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Competitiveness of Russian enterprises: microeconomic approach.

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Introduction

Russia has to face a double challenge.

It has to accomplish the transition (or a return) to a market economy after 75 years of planned economy, which is twice as long a period of time as in Central Europe and China, and at the same time it has to adapt itself to the globalization of the world economy, a globalization which was accelerated by the collapse of communism in Russia.

Russia has to find its place in the rapidly developing global economy. In a world where all markets are open it must compete with the Western Countries with their developed industries and good knowledge and experience of the market economy. At the same time it has to face competition from Asian countries, like China and India, which are also developing very quickly. With a 220 million population Russia becomes a target market for almost the whole world, especially when revenue from export of oil and gas makes it a rich country. The question is how in these circumstances can Russian enterprises can at least survive at home in what should normally be their own market.

I. MICROECONOMIC APPROACH

1. Survey among enterprises.

In parallel with theoretical considerations on the competitiveness of the Russian economy based on macroeconomic data, it is important to examine the behaviour of the enterprises themselves, taken individually in order to learn if they really feel threatened, how they see their future and how they face the competition (both local and foreign).

This microeconomic approach ought to allow for a better picture of what is happening in reality. It should also feature the strong and weak sides of Russian enterprises (SWOT analysis of Russian enterprises).

The conclusions of such a survey should complete the macroeconomic analyses and help to determine industrial sectors where Russia has or could have a position in the global economy, and measures to be taken for the creation of the best framework for their development.

Various institutions organize different kinds of surveys with different approaches to this subject or related subjects. In particular the Higher School of Economics of Moscow in cooperation with the World Bank is carrying out in 2005 a huge survey of more than 1,000 enterprises in the whole country. From our side we limited ourselves to a much less ambitious project, and carried out a limited survey based exclusively on personal face-to-face interviews. We met mainly with firms in Moscow and the Moscow region, though many of them had industrial activities in different other parts of the country, which gives a rather wide view of the situation. Our survey was carried out among enterprises producing goods or services, large and small, Russian, mixed and foreign owned. In addition interviews were undertaken among the distribution chains active in Russia.

2. Methodology.

The concept of competitiveness remains very vague and there are as many definitions of this term as economists who have studied this concept. There is therefore no established methodology to measure competitiveness and no standard questionnaire we could have

used. As such we tried to establish an ad hoc questionnaire best adapted in our opinion to the situation in post Soviet Russia. We used it for face-to-face interviews exclusively with top managers or CEOs.

A slightly different questionnaire was established for distribution chains, with questions mainly related to the criteria for choosing Russian products, their judgment about the quality of Russian products and about the prospects of the sectors of the Russian economy they are in contact with.

One of the main difficulties in carrying out this kind of survey is to obtain the requested meeting with CEOs or top managers. Elementary information about the management like name, function, address and telephone number of the head office is rarely available in Russia. This information is usually considered confidential and would not be given out over the telephone by the receptionist. Only a few enterprises agreed to fix an interview after a written request.

We therefore approached companies where the CEO or top manager was known to us personally and asked at the end of the interview to be introduced to top managers of other companies with whom they had good business or personal relations.

Once the contact was established all the interviewees easily answered all the questions formulated. However, even though the questionnaire did not include any very confidential questions, some of the interviewees asked explicitly not to be named in any written report. Another point worth mentioning is the fact that in meeting enterprises which accepted the interview we inevitably meet the most successful enterprises, as we can assume that those which are struggling to survive would not be so keen to expose all their problems just for a survey.

Nevertheless even with this rather limited and imperfect sample of producers of goods and services we think that we can identify some basic characteristics related to the competitiveness of Russian enterprises. This is due to the fact that the face-to-face interviews were always carried out with CEOs, top managers or, in the case of small businesses, with the owners of the firm. These are the people who are supposed to have the best perception of the opportunities and threats in their sector of business activity.

3. Comments on the questionnaire.

The questionnaire (see Annexe I) included both open and closed questions.

The answers to each question are supposed to give an indication of the competitiveness of the interviewed company or of its sector of activity (and related companies), and/or an indication of the hurdles to its development. After the first interviews it was necessary to adapt the questionnaire to include some additional relevant questions. The questionnaire was divided into 13 chapters.

3.1 The question's relevance :

Chapter 1

The first part concerns general information on the company and its ownership in order to classify it in a category:

- small or big enterprise;
- 100% Russian, mixed capital or 100% foreign owned;
- former Soviet enterprise or created after the collapse of the Soviet Union.

Chapter 2

Information about the management as management and people are the most important conditions for the development of a business:

- Average age of the management, their previous experience and presence of foreigners among them.
- Question about the difficulty of recruiting of personnel.

Chapter 3

Sector of activity and market. In this section it emerged very quickly after the first interviews that it was very relevant to know whether the company was producing new products or was exploiting a new niche in the market.

Chapter 4

Breakdown of production/activity costs. We made a distinction between imported and local raw material and components costs.

Chapter 5

A multiple-choice question about the current development strategy of the company. This question refers directly to Michael Porter's theory of competitiveness¹.

Chapter 6

Hurdles to the development of the company.

The interviewee had to rank, by order of importance the main difficulties faced by his company and himself compare the performance of his company with his competitors both local and foreign. Some of these questions are put elsewhere more directly (like the role of the rouble exchange rate, the level of taxation or personnel recruitment).

Chapter 7

Question about financing problems (as we expect that it might be a problem).

Chapter 8

Origin of technology and equipment (Soviet, Russian or imported). This question is to check the competitiveness of Russian equipment manufacturers.

Chapter 9

The existence of R&D department and cooperation with research institutions (as we think that only technologically advanced products can remain competitive).

Chapter 10

Questions about the care with which products are produced (quality control, design/packaging, after sales services), as all these factors are relevant for the competitiveness.

Chapter 11

Questions on logistics, deliveries, transport and subcontracting.

The purpose of these questions is to check transport expenses and whether "just in time" deliveries and keeping an optimal stock are practised in Russia.

¹ Michael Porter is the most prominent scholar in the strategy field, from both a practitioner, that is Chief Executive Officer (CEO), perspective, and from a research perspective (Institute for Strategy and Competitiveness at the Harvard Business School)."

The closed question about subcontracting (outsourcing) is mainly relevant to former soviet companies.

Chapter 12

Questions about marketing, as marketing seems to be one of the weak points of Russian enterprises.

Chapter 13

Personal opinion about the grey economy, corruption, administrative regulations and the productivity of Russian firms.

The closed questions about the grey economy and administrative regulations are there in order to try to evaluate their effect on the competitiveness of enterprises.

In the open question about the reasons for the existence of the grey economy the interviewee is simply asked to give his personal opinion about a situation everyone seems to be aware of.

The same applies to the question of why so often Russian products are not cheaper than imported goods. The answers to these two last questions by top managers of small or big firms are interesting as they can speak about competitors, clients or suppliers they know. They can also speak about their own experience without directly mentioning it.

The closed question about the rouble exchange rate (whether it should be lower, higher or remain the same for the activity of the company) is there to check once more the opinion that a strong rouble does not aid the competitiveness of Russian enterprises.

3.2. Additional questions for distribution networks.

There are two reasons for the addition of interviews with distribution chains. First, in order to examine the development of this important sector of services (reasons for their success and their competition problems) and secondly, in order to receive specialists' views on the competitiveness of Russian products.

Most of the questions remain the same, with the addition of open questions about the criteria for choosing a Russian supplier, and what sorts of Russian products could be sold on foreign markets.

The idea was that professionals directly involved in choosing the best quality/price products for selling with reasonable profit through their own distribution networks, would give clear practical information and not theoretical considerations about the competitiveness of the Russian products.

II. SURVEY RESULTS

1. Characteristics of Russian enterprises and their most recurrent problems:

- The average age of the management of the best performing businesses is under 40.
- The average age of the technical staff (engineers) is above 50.
- Many of the best performing enterprises have been recently created (after the collapse of the Soviet Union).
- Many of the best performing businesses have been created on the basis of former applied research institutes, or by people coming from the former military-industrial complex.
- The performing firms or enterprises produce new goods or services (goods or services which were not available on the market in Soviet times), or exploit a new niche in the market.
- Machines and equipment in performing enterprises have always been imported (from Western or South East Asian countries).
- Raw material, additives and components are very often imported and represent the biggest part of production costs. However, this does not worry Russian producers as long as the rouble remains strong.
- The target market of enterprises established in Russia (both Russian and foreign) is exclusively the Russian one, sometimes the CIS countries (usually excluding Ukraine). Very few enterprises are looking to export their products to foreign markets.
- With the exception of foreign owned companies, few businesses have a real development strategy. Many Russian firms do not have a strategy at all. Some small firms, while doing well, act only intuitively and are even prepared to stop their activity at any moment.

2. The problems of internal competitiveness most frequently expressed are of three types:

- 2.1 Foreign investors in Russia have to face Russian producers who use equipment 20 or 30 years old for which they do not calculate depreciation as it was inherited free during the privatization period. This is a problem of time as this equipment will have to be replaced sooner or later and cost prices reflecting the purchase of new equipment will inevitably increase.
- 2.2 Both foreign and Russian firms have to face competition from firms, which simply do not comply with the existing legal rules and regulations and don't pay all the required taxes (import duties, social taxes...). This is the problem of the grey economy.
- 2.3 For small enterprises one important problem is the absence of legislative protection in the matter of commercial rents. The landlord can increase the rent of the premises (for offices or production activity) without limitation. Rents have more than doubled in two years in Moscow and constitute an important percentage of the activity costs of small enterprises.

3. Most frequent difficulties faced by companies mentioned by the interviewees:

- Workforce recruitment;
- Excessive regulation and control;
- Unpredictable business environment;
- High level of office or workshops rents (in case of SME's).

4. That the prices of Russian products are rarely cheaper than imported products, was most frequently explained by:

- Low volume of production and high level of waste;
- Lower efficiency and less automated production (old infrastructure);
- Necessity of keeping larger stocks (because of delays in supply);
- Absence of cost control;
- Russian firms are levelling their prices with the market prices;
- Absence of long term vision (as Russian managers want to make huge profits very quickly);
- High interest rates;
- High costs not linked to production (corruption, racket);
- High costs of labour;
- High costs of offices or industrial workshops rents.

5. For the reasons of the existence of the grey economy, the most common explanations were:

- Russians are not yet ready to work in a market economy (which seems too difficult for them).
- Tradition of cheating the State.
- In addition the SME's added few other reasons:
 - Lack of confidence in the authorities;
 - Lack of financial means to pay all necessary duties and taxes;
 - First steps to establish a firm seem too complicated.

III. POINTS FROM THE SURVEY TO CONSIDER:

Although many of the facts mentioned above are probably well known or go without saying they still highlight some interesting points which need to be considered further.

1. Importance of education of managers. In the new environment the best managers are young people (under forty), in other words, people with no managerial responsibilities in economic activities in Soviet times or the planned economy period. On the contrary one could say that where the former management remained, the transition to the market economy went wrong (this is what happened in the automotive industry).

2. The challenge of finding qualified personnel especially young technical staff is permanent in the business community. The advanced age of engineers and technical staff gives management concerns about the competitiveness of their enterprises in the future. Hence the urgent necessity of educating young engineers and technicians to prepare them to replace the older generation in four to six years.

3. Importance of innovative companies.

4. The problem of production of production tools.

One can hardly develop the production of machines and equipment in Russia if, as the survey has shown, all performing enterprises prefer imported equipment. In soviet times this sector of the industry consisted of huge enterprises employing thousands of people. It seems to have fallen on hard times since the collapse of the Soviet Union.

It is worth drawing attention to the fact that in Europe equipment manufacturers are not necessarily big enterprises. In fact more people are employed in small and medium-sized industrial enterprises than in big European enterprises (see Annex 2).

5. A high exchange rate of the rouble acts in favor of the companies which import all or a great deal of their inputs from abroad.

6. Most producers in Russia are targeting exclusively the Russian market (sometimes the CIS market). Very few think of exporting their products outside of the Russian borders. Foreign investors (FDI) also are targeting exclusively the Russian market (horizontal investments) and therefore do not contribute much to the opening to international markets of the regions in which they are active as occurs in other countries².

7. The problem of obsolete equipment and infrastructure inherited from the Soviet past can leave many companies at risk in the coming years as they may no longer be competitive once they have to invest heavily in modernization.

8. Excessive administrative controls result in higher costs for the enterprises, (accounting and legal costs). This is necessarily reflected in total production costs.

² D.Sepic, The Regional Competitiveness, RECEP's Reports, N°2, 2004

It is perceived as one of the most important problems by big enterprises, but a problem they can cope with. Whereas it is a serious hurdle for the activity of small enterprises.

9 Corruption does pose problems for big enterprises, but more importantly it does not allow small enterprises to develop normally. Very often because of higher activity costs these tend to enter the grey economy to survive.

10 Both labour and transport costs are increasing steadily, making Russian products less price competitive and fostering inflation.

IV. CONCLUSIONS AND RECOMMENDATIONS.

1. Main conclusions.

In drawing conclusions from this survey we cannot ignore other investigations or studies in the same field made by different institutions. As for instance, the publications of the Higher School of Economics in Moscow³, the fundamental study about the “Competitiveness and Problems of the Oil and Gas Complex” published by the Oil and Gas Institute of Moscow⁴, other RECEP’s reports, etc. (see Bibliography) Our survey confirms and completes other surveys and studies, which all stress the need for Russia to have an industrial policy⁵.

Michael Porter has described the factors of competitiveness. One of the main factors for a company, following M. Porter, is to have a development strategy. This is precisely what is lacking in Russia for the time being: in a transition period it is not easy to make long term forecasts and plans, and everybody, including the CEO, in each private company would rather consider only trying to take advantage of the present situation and making quick money in the short term. This is why the State has been more active in developing a long term industrial policy, which would foster investments in technologies, innovation and R&D.

With its declining population⁶ Russia cannot develop or attract work intensive industries. Nor can Russia compete with China or India in the field of low prices, mainly because these countries have a numerous and much cheaper labour force⁷. Production costs in Russia are steadily growing (labour and transport). A great number of industries will soon face the problem of renewing their equipment inherited from the Soviet times (often more than 30 years old). The depreciation cost of this new equipment will also increase the costs of production. Russia must therefore direct its efforts towards non-price based competitiveness.

The problem of lack of technical staff the Russian companies have to face permanently is a part of this much wider problem of general demographic decline in Russia.

Speaking of productivity, the conclusions of the survey point the same way as those of a recent survey among European enterprises established in Russia, which showed that the productivity in their Russian enterprises is very close to average European productivity⁸.

The weak points of Russian entrepreneurs are still a bad knowledge of calculating real costs of production and their inability to establish production planning in order to satisfy demand without stock breaks. This is particularly important for long-term contracts.

³ Evgeny Yasin, Andrey Yakovlev, Competitiveness and Modernisation of Russian Economy, International Scientific Conference, April 6-8, 2004, Moscow

⁴ National Institute of Oil and Gas, Moscow, 2004

⁵ RECEP’s Report, “Russia: the urgent necessity of an ambitious industrial policy, Eric Louvert, 2005

⁶ Between 1999 and 2009 the population of Russia will decrease by 4,13 million (Goskomstat, Economist Intelligence Unit).

⁷ For comparison of average monthly salaries in Russia, China and India see annexe 3.

⁸ Benchmarking Russia 2004, AEB, Moscow, 2004

While as competent and hard working as in Europe the middle-management lacks initiative. Almost everything appears to rely on top management which reduces the efficiency of enterprises. This is probably a consequence of a long period of planned economy and authoritarian society.

The huge disruption which occurred in Russia with the collapse of communism and subsequent accelerated privatizations permitted the creation of rapid fortunes. This phenomenon can explain the tendency of all Russian investors to think only short term, and hope to make unrealistic profits (you frequently hear people speaking of 40% to 45% a year). It is for the same reason to which you can add the old habit of cheating the State, that so many companies realize a great deal of their activities not in accordance with existing rules and regulations. This attitude reflects the psychology of individuals and probably cannot be modified by administrative measures. However, it will probably disappear slowly over time with the economic and social development of the country.

At the same time client/supplier relations are gradually changing and becoming more formal. Before business relations were much more personalized, and as the CEO of a company put it “before you had to go with a Governor to the “bania”⁹ for discussing a contract... ”.

The absence of a financing system with reasonable credit rates remains a hurdle to the development of enterprises, especially to the development of SME. Some bankers say that they have the necessary financing possibilities but must reject many requests because they can only give credit to firms with absolutely transparent activity.

The development of small firms is slow. In particular the development of small industrial enterprises (SIE). These play a very important role in Europe in supplying big enterprises with components and also with tools of production (machines and equipment). To promote the machine building industry it is necessary at the same time to support Small Industrial Enterprises.

The rather high exchange rate of the rouble is the consequence of the enormous revenues from the export of natural resources, mainly oil and gas. The Dutch disease which Russia is confronting now has been analysed in C.Cordonnier’s report in “Russia: Natural Resource Rent and Competitiveness”¹⁰. One can only regret that the overvalued rate of the rouble prevents the development of the production of a great number of products in Russia in various sectors of industry, as these would not be price competitive with imported products. However we do not see any possibility of reversing this trend in the short term.

Most of the enterprises we met during this survey have adapted themselves to this situation, and try to make the best of it.

At the same time, one has to admit that the rather high rouble exchange rate facilitates the importing of massive amounts of foreign equipment. The survey has shown that all the producing businesses, be they Russian or foreign owned, would rather buy imported technologies and equipment in preference to Russian. This is a natural attitude dictated by operating a business within a competitive industry. In the long term one can say that Russia will come out ahead if in a rather short period of time it can acquire the most up to date infrastructure in all its key business fields.

Russia has no other choice than to follow the same path as Europe and try to develop a knowledge-based economy, where the price factor has less importance than

⁹ Russian sauna

¹⁰ Christophe Cordonier, RECEP’s Reports n 4, 2004

quality, performance or technology. Europe came to the same conclusions some years ago, as was expressed, among other occasions, in Lisbon in 2000 when the European Heads of State signed their common document, called the Lisbon declaration.

Russia is indeed still a great industrial country, with a population educated to a good level and many famous scientists, researchers and engineers. This is Russia's main advantage, which absolutely must be maintained.

The survey has stressed the important role Research Institutes can play in starting new businesses. We deem it necessary to revitalize the applied research institutes, which, at least the ones which still exist, could act as incubators of spin offs. These institutes could be invited to work in or close to techno parks.

The use of the human scientific potential for the development of new technologies is essential. One thinks of course in the first place of all the high technology sectors: space research, avionics and so on, but also of all the activities which can utilize the latest innovations in the matter of production, "as it is to some extent more important for the competitiveness of an economy to be able to use effectively the existing knowledge than to be able to create new knowledge"¹¹.

2. Comparison of results with proposed criteria for Russian competitiveness.

It might be interesting to compare the results of the microeconomic survey with the criteria for a comprehensive analysis of Russia's competitiveness proposed recently by G.Walter in "Competitiveness: a General Approach".

2.1 Price competitiveness:

- Russia is definitely not competitive with the emerging countries of South East Asia, with their low salaries.
- The relatively high exchange rate of the rouble does not allow Russia to be competitive with European or Western producers.

2.2 Productivity:

Placed in the same work environment as in Europe the productivity of the Russian labor force is about the same.

2.3 Knowledge:

In this field despite all the problems of recent years Russia still has a real advantage. Some spin offs have successfully started from nothing in recent years with scientists or specialists working previously in research or applied research institutes.

2.4 Attractiveness for investors (foreign and national):

- Most of the attractiveness criteria (effectiveness of the legal system in protecting investors' rights, the effectiveness of the financial system, the existence of clusters...) are not in favour of Russia.
- The size of the Russian market is the only thing that attracts foreign investors (horizontal investments).

¹¹ Giles Walter, RECEP's Reports, p.112, n°2, 2004

2.5 Education, health, social cohesion

- Russian educational system is still of a very good level; it is important not to let it degrade for budgetary reasons.
- Even if some effort is needed to reach European standards, in general for the time being the health of the population is not an acute problem in Russia.
- There is great social stability in Russia. The transition from communism to market economy and the privatizations of the national economy have provoked huge disparities of income among the Russian population. However, this did not lead to social unrest in a country where the right to strike never really existed.

If we use this scheme to evaluate the competitiveness of the Russian economy, we can come to the conclusion that Russia would satisfy 3 out of 5 competitiveness criteria, which is not good but is sufficient to be accepted into the next class.

Development stage and territorial dimension, mentioned by G.Walter as criteria of competitiveness, are difficult to measure for Russia.

It is clear however that there are enterprises in Russia which subsist but have no future even in the short term. They are functioning either because the segment of the market they are active in has not yet been restructured or because they are located far away from the centre, or for both reasons at the same time. They may be still internally competitive but their situation is very weak, and they will disappear through becoming absolutely non-competitive in the global economy, unless they rapidly find a way to fundamentally restructure themselves.

As most of the interviewees were situated in Moscow (and although many of them also have activities in other parts of Russia) we cannot speak about the whole country, where huge discrepancies exist among the different regions.

3. Some sectors of the economy where Russia is, can or must remain competitive:

As the survey did not cover all the sectors of the economy and all the regions of the country it cannot come to global conclusions, nor to conclusions on which sectors of the industry are competitive and which are not. However, taking into account information from other sources as mentioned above, we can nevertheless come to the conclusion that besides oil and gas industries and other natural resources exploitation, which are doing well, the following sectors of activity will or can develop.

3.1 Services.

The share of service activity which was almost non-existent in Soviet times will continue to rise naturally in Russian GDP.

3.2 The agro-industrial industry:

This industry is a sector where major investments have been undertaken in recent years and in particular foreign investments (FDI). This sector is and will remain

competitive. Efforts must be made to let it develop in order to substitute imported food products (20% of total imports in Russia)¹².

These efforts must also be made because Russian food products and food specialties can be easily exported with an appropriate marketing in the countries of the European Union. Some distributors have already introduced Russian food products on the European market with great success (alcohol, seafood, soft drinks and even Russian beer). Funnily enough foreign distribution chains recently established in Russia (like Auchan) are the ones which are the most active in promoting Russian products in their distribution net in Europe.

However, the food industry is largely dependent on agriculture, badly organized in Soviet times and which has deteriorated even further since the transition to a market economy. The development of agriculture and particularly of animal farming needs long-term investments, which are slow to come. However the situation of Russian agriculture falls outside the framework of the present report.

3.3 Wood industry.

Russia is exporting quite a lot of wood and wood products. Efforts have to be made to export only dry wood, in order to increase its sales value (as for the time being the drying process is often done abroad by the importer). However Russia is not exporting enough finished wood products. In fact the demand in Europe for natural wood products is steadily growing. More investments should be made in this sector of the industry as it is certainly one of the sectors where Russia can be competitive and even become a world leader. It should impose its brand name “made from Russian wood” for building material, furniture, toys and more.

3.4 The steel industry.

This industry is developing quite well and steel manufacturers have been able to invest heavily in modernization. The quality of Russian steel is improving and this sector could profit from the increasing demand on the international market. Although some reorganization¹³ will be probably needed in the near future, this remains a very promising sector in Russia.

3.5 Building materials.

This sector which, includes among others cement and glass factories, is developing quite well, often with foreign investments. It would include all the industries producing building materials, like wood, steel and plastic, which have to satisfy the growing demand of Russia’s fast developing construction activity. Construction develops mainly in Moscow and St. Petersburg, but also in places like Kazan, Novorossiisk and in many other Russian cities. Local building material producers will always remain competitive in comparison with importers because of the high costs of transport for heavy and voluminous products.

3.6 The industrial sectors.

The industrial sectors where Russia still has a technological advance can remain competitive (like space technology, aviation industry, etc.). However, they must be supported by the State in this transition period towards the market economy. Efforts in

¹² Imports of Food products represent USD 11.9 billion out of a total imports of USD 57.4 Billion in 2003 (Goskomstat)

¹³ Russia: the urgent necessity of an ambitious industrial policy, Eric Louvert, RECEP’s Reports, 2005

this direction have already started with the proposed merging of several independent companies into one single Russian aviation building company.

3.7 Innovation and new technologies.

We think that efforts must be oriented towards innovation and new technologies, which can be applied in all sectors of economic activity. It is therefore not useful to restrict it in advance to some specific areas.

Having said that it would be only logical for Russia to develop innovation, technologies and its own production tools in those areas where Russia stands among the first producers in the world. The National Institute of Oil and Gas has published a remarkable and comprehensive report on the situation of the oil and gas equipment industry in Russia¹⁴, a sector where Russia still possesses great know how. However, ever since the collapse of the Soviet Union and the privatization of the economy, a great deal of equipment has been imported.¹⁵ We deem it advisable for Russia to make efforts to develop technological equipment for gas and oil production. Close contacts between end users and producers should allow Russia to develop the best products. This is a good example of where cooperation between private companies (oil and gas companies and equipment builders) together with a research institution (such as the National Institute of Oil and Gas) and in partnership with and at the initiative of Federal or Regional authorities could bring about good results. Russia could even become a world leader in this field.

4. Some recommendations:

4.1 Management level.

Special attention has to be focused on production costs. Young managers should be trained in calculating production costs during their training. Managers and engineers should also be trained in establishing production and delivery (just in time) planning.

These two important aspects of management could be improved by an appropriate training program for young managers or future managers in European enterprises.

4.2 University and scientific research level.

- It is most important for Russia not to lose its main advantage which is the good level of education the population receives at its universities, high schools and research institutes.

Scientific research has to be supported in general, as must the education of a new generation of engineers and technicians.

- The applied research institutes should be revitalized to enable researchers, even of the older generation, to continue their research work with public funds from the State or the Regions. These institutes, or at least some of them, could act as incubators of new technologies.

¹⁴ National Institute of Oil and Gas, Moscow, 2004

¹⁵ 25% of equipment for oil industry is imported following the estimations of the Oil and Gas Institute.

4.3 Ministry of Finance level.

Measures should be taken to incite companies to renovate their equipment as well as develop R&D activities, among others by de-taxing amounts reinvested in the enterprises. These measures should also be applied to the oil and gas industries .

4.4 Legislation level and administrative level.

- The activity of small enterprises must be protected and supported by the law. A law concerning the commercial rents is essential to protect their activity (and also as a way to combat the inflation which worries the authorities so much). More important than the revitalization of huge industrial complexes is the promotion of small industrial enterprises (see European statistics above). Small enterprises could also restart production of machines and equipment in Russia, especially if they can develop their activities in connection with or close to reactivated Research Institutes (which brings us to the notion of clusters or techno parks).

- Every effort must be made to stop the catastrophic decline of the Russian population and to adopt a wise immigration policy. The immigration policy could be directed at Russian and non-Russian nationals from the former Soviet republics. Also all foreigners willing to come and work in places where there are vacancies in Russia should be accepted.

4.5 Customs duty levels.

Special care must be taken to encourage the export of finished products rather than raw materials through appropriate export duty tariffs. This concerns all the sectors of production, in particular wood and steel, where Russia has good opportunities of exporting finished products.

4.6 The role of the banking sector.

The survey confirmed the importance of having flexible and efficient credit institutions for the development and thus the competitiveness of Russian enterprises, and especially for SMEs. We will only mention the existence of this problem as it is treated in depth by RECEP banking specialists¹⁶.

¹⁶ Problems of SME Financing in Russia, X.Barre, RECEP's Reports, 2005

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ANNEXE 1

THE IMPORTANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES in EUROPE
(Europe-15, 2000)

Number of persons employed by size-class, (% share of total):

Industry and energy (NACE sections C to E)

Very small enterprises	(1 to 9 pers.)	13.2%
Small enterprises	(10 to 49 pers.)	20.9%
Medium-sized enterprises	(50 to 249 pers.)	22.8%
Large enterprises	(250 + pers.)	43.1%
Total:		100%

Source : Eurostat, Structural Business Statistics (theme4/sbs/sizclass)

ANNEXE 2:

Comparison of monthly wages

	Wages in local currencies	Change rate (USD)	Wages in USD
Russia	6828	31.35	217.80
China	913.75	8.28	110.36
India	1893.2	47.2	40.11

Sources

Russia: GKS 2004

China: OCDE (q3 2004)

India: Laborstat ILO 2002

