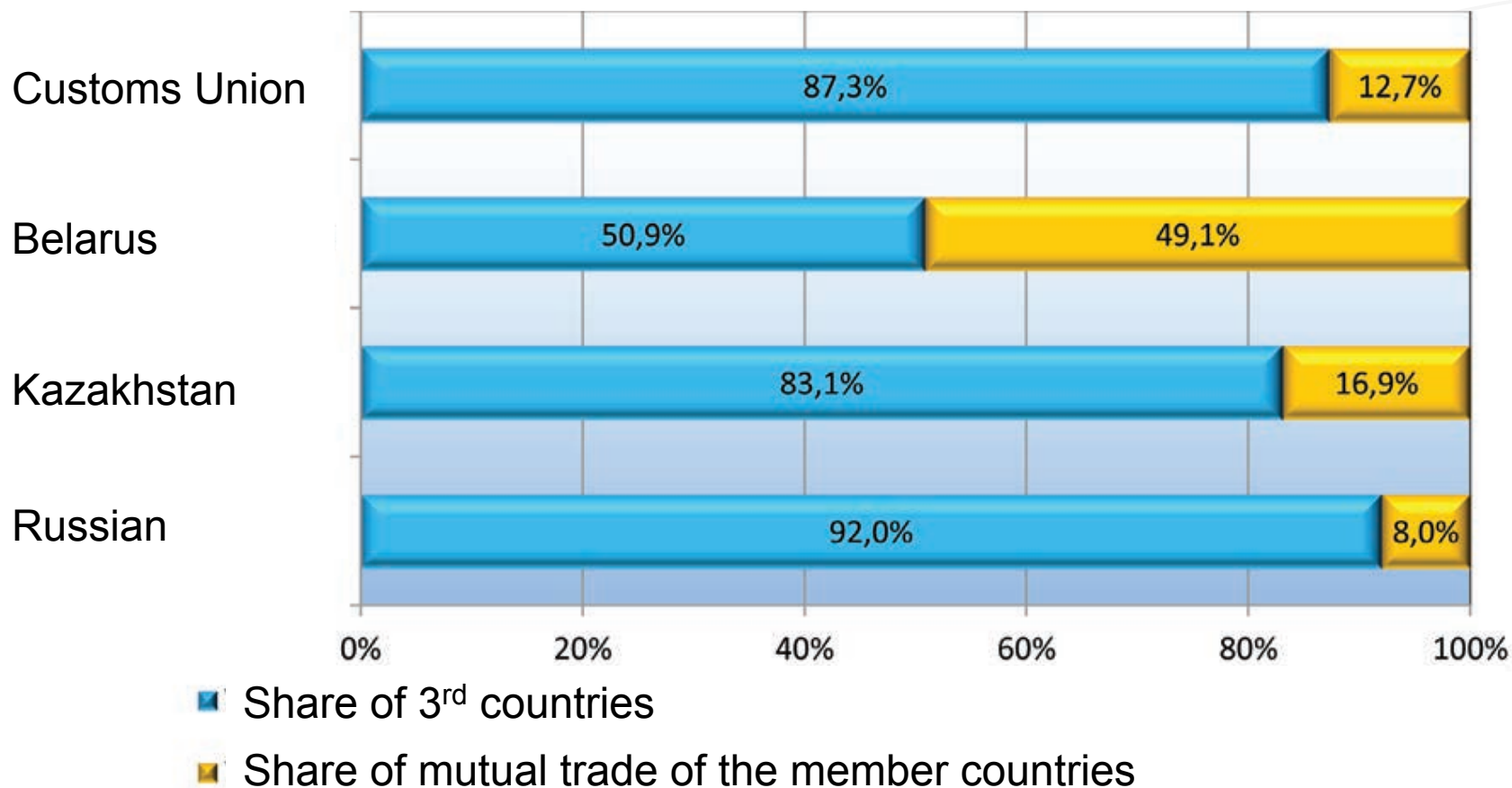


|   | 1995 | 2000 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|------|------|------|------|------|------|------|------|
| Import - total  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  |
| of which:   |      |      |      |      |      |      |      |      |
| foodstuffs and agricultural raw materials (excluding textile) | 28.1 | 21.8 | 17.7 | 15.7 | 13.8 | 13.2 | 17.9 | 15.9 |
| mineral products  | 6.4  | 6.3  | 3.1  | 2.4  | 2.3  | 3.1  | 2.4  | 2.3  |
| chemical products, rubber                                     | 10.9 | 18.0 | 16.5 | 15.8 | 13.8 | 13.2 | 16.7 | 16.1 |
| leather raw materials, fur and articles thereof               | 0.3  | 0.4  | 0.3  | 0.3  | 0.4  | 0.4  | 0.5  | 0.5  |
| wood, pulp-and-paper products                                 | 2.4  | 3.8  | 3.3  | 2.9  | 2.7  | 2.4  | 3.1  | 2.6  |
| textiles, textile articles and footwear                       | 5.7  | 5.9  | 3.7  | 4.0  | 4.3  | 4.4  | 5.7  | 6.2  |
| metals, precious stones and articles there of                 | 8.5  | 8.3  | 7.7  | 7.7  | 8.2  | 7.2  | 6.8  | 7.4  |
| machinery, equipment and transport means                      | 33.6 | 31.4 | 44.0 | 47.7 | 50.9 | 52.7 | 43.4 | 44.4 |
| others  | 4.1  | 4.1  | 3.7  | 3.5  | 3.6  | 3.4  | 3.5  | 4.6  |

Source: FSSS

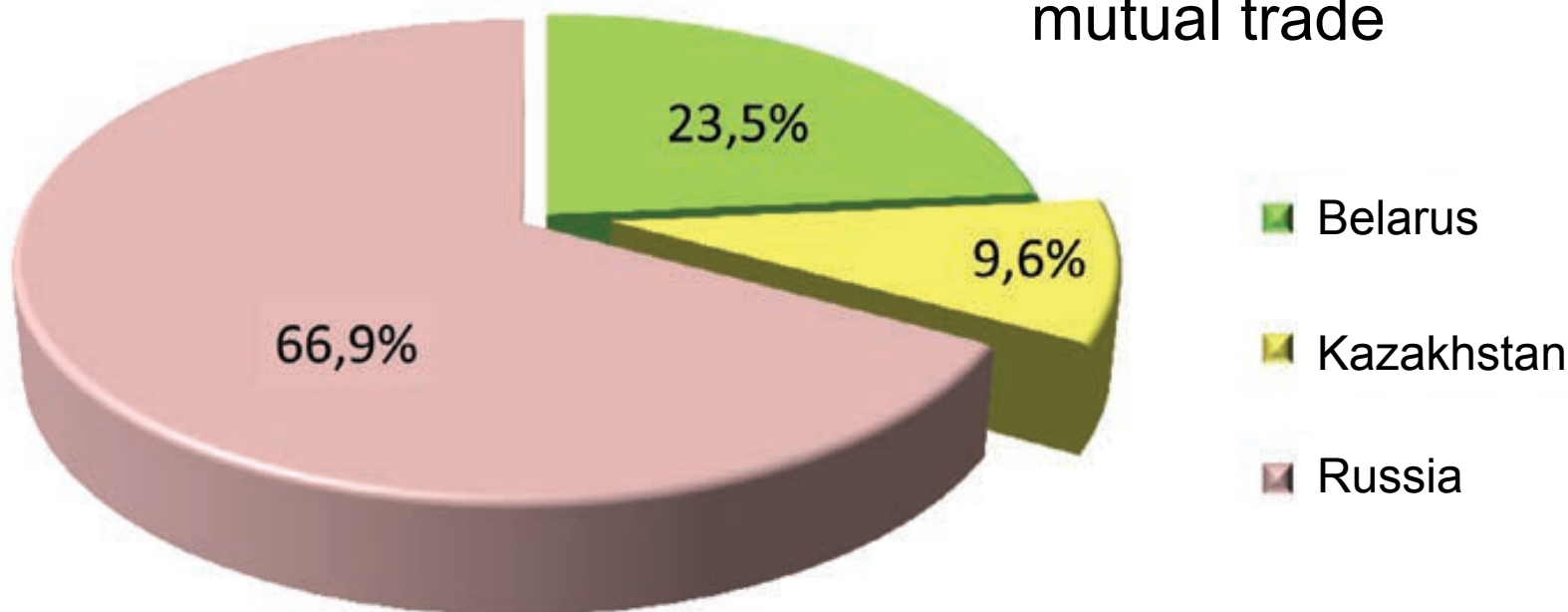


# Russia – CIS trade: Customs Union Russia, Belarus, Kazakhstan (1)



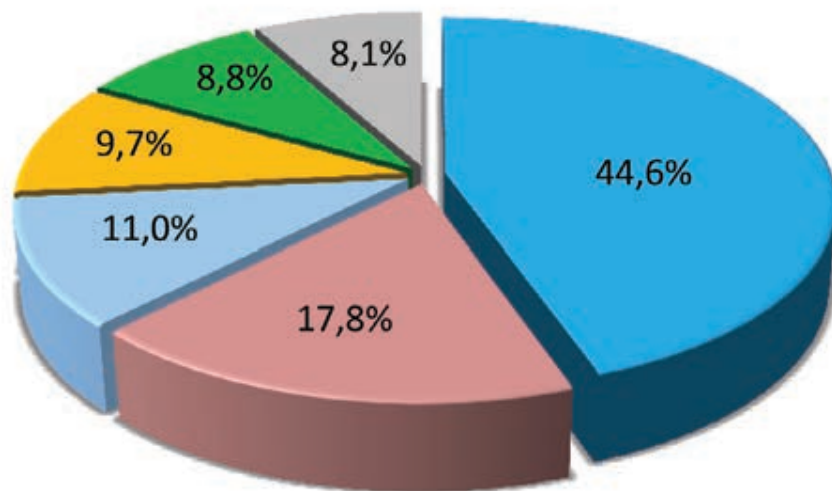
# Russia – CIS trade: Customs Union Russia, Belarus, Kazakhstan (2)

Share of members in mutual trade



# Russia – CIS trade: Customs Union Russia, Belarus, Kazakhstan (2)

## Commodity structure



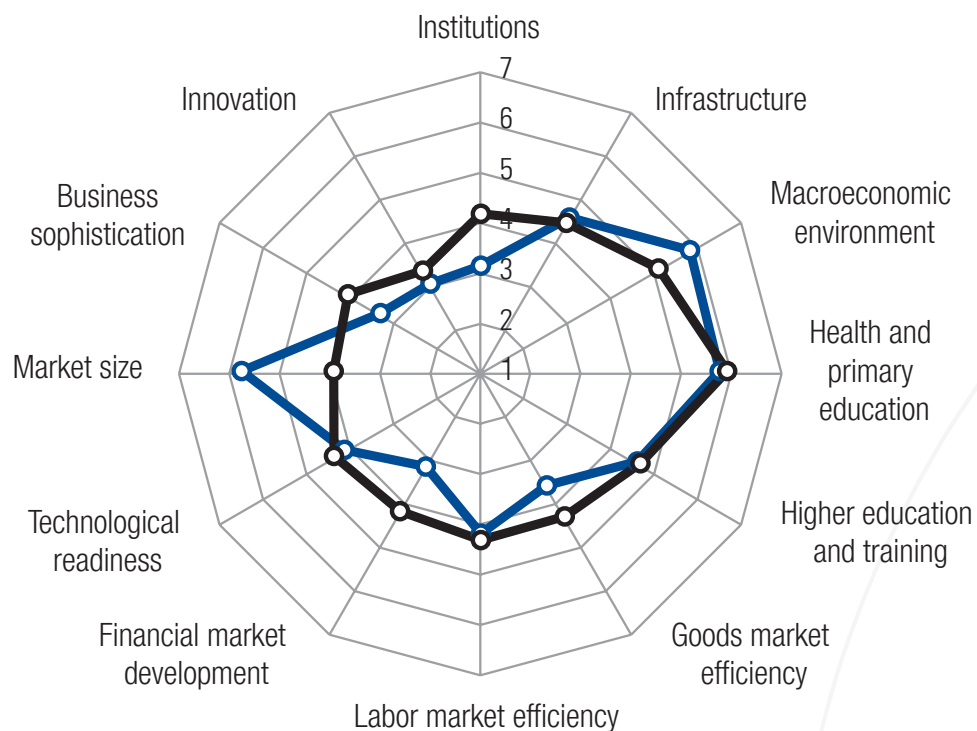
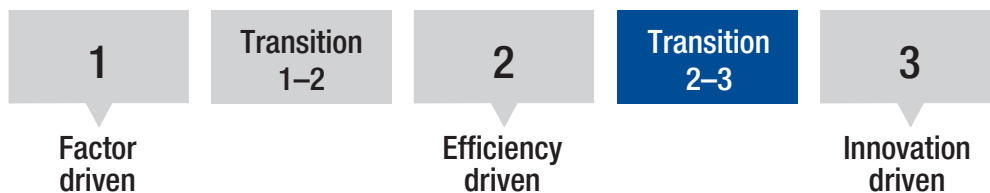
- Mineral products
- Machinery, equipment and transport means
- Metals and products made of them
- Foodstuff and agricultural materials
- Chemical products
- Other

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# Competitiveness of the Russian economy (1)

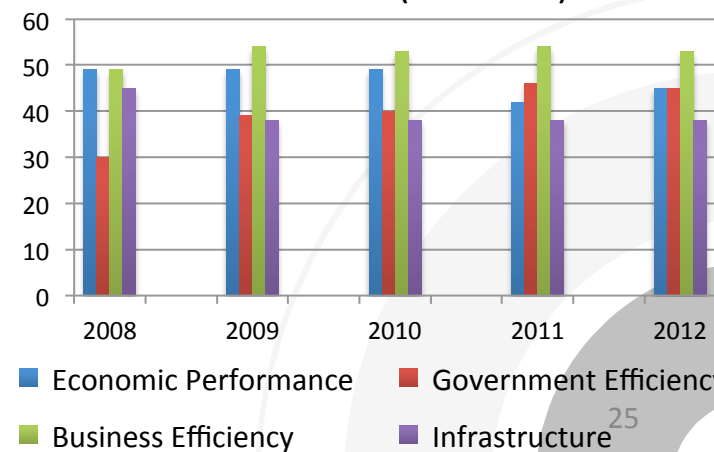
## Stage of development



—○— Russian Federation    —○— Economies in transition from 2 to 3

| WEF Rank        | 2012-2013<br>of 144 | 2011-2012<br>Of 142 |
|-----------------|---------------------|---------------------|
| Hungary         | 60                  | 48                  |
| Peru            | 61                  | 67                  |
| <b>Bulgaria</b> | <b>62</b>           | <b>74</b>           |
| Rwanda          | 63                  | 70                  |
| Jordan          | 64                  | 71                  |
| Philippines     | 65                  | 75                  |
| Iran            | 66                  | 62                  |
| <b>Russia</b>   | <b>67</b>           | <b>66</b>           |
| Sri Lanka       | 68                  | 52                  |
| Colombia        | 69                  | 68                  |
| Morocco         | 70                  | 73                  |
| <b>Slovakia</b> | <b>71</b>           | <b>69</b>           |

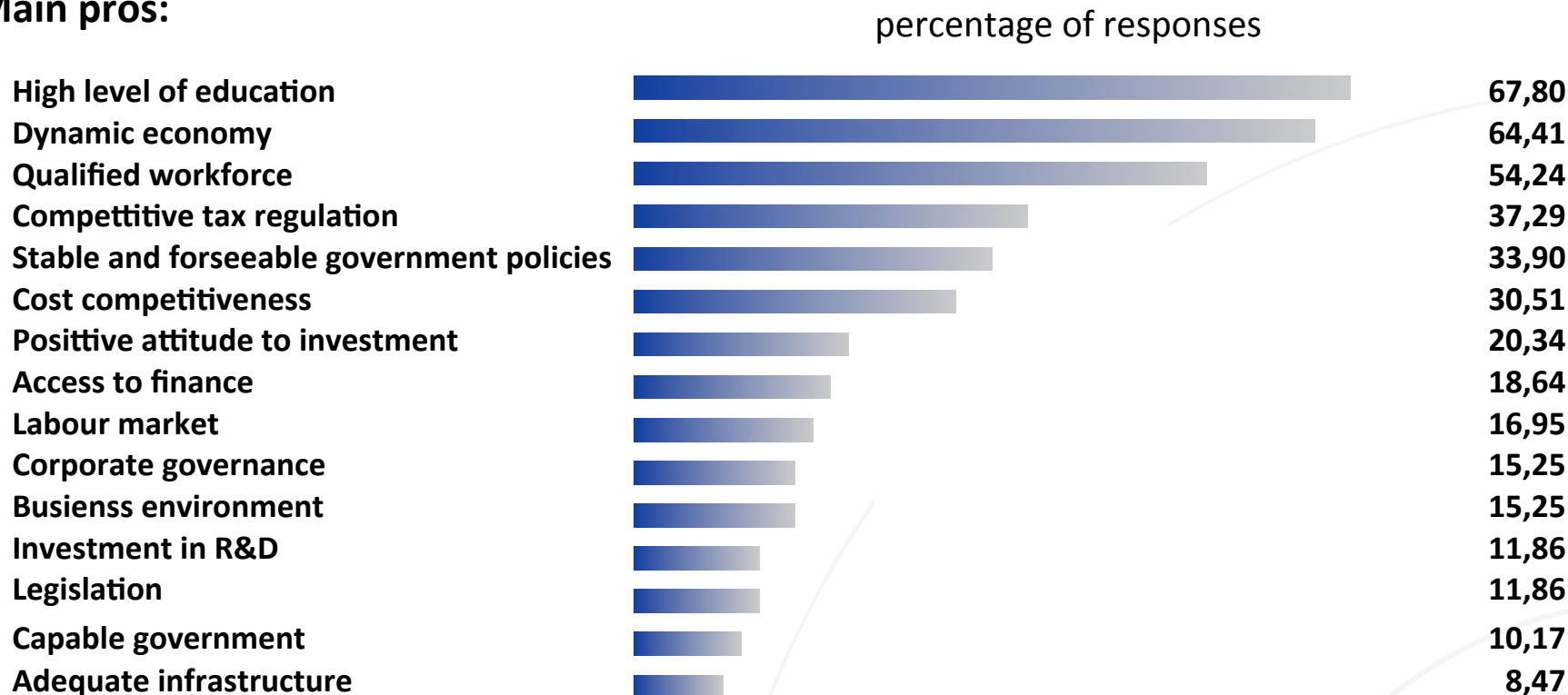
## IMD Rank (of ca. 60)



# Competitiveness of the Russian economy

## (2)

### Main pros:



Note: "Corporate governance" is a notion used to describe the management of companies and relationships between all stakeholders (in the broadest definition).

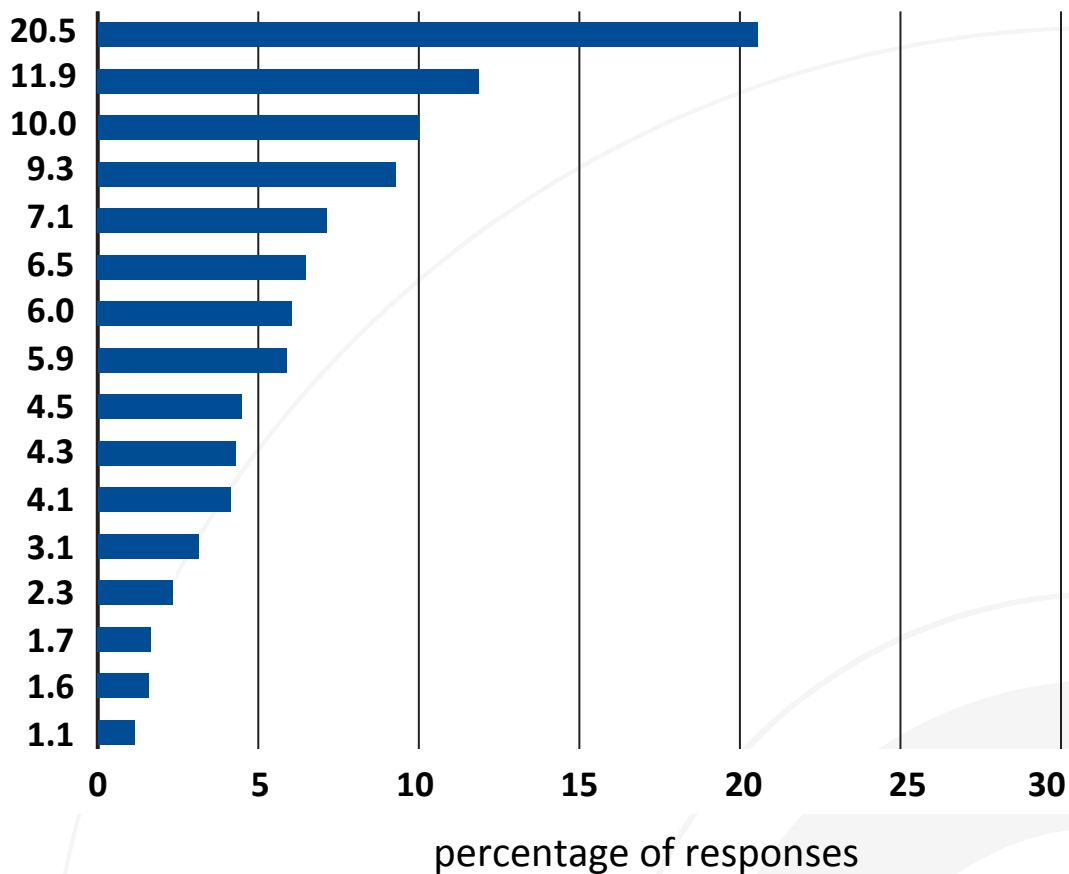
Source: IMD



# Competitiveness of the Russian economy (3)

## Main cons:

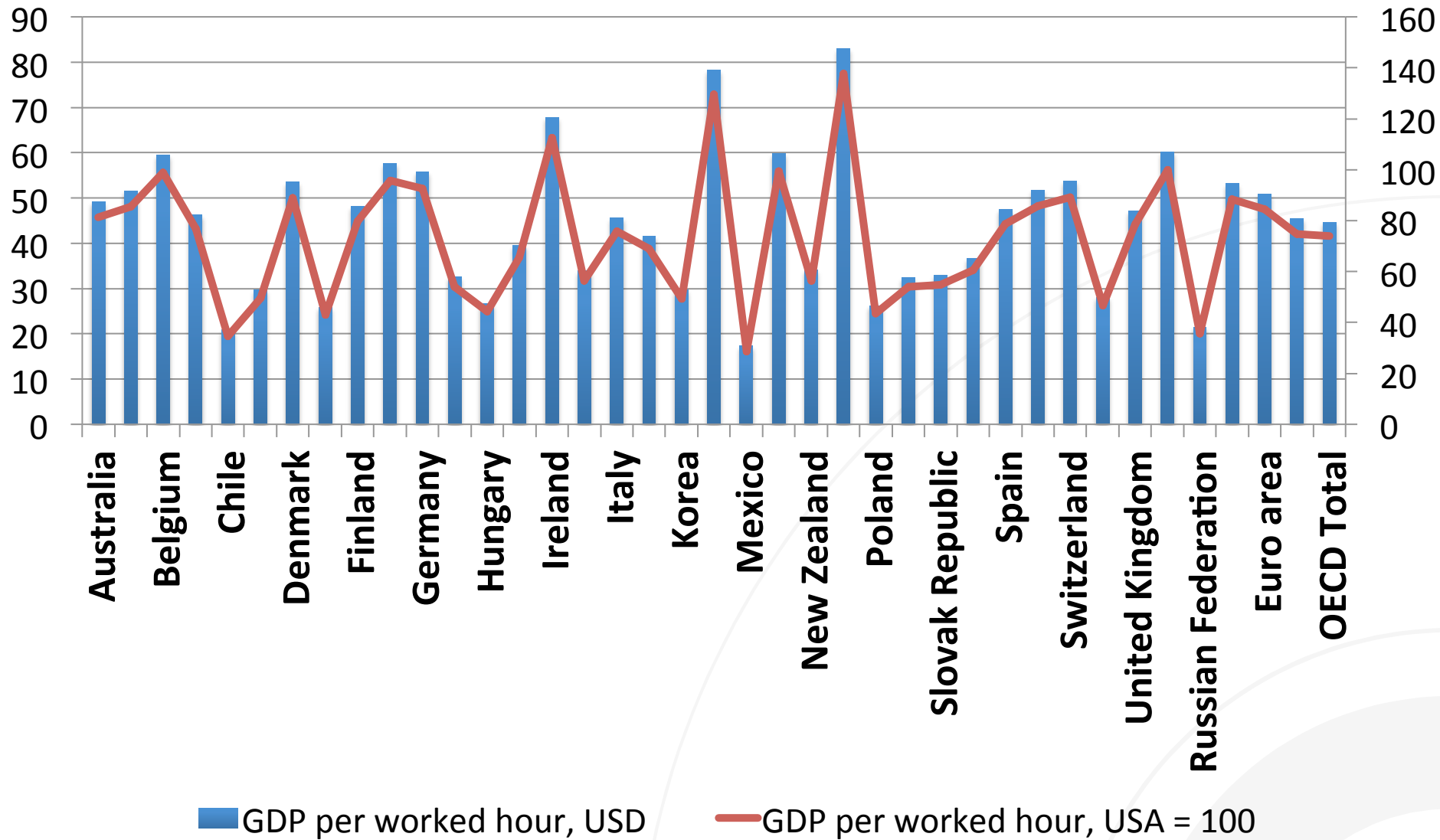
Corruption  
Inefficient government bureaucracy  
Access to finance  
Tax rates  
Inadequately qualified workforce  
Insufficient innovations  
Tax regulation  
Criminality  
Instability of government policies  
Inadequate supply of infrastructure  
Inflation  
Poor labour moral  
Labour market regulations  
Poor public health  
Government instability / coops  
Foreign currency regulations



Source: WEF

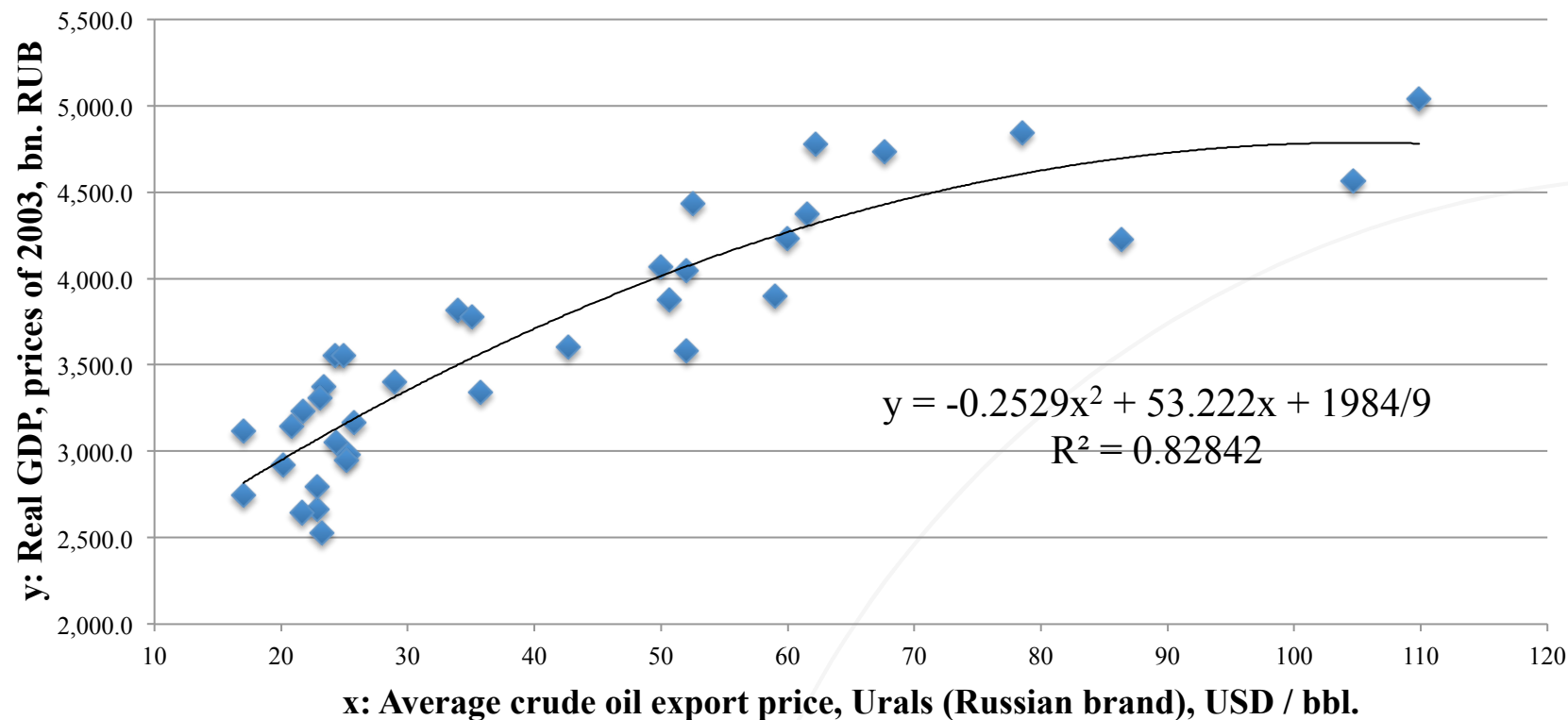
# Specifics of the Russian Economy (1)

- **Low competitiveness of manufactured products, especially on foreign markets:**
  - low labour productivity (see graphs on next slides),
  - lack of innovations (see graphs on next slides),
  - wear of production capacities (ca. 46.8 % with yearly reproduction of 6.6 % in 2007),
  - Inefficient government support of domestic producers:
    - *in terms of monetary policy (access to credit, exchange rates).*
    - *in terms of export promotion (not as sophisticated as in the Central and Eastern Europe, e.g. in the Czech Republic).*
    - *export and investment support is, however, now improving.*
  - Government attempts to solve the problems by modernization programs for the years 2013–2020.



## Specifics of the Russian Economy (2)

- **Dependence on natural resources, mainly oil, natural gas, metals and wood:**
  - *In average, these groups had a ca. 83.1% share in total Russian exports in the years 2002–2011.*
  - The main export partner of the RF is the EU (its share for these groups is ca. 70% of total Russian exports).
- *Russian extraction / mining industries, however, face a lack of geological research (nowadays it is performed by international firms with the share of ca. 70%).*
- *Insufficient reproduction investment (ca. 6.7% yearly in 2007, wear – 53.3%) and declining growth rates of oil extraction since 2000 (from 7.7% – 10.8% to ca. 2.1% in 2006 and 2007 and 1.2 % in 2009).*



Real GDP is directly and significantly related to crude oil prices ( $R^2$  is ca. 82.84%).

## Specifics of the Russian Economy (3)

- **Dependence on imports of manufactured goods** (in average, imports of chemicals, machinery and transport equipment and miscellaneous manufactured articles had the share of ca. 64.1% in total imports in 2002–2011).
  - The main import partner was also the EU with the share of ca. 50%.
- **Substitution of domestic products by more competitive imports** (better and cheaper foreign goods tend to suppress domestic production), which is amplified:
  - by a relatively high inflation (in average ca. 11.4% in 2004–2009).
  - By an appreciating exchange rate of RUB/USD and RUB/EUR (e. g. from 31.35 RUB/USD in 2002 to 24.85 RUB/USD in 2008).



# Specifics of the Russian Economy (4)

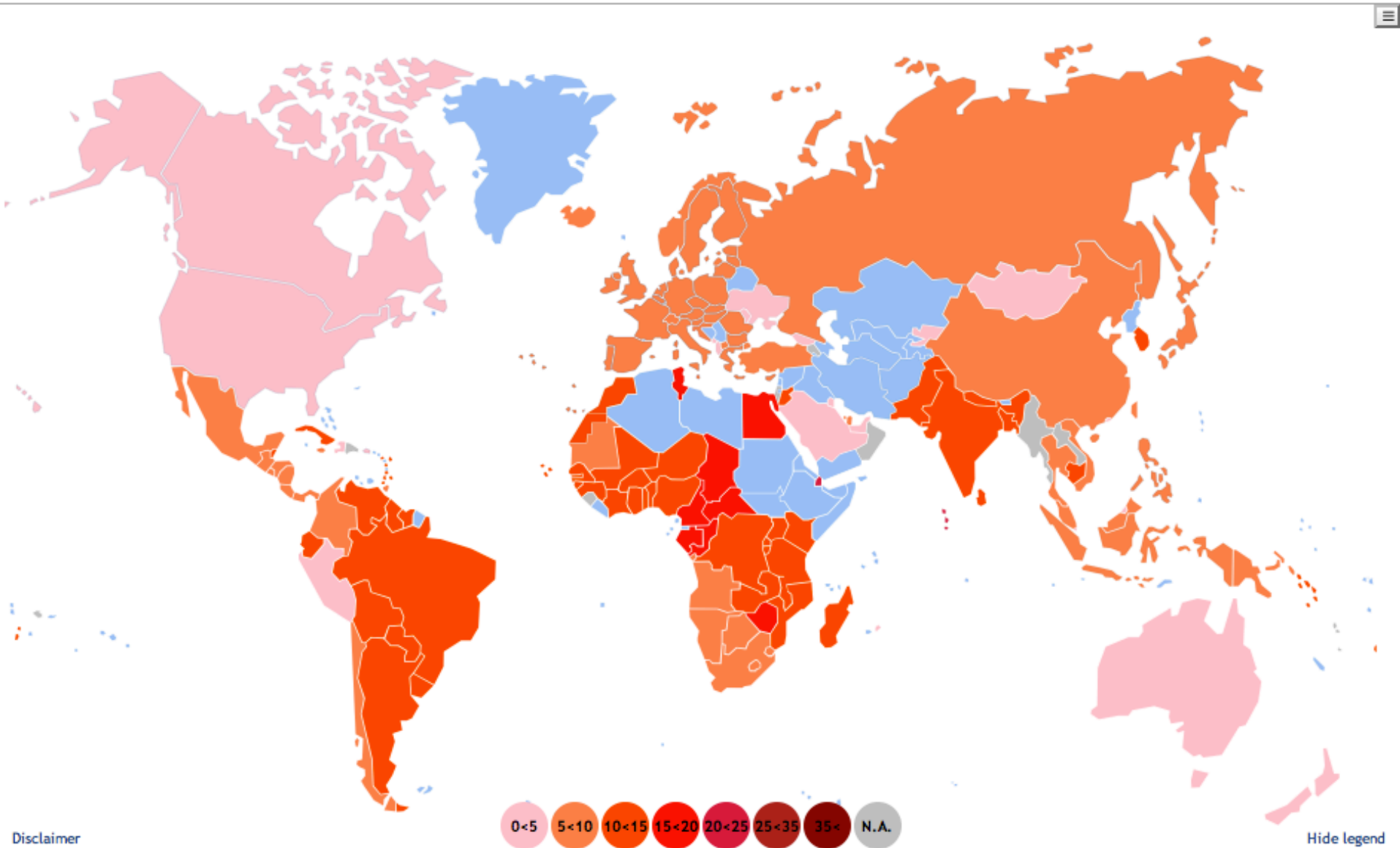
- **Long-term dependence on foreign capital inflows, which are, at present, the main source of the modernization of economy** (see the previous presentation):
  - Problem: lack of domestic capital (common to transitional economies).
  - The EU is the main investor in Russia (ca. 75% of total stock of FDI).
- FDI stock in the Russian economy in relative terms (% of GDP) is above BRIC average, however, is still below the one of the Central and Eastern European States:

In 2002–2011, in average, 24.8% GDP compared to ca. 21.0% of the BRIC and ca. 52.6% of the Visegrád group (the Czech Republic, Slovakia, Hungary and Poland).

| RANK | COUNTRY               | STOCK OF DIRECT FOREIGN INVESTMENT - AT HOME | DATE OF INFORMATION   |
|------|-----------------------|--|-----------------------|
| 1    | <u>United States</u>  | \$ 2,824,000,000,000                         | 31 December 2012 est. |
| 2    | <u>United Kingdom</u> | \$ 1,262,000,000,000                         | 31 December 2012 est. |
| 3    | <u>Hong Kong</u>      | \$ 1,200,000,000,000                         | 31 December 2012 est. |
| 4    | <u>Belgium</u>        | \$ 1,184,000,000,000                         | 31 December 2012 est. |
| 5    | <u>France</u>         | \$ 1,110,000,000,000                         | 31 December 2012 est. |
| 6    | <u>Germany</u>        | \$ 932,800,000,000                           | 31 December 2012 est. |
| 7    | <u>China</u>          | \$ 909,800,000,000                           | 31 December 2012 est. |
| 8    | <u>Spain</u>          | \$ 663,100,000,000                           | 31 December 2012 est. |
| 9    | <u>Switzerland</u>    | \$ 634,300,000,000                           | 31 December 2012 est. |
| 10   | <u>Canada</u>         | \$ 624,500,000,000                           | 31 December 2012 est. |
| 11   | <u>Netherlands</u>    | \$ 608,900,000,000                           | 31 December 2012 est. |
| 12   | <u>Australia</u>      | \$ 598,700,000,000                           | 31 December 2012 est. |
| 13   | <u>Russia</u>         | \$ 596,200,000,000                           | 31 December 2012 est. |
| 14   | <u>Brazil</u>         | \$ 595,900,000,000                           | 31 December 2012 est. |
| 15   | <u>Singapore</u>      | \$ 522,100,000,000                           | 31 December 2012 est. |

# Specifics of the Russian Economy (5)

- **Relatively high tariff protection** (average MFN tariff level is ca. 9.43% (2009, WTO), which is above the BRIC average (7.4%) and significantly exceeds the level of developing countries (EU – 5.27%, USA – 3.49% and Japan – 5.29%).
  - **Accession to the WTO will reduce several tariffs up to 0%, in total by 30 % by 2020. The new MFN maximum should be 7.6%** (officially - 8.2%, but the RF agreed with the WTO on further reductions).
  - *Tariffs protect industries with low competitiveness, e.g. automobile industry, as well as natural resources (export tariffs, mainly oil)*
    - The protection will remain for several years after the WTO accession.
  - Russia has ca. 80 000 customs workers, the second biggest customs service in the world (according to the statistics of 2009).
  - Tariffs are an important contribution to the consolidated budget of the RF (ca. 25%) and form up to 10% of GDP.



Hide legend

Disclaimer

|   | Bln. RUR       | Percentage of GDP |
|---|----------------|-------------------|
| <b>Revenue - total</b>  | <b>20855.4</b> | <b>38.2</b>       |
| of which:   |                |                   |
| profit (income) tax of organizations                                    | 2270.5         | 4.2               |
| income tax of individuals   | 1995.8         | 3.7               |
| insurance premium for compulsory social insurance                       | 3528.3         | 6.5               |
| value added tax:  |                |                   |
| for goods (works, services) sold on territory of the Russian Federation | 1753.6         | 3.2               |
| for goods, imported on territory of the Russian Federation              | 1497.2         | 2.7               |
| excise on goods (products):   |                |                   |
| produced on territory of the Russian Federation                         | 603.9          | 1.1               |
| imported on territory of the Russian Federation                         | 46.6           | 0.1               |
| aggregate income tax  | 234.3          | 0.4               |
| property tax  | 678.0          | 1.2               |
| tax, dues and regular payment for natural resources usage               | 2085.0         | 3.8               |
| revenue from external economic activities                               | 4664.7         | 8.5               |
| revenue from use of state and municipal property                        | 674.3          | 1.2               |
| payments for natural resources usage                                    | 111.8          | 0.2               |
| uncompensated revenue   | 153.2          | 0.3               |
| revenue from entrepreneurial and other gainful activities               | 48.9           | 0.1               |

## Specifics of the Russian Economy (6)

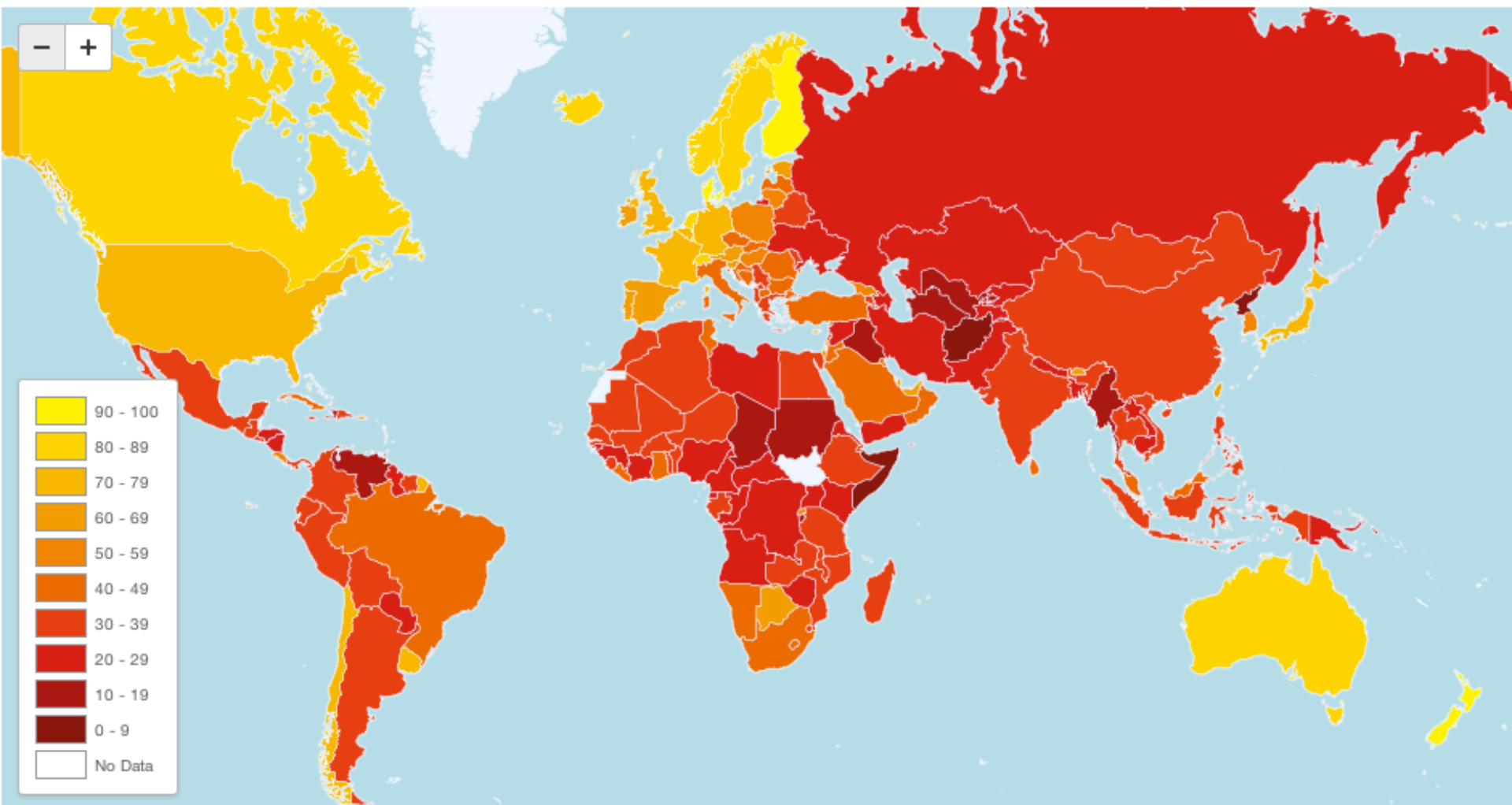
- **Relatively big share of state interventions into the economy (so-called “quasi-state economy”, government expenditures form up to 40% of GDP), an important role of Ministries and state enterprises, support of non-efficient firms and *high transaction costs of the state administration*:**
  - Overlapping competences (as defined by laws).
  - Courts are not fully independent (Russian state enterprises are favoured in disputes).
  - Systemic (overall present) corruption.
- According to the Transparency International, 2011, Russia was placed 143 out of 182 in terms of corruption (Corruption Perception Index was 2.4 out of 10).

## CONSOLIDATED BUDGET OF THE RUSSIAN FEDERATION – Expenditure (2011)

|  | Bln. RUR       | Percentage of GDP |
|--|----------------|-------------------|
| <b>Expenditure - total</b>                   | <b>19994.6</b> | <b>36.6</b>       |
| of which:                                    |                |                   |
| general and local government                 | 1357.0         | 2.5               |
| state and municipal debt service             | 328.9          | 0.6               |
| national defence                             | 1517.2         | 2.8               |
| law enforcement and state security guarantee | 1518.6         | 2.8               |
| national economy                             | 2793.4         | 5.1               |
| of which:                                    |                |                   |
| fuel and electricity                         | 55.4           | 0.1               |
| agriculture and fishery                      | 268.7          | 0.5               |
| transport                                    | 499.1          | 0.9               |
| public road system (road funds)              | 714.2          | 1.3               |
| communications and informatics               | 77.2           | 0.1               |
| scientific research for national economy     | 180.6          | 0.3               |
| other fields of national economy             | 814.0          | 1.5               |
| housing - communal utilities                 | 1195.0         | 2.2               |
| social-cultural arrangements                 | 11245.9        | 20.6              |
| <b>Profit</b>                                | <b>860.7</b>   | <b>1.6</b>        |



# Corruption Perception in the World



**Note:** On this graph, the CPI is measured in 0-100 instead of 0-10 (0 – highest, 100 – lowest).

# Specifics of the Russian Economy (7)

- **Relatively high share of imperfect competition (monopolies and oligopolies)**, especially in the natural resources extraction / mining and communal sectors and at the local level:
  - Existence of so-called *oligarchs* (very rich people controlling big companies, which were usually acquired during the privatization e.g. through the “loans for shares” scheme).
  - See examples on the next slides.
  - The efficiency of the Russian *Federal Anti-Monopoly Service* (FAS) has certain gaps.
  - Often non-transparent public procurement. Corruption practices (a common Eastern European problem).

- **Examples of monopolies in 2007 (most are quoted at the Moscow stock exchange):**
  - RUSAL (100% in aluminium production),
  - Rosneft, LUKOIL, TNK-BP and Surgutneftegaz (73% in oil extraction),
  - SUEK and Evraz Group (ca. 63% in coal extraction),
  - NLMK, MMK, Severstal and Evraz Group (more than 50% share in iron ore extraction),
  - GAZPROM (85% in extraction, almost 100% in transport and 100% in export of natural gas),
  - Evrocement Group (39% in cement / concrete production) etc.
- **Effects:**
  - So-called “Gasoline crisis” in 2011 (increase in price and shortage of gasoline in some of the Russian regions) due to simultaneous service checks and repairs of major refineries.

# Specifics of the Russian Economy (8)

- **Relatively high inflation rate** (yearly CPI growth in 2002–2011 was ca. 10.76%).
- The CPI basket may not accurately reflect the growth of all prices (the basket is narrowly defined, consumption is usually vaster, not taking into account other influences):
  - E.g. the average growth of wages was higher (ca. 38.32% in 2005–2011), in fact higher than the GDP.

=> *deterioration of price competitiveness.*

| Years | Average monthly wages<br>at prices of<br>corresponding year |  | Ratio of average monthly wages<br>and other payments to subsistence<br>minimum level of<br>working population,<br>percentage<br>(= to minimum wage) |     |
|-------|---|--|---|-----|
|       | RUB   | USD<br>(based on annual average<br>official dollar exchange<br>rate) |   |     |
| 1995  | 472392  | (= 472.4 1000s   | 103   | 179 |
| 2000  | 2223  | were the result  | 79  | 172 |
| 2005  | 8555  | of hyperinflation  | 303   | 268 |
| 2006  | 10634   | in the 1990s,  | 391   | 293 |
| 2007  | 13593   | monetary reform  | 532   | 332 |
| 2008  | 17290   | exchanged 1000   | 697   | 353 |
| 2009  | 18638   | old rubles for 1 new)  | 588   | 340 |
| 2010  | 21193   |  | 698   | 376 |

**RUB (1 USD = ca. 30 RUB)**

Agriculture, hunting and forestry

Mining and  
quarrying

Manufacturing

manufacture  
of textile and textile products

manufacture of coke, refined petroleum products

Financial  
activities

|   | 1995   | 2000 | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  |
|---|--------|------|-------|-------|-------|-------|-------|-------|
| Agriculture, hunting and forestry               | 259.4  | 985  | 3646  | 4569  | 6144  | 8475  | 9619  | 10573 |
| Mining and quarrying                            | 1067.2 | 5940 | 19727 | 23145 | 28108 | 33206 | 35363 | 39883 |
| Manufacturing                                   | 453.8  | 2365 | 8421  | 10199 | 12879 | 16050 | 16583 | 19100 |
| manufacture of textile and textile products     | 240.8  | 1215 | 3986  | 4964  | 6590  | 8454  | 9021  | 10102 |
| manufacture of coke, refined petroleum products | 810.9  | 4916 | 19397 | 22320 | 28565 | 34913 | 37964 | 41942 |
| Financial activities                            | 755.2  | 5232 | 22464 | 27886 | 34880 | 41872 | 42373 | 50613 |

# Specifics of the Russian Economy (9)

- **Relatively weak banking sector:** the share of bank credits in GDP in 2002–2011 was, in average, 28.6% against 97.0% in the BRIC, 54.7% in the Visegrád group (Czech Republic, Slovakia, Hungary and Poland), 139.4% in the EU, 226.3% in the USA and 313.7% in Japan. E.g. Brazil, comparable to Russia in terms of HDI, had the share of 86.1% GDP.
  - *A problem for small and medium-sized enterprises, SME, as well as for big firms.*
  - *According to several Russian economists, Russian non-financial companies finance ca. 20–30% of their investment from domestic banks and use own capital and foreign banks for the rest.*
  - Big companies create their own banks for self-financing, e.g. Gazprombank (GAZPROM), Petrokommerc (LU-KOIL), Surgutneftegazbank (Surgutneftegaz), Zenit (Tatneft') etc.

## Top Banks in Russia, ranked by total assets (as of December 31, 2011).

Sberbank is the largest bank of Russia. Source: <http://www.banksdaily.com/>

\* Changes compared to December 31, 2010 (RUB).

**NB:** The biggest banks (Sberbank, VTB, Gazprombank etc. ) are **state-owned**.

| Rank | Bank                                      | Total Assets<br>US\$ billion | Total Assets<br>RUB billion | Change * |
|------|---|------------------------------|-----------------------------|----------|
| 1    | <a href="#">Sberbank</a>                  | <b>335.02</b>                | 10,777                      | 21.25%   |
| 2    | <a href="#">VTB</a>                       | <b>127.33</b>                | 4,096                       | 49.95%   |
| 3    | <a href="#">Gazprombank</a>               | <b>75.54</b>                 | 2,430                       | 34.14%   |
| 4    | <a href="#">Russian Agricultural Bank</a> | <b>45.20</b>                 | 1,454                       | 35.98%   |
| 5    | <a href="#">Bank of Moscow</a>            | <b>41.47</b>                 | 1,334                       | 44.53%   |
| 6    | <a href="#">VTB24</a>                     | <b>37.37</b>                 | 1,202                       | 30.24%   |
| 7    | <a href="#">Alfa Bank</a>                 | <b>29.91</b>                 | 962                         | 13.08%   |
| 8    | UniCredit Bank (Russia)                   | <b>27.42</b>                 | 882                         | 29.95%   |
| 9    | <a href="#">Rosbank</a>                   | <b>19.80</b>                 | 637                         | 36.94%   |
| 10   | Raiffeisen Bank (Russia)                  | <b>18.19</b>                 | 585                         | 15.85%   |
| 11   | <a href="#">Promsvyazbank</a>             | <b>17.72</b>                 | 570                         | 16.23%   |
| 12   | <a href="#">TransCreditBank</a>           | <b>15.76</b>                 | 507                         | 34.08%   |
| 13   | <a href="#">Nomos Bank</a>                | <b>14.64</b>                 | 471                         | 25.48%   |



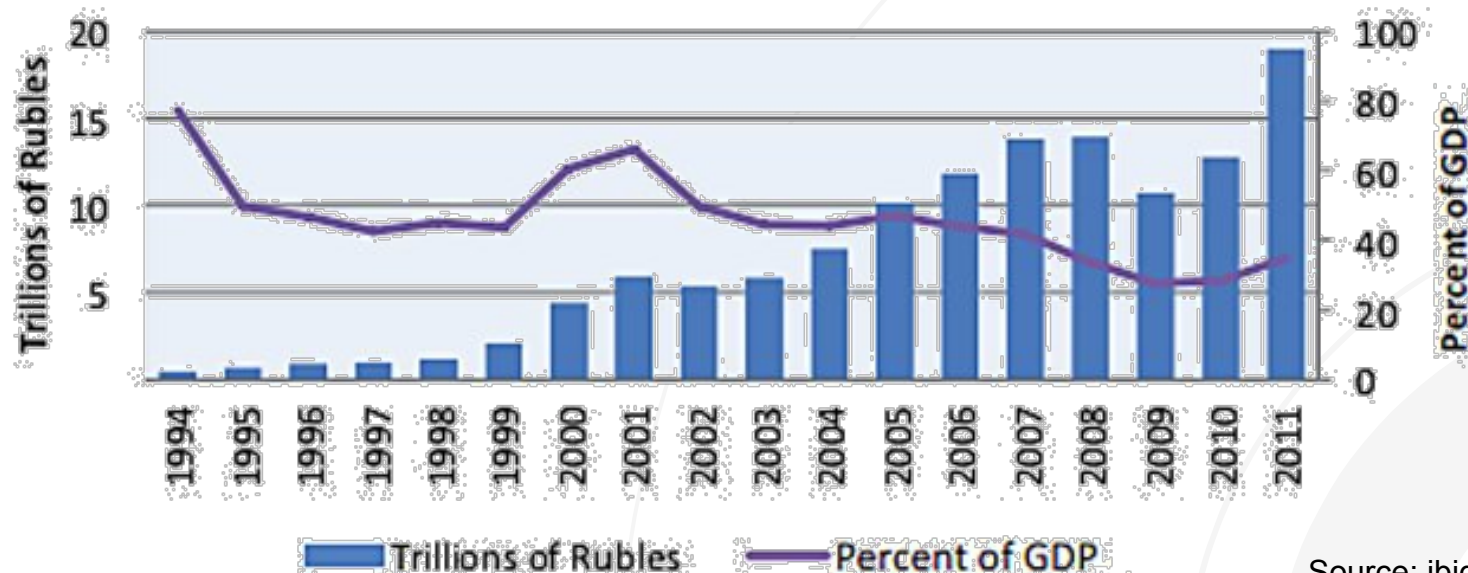
# Specifics of the Russian Economy (10)

- **Important size of the so-called grey economy**, ca. 48.6% of the official GDP in 1999–2007 (130th rank of 151, 2007). Possible explanations:
  - Lack of more lucrative alternatives in the legal sector.
  - Moral and legal gaps since the break up of the USSR.
  - Relatively low GDP per capita, economic problems in the 1990s.
  - Incorporation of new, foreign, institutions in the Russian society.
  - Systemic corruption etc.
- Example: double-wage in SMEs (part is legal and taxed, part is paid illegally “in envelopes”).
- Benefits: grey economy reduces inflation (prices are lower due to the “deduction” of taxes through non-declaring part of income).

**Table 6. Size of the Underground Economy in Russia and the G-7, 1999-2007**  
(percent of official GDP)

| Country            | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Average |
|--------------------|------|------|------|------|------|------|------|------|------|---------|
| United States      | 8.8  | 8.7  | 8.8  | 8.8  | 8.7  | 8.6  | 8.5  | 8.4  | 8.4  | 8.6     |
| Japan              | 11.4 | 11.2 | 11.2 | 11.3 | 11.2 | 10.9 | 10.7 | 10.4 | 10.3 | 11.0    |
| United Kingdom     | 12.8 | 12.7 | 12.6 | 12.6 | 12.5 | 12.4 | 12.4 | 12.3 | 12.2 | 12.5    |
| France             | 15.7 | 15.2 | 15.0 | 15.1 | 15.0 | 14.9 | 14.8 | 14.8 | 14.7 | 15.0    |
| Germany            | 16.4 | 16.0 | 15.9 | 16.1 | 16.3 | 16.1 | 16.0 | 15.6 | 15.3 | 16.0    |
| Canada             | 16.3 | 16.0 | 15.9 | 15.8 | 15.7 | 15.6 | 15.5 | 15.3 | 15.3 | 15.7    |
| Italy              | 27.8 | 27.1 | 26.7 | 26.8 | 27.0 | 27.0 | 27.1 | 26.9 | 26.8 | 27.0    |
| Russian Federation | 47.0 | 46.1 | 45.3 | 44.5 | 43.6 | 43.0 | 42.4 | 41.7 | 40.6 | 43.8    |

Source: Schieder, Friedrich, Andreas Buehn, and Claudio Montenegro. "Shadow Economies All Over the World", World Bank Policy Research Working Paper, 2010.



Source: ibid.

# Specifics of the Russian Economy (11)

- *Other problems:*
  - *Income inequalities (oligarchs vs. “middle class” and the poor).*
  - *Regional differences (Moscow, Saint Petersburg and regions rich in oil and resources vs. the rest).*
  - *Migration.*

# Russian (Moscow) Stock Exchange

**The Russian Stock Exchange is relatively small compared to the size of the economy (compare with NYSE, NASDAQ or Euronext).**

## **Moscow Exchange Indices (MICEX Index and RTS Index)**

- “The Moscow Exchange Indices are capitalization-weighted composite indices calculated based on prices of the 50 most liquid Russian stocks of the largest and dynamically developing Russian issuers with economic activities related to the main sectors of the Russian economy presented on the Exchange.”
- “The MICEX Index was launched on September 22, 1997. The Index is calculated in real time and denominated in rubles. The RTS Index was started on September 01, 1995. The Index is calculated in real time and denominated in US dollars.”

Source: <http://rts.micex.ru/s775>

## Indices

Main

Evening

|       |       |          |        |
|-------|-------|----------|--------|
| MICEX | 10:25 | 1,467.61 | +0.33% |
|-------|-------|----------|--------|



|            |       |          |        |
|------------|-------|----------|--------|
| RTSI       | 10:25 | 1,499.89 | +0.37% |
| RGBI       | 10:20 | 137.12   | +0.01% |
| MCXCBITR   | 10:03 | 229.33   | 0.00%  |
| MICEXMBITR | 10:10 | 169.99   | +0.02% |
| RTSVX      | 10:24 | 22.47    | -2.98% |
| MICEXINNOV | 10:20 | 462.19   | -0.06% |

## Securities Market

| Main           | Standard | Classica | OFZ bonds |
|----------------|----------|----------|-----------|
| Sberbank       | 10:14    | 101.30   | +0.84%    |
| Gazprom        | 10:14    | 145.43   | +0.80%    |
| LUKOIL         | 10:14    | 1,966.7  | +0.21%    |
| MoscowExchange | 10:13    | 52.04    | -1.53%    |

## Trading volumes

19.03.2013 / 10:30:09, USD











Main

Evening

|                        |               |
|------------------------|---------------|
| Securities Market      | 644,937,892   |
| shares and fund units  | 509,002,649   |
| corporate bonds        | 110,939,250   |
| OFZ (secondary market) | 15,556,715    |
| OFZ (primary market)   | —             |
| FX Market              | 1,403,272,981 |
| Derivatives Market     | 1,808,332,302 |
| Commodities Market     | —             |
| Total                  | 3,856,543,175 |

**PS** RTSI and MICEX are the main indices.  
Others are their variations.

## Main indicators of Currency Market

| <u>Foreign Currency</u>  |  | <u>from 16.03.2013</u> | <u>from 19.03.2013</u>  |           |
|--|--|------------------------|---|-----------|
| <u>Market</u>  |  |                        |   |           |
|  US Dollar                    |  | 30.7196                | 30.8908  |           |
|  EURO                         |  | 40.0123                | 39.8491  |           |
| <u>Precious Metals</u>   |  | <u>from 19.03.2013</u> |   |           |
| rubles per gram  |  | Reference prices       |   |           |
|  Gold                         |  | 1588.56                |   |           |
|  Silver                       |  | 28.71                  |   |           |
|  Platinum                     |  | 1565.22                |   |           |
|  Palladium                    |  | 758.28                 |   |           |
| <u>Interbank Market, %</u>   |  |                        |   |           |
|  |  | 1 day                  | 2-7 days  | 8-30 days |
| MIBID as of 18.03.2013   |  | 5.45                   | 5.62  | 5.86      |
| MIBOR as of 18.03.2013   |  | 6.08                   | 6.27  | 6.73      |
| MIACR as of 15.03.2013   |  | 5.80                   | 6.30  | 6.33      |
| MIACR-IG as of 15.03.2013  |  | 5.59                   |   | 6.33      |
| MIACR-B as of 15.03.2013   |  | 5.90                   |   | 7.00      |
| <u>MosPrime Rate</u>   |  | 1 day                  | 1 month   | 3 month   |
| on 18.03.2013  |  | 6.11                   | 6.47  | 7.11      |
| <u>RUONIA</u>  |  |                        |   |           |
| 15.03.2013, %  |  | 5.75                   |        |           |
| <u>ROISfix</u>   |  | 1 week                 | 1 month   | 3 month   |
| on 18.03.2013, %   |  | 5.97                   | 6.00  | 5.98      |
|  <u>Refinancing Rate, %</u> |  | 8.25                   |   |           |

# RUB and Interest Rates (1)

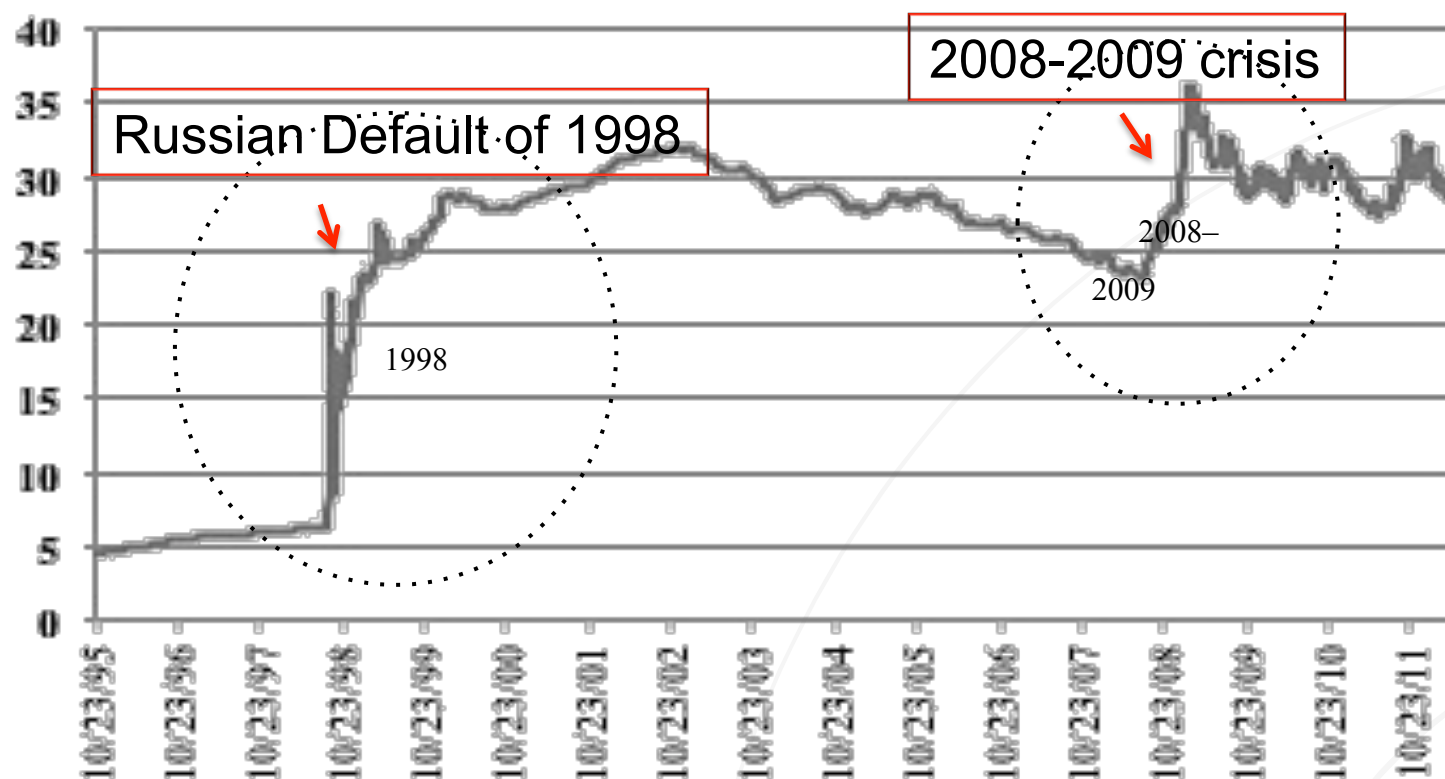
Source: CBR,  
<http://cbr.ru/eng/daily.aspx>

**RUB is pegged against the basket of USD and EUR. The exchange rate is officially declared by the CBR for several days and is mentioned in the news (TV, internet) or at <http://www.cbr.ru/eng/daily.aspx>**

Compare MIBOR (= Moscow interbank offered rate) and Refinancing Rate of the CBR. *CBR's interest rates are high, which demotivates domestic credit.*

## RUB and Interest Rates (2)

### RUB/USD



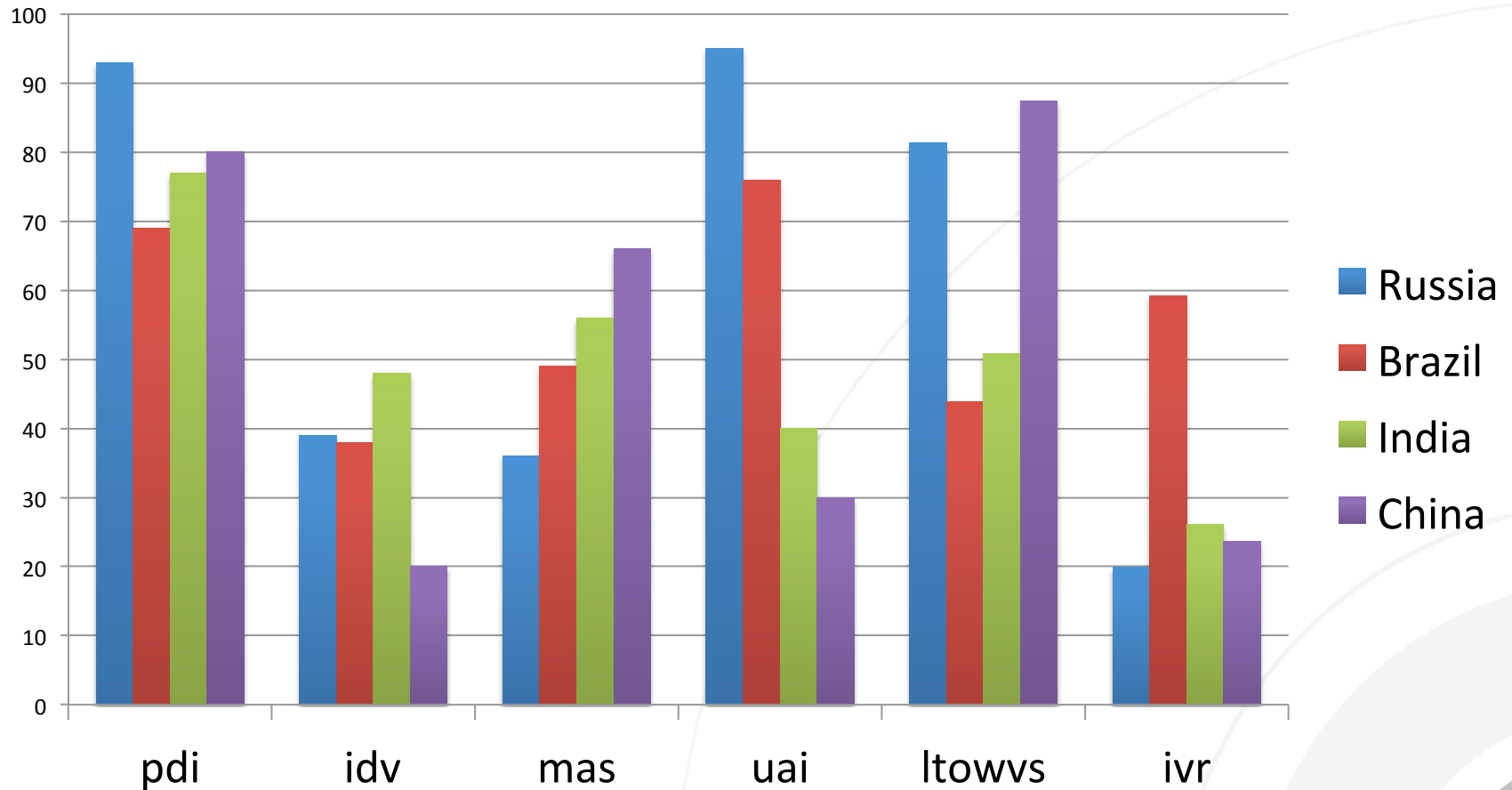
**NB:** RUB is slowly appreciating due sound economic performance and oil exports (except for crisis periods).



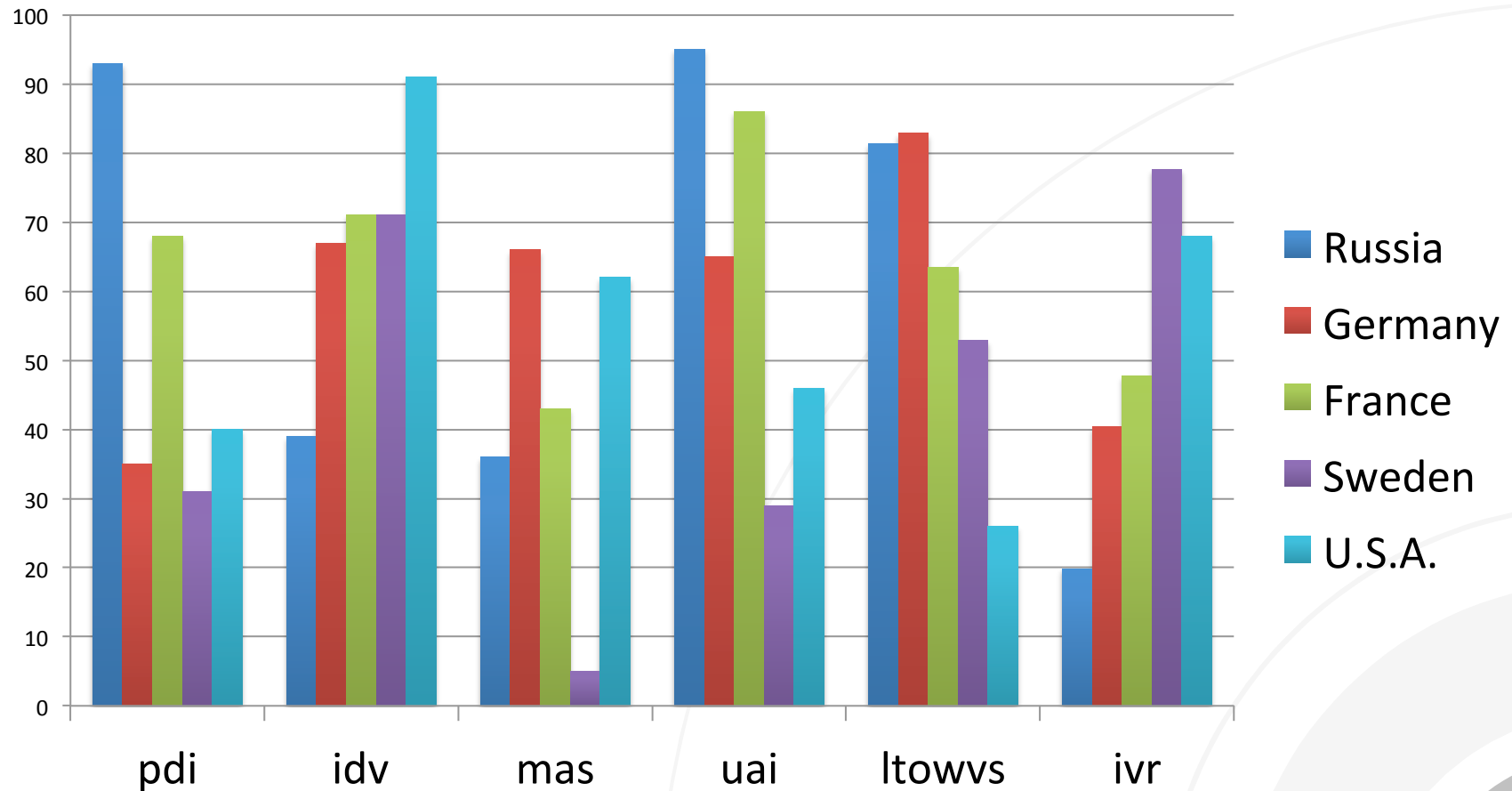
# Presentation Outline

- ❑ General information on Russia
- ❑ Russia in the international trade
- ❑ Specifics of the Russian economy
- ❑ **Doing business in Russia**

# Geert Hofstede's model – Russia compared to other countries / BRIC



# Geert Hofstede's model – Russia compared to other countries / WEST



# Negotiations with the Russian partners – Level of negotiators

- Russian management is usually dependent on their superiors' decisions. Therefore for important negotiations it is better to send higher or the highest possible level of management.
- Relations with the highest management of the Russian companies can help solve certain problems.
- Also, it is important to remember that written word has bigger credit than oral agreements with the Russian partners:
  - Golden rule: **Write everything down after negotiating. Do not be afraid to add addendums to contracts.**

# Negotiations with the Russian partners – Compromise and Attitude

- **Russian businessmen, due to the specific conditions of the Russian business environment, usually do not have compromise as their goal at the beginning:**
  - They are, however, willing to accept it when they see that the limit of gain has been reached.
- **Russian companies are nowadays very picky: as credible buyers, they have a rich choice of suppliers from many European countries.**
- **Modern Russian management usually speaks English and has at least some intercultural experiences.**

# Negotiations with the Russian partners – Emotions

- **Russians prefer to show their emotions openly, which can even lead to arguments during negotiations. Sometimes it's a tactic.**
- If such thing happens, it is important to stop and make a pause for several days. The partner will, in most cases, be likely to return to discussion.
- **Russians like to “push” and “press”. It is, therefore, important to be prepared for holding one's positions and presenting counter-arguments.**

# Russian Language (1)

- Russian is the official language in the **Russian Federation**. Russian is also spoken in **Ukraine, Belarus, Kazakhstan** and other republics of the former USSR. Because of the legacy of the USSR, Russian speakers have a good chance of being understood anywhere **from Riga to Belgrade**.



## Russian Language (2)

- **About 10% of Russian words are internationalisms** and bear a resemblance to English words.
- There are many loan words from **Italian, French or German, also Dutch**. Loan words might look a bit archaic as they made their way into the Russian language in the 18th and 19th centuries.
- The main source of loan words for modern Russian is English (especially in the IT and in the economics domain).

## Russian Language (3)

- Russian is one of languages that differentiates between a formal and an informal **you**.
- A Russian name consists of the first name, patronymic and family name, e.g. Fyodor Mikhaylovich Dostoyevsky (writer) or Marina Ivanovna Tsvetaeva (poet).
  - The patronymic does what it says - it's based on the name of one's father with **–ovich (-ich)** behind it for a son and **–ovna (-ichna)** for a daughter. It is considered polite to address someone by his first name and patronymic.
  - **Tip: avoid using first name unless your partner suggests it. Using “Mr.” + surname is also quite common.**

**Thank you for your kind attention!**  
Looking forward to questions...

# Used sources

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- Bolotov (2012). Světová finanční krize a její dopady na ekonomiku Ruské federace. Ph.D. thesis. Univesrity of Economics, Prague, 2012.
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- Banksdaily.com, <http://www.banksdaily.com/>, access 05.03.2013.
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## Useful sources:

- **Russian governmental portal:**  
[http://www.gov.ru/index\\_en.html](http://www.gov.ru/index_en.html)
- **Russian Federal Statistics Service, FSSS / ROSSTAT:**  
<http://gks.ru>
- **Russian Central Bank, CBR:**  
<http://gks.ru>
- **Russian Ministries:**
  - Finance: <http://www.minfin.ru/en/>
  - Industry and Trade: <http://www.minpromtorg.gov.ru/eng>
  - Economic Development:  
<http://www.economy.gov.ru/wps/wcm/connect/economylib4/en/home>
  - Regions: <http://www.minregion.ru/eng/>
  - Property (Rosimushestvo): <http://www.rosim.ru>
  - Foreign Affairs: [http://www.mid.ru/bdomp/brp\\_4.nsf/main\\_eng](http://www.mid.ru/bdomp/brp_4.nsf/main_eng)
  - Internal Affairs: <http://en.mvd.ru>
- **Moscow stock exchange:** <http://rts.micex.ru/en/>
- **Russian rating agencies, e.g. RAEX:** <http://raexpert.com>